Market Commentary

New Covenant Funds

Third Quarter 2019

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- Equity markets, which plummeted in early August after climbing through July, largely recovered into mid-September around most of the globe. Government bond rates declined across all maturities in the U.S., U.K. and eurozone during the three-month period.
- U.S.-China trade negotiations came to a halt on August 1 with President Trump's announcement of new tariffs. Both sides applied new and higher tariffs beginning on September 1, but as a new round of negotiations materialized for October, the U.S. delayed a tariff measure scheduled for October 1.
- Although maintaining exposure to equities and other risk-oriented assets can feel uncomfortable during such periods of uncertainty, we believe that investors with long time horizons should avoid timing the market or making outsized sector or regional bets.

Economic Backdrop

Equity markets, which plummeted in early August after climbing through July, largely recovered into mid-September around most of the globe.

U.S., European and Japanese stocks generally tracked the pattern of global equities. However, U.S. stocks were notable in that they drifted to all-time highs in late July, dropped as a consequence of President Donald Trump's escalating trade-war measures, and failed to break new highs despite recovering in September. U.K. stocks sold off especially sharply in August and didn't bounce as significantly as peers in other major developed markets, but continued to recover straight through the end of September.

Mainland Chinese stocks rebounded faster and earlier in the quarter than the rest of the world's equity markets, and then slid back down toward the end of the period. The early September bounce in Hong Kong stocks was modest by comparison, and essentially reversed in late September.

Government bond rates declined across all maturities in the U.S., U.K. and eurozone during the third quarter. Long-term rates dropped by more than short-term rates in the U.K. and eurozone, leading to flatter overall yield curves. In the U.S., shorter- and longer-term rates both declined by more than medium-term rates, compressing the difference in rates across all maturities. After remaining negative since May, the 3-month-to-10-year Treasury spread—a widely-watched recession indicator—turned positive for a single day in late July, but tumbled deeply into negative territory by late August before recovering to less negative levels by the end of the quarter.

Oil prices followed the path of global equities for much of the three-month period. They jumped abruptly in mid-September on news of an attack that targeted energy-processing facilities in Saudi Arabia that account for about 5% of global oil production. However, the spike in prices was reversed by the end of the quarter as output quickly returned to sufficient levels.

U.S.-China trade negotiations came to a halt on August 1 with President Trump's announcement of new tariffs (10% on $300 billion of Chinese goods) and China's subsequent promise of retaliation, provoking a disconcerting depreciation in the yuan's exchange rate with the U.S. dollar. Both sides applied new and higher tariffs beginning September 1: The U.S. imposed a 15% tariff on $112 billion worth of Chinese goods, while China resumed 25% tariffs on American cars and added 5%-to-10% tariffs on $75 billion worth of other American goods. As a new round of negotiations materialized for October, the U.S. delayed a tariff measure scheduled for October 1 (an increase from 25% to 30% on $250 billion worth of Chinese goods).

The U.S. and Japan struck a narrow trade agreement in late September, which reduced tariffs on U.S. agricultural exports and Japanese industrial exports, and set guidelines for digital trade between the two nations.

U.K. Prime Minister Boris Johnson faced sharp resistance from the outset of his tenure: Conservative members of Parliament defected to support a vote eliminating the prospect of a no-deal departure from the EU on October 31, and the U.K. Supreme Court reversed the Prime Minister's attempt to suspend Parliament. A general election remained out of reach for Johnson despite all of his setbacks, as opposition parties opted to wait until the no-deal threat was taken off the table.

Elsewhere, after months of demonstrations, protesters in Hong Kong saw some success when a proposed law that would have allowed for extradition to mainland China was withdrawn. Protests continued, however, amid a reported increase in China's police presence and undercover activity.

Central Banks

- The Federal Open Market Committee (FOMC) reduced the federal-funds rate by 0.25% in mid-September—only the second decrease in 11 years, two months after a July cut of the same size—bringing the rate to a target range of 1.75% to 2.00%. The FOMC's late-July announcement also included an accelerated end to quantitative tightening by letting U.S. Treasurys and mortgage-backed securities (MBS) mature without reinvesting proceeds. With the end of the program, the central bank has resumed reinvestment activities—focusing on moving its securities portfolio toward Treasurys and away from MBS. On a separate note, in an effort to stabilize short-term borrowing rates, the Federal Reserve Bank of New York undertook temporary repurchase agreements (known as repo operations) in September for the first time since the global financial crisis, and maintained them through the end of the quarter; a shortage of bank reserves caused by increased Treasury issuance, corporate tax payments, and a range of other factors led to a sharp spike in secured short-term rates, forcing the need for intervention.

- The Bank of England's Monetary Policy Committee took no new actions at either its August 1 or September 19 meeting, retaining a bias toward less accommodative monetary policy. However, its statement now notes that Brexit must occur smoothly and global economic conditions must improve before taking new tightening action.

- The European Central Bank (ECB) sought to provide fresh stimulus following its mid-September meeting by reducing its deposit rate from -0.40% to a record low of -0.50%—and adopting a new system to offset possible consequent bank-reserve losses. The ECB also reintroduced its asset-purchase program at €20 billion per month, to start in November and continue indefinitely. Finally, it modified its latest round of targeted longer-term refinancing operations to allow for lower bank-borrowing rates and a maturity extension from two to three years.

