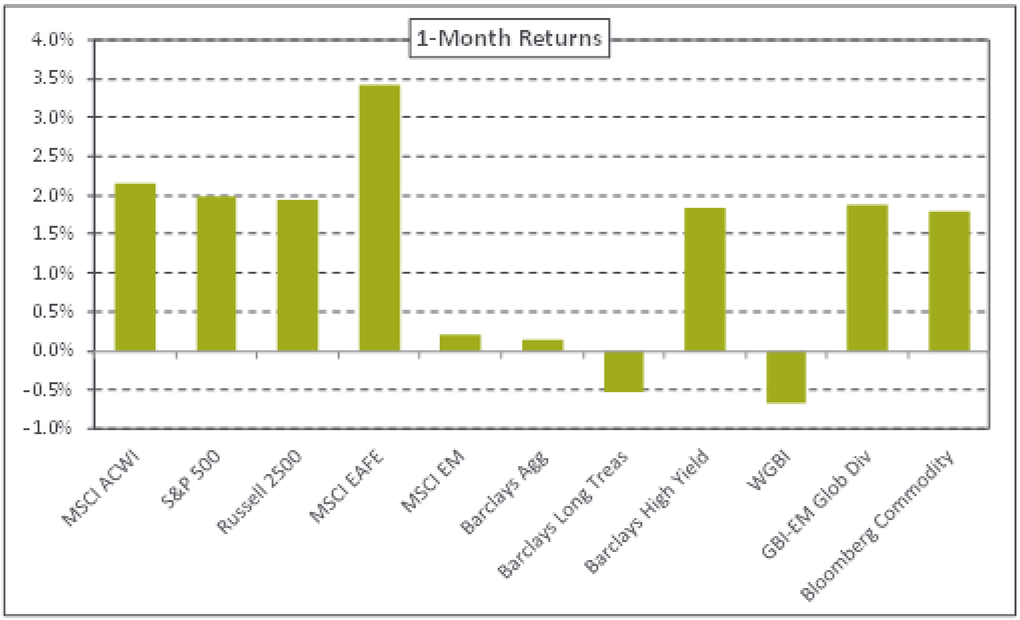
# Unitarian Universalist Common Endowment Fund

| | Monthly Market Commentary for December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Last Month** | **Last Qtr** | **YTD** | **Last Year** | **Last 3 Years** | **Last 5 Years** |
| Domestic Stocks | S&P 500 | 2.0% | 3.8 | 12.0 | 12.0 | 8.9 | 14.7 |
| | S&P Mid Cap 400 | 2.2% | 7.4 | 20.7 | 20.7 | 9.0 | 15.3 |
| | Russell 2000 | 2.8% | 8.8 | 21.3 | 21.3 | 6.7 | 14.5 |
| Domestic Bonds | Barclays Aggregate | 0.1% | -3.0 | 2.6 | 2.6 | 3.0 | 2.2 |
| | High Yield Bonds | 1.8% | 1.8 | 17.1 | 17.1 | 4.7 | 7.4 |
| | 91-Day T-Bills | 0.0% | 0.1 | 0.3 | 0.3 | 0.1 | 0.1 |
| Non-US Stocks | MSCI EAFE (Net) | 3.4% | -0.7 | 1.0 | 1.0 | -1.6 | 6.5 |
| | MSCI Emerg Mkts (Net) | 0.2% | -4.2 | 11.2 | 11.2 | -2.6 | 1.3 |
| Global Bonds | Citi World Gov't | -0.7% | -8.5 | 1.6 | 1.6 | -0.8 | -1.0 |

US equities continued to march upward in December, shrugging off an appreciating dollar and a rate hike from the Federal Reserve. The S&P 500 gained 2.0% on the month, racking up returns of 12.0% in 2016; the Russell 2000 gained 2.8% in December and 21.3% for the year. International developed equities were also in the black last month with the MSCI EAFE Index posting returns of 3.4%, as strong manufacturing data fueled gains in Europe and expectations of higher inflations bolstered stocks in Japan. In emerging markets, the MSCI EM Index eked out a modest 0.2% in December, ending the year up 11.2%.

Despite the Federal Open Market Committee's decision to raise the target range for the Fed Funds rate to 0.50%-0.75%, domestic bond prices stabilized on the back of November's re-pricing. The 10-year Treasury yield closed the month up eight basis points at 2.45% but experienced a run-up to 2.60% mid-month as yields rose post-election. Spread compression in corporate issues was a tailwind for performance for the Barclays US Credit and Barclays US Corporate High Yield Indexes, which returned 0.6% and 1.8% on the month, respectively. Emerging market debt indexes were also in the black in December as the JP Morgan EMBI Index gained 1.4%. The local currency-denominated JP Morgan GBI-EM Index gained 1.9% as the Brazilian real, Russian ruble, and South African rand appreciated versus the US dollar.

The last two months of 2016 have not only provided surprising results for many investors, but also have given context to our recommendations as we start the new year. We believe the post-election rally in domestic stocks provides an opportune rebalancing point to express a modest overweight to international developed and emerging market equities. In both areas, we see opportunities with small-cap equities and also believe a dedicated global equity allocation is an attractive way to garner international exposure. At home, we continue to observe above average valuations with investors pricing in expectations of robust earnings growth in 2017. We think macro hedge funds offer potentially attractive returns for many investors amid sustained volatility in currencies, above-average equity valuations, and prolonged divergence in central bank policies. As we enter into 2017, we urge investors to remain committed to their diversified policy targets while also embracing a dynamic approach to capture opportunities as they arise.




*As of 12/30/2016, 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.]