Market Commentary

New Covenant Funds

First Quarter 2020

- The arc of global financial markets during the first quarter corresponded with the unfolding realization that outbreak-induced shutdowns would cripple large cross-sections of the world economy.
- Investors' dash for cash created chaotic market conditions around the globe—prompting major central banks to resume great financial crisis-era policies in March, which have appeared to help markets return toward orderly function.
- If your portfolio is aligned with your goals, time horizon and risk tolerance, then time and patience should be on your side. We think selling now could mean missing the rebound that will inevitably happen.

Economic Backdrop

The modern world has almost never before seen the kind of sudden, dramatic global transformation as it did in early 2020. The New Year brought major developments that included the signing of a "phase-one" trade deal between the U.S. and China, the U.K.'s official divorce from the EU, and the emergence of COVID-19 in Wuhan, China. February was defined by the world's evolving realization that COVID-19 would not be contained to China despite quarantines, border closures and air-travel restrictions. Halfway into the same month, the U.S. and Europe began to contend with a possible widespread outbreak that would demand extreme containment measures—all of which became reality by the middle of March, as both regions committed to suppression.

The arc of global financial markets during the first quarter of 2020 corresponded with the unfolding realization that controlling the outbreak would require government-mandated shutdowns of "non-essential" activity—impacting large cross-sections of the world economy. Governments issued stay-at-home orders as public health leaders preached "social distancing" in order to "flatten the curve" (that is, slow the rate of transmission in order to provide health systems time to manage the viral outbreak).

A dash for cash by investors concerned about the economic fallout created disorderly conditions across capital markets. Major developed government-bond rates plummeted to multi-year and all-time lows as credit spreads exploded for fixed-income securities regardless of credit quality, maturity, or other risk characteristics. A subsequent shortage in U.S. dollar funding caused its value to spike against other currencies. Emerging-market currencies came under heavy pressure amid investment outflows and collapsing output, partially on U.S. dollar scarcity and withering demand for oil (much of which is produced in emerging-market countries).

The Federal Reserve (Fed) and other major central banks responded to the widespread disorder in March with a rapid return to great financial crisis-era playbooks. This appears to have helped reroute markets back toward orderly function.

Equities in developed and emerging markets around the globe tumbled in the first quarter of 2020—by between approximately 20% and 30% in most major equity indexes. Peak-to-trough declines were even sharper in many areas since most stocks outside of China either climbed or remained buoyant through mid-February, before selling off as daily volatility returned to levels last seen during the depths of the great financial crisis.

U.S. stocks climbed to all-time highs before registering one of the fastest descents in history, triggering multiple exchange-wide circuit breakers that forced market closures for short periods of time during March. The CBOE Volatility Index (VIX) set an all-time high in mid-March, surpassing its high from the fall of 2008. The volatility cut in both directions as U.S. stocks earned their best three-day winning streak in more than 80 years during late March amid growing support for Congressional action.

Dysfunction, unfortunately, was not limited to financial markets. Hospitals in U.S. and European population centers reported shortages of medical supplies and personal protective equipment. Overextended health systems buckled under the strains; a scarcity of hospital beds spurred the construction of temporary field hospitals, from Milan's fairgrounds to London's ExCel Centre and Central Park in New York City. As the Western world was scrambling to build these facilities, China was already dismantling its temporary hospitals as the country's infection rate slowed—closing its last just one day before the World Health Organization officially characterized COVID-19 a pandemic.

Economic fallout from widespread societal lockdown presented a separate severe challenge to governments around the globe. Trends that were many years in the making—including the explosion of online spending hurting brick-and-mortar retailers, the rise of video streaming entertainment at home, and the expanded business use of teleconferencing—accelerated due to the shift. Meanwhile, OPEC+ (that is, the Organization of the Petroleum Exporting Countries, led by Saudi Arabia—plus Russia) splintered in early March on plummeting demand. Russia would not agree to a proposed shared production cut intended to stabilize oil prices, which prompted Saudi Arabia to increase production in retaliation—triggering the largest one-day oil-price decline since 1991 on March 8, sending oil prices to their lowest levels in 18 years.

National government responses evolved sharply over time. In the U.S., the COVID-19 response differed at the state level, with governors of more than 30 states (who collectively represent over two-thirds of the national population) issuing stay-at-home orders by the end of the quarter, while others abstained from substantive lockdown measures. The number of Americans filing for unemployment benefits in the last full week of March hit a record-shattering high of 6.64 million, just one week after more than quadrupling the 1982 record of 695,000 jobless claims. President Donald Trump initially appeared to consider the outbreak a minor issue, but then shifted course, declaring a national emergency in mid-March, and eventually suspending import tariffs; enlisting the private sector to manufacture medical supplies; pausing evictions and foreclosures of government-sponsored mortgages; suspending government-sponsored student loan payments; and delaying most federal tax payments for three months. Congress passed three separate legislative acts appropriating more than $2 trillion in funding for large and small businesses, enhanced unemployment benefits, direct payments to Americans, state and local governments, and the health system.

