Market Commentary

New Covenant Funds

Fourth Quarter 2019

SEI New ways. New answers.®

- Equity and fixed-income markets around the globe wrapped up 2019 with above-average annual performance, giving investors the gift of optimism as they rang in the New Year.
- China and the U.S. settled on a limited “phase-one” trade agreement in mid-December. The deal is expected to provide China with tariff relief and the U.S. with agricultural purchases, assurances that China will address forced technology transfer practices, and greater access to the Chinese financial services industry.
- Figuring out how investors might react to shifting conditions is almost always a challenging exercise. With that in mind, as always, we retain our emphasis on long-term, strategic investing over tactical reactions to short-term events.

Economic Backdrop

The final quarter of 2019 could be taken as a microcosm of the full year and, for that matter, the entire decade. Each period began in the wake of volatile, confidence-testing equity-market selloffs, yet proceeded to soar dramatically—overshooting far beyond the point of recovery.

Equity and fixed-income markets around the globe wrapped up the decade with above-average annual performance, giving investors the gift of optimism as they rang in the New Year. Developed-market equities generally performed quite well for the 12-month period relative to historical averages; U.S. shares shined the brightest, maintaining their dominance of the past decade. Although emerging-market equities lagged for the year and the decade, they outpaced their developed-market counterparts for the final quarter of 2019.

The riskiest segments of the fixed-income universe (high-yield bonds and emerging-market debt) along with U.S. investment-grade corporates outperformed all other fixed-income segments around the globe in 2019. Local-currency emerging-market debt was the star of the fourth quarter; however, over the last decade it lagged its hard-currency counterpart, as well as high yield and U.S. investment-grade corporates.

Government bond rates declined over the full year across all maturities in the U.S., U.K. and eurozone. However, government bond rates climbed across the yield curve in the U.K. and eurozone during the fourth quarter. In the U.S., long-term Treasury rates rose but short-term rates fell during the three-month period, resulting in a steeper yield curve that all-but vanquished an inversion that began in late 2018.

The U.S. and China settled on a limited “phase-one” trade agreement in mid-December, which the countries’ leaders agreed to formally sign by mid-January. The deal includes the following provisions:

- A commitment from China to purchase about $50 billion in U.S. agricultural goods over a two-year period; assurances that China will address 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 a promise to continue opening its financial-services industry to foreign investors.
- A reduction of existing U.S. tariffs on Chinese goods (from 15% to 7.5% on $110 billion of goods, with another $240 billion of goods still subject to 25% tariffs); a delay in the imposition of additional tariffs that were previously scheduled for December 15.

Also in December, President Donald Trump’s administration finally secured bipartisan support in the House of Representatives (the House) for the US-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement—one year after the three countries’ respective leaders signed the deal. This win for the administration came just one day after the House approved articles of impeachment against Trump—making him the third U.S. president in history to be impeached (the political equivalent of a criminal indictment). As the culmination of a three-month investigation, President Trump was formally charged with abuse of power (using the power of the presidency for his own benefit) and obstruction of Congress (blocking Congress’s investigation into his alleged wrongdoing). An impeachment of a U.S. president does not equal removal from office; this is determined in the Senate (the upper chamber of Congress), where a trial must be held once the House passes on the articles. The process was suspended at year end as House leaders said they plan to hold the documents until the Senate agrees to certain trial rules.

The UK's Conservative Party consolidated its power in a mid-December election—winning a majority of seats in the House of Commons and gaining approval for Prime Minister Boris Johnson's EU departure deal. The country is set to officially leave the EU at the end of January 2020, giving way to an 11-month transition period during which the U.K. and EU will negotiate the terms of their future relationship. Ursula von der Leyen, president of the European Commission, expressed concern in late December that the transition period may not be long enough and that an extension could be necessary; Johnson previously said he will not tolerate a longer transition period.

Central Banks

- The Federal Open Market Committee (FOMC) cut the federal-funds rate by 0.25% in October, its third cut in as many meetings. In mid-October, the U.S. central bank also made its first monthly purchase of $60 billion in Treasury bills as part of a program to increase liquidity in the financial system. The FOMC left the federal-funds rate unchanged at its December meeting and noted that "the vast majority of the committee expects to leave rates unchanged next year before very gradually raising rates toward neutral over the next three years." This quote encapsulates the expectations contained in the Federal Reserve's (Fed) final Summary of Economic Projections for 2019, which depicted slowing growth and firming inflation over the next two years.

- The Bank of England (BOE) announced its next Governor in late December following the Conservative election victory. Andrew Bailey, current head of the Financial Conduct Authority, whose working history with the BOE began in 1985, will lead the central bank starting in March 2020. The Monetary Policy Committee held firm through its November and December meetings—keeping its key interest rate unchanged at 0.75%. However, two out of nine committee members voted for a 0.25% rate reduction at both meetings, representing the first glimmers of a preference for a rate cut since the immediate aftermath of the Brexit vote in 2016.

