Unitarian Universalist Common Endowment Fund

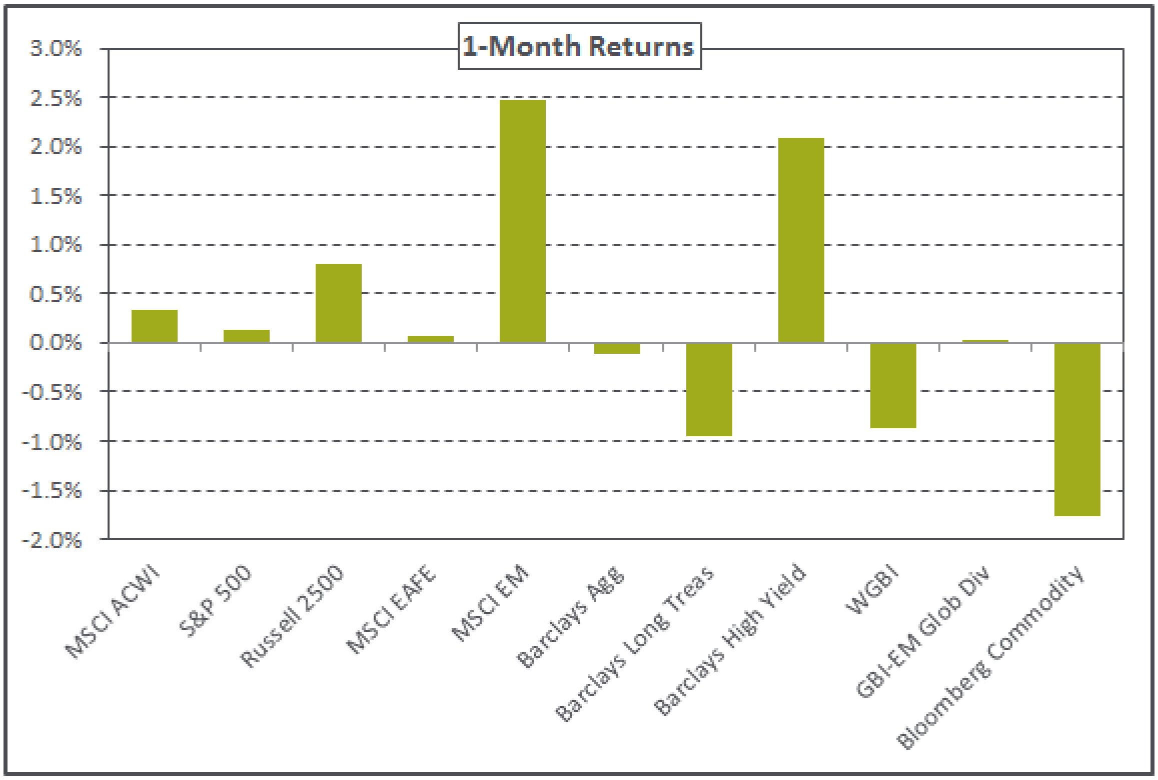
	Monthly Market Commentary for August 2016						
			Last Month	**YTD**	**Last Year**	**Last 3 Years**	**Last 5 Years**
Domestic Stocks	S&P 500		0.1%	7.8	12.6	12.3	14.7
	S&P Mid Cap 400		0.5%	13.1	12.3	11.5	14.1
	Russell 2000		1.8%	10.2	8.6	8.5	12.9
Domestic Bonds	Barclays Aggregate		-0.1%	5.9	6.0	4.4	3.2
	High Yield Bonds		2.1%	14.3	9.1	5.4	7.5
	91-Day T-Bills		0.0%	0.2	0.2	0.1	0.1
Non-US Stocks	MSCI EAFE (Net)		0.1%	0.5	-0.1	2.5	5.0
	MSCI Emerg Mkts (Net)		2.5%	14.5	11.8	1.1	-0.4
Global Bonds	Citi World Gov't		-0.9%	10.4	9.8	2.2	0.2

Coming on the heels of a rally in July, equities posted modest returns in August as volatility hovered around historic lows. In the US, small-cap stocks marginally outperformed large-cap equities, with the Russell 2000 returning 1.8% last month compared to the S&P 500's 0.1% gain. Equities in developed markets also posted moderate returns. The MSCI EAFE Index gained 0.1% in August with currency depreciation eroding returns as the US dollar reversed course and strengthened against the yen and euro. Emerging market stocks continued their year-to-date rally with the MSCI EM Index returning 2.5%, as investors discounted the likelihood of the Fed raising rates in September. Within emerging markets, investors, encouraged by positive business indicators and economic data, drove Chinese stocks higher by 8% despite continued pressure on commodity prices. The Bloomberg Commodity Index fell 1.8% in August, continuing its slide in the third quarter after rebounding in the first half of the year.

The 10-year US Treasury yield rose 13 basis points to 1.58% in August off of secular lows, providing a headwind to domestic fixed-income returns. Slight credit spread compression helped offset the increase in yield with the Barclays US Credit Index gaining 0.2% as the Barclays US Treasury Index fell 0.6% on the month. High-yield debt was generally positive amid spread tightening with the US Corporate High Yield Index returning 1.9%. Emerging market debt indices were modestly positive in August as greater demand for higher yielding assets has been matched by near record issuance of hard currency debt.

After an early summer marked by positive equity returns and generally strong economic data in the US, investors paused in August and pondered what an ever-dovish Fed might mean for asset prices going forward. While we are not in the business of forecasting Fed rate hikes--markets currently estimate the likelihood of a September hike at around 20%--it is clear that mid- and long-term rate expectations remain low. Whether or not a Fed rate hike comes in September, December or even 2017, investors face a difficult trade-off in balancing the ability of sustained easy policy to extend the rally in US equities against the fundamental headwinds of high valuations and declining profit margins.

While we recognize the possibility that US equities could remain in favor if the Fed drag's its feet, we believe fundamentals dictate an opportune time for investors to rebalance their equity portfolios to assume a more global posture. To that end, we continue to believe global mandates and strategies that invest down the cap spectrum offer greater alpha potential. Sustained currency market volatility and diverging macroeconomic conditions also provide a strong alpha backdrop for global macro strategies – which we believe may also yield correlation benefits for many portfolios. In fixed income, we maintain the view that global bond exposure is a mostly uncompensated risk as yields hover around record lows. We argue investors will be better served by seeking diversification within their bond allocation in other ways, such as seeking longer duration assets or adding a dedicated allocation to TIPS.



As of 8/31/2016, Source: Bloomberg

[Commentary courtesy of New England Pension Consultants (NEPC). UUCEF has a consultancy agreement with NEPC to assist in the oversight of investment managers and provide other advisory services to the UUCEF Investment Committee. NEPC® is an independent, full service investment consulting firm, providing asset allocation, manager search, performance evaluation and investment policy services to middle and upper market institutional investment programs.]