



Unitarian Universalist Common Endowment Fund

		Monthly Market Commentary for September 2015				
		Last Month	YTD	Last Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-2.5%	-5.3	-0.6	12.4	13.3
	S&P Mid Cap 400	-3.2%	-4.7	1.4	13.1	12.9
	Russell 2000	-4.9%	-7.7	1.3	11.0	11.7
Domestic Bonds	Barclays Aggregate	0.7%	1.1	2.9	1.7	3.1
	High Yield Bonds	-2.6%	-2.5	-3.4	3.5	6.2
	91-Day T-Bills	0.0%	0.0	0.0	0.0	0.1
Non-US Stocks	MSCI EAFE (Net)	-5.1%	-5.3	-8.7	5.6	4.0
	MSCI Emerg Mkts (Net)	-3.0%	-15.5	-19.3	-5.3	-3.6
Global Bonds	Citi World Gov't	0.8%	-2.4	-3.8	-2.9	-0.2

Global equities were mostly negative in September as continuing growth concerns in China permeated markets and worried investors and central bankers alike. In the US, the Federal Open Market Committee (FOMC) elected not to raise its target interest rate. As September closed, weak job growth data pushed market expectations of an initial rate increase into 2016. The continuation of accommodative policy was not enough to stem losses in US equity markets as the S&P 500 lost 2.5% and the Russell 2000 was down 4.9%. International equity markets suffered similar losses as the MSCI EAFE declined 5.1% and the MSCI EM fell 3.0%. Emerging market equities closed the quarter down 17.9% as significant currency depreciation and the effects of a slowdown in China have caused large losses. In conjunction with emerging market growth worries, commodity prices (as represented by the Bloomberg Commodity Index) remained under pressure and fell an additional 3.4%. Emerging market debt issues were also mostly negative on the month as mounting debt problems in Brazil lead Standard & Poor’s to cut its sovereign debt rating to ‘junk’ status. US Treasury rates fell sharply after the FOMC’s announcement with the 10 year ending the month at 2.06%. This mostly spurred gains in domestic fixed income markets as the Barclays US Aggregate Bond Index returned 0.7%. The Barclays US Corporate High Yield Index however, was down 2.6% as broad economic concerns sparked significant outflows late in the month.

Looking at global markets we see a number of risks – but also some potential positive catalysts on the horizon. The Chinese government’s ability to manage a transitioning economy and slowing growth remains a pressing issue that is likely to have effects on more than just emerging economies. Brazil and other major commodity exporters are likely to experience continued pressure in the wake of reduced demand and lower prices. In the US the Federal Reserve must balance the consequences of a rate increase with market perceptions of credibility and a possible build-up of excesses from extended monetary accommodation. Central banks in Europe and Japan face similar decisions about the magnitude of accommodation.

While all of these situations are significant and pose risks with contagion effects, we do see some areas of opportunity. At NEPC we continue to advocate for an overweight to non-US developed equities where stimulus remains in place and valuations are mostly reasonable. We also remain committed to emerging market equities and believe that despite additional pressure that could take place due to uncertainty around Chinese growth that valuations now appear mostly attractive – especially on a relative basis. Lastly, and despite some recent underperformance, we also continue to recommend multi-asset strategies such as risk parity and global asset allocation as core components in constructing a portfolio.

[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.]