Market Commentary

New Covenant Funds

February 2020

- Concerns about the international spread of a novel coronavirus (Covid-19) continued to dominate financial markets throughout February.
- Developed-market government bond yields tumbled as investors sought “safe-haven” assets amid equity-market volatility that crescendoed to the highest level since August 2015 (bond yields fall when their prices rise).
- We maintained our emphasis on strategic (long-term) investing over tactical (short-term) decision-making, as it is impossible to identify with complete accuracy how investors might react to macroeconomic shifts.

Economic Backdrop

Concerns about the international spread of a novel coronavirus (Covid-19) dominated conditions in financial markets throughout February, continuing a trend that began in late January. Developed-market shares, as measured by the MSCI World Index, registered their largest decline since May 2012. The U.K. fared the worst among developed markets, followed by Europe and Japan performing in line with each other; the U.S. declined by slightly less than the others. Emerging-market equities outperformed developed markets. Mainland China (where Covid-19 originated) actually finished February with a gain after sharply selling off in January; despite hosting far more Covid-19 cases to date than all other countries combined, China’s infection rate slowed considerably while recoveries accelerated as the month progressed.

Developed-market government bond yields tumbled as investors sought “safe-haven” assets (bond yields fall when their prices rise) amid a crescendo of equity-market volatility that peaked on the last trading day of the month, when the CBOE S&P 500 Volatility (VIX) Index hit its highest level since August 2015. U.S., U.K., and European government-bond rates declined across all maturities; long-term U.S. Treasury yields finished the month at historic lows. Energy prices fell sharply during February in light of weakening prospects for global economic growth as governments implemented restrictions to counteract the Covid-19 outbreak that also impact productivity (such as shuttering workplaces, closing schools, quarantining exposed individuals, and imposing trade and travel barriers).

The U.S. Department of Commerce announced new rules that would allow President Donald Trump’s administration to impose tariffs on imports from countries deemed to have artificially decreased the value of their currencies for trade advantages.

China cut tariffs in half on $75 billion worth of U.S. products in mid-February, and also announced the suspension of additional tariffs on U.S. industrial goods later in the month. Domestically, the regional government of Hainan, China, planned to take control of China’s HNA Group, an aviation-focused conglomerate with an unsustainable debt load that was further crippled by Covid-19-induced travel stoppages.

U.K. Prime Minister Boris Johnson shuffled his cabinet ministers and senior government officials during February, prompting Chancellor of the Exchequer Sajid Javid to resign. Javid was replaced by Rishi Sunak, a senior Treasury official and former banker.

Germany’s political fortunes were less certain in February after Chancellor Angela Merkel’s intended successor—Annegret Kramp-Karrenbauer, defense minister in Merkel’s government and leader of the Christian Democratic Union party—unexpectedly announced that she won’t compete for the top post in 2021.

In Ireland’s early-February election, the left-nationalist Sinn Fein party secured a historic win—breaking the country’s traditional mold of two centrist parties that has defined much of its first century as an independent state. All three parties (Sinn Fein, Fianna Fail and Fine Gael) polled between 20% and 25%, with incumbent Fine Gael having the poorest showing.

Turkey began to allow Syrian refugees passage to Europe at the end of February—a decision that came after the Syrian military attacked Turkish troops stationed in northeastern Syria and the Turkish military responded by shooting down multiple Syrian fighter jets. The resulting flood of refugees immediately led to a renewed migrant crisis in Greece.

The governments of Hong Kong, Singapore and Macau each announced direct fiscal stimulus measures during February—in the form cash payments or shopping vouchers to their respective citizens—intended to counteract the negative economic effects introduced by the Covid-19 outbreak.

The Federal Open Market Committee (FOMC), Bank of England, European Central Bank (ECB) and Bank of Japan (BOJ) held no meetings on their respective domestic monetary policies during February. Furthermore, each central bank kept their respective benchmark rates unchanged following their January meetings. However, the FOMC announced an off-meeting cut of .50% (bringing the funds rate down to a range of 1.00 to 1.25%) on March 3 in an effort to counteract the economic drag introduced by the Covid-19 outbreak.

Index Data (February 2020)

- The Dow Jones Industrial Average sunk by 9.75%.
- The S&P 500 Index declined by 8.23%.
- The NASDAQ Composite Index retreated by 6.27%.
- The MSCI ACWI (Net), used to gauge global equity performance, decreased by 8.08%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 0.67%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", surged from 18.84 to 40.11.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, deteriorated from $51.56 a barrel at the end of January to $44.76 on the last day in February.
- The U.S. dollar ended January at $1.28 against sterling, $1.10 versus the euro and at 107.89 yen.

Portfolio Review

The Growth Fund performed in line with the Russell 3000 Index in February. A beneficial underweight to aerospace and defense stocks within the industrials sector was offset by unfavorable environmental, governance and social (ESG) weighting within consumer discretionary and health care.

The Income Fund underperformed the Bloomberg Barclay's Intermediate U.S. Aggregate Bond Index in February. Duration positioning began the month in line with the benchmark and moved slightly short by month end, which detracted from the Income Fund's performance as yields fell sharply. The Fund's overweight to corporate credit detracted as spreads widened. An overweight to and selection within industrials hurt. An overweight to agency mortgage-backed securities (MBS), which underperformed during the month, detracted modestly, but was somewhat offset by favorable selection within specified pools. Overweights to asset-backed securities (ABS) and commercial MBS hurt as both sectors performed poorly. An overweight to 30-year bonds added as 30-year U.S. Treasury yields declined. Income Research & Management's overweight to industrials detracted, as did selection within and an overweight to energy. The manager was also hurt by an overweight to and selection within ABS and an underweight to Treasurys. Selection within specified pools in mortgage-backed securities helped. Western Asset Management struggled on unfavorable overweights to corporate bonds and financials (particularly Yankee Banks: a bank with significant operations in the United States but registered in another country.). An overweight to and selection within non-corporates also hurt. The manager's short duration positioning detracted.

Manager Positioning and Opportunities

The Growth Fund attempts to track the performance of the Russell 3000 Index while retaining a social screen and an environmental, social and governance (ESG) tilt.

The Income Fund's duration positioning ended the month slightly short of its benchmark but remained overweight the long end of the U.S. Treasury yield curve. In the current low-growth, low-inflation outlook, the Income Fund is likely to remain overweight corporate bonds, while adjusting duration and curve positioning to changes in the market.

Financial Glossary

Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

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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For those New Covenant Funds which employ the “manager of managers” structure, SEI Investments Management Corporation (SIMC) has ultimate responsibility for the investment performance of the Funds due to its responsibility to oversee the sub-advisers and recommend their hiring, termination and replacement. SIMC is the adviser to the New Covenant Funds, which are distributed by SEI Investments Distribution Co. (SIDCO). SIMC and SIDCO are wholly owned subsidiaries of SEI Investments Company.

To determine if the Funds are an appropriate investment for you, carefully consider the investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Funds’ full and summary prospectuses, which can be obtained by calling 1-877-835-4531. Read them carefully before investing.

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**