Unitarian Universalist Common Endowment Fund

Monthly Market Commentary for January 2025

		Month	QTR TD	Calendar YTD	One Year	Three Years	Five Years
Domestic Stocks	S&P 500	2.8%	2.8	2.8	26.4	11.9	15.2
	Russell 2000	2.6%	2.6	2.6	19.1	5.6	8.7
Domestic Bonds	Bloomberg Aggregate	0.5%	0.5	0.5	2.1	-1.5	-0.6
	Bloomberg High Yield	1.4%	1.4	1.4	9.7	4.3	4.5
Non-US Stocks	MSCI EAFE	5.3%	5.3	5.3	8.7	5.1	6.3
	MSCI Emerging Mkts	1.8%	1.8	1.8	14.8	-0.7	3.0
Global Bonds	Bloomberg Global Agg	0.6%	0.6	0.6	0.3	-3.7	-2.1

Markets began the year on a rocky note but ended the month in the black across most major indexes. During this period, U.S. equities were up 2.8% with value stocks leading the way. Growth and AI-related stocks stumbled on the news that DeepSeek's AI model could potentially produce results similar to its peers at significantly lower capital costs. Small-cap equities rebounded from the prior month and returned 2.6% in January. Global equities increased 3.3% with the EAFE Index gaining 2.3% and emerging markets up 1.8%.

The month was relatively light on economic data. The U.S. job market remains healthy, mirroring the growth prospects for the U.S. economy as the unemployment rate fell to 4.1%. December's data, released last month, reinforced that inflation has moderated with CPI posting a year-over-year increase of 2.9%. While GDP growth for the fourth quarter was lower than expected, the U.S. economy expanded at a 2.2% annualized rate. The Federal Open Market Committee (FOMC) also met in January but held interest rates steady with the market still projecting only one or two cuts in 2025 from the Federal Reserve.

Fixed-income markets ended the month nearly flat but interest rate movements during the month were in the spotlight as the 10-year Treasury yield peaked at 4.79% before ending the month at 4.58%. The two- and 30-year followed a similar pattern with the 30-year Treasury yield topping out at 4.98% in mid-January. Credit markets remained strong with high-yield spreads falling 26 basis points to end the month at 2.61%, while investment-grade credit was largely unchanged. U.S. TIPS earned 1.3% for the month, nearly matching the 1.4% return of U.S. high yield.

Credit markets continue to show strength with spread levels remaining tight with investment-grade spreads below 80 basis points and high-yields spreads under 300 basis points. With high-yield credit spreads at cyclical lows, we suggest using high-yield bonds as a source of portfolio liquidity while markets remain healthy.

Commodity markets and gold led performance in January, posting returns of 4% and 6.6%, respectively. Interestingly, the price of oil broke from the trend, ending the month flat after moving lower in the final week of January.

We encourage holding safe-haven fixed income at strategic targets as a buffer against economic downturns and market shocks. We remain steadfast in our recommendation to diversify S&P 500 exposure by complementing with value and quality factors to produce a balanced U.S. large-cap position. We encourage investors to remain disciplined and stick to long-term strategic asset allocation targets. At the same time, we urge our clients to keep liquidity on hand to rebalance should the market overreact to any unexpected headlines in the coming months.

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.]