Market Commentary

New Covenant Funds

April 2020

- Investors were encouraged in April by plans to reopen economic activity in some regions; developments in the race for COVID-19 treatments and vaccinations; and lower securities pricing after the selloff in February and March.
- The $349 billion in U.S. stimulus funds allotted for small businesses in late March was depleted in a matter of weeks—requiring Congress to authorize an additional $321 billion in funding to keep the program in place.
- We think this real-life, albeit metaphorical, black swan presents an opportunity to become a more informed investor.

Economic Backdrop

Stock markets around the world continued to face off against COVID-19 throughout April as both equities and infection rates underwent near-relentless expansions. The official infection rate more than tripled during the month to over three-million cases worldwide—and is assumed to be a dramatic undercount given the lack of available testing. Coronavirus lockdowns were therefore maintained around much of the world. Nevertheless, stocks advanced globally almost without exception during the month as forward-looking investors spotted sources of encouragement—including plans to slowly reopen economic activity in some regions; developments in the race for COVID-19 treatments and vaccinations; and much lower securities pricing after the selloff in February and March.

U.S. stocks outperformed other major developed markets in April as the S&P 500 Index generated its highest one-month return since 1987 and volatility was nearly halved (according to the CBOE Volatility Index, or VIX Index). While the U.K., along with most European countries, Japan, and emerging-market giant China lagged the U.S., each finished high above their respective average one-month returns (according to country-level components of the MSCI ACWI Index).

U.S. and U.K. government-bond rates fell across all maturities during the month. In the eurozone, long-term rates fell as shorter- and intermediate-term rates increased somewhat. The West-Texas Intermediate (WTI) spot oil price plummeted below zero U.S. dollars per barrel for the first time in history—briefly touching -$40 per barrel in April as its spot trade

contract for May delivery neared expiration; the June futures contract traded between $10 and $20 per barrel through the end of April. Despite a 23-nation agreement led by the U.S., Saudi Arabia and Russia to cut production by 9.7 million barrels per day, oil inventories were projected by the U.S. Energy Information Administration to reach full storage capacity at some point in 2020.

In the U.S., the $349 billion in stimulus funds allotted for small businesses through the Paycheck Protection Program (PPP) in late March was depleted in a matter of weeks—requiring Congress to authorize an additional $321 billion in funding by mid-April to keep the program in place. Larger companies, some publicly traded, received loans from the program, prompting public criticism and demands from Treasury Secretary Steven Mnuchin that those companies apologize and return the loans (which some did); he also said that loans extended under the program for above $2 million will be subjected to an audit. The Department of Justice also announced it would investigate instances of fraud associated with the PPP. This follow-up appropriation drove the U.S. annual deficit to $3.7 trillion, blowing through the previous record of $1.5 trillion set in 2010.

President Donald Trump issued an executive order in April to suspend immigration for 90 days, denying work visas for most types of jobs. He also invoked the Defense Production Act of 1950 in an effort to force meat-processing plants to remain open, despite labor unions' concerns about the danger of working in close quarters during the pandemic. The state-to-state outbreak response continued to vary widely, with some states (like New York) extending lockdowns into May while others (like Georgia) started to allow non-essential businesses to open in late April.

The U.K. government continued to build out its Coronavirus Job Retention Scheme during April, extending the program by another month until the end of June. It also increased the ceiling on a loan-guarantee program, enabling companies with annual revenues above £45 million to access support if they've been impacted by the lockdown period (which was extended by another three weeks). Prime Minister Boris Johnson emerged from his personal battle with COVID-19 in April, having been hospitalized in intensive care and temporarily deputizing Foreign Secretary Dominic Raab to fulfil his role while incapacitated.

Elsewhere, Germany began reopening on 20 April, with plans for a phased return to schools starting in May, and clear benchmarks for returning to lockdown in the event of resurgent spread of COVID-19. New Zealand declared that it eliminated widespread community transmission of COVID-19 as at 27 April, enabling citizens to start moving more freely and non-essential businesses to begin reopening.

The International Monetary Fund (IMF) forecasted the worst recession since the Great Depression as a result of COVID-19 containment measures, and announced that half of all member countries have requested a bailout from the lender of last resort. Argentina skipped a $503 billion debt payment due in late April, starting a 30-day clock toward default, shortly after a group of international creditors rejected the government's latest plan for restructuring its sovereign debt.