- The European Central Bank (ECB) took no new actions in its final two monetary policy meetings of the decade, held in October (the last with Mario Draghi as President) and December (the first with Christine Lagarde at the helm). However, there was a shift in focus from one leader to another: As Draghi's tenure came to a close, he offered a defense of the ECB's policy move toward further accommodation; Lagarde began her watch by announcing a broad policy review that raises fundamental questions about the central bank's mandate as well as whether it can influence other areas (including disruptive technologies, cryptocurrencies, and climate change).

- The Bank of Japan made no changes to its accommodative monetary policy stance at its October and December meetings, despite expectations that it would introduce additional easing measures to offset the economic pressure created by an October increase in the country's consumption tax.

- The People's Bank of China (PBOC) announced in late December that the Loan Prime Rate (LPR) will serve as the benchmark for existing floating-rate loans beginning in 2020 and that banks will no longer be allowed to sign loan contracts based on previous benchmark rates. This change was taken as an easing measure, as the PBOC trimmed the one-year LPR to 4.15% in mid-November for the third cut in recent months. As the ball dropped in Times Square to signify the end of the decade, the PBOC announced its latest cut (of 0.5%) to bank reserve-requirement ratios, freeing about $115 billion (U.S. dollars) for bank lending.

Economic Data

- U.S. manufacturing continued to slide further into contraction territory throughout the fourth quarter ending 2019 at the lowest level of activity in a decade, according to one purchasing manager survey. The services sector increased its growth pace to finish the year at moderately healthy levels. The U.S. unemployment rate fell to 3.5% in November, the lowest rate in 50 years. Overall U.S. economic growth was measured at an annualized 2.1% rate in the third quarter, an uptick from preliminary readings of 2%.

- The slowdown in U.K. manufacturing worsened in December, contracting for the eighth consecutive month. U.K. services sector activity also slowed further into contraction territory, although to the same degree as manufacturing. The U.K. claimant-count unemployment rate continued an upward trend that persisted through most of the year, reaching 3.5% in November; meanwhile, the three-month average U.K. unemployment rate remained relatively steady throughout most of 2019, holding firm at 3.8% in the August-to-October period. Average year-over-year U.K. earnings growth for the August-to-October period continued to decline to 3.5% after peaking at 3.9% over the summer. Overall third-quarter U.K. economic growth measured 0.4% (and 1.1% year over year), up from earlier estimates of 0.3% for the quarter (and 1.0% year over year), and rebounding from the 0.2% contraction in the second quarter.

- The eurozone manufacturing landscape eroded further into contraction territory during December, having spent every month of 2019 besides January in contraction. On the positive side, services sector activity accelerated in the final month of the year to healthier growth levels. The eurozone unemployment rate finished October at 7.5%, in line with its pace for much of 2019 after edging lower early in the year. Overall eurozone economic growth held firm at 0.2% during the third quarter and 1.2% year over year.

Index Data for Fourth Quarter 2019

- The Dow Jones Industrial Average increased by 6.67%.
- The S&P 500 Index lifted by 9.07%.
- The NASDAQ Composite Index picked up by 12.47%.
- The MSCI ACWI (Net), used to gauge global equity performance, jumped by 8.95%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 0.49%.
- 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 lower, moving from 16.24 to 13.78.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, mounted from $54.07 a barrel on the last day in September to $61.06 on December 31.
- The U.S. dollar moved to $1.32 versus sterling, $1.12 against the euro and 108.68 yen.

Portfolio Review

The Growth Fund outperformed both the Russell 1000 Index and the Russell 3000 Index during the quarter due to a favorable underweight to industrials (aerospace and defense). It was hurt by lack of exposure to tobacco stocks, which performed well during the quarter.

The Income Fund performed in line with its benchmark during the quarter. Overweights to corporate credit (mainly financials and industrials) and agency mortgage-backed securities (MBS) contributed, as did an allocation to non-agency MBS. Overweights to asset-backed securities (ABS) and commercial MBS were beneficial as the high-quality risk/return profile of both sectors attracted demand. The Fund's overweight to the long end of the U.S. Treasury yield curve detracted as 30-year yields rose. Duration positioning had no material impact on performance. Western Asset Management's overweight to corporate bonds contributed. The manager's longer-duration positioning and overweight to 30-year U.S. Treasurys also helped due to declining yields, as did its allocation to high-yield bonds. Income Research & Management gained on an overweight to investment-grade bonds. An overweight to ABS helped as U.S. consumers remained resilient. Selection within industrials contributed as recession concerns abated. An unfavorable underweight to agency MBS (as spreads widened) was offset by solid security selection within the sector.

Manager Positioning and Opportunities

During the quarter, the Growth Fund's benchmark was changed from the Russell 1000 Index to the Russell 3000 Index, which provides exposure to lower-capitalization stocks. The Growth Fund's investment strategy also changed. The purpose of this change was to attempt to provide broader exposure to U.S. equity markets. It retained a social screen and an environmental, social and governance tilt.

The Income Fund's duration positioning ended the quarter 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 Fund is likely to remain overweight corporate 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 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 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 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***