The U.K. appeared intent on letting its population develop "herd immunity" through widespread infection in early March, acknowledging the likelihood of a high mortality rate. By mid-March, however, its government pivoted to suppression—closing most gathering places and recommending the postponement of local elections several months in advance. The country's economic relief plans included replacing most of the income lost to suppression-related unemployment, additional health funding, faster paid sick leave and unemployment benefits, business relief via subsidized loans, and the refunding of sick pay to small firms.

The European Commission waived Maastricht limits (that is, requiring EU members to adhere to annual deficits of no greater than 3% of gross domestic product) in order to provide national governments fiscal budgetary flexibility. Italy passed one of the earliest government relief programs, although it will almost certainly need to do more given the severity of its outbreak. Germany and France, among other nations, have also been working to introduce major fiscal stimulus.

Against the backdrop of an unfolding global crisis, Russia's legislature and highest court affirmed a constitutional amendment allowing Vladimir Putin to remain president until 2036, adding another potential 12 years to his term.

Central Banks

- The Federal Open Market Committee cut the federal-funds rate to near zero through two off-cycle cuts and committed to purchasing unlimited amounts of Treasurys and mortgage-backed securities (MBS). Additionally, the Fed established new, promoted existing, and revived retired facilities to support commercial-paper funding, primary dealer credit intermediation, money markets, investment-grade corporate bonds (in primary and secondary markets), asset-backed loans, and central bank foreign-exchange swaps, along with high levels of reverse repo funding.

- The Bank of England's (BoE) Monetary Policy Committee cut the Bank Rate to 0.1%, the lowest in the 325-year history of the lending rate. It also announced a £200 billion asset-purchase program, mostly of government bonds, to be conducted at a monthly pace that will eclipse previous rounds of quantitative easing (QE). Additionally, it launched a so-called funding-for-lending scheme to spur banks to lend to small- and medium-sized enterprises as well as a commercial paper facility with no cap limit, both to be financed by central-bank reserves.

- The European Central Bank (ECB) announced a new QE package—the Pandemic Emergency Purchase Programme—amounting to €750 billion, which should bring total QE-related asset purchases to more than €1.1 trillion in 2020. The central bank also altered issuer limits on the amounts and types of securities it can buy. If needed, the ECB can also use its Outright Monetary Transactions program to purchase an unlimited amount of short-term government bonds.

Index Data for First Quarter 2020

- The Dow Jones Industrial Average decreased by -22.73%.
- The S&P 500 Index narrowed by -19.60%.
- The NASDAQ Composite Index fell by -13.95%.
- The MSCI ACWI (Net), used to gauge global equity performance, dropped by -21.37%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, eased by - 0.33%.
- 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,” surged higher, moving from 13.78 to 53.54.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, plummeted from $61.06 a barrel on the last day in December to $20.48 on March 31.
- The U.S. dollar moved to $1.24 versus sterling, $1.10 against the euro and 107.54 yen.

Portfolio Review

The Growth Fund slightly outperformed the Russell 3000 Index during the quarter. The environmental, social and governance (ESG) screen, which excludes certain energy-related industries due to their fossil-fuel exposure, contributed. It was hurt by lack of exposure to certain consumer-discretionary stocks, which performed well during the quarter.

The Income Fund performed poorly during the quarter as an economic shutdown resulted in rapid and dramatic flight to safety. An overweight to corporates, which was concentrated in financials and industrials, hurt as investors sold more liquid assets. An overweight to non-agency mortgage-backed securities (MBS) detracted on mortgage payment concerns. Asset-based securities (ABS) suffered in the dash for cash during the quarter, and the Income Fund’s overweight held back performance. An unfavorable overweight to commercial MBS (CMBS) was further damaged by the Income Fund’s higher-quality bias as investors sold the most liquid bonds first. Duration position had no material impact on performance. Overweights to the short-term and long-term segments of the U.S. Treasury yield curve contributed as yields fell. An overweight to agency mortgage-backed securities (MBS) modestly contributed as mortgages rallied into quarter end after the Federal Reserve (Fed) announced unlimited asset purchases that support the sector. Selection within specified mortgage pools helped. Western Asset Management struggled on an overweight to credit sectors, which suffered as spreads widened in March. An overweight to dollar-denominated sovereign issuers, particularly in Russia and Mexico, detracted. Allocations to securitized sectors also hurt. Income Research & Management gained on an underweight to non-corporates. An overweight to investment-grade credit detracted as spreads widened. Selection within financials hurt. Overweights to ABS and commercial MBS detracted as investors sold the highest-quality, most-liquid tranches first. Positioning in agency MBS had no impact on performance.

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 3000 U.S. companies and approximately 98% of the investable U.S. equity market.

The Income Fund’s duration positioning ended the quarter neutral to modestly long its benchmark but remained overweight the long end of the U.S. Treasury yield curve. While yields are near historic lows, the Income Fund’s managers are likely to stay close to neutral until volatility subsides. The Income Fund was overweight spread sectors in order to maintain liquidity. Managers are waiting for markets to normalize to gradually begin adding some risk back into the Income Fund.

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.

Federal-funds rate: The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the U.S. Federal Reserve) to another depository institution overnight in the U.S.

Repo funding: Repo (also known as a repurchase agreement) refers to a type of short-term borrowing for dealers in government securities. Central banks can increase the cash available to commercial banks by repurchasing the government securities that they own.

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 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.

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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***