- The Bank of Japan left its monetary-policy orientation unchanged following its September meeting. Minutes revealed discussion about communicating the central bank's willingness to use more stimulus if needed, in light of concerns about slowing economic growth.

- The People's Bank of China (PBOC) allowed the yuan to depreciate past the psychologically significant 7-to-1 ratio with the U.S. dollar in early August following a statement by President Trump that the U.S. would impose far-ranging new tariffs on September 1. The PBOC revealed in August that it made an adjustment to the calculation of China's loan prime rate, which is expected to result in a gradual reduction in Chinese borrowing costs. The central bank also provided Chinese banks with additional relief in September by cutting its reserve requirement ratio by 0.50%, with a potential additional 1% reduction for qualifying banks in October and November, freeing about $125 billion of banking-system liquidity.

Economic Data

- Multiple reports of U.S. manufacturing indicated that activity slowed throughout the third quarter, showing signs of contraction in September and falling to the lowest level in more than a decade according to one measure. Activity in the U.S. services sector bounced to healthy expansion levels in July, decelerated sharply to near-breakeven levels in August, and grew slightly in September. The U.S. unemployment rate remained at 3.7% in September for the fourth straight month, although the labor-force participation rate continued to increase in the same period. The final second-quarter reading of overall U.S. economic growth eased by 0.1% to an annualized 2.0%.

- The contraction of U.K. manufacturing activity entered its fifth consecutive month in September. Growth in the U.K. services sector essentially ground to a halt in the same month after a mild rebound in July and August. The broad U.K. economy shrank by 0.2% in the three-month period ending June, but expanded by 1.3% year over year, according to the final reading of second-quarter gross domestic product growth. The U.K. claimant-count unemployment rate held at 3.2% in July before edging upward to 3.3% in August. Average year-over-year earnings growth jumped to 4.0% for the May-to-July period (from 3.7% and 3.4% in the three-month periods ending June and May, respectively).

- Conditions in eurozone manufacturing continued to deteriorate in September, the eighth straight month of contracting activity. Services sector activity also slowed in the month, falling below the healthy pace it had maintained for the prior few months, but remaining in expansion territory. The eurozone unemployment rate edged down to 7.4% in August from 7.5%, where it was stuck for the three months prior. The eurozone economy slowed to a pace of 0.2% in the second quarter—half that of the prior quarter—and to 1.2% year over year (a modest 0.1% decline).

Index Data for Third Quarter

- The Dow Jones Industrial Average increased by 1.83%.
- The S&P 500 Index lifted by 1.70%.
- The NASDAQ Composite Index picked up by 0.18%.
- The MSCI ACWI (Net), used to gauge global equity performance, diminished by 0.03%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 0.71%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the “fear index,” edged higher, moving from 15.08 to 16.24.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, loosened from $58.47 a barrel on the last day in June to $54.07 on September 30.
- The U.S. dollar moved to $1.23 versus sterling, $1.09 against the euro and 108.08 yen.

Portfolio Review

The Growth Fund modestly underperformed the Russell 1000 Index in the third quarter. During the quarter, U.S. large-cap stocks produced modestly positive returns. The Russell 1000 Index was up 1.42%. Real estate and utilities led, benefiting from falling interest rates. The Growth Fund’s underweight to tobacco contributed as the troubled industry struggled. An underweight to aerospace & defense, industries with poor environmental, social and governance (ESG) scores, detracted.

The Income Fund performed in line with its benchmark during the quarter. Modest tactical duration changes added to performance, with duration slightly long to begin the quarter, drifting slightly short during August before ending the period slightly long. The Income Fund’s overweight to the long end of the Treasury yield curve contributed as the 30-year Treasury bond hit a record low of 1.90% in August. A slight overweight to corporate credit, which was concentrated within financials, was beneficial. The Income Fund’s overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed as the high-quality risk/return profiles of both sectors are attracting demand as investors search for yield in a low-interest-rate environment. An overweight to non-agency mortgage-backed securities (MBS) helped. Recent widening of agency MBS spreads as the Federal Reserve reduced its holdings of non-Treasury securities made them an attractive, high-quality substitute for risk-reduction proceeds from other sectors. Duration positioning had no material impact on the Income Fund’s performance. Western Asset Management’s overweight to taxable bonds, which outperformed comparable U.S. Treasurys during the quarter, contributed. An overweight to 30-year Treasurys also helped as yields declined. Income Research and Management’s overweight to investment-grade credit contributed, as did an overweight to ABS as U.S. consumers remained resilient. Selection within industrials was a modest detractor. An underweight to agency MBS hurt as spreads widened, but was offset by positive security selection.

Manager Positioning and Opportunities

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

The Income Fund’s duration ended the quarter slightly short of the benchmark index, the Bloomberg Barclays Intermediate U.S. Aggregate Bond Index but remained overweight the long end of the Treasury yield curve. In the current low-growth, low-inflation outlook, the Income Fund is likely to remain overweight taxable bonds, while adjusting duration and curve positioning to changes in the market.

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.

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.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ.

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 NASDAQ Composite Index is an unmanaged, market-capitalization weighted index that consists of all securities listed on the NASDAQ exchange. It is often used to gauge performance of global technology stocks.

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 (formerly Lehman Brothers Global Aggregate 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 1000 Index includes 1000 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. large-cap 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 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 Fund(s) are an appropriate investment for you, carefully consider the investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, the summary prospectus, which can be obtained by calling 1-877-835-4531. Read the prospectus 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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. 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.

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***