Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for July 2016

			Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500		3.7%	7.7	5.6	11.2	13.4
	S&P Mid Cap 400		4.3%	12.6	5.5	9.9	12.3
	Russell 2000		6.0%	8.3	0.0	6.7	10.4
Domestic Bonds	Barclays Aggregate		.6%	6.0	5.9	4.2	3.6
	High Yield Bonds		2.7%	12.0	5.0	4.5	6.2
	91-Day T-Bills		0.0%	0.2	0.2	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)		5.1%	0.4	-7.5	2.0	3.0
	MSCI Emerg Mkts (Net)		5.0%	11.8	-0.7	-0.3	-2.7
Global Bonds	Citi World Gov't		0.5%	11.3	11.3	2.4	0.8

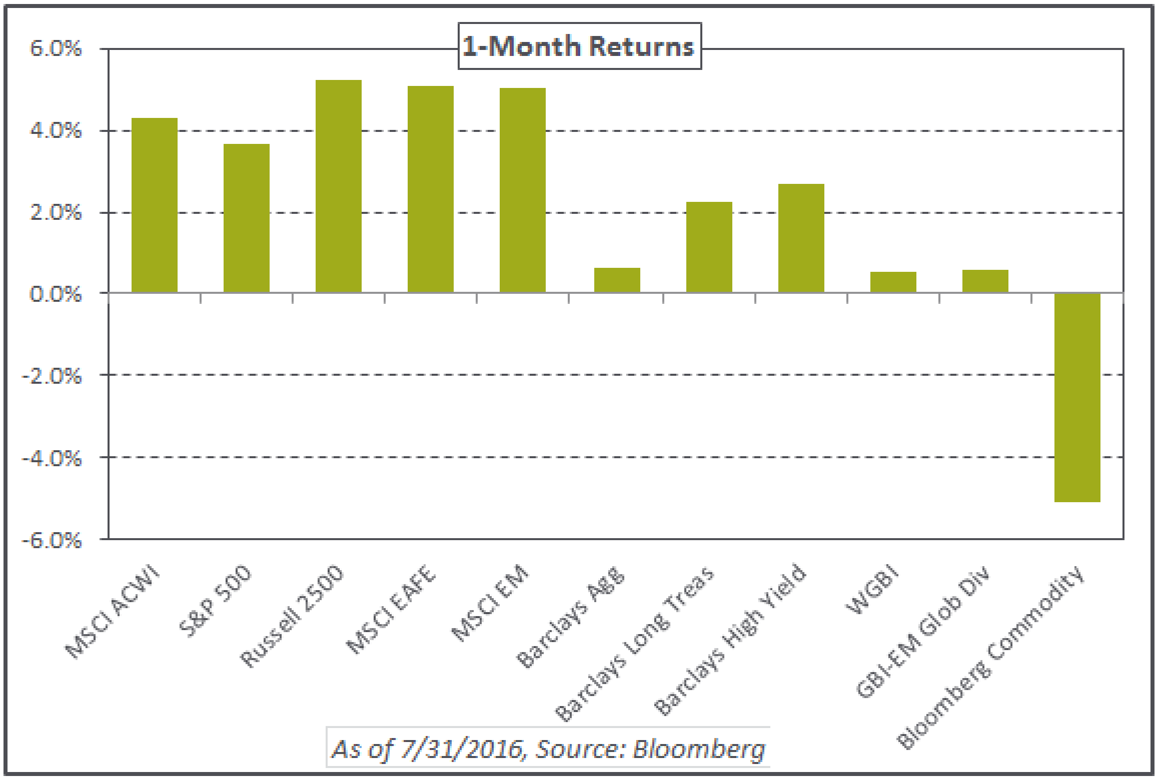
After a rocky end to the second quarter, global equities bounced back in July and posted gains in most major markets. As Brexit shockwaves dissipated, equity volatility subsided and international equities surged amid a supportive central banking backdrop. The MSCI EAFE returned 5.1% as the European Central Bank and Bank of Japan both continued expansive asset purchasing programs. The MSCI EM Index extended its rally, returning 5.0% on the month as positive flows offset declining commodity prices and investors pursued higher returning assets. In the US, the Russell 2000 gained 6.0% compared to the S&P 500 return of 3.7% as investors favored a risk-on posture for the month.

In fixed income markets, investors continued to search for positive yielding assets. Much of the developed bond world is awash in negative yields as 10 year German and Japanese government bonds finished the month at negative 12 and 19 basis points, respectively. Despite the negative yields, the Citi WGBI Index rose 0.5% as central bank buying and demand for safe assets pushed prices higher. The 10 year Treasury fell marginally during July, down three basis points to 1.46%. The global interest rate environment provided a solid background for core fixed income returns as the Barclays US Aggregate Index gained 0.6%. Further out on the risk spectrum, US high yield issues returned 2.7%, extending their year-to-date rally. Emerging market bond issues also rallied as the search for yield drove positive asset flows to the space.

We continue to see evidence of broad positive economic activity in the US. Nevertheless, we believe higher-than-average US equity valuations and an ever-extending rally provide an opportune time for investors to trim their domestic equity exposure and allocate marginal equity risk internationally. We believe drastic actions by central banks in Europe and Japan provide a supportive environment for equity returns and we continue to see better alpha opportunities down the cap spectrum and through global mandates. Our overweight recommendation for non-US developed market equity does not come without caution.

We recognize the potential for further political interruption or a central bank misstep and encourage investors to maintain a 50% hedge on non-US developed currency exposure. Despite the year-to-date rally, we continue to believe emerging equities offer a long-term return premium relative to developed markets and advocate maintaining exposure to the space. In fixed income, we recommend investors obtain duration exposure domestically as we see few compelling opportunities in the developed world outside of the US. Furthermore, we encourage investors to consider a dedicated TIPS allocation to complement US duration exposure, as record low inflation expectations offer an inexpensive entry point.

As the summer months wind down, we remind investors to remain diligent and trim assets that have recently outperformed expectations, such as US equities and developed market government bonds. NEPC strongly believes a disciplined rebalance approach best serves investors ability to maintain a diversified portfolio and weather a multitude of economic environments over the long term.



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