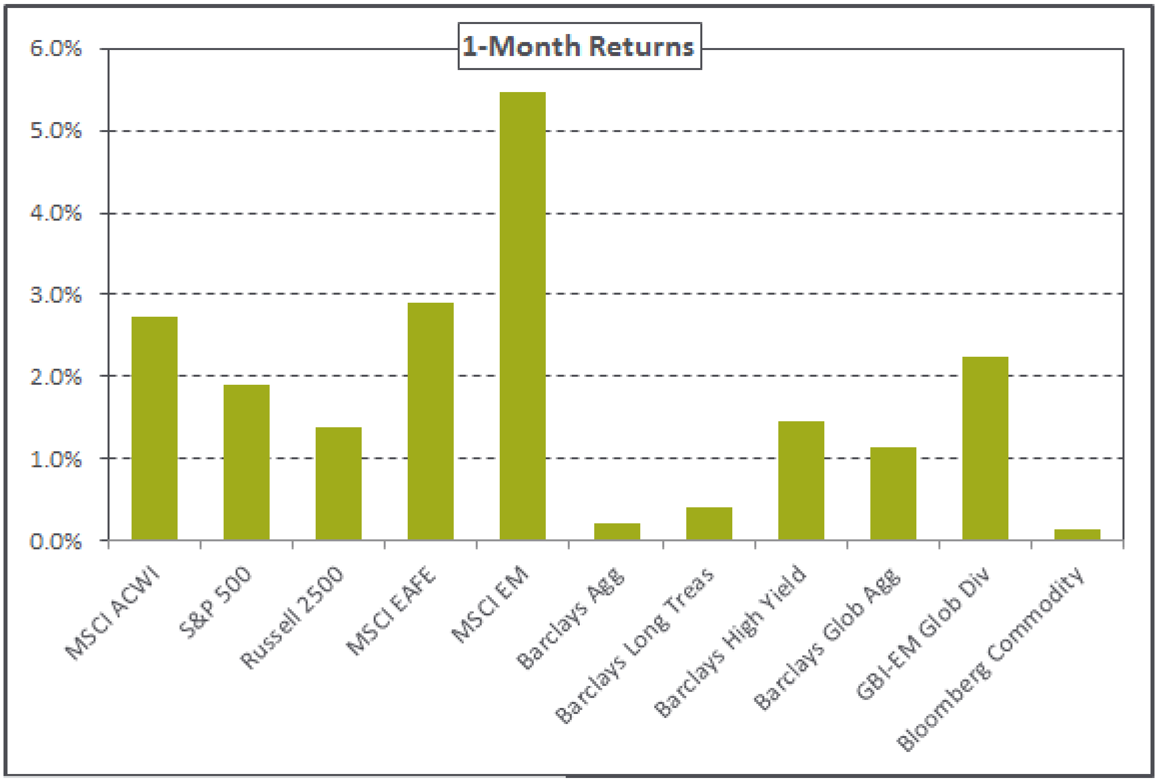
# Unitarian Universalist Common Endowment Fund

| | Monthly Market Commentary for January 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Last Month | Last Qtr | YTD | Last Year | Last 3 Years | Last 5 Years |
| Domestic Stocks | S&P 500 | 1.9% | 7.8 | 1.9 | 20.0 | 10.8 | 14.1 |
| | S&P Mid Cap 400 | 1.7% | 12.2 | 1.7 | 30.2 | 10.4 | 14.2 |
| | Russell 2000 | 0.4% | 14.7 | 0.4 | 33.5 | 7.9 | 13.0 |
| Domestic Bonds | Barclays Aggregate | 0.2% | -2.0 | 0.2 | 1.5 | 2.6 | 2.1 |
| | High Yield Bonds | 1.5% | 2.8 | 1.5 | 20.8 | 4.9 | 7.0 |
| | 91-Day T-Bills | 0.0% | 0.1 | 0.0 | 0.3 | 0.1 | 0.1 |
| Non-US Stocks | MSCI EAFE (Net) | 2.9% | 4.3 | 2.9 | 12.0 | 0.7 | 6.0 |
| | MSCI Emerg Mkts (Net) | 5.5% | 0.8 | 5.5 | 25.4 | 1.4 | 0.2 |
| Global Bonds | Citi World Gov't | 1.0% | -4.3 | 1.0 | 1.2 | -0.9 | -1.1 |

Emerging market stocks took the lead in January, bolstered by a strong showing of currencies, including the Brazilian real, Mexican peso and the South African rand. The MSCI Emerging Market Index gained 5.5% on the month. At home, the S&P 500 eked out returns of 1.9% as strong earnings from the major technology companies offset lackluster GDP growth in the fourth quarter. Non-US developed market equities were also in the black with gains of 2.9%, according to the MSCI EAFE Index, as investors took comfort in rising growth and inflation indicators. US bond markets were relatively quiet in January with the 10-year Treasury yield unchanged at 2.45%; spreads were flat in investment-grade credit while modestly compressing in high-yield debt. The Barclays US Credit Index returned 0.3% on the month and the Barclays US High Yield Index gained 1.5%. Global bonds were also positive despite rising yields in Germany, with the Barclays Global Aggregate Index returning 1.1%, as a weaker dollar provided a tailwind for performance. Emerging market debt indices also benefitted from the weakening dollar, with the JP Morgan GBI-EM Global Diversified Index gaining 2.1%.

Notwithstanding the new US administration's effect on financial markets so far this year, we remain focused on fundamentals to guide our outlook. At home, while we are optimistic about a sustained economic expansion, we believe elevated valuations and a lofty earnings outlook could ultimately disappoint. We recommend investors trim US equities in favor of international developed and emerging market stocks. In Europe, we think improving inflation and growth estimates will support corporate earnings growth. Meanwhile, shareholder-friendly actions should have a positive effect on equity prices in Japan. We believe implementation is critical in non-US developed markets and favor broad global equity approaches and active small-cap equity strategies. Furthermore, emerging market equities —despite their risks—deserve a meaningful allocation in a diversified equity portfolio because they offer an attractive total-return opportunity in an otherwise subdued return environment. Shifting to fixed-income markets, we are biased towards Treasury inflation-protected securities over nominal bonds as higher inflation expectations favor TIPS. Additionally, we recommend investors replace high-yield strategies with bank loans and dynamic credit approaches as non-investment grade credit spreads have narrowed significantly over the last year.




*As of 1/31/2017, 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.]