Market Commentary

New Covenant Funds

January 2020

- U.S. stocks climbed through mid-January before selling off to end the month essentially flat as volatility jumped on rising concerns about the coronavirus outbreak that began in China.
- The U.S. and China formalized a “phase one” trade deal that offered tariff relief to China in exchange for commitments to purchase $200 billion in U.S. products, reforms to its forced technology transfer practices, and the continued opening of its financial-services industry to foreign investors.
- We retain 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

Equity markets around the globe were marked by accelerating volatility throughout the month on intensifying concerns about the coronavirus: A deadly strain originated in Wuhan, China, and began spreading at a faster pace as the month progressed. The number of confirmed cases in mainland China skyrocketed from 45 to well over 11,000 over the final two weeks of January, leading the Chinese government to quarantine millions of citizens in Wuhan. The outbreak spread to other countries, prompting Mongolia and Russia to close their borders with China and other countries to erect transportation and quarantine barriers to Chinese trade and travel. Beyond the threat to public health, the outbreak and resulting containment measures evoked concerns about the potential dampening of economic activity at the same time that China has struggled to navigate an economic soft patch.

In this environment, U.S. equities climbed through mid-January before selling off to end the month essentially flat on concerns about the coronavirus. U.K. and European stocks were restrained for much of January—barely advancing or declining—before weakening late in the period. Asian equities followed a similar path as their U.K. and European counterparts: Chinese stocks tumbled sharply given their proximity to the outbreak and potential for greater fallout; Hong Kong equities also sank, although by less; Japanese stocks generally resisted a severe impact.

Energy prices fell throughout most of January, with declines acclerating later in the month due to a likely clampdown on economic activity tied to quarantines, transportation disruptions and national border closures erected as part of outbreak containment efforts.

Government bond rates fell in the U.S., U.K. and eurozone across almost all maturities in January; the declining yields on these “safe-haven” assets quickened as the month came to a close (bond yields fall when their prices rise). The U.S. Treasury yield curve—which nearly normalized (that is, returned to a positive upward slope) at the end of 2019 after inverting to varying degrees since December 2018—re-inverted across most maturities by the end of January.

China and the U.S.formalized a “phase one” trade deal in mid-January that offered tariff relief to China (via the reduction of existing tariffs and the delay of additional scheduled tariffs). In exchange, China committed to purchasing $200 billion in U.S. products over a two-year period; addressing its long-standing practice of forcing the transfer of intellectual property and technology to Chinese counterparts in exchange for access to the Chinese market; and promising to continue opening its financial-services industry to foreign investors.

The United States-Mexico-Canada trade agreement (USMCA) was approved by the Congress and signed by President Donald Trump in late January, officially replacing the North American Free Trade Agreement (NAFTA). Earlier in the month, President Trump and France’s President Emmanuel Macron successfully walked back threats of tariffs that originated with French plans for a digital tax that would have targeted US-based multi-national technology companies. The prospect of a digital tax re-surfaced in other countries—including the U.K., Italy, Austria and Turkey—which prompted more threats of retailiatory tariffs by Treasury Secretary Steven Mnuchin. Sajid Javid, the UK’s Chancellor of the Exchequer, disappointed Secretary Mnuchin, his U.S. counterpart, by explaining during a joint interview in late January at the World Economic Forum that the U.K. would prioritize trade negotiations with the EU over a deal with the U.S.

President Trump’s impeachment trial unfolded in the U.S. Senate during the second half of January. His eventual acquittal with no expected formal consequences seemed almost universally anticipated—even as the U.S. media surfaced corroborating first-hand accounts of President Trump directing underlying events central to the articles of impeachment. These witnesses—one of which was former National Security Advisor John Bolton, whose depictions were made public by leaks of his as-yet unreleased book manuscript—were blocked by a slim majority from testifying under oath before the Senate.

The U.K. formally resigned its membership in the European Union (EU) at the end of the month after the Conservative Party's Brexit deal became law on January 23. European Parliament ratifed the agreement on January 29, paving the way for the split. The two sides will continue to negotiate the terms of their future relationship throughout a transition period that lasts until the end of 2020. Most of the rules that govern trading and travel between the U.K. and EU will remain in the interim, but the U.K. forfeited its participation in the EU decision-making process during the transition. If a deal isn't struck by the end of the year, their trade terms will revert to the rules-based trading system dictated by the World Trade Organization (WTO)—thereby raising tariffs on both sides and slowing the pace of cross-border commerce.

Geopolitical risks ratcheted higher at the start of the New Year when the Trump administration assassinated Qasem Soleimani, a top Iranian general, in Baghdad on January 3. The Iranian military retailiated on January 8 by launching missiles at two U.S. military bases in Iraq, reportedly causing more than 50 traumatic brain injuries of U.S. service members—and then accidentally downing a Ukrainian International Airlines commercial jet mistaken for U.S. military aircraft, killing all 176 passengers.

Index Data (January 2020)

- The Dow Jones Industrial Average sunk by 0.89%.
- The S&P 500 Index edged lower by 0.04%.
- The NASDAQ Composite Index inflated by 2.03%.
- The MSCI ACWI (Net), used to gauge global equity performance, decreased by 1.10%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 1.28%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", accelerated from 13.78 to 18.84.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, deteriorated from $61.06 a barrel at the end of December to $51.56 on the last day in January.
- The U.S. dollar ended October at $1.32 against sterling, $1.11 versus the euro and at 108.39 yen.

Portfolio Review

The Growth Fund underperformed the Russell 3000 Index during the month. An unfavorable underweight to aerospace and defense stocks within the industrials sector detracted as those stocks performed well following increasing tensions in the Middle East.

The Income Fund outperformed the Bloomberg Barclays Intermediate U.S. Aggregate Bond Index during the month. Duration positioning was generally in line with the benchmark and had no material impact on performance. An overweight to 30-year bonds added as 30-year U.S. Treasury yields fell by 40 basis points to end the month. The Fund's unfavorable overweight to corporate credit, whose spreads widened during the month, was offset by solid security selection within financials and utilities. An overweight to agency mortgage-backed securities (MBS), which underperformed during the month, detracted modestly. The Fund's allocation to non-agency MBS helped. Overweights to asset-backed securities (ABS) and commercial MBS contributed as both sectors performed well in the risk-off environment. Income Research & Management gained on an overweight to ABS and commercial MBS helped as U.S. consumers remained resilient. An unfavorable overweight to credit was offset by solid security selection within industrials. Western Asset Management's overweight to corporate bonds detracted, but selection within financials and utilities more than made up for the loss. The manager's longer-duration positioning and overweight to 30-year bonds contributed as yields declined. An overweight to non-corporate bonds, especially sovereigns, hurt.

Manager Positioning and Opportunities

The Growth Fund attempts to track the performance of the Russell 1000 Index while retaining a social screen and an environmental, social and governance (ESG) tilt.

The Income Fund's duration positioning ended the month neutral to 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. Early in the month, corporate valuations narrowed significantly before widening over the remainder of the month. If spreads continue to widen, the Income Fund's managers may look to add back some risk.

The New Covenant Balanced Growth Fund invests about 60% of its assets in the Growth Fund and 40% in the Income Fund. The New Covenant Balanced Income Fund invests about 35% of its assets in the Growth Fund and about 65% in the Income Fund.

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.

An inverted yield curve occurs when the yields on bonds with a shorter duration are higher than the yields on bonds that have a longer duration. In a normal yield curve, the short-term bills yield less than the long-term bonds.

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.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts. There is no assurance as of the date of this material that the securities mentioned remain in or out of New Covenant Funds.

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**