Index Data (April 2020)

- The Dow Jones Industrial Average rallied by 11.22%.
- The S&P 500 Index increased by 12.82%.
- The NASDAQ Composite Index advanced by 15.49%.
- The MSCI ACWI (Net), used to gauge global equity performance, accelerated by 10.71%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 1.96%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", fell from 53.54 to 34.15.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, deteriorated from $20.48 a barrel at the end of March to $18.84 on the last day in April.
- The U.S. dollar ended April at $1.26 against sterling, $1.10 versus the euro and at 107.18 yen.

Portfolio Review

The Growth Fund slightly outperformed the Russell 3000 Index in April. The environmental, social and governance (ESG) screen, which excludes certain energy-related industries due to their fossil-fuel exposure, contributed. An underweight to the aerospace and defense sector also helped performance.

The Income Fund benefited from an overweight to the long-term segment of the U.S. Treasury yield curve as 30-year U.S. Treasury yields fell during the month. The overweight to corporates helped as spreads tightened during the month. Selection within industrials and banks further contributed. The Income Fund's overweight to agency mortgage-backed securities (MBS) added; selection within specified pools provided an additional boost. The overweight to non-agency MBS, which rebounded after March's liquidity-induced selloff, contributed. Overweights to asset-based securities (ABS) and higher-quality commercial MBS (CMBS) helped. Western Asset Management gained on an overweight to credit sectors as spreads tightened in April. Overweights to energy and financials helped. An overweight to agency and non-agency MBS contributed. A beneficial currency position in the Indonesian rupiah was offset by an unfavorable position in the Brazilian real. Income Research & Management gained on an overweight to corporates (industrials and financials). An overweight to higher-quality ABS helped, as did an underweight to U.S. Treasurys as all spread sectors outperformed government bonds. Selection within specified mortgage pools further contributed.

Manager Positioning and Opportunities

The Growth Fund employs a passive strategy designed to track the performance of the Russell 3000 Index, which represents the largest 3,000 U.S. companies and approximately 98% of the investable U.S. equity market, subject to such variation as may arise as a result of implementation of the social witness principles of the General Assembly of the Presbyterian Church (U.S.A.).

During the month, Income Research & Management added to the overweight to corporates in the Income Fund. The Fund's duration positioning ended the month neutral to its benchmark, but remained overweight the long-term segment of the U.S. Treasury yield curve. Duration is a measure of risk in bond investing and indicates how price-sensitive a bond is to changes in interest rates. A long (overweight) duration stance indicates the portfolio duration is higher than that of the benchmark whereas a short (underweight) duration stance indicates a lower duration. Duration is measured in years and securities with longer durations are more sensitive to interest-rate changes. With yields near historic lows, the Fund's managers are likely to stay close to neutral until volatility subsides. It was overweight spread sectors in an effort to maintain liquidity and will likely remain so, while adjusting duration and yield-curve positioning as the market changes. The Income Fund's managers are taking a "follow the Federal Reserve" approach in adding exposure to investment-grade credit and agency MBS, as both are the initial two areas of support from the central bank.

Financial Glossary

Futures: Futures are a type of derivative contract obligating the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price.

Paycheck Protection Program (PPP): The Paycheck Protection Program is a loan offer by the U.S. government's Small Business Administration (SBA) designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities.

Spot trade: A spot trade is the purchase or sale of a foreign currency or commodity for immediate or "on the spot" delivery.

Index Glossary

The S&P 500 Index is an unmanaged, market-capitalization weighted index that consists of the 500 largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

The MSCI All Country World Index is a market-capitalization-weighted index composed of over 2,000 companies and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The Bloomberg Barclays Global Aggregate Bond Index an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Russell 3000 Index includes 3000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. equity market.

The Bloomberg Barclays Intermediate U.S. Aggregate Bond Index is an unmanaged benchmark index composed of U.S. securities in Treasury, government-related, corporate, and securitized sectors with remaining maturities of less than 10 years.

The Dow Jones Industrial Average is a price-weighted average of 30 large, publicly owned companies based in the U.S. and traded on the New York Stock Exchange and the NASDAQ.

The NASDAQ Composite is a market capitalization-weighted index of approximately 3,000 common stocks listed on the Nasdaq stock exchange, including American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The Nasdaq Composite is not limited to companies that have U.S. headquarters.

Important Information

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-877-835-4531.

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There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Mortgage-backed securities are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage backed securities are also subject to the risk that underlying borrowers will be unable to meet their obligations.

Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

- **Not FDIC Insured**
- **No Bank Guarantee**
- **May Lose Value**