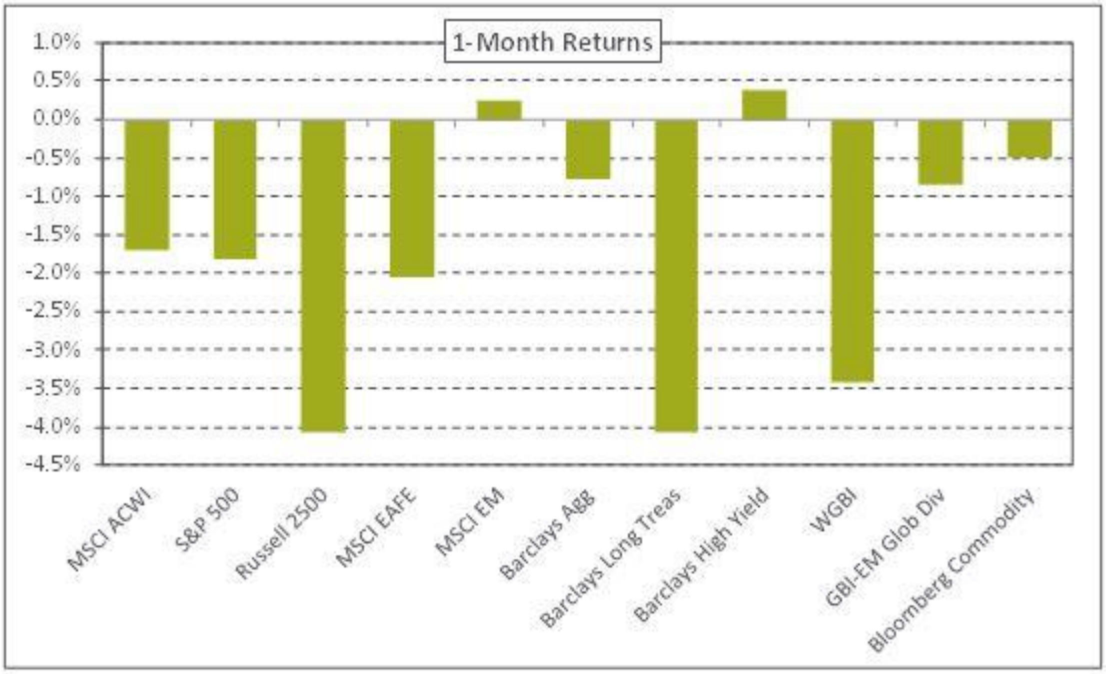
# Unitarian Universalist Common Endowment Fund

| | Monthly Market Commentary for October 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Last Month** | **Last Qtr** | **YTD** | **Last Year** | **Last 3 Years** | **Last 5 Years** |
| Domestic Stocks | S&P 500 | -1.8% | -1.7 | 5.9 | 4.5 | 8.8 | 13.6 |
| | S&P Mid Cap 400 | -2.7% | -2.8 | 9.4 | 6.3 | 7.1 | 12.9 |
| | Russell 2000 | -4.8% | -2.0 | 6.2 | 4.1 | 4.1 | 11.5 |
| Domestic Bonds | Barclays Aggregate | -0.8% | -0.9 | 5.0 | 4.4 | 3.5 | 2.9 |
| | High Yield Bonds | 0.4% | 3.2 | 15.6 | 10.1 | 4.6 | 7.2 |
| | 91-Day T-Bills | 0.0% | 0.1 | 0.2 | 0.3 | 0.1 | 0.1 |
| Non-US Stocks | MSCI EAFE (Net) | -2.0% | -0.8 | -0.4 | -3.2 | -1.3 | 5.0 |
| | MSCI Emerg Mkts (Net) | 0.2% | 4.1 | 16.3 | 9.3 | -2.0 | 0.5 |
| Global Bonds | Citi World Gov't | -3.4% | -3.6 | 7.3 | 6.0 | 0.3 | 0.0 |

US equities sold off in October ahead of the presidential elections on November 8. The S&P 500 lost 1.8% on the month and the Russell 2000 fell 4.8% amid lackluster earnings reports. Emerging market equities eked out modest gains generated partially by continued capital inflows. International developed-market equities were in the black but currency depreciation offset gains for unhedged investors as the pound, euro, and yen fell against the dollar; the unhedged MSCI EAFE Index lost 2.0%.

Despite the seemingly risk-averse environment, most fixed-income indices fell in October. The 10-year Treasury yield rose 21 basis points amid signs of inflation and indications from the Federal Reserve that it would allow the economy to “run hot.” As a result, the Barclays US Treasury Index fell 1.1% with long issues fairing worse as the Barclays Long Treasury Index declined 4.1%. The losses were somewhat offset by credit spread compression in the Barclays Aggregate Index, which fell just 0.8%, while the Barclays High Yield Index rose 0.4% in October. Steepening yield curves were felt globally, especially in Europe, where investors appear skeptical about the European Central Bank’s ability to maintain or expand its current pace of debt purchases. To this end, the Citi WGBI Index fell 2.4% in October. In real estate, the NAREIT Composite Index tumbled 4.8% around expectation of an interest rate hike in December.

As investors brace for potential volatility stemming from the US election, we remind them of the benefits of diversification, discipline and rebalancing. While political events can trigger uncertainty in the short term, investment returns are ultimately shaped by market fundamentals. In the US, we see a broadly supportive backdrop for risky assets despite higher valuations, as the economy experiences a continued expansion and the yield curve remains steep. Additionally, we maintain our overweight recommendation for international developed equities with a partial currency hedge. In fixed income, we remain negative on international developed bond exposure as expected returns hover around historical lows despite the recent uptick in yields.




*As of 10/31/2016, 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.]