Market Commentary

New Covenant Funds

August 2020

- Strong equity-market returns continued in August, led by Hong Kong, Japan and the U.S.
- Government-bond yields increased around the developed world, with long-term government rates growing by more than short-term rates.
- We believe that an ebb and flow of assorted concerns in the coming months will continue to spark volatility across financial markets. Such periods of instability are expected in any long-term investing plan; as such, at SEI, we are prepared as always to navigate the current wave of deep uncertainty.

Economic Backdrop

Strong equity-market performance continued around most of the world in August, led by Hong Kong, Japan and the U.S. Europe and the U.K. followed at a distance despite generating elevated one-month returns. Latin America suffered a sharp decline during the period as COVID-19 cases appeared to plateau at high levels there. A steep selloff in early September offset part of August's gains, particularly among the U.S. companies that had led the rally.

The S&P 500 Index (a broad measure of U.S. stocks) registered a new all-time high in late August, marking the fifth consecutive month of gains since the dramatic early-2020 selloff. The U.S. dollar continued to fall versus a basket of major currencies during August, albeit at a slower pace compared to its sharp July decline, settling at its lowest level in more than two years.

Government-bond yields increased around the developed world. In the U.S., U.K. and eurozone, long-term government rates rose by more than short-term rates, leading to steeper yield curves.

The U.S. presidential election cycle formally progressed to its final phase before Election Day, as President Donald Trump accepted the Republican Party's nomination and former Vice President Joe Biden accepted the Democratic Party's nomination at their respective quadrennial conventions during August. Fresh off the July commencement of the United States–Mexico–Canada Agreement (USMCA), the Trump administration announced in August a re-imposition of a 10% tariff on Canadian aluminum that was suspended in May 2019 during USMCA negotiations.

Tensions between the U.S. and China spilled into the social-media sphere as the Trump administration took a series of actions to wrest control of the U.S. branch of TikTok, a popular video-sharing app owned by Beijing-based Bytedance. In early August, President Trump signed an executive order to bar Americans from conducting business with ByteDance after mid-September. Several major U.S. companies in the software, retail and private-equity industries announced intentions to bid on TikTok's U.S. operations; by late August, ByteDance sued the U.S. government over its impending ban and forced sale. China, for its part, contended that any sale of TikTok assets to a U.S. company is subject to Chinese government approval.

Aside from social-media drama, the U.S.-China relationship was strained after a recent Beijing-imposed national-security law drove the Trump administration to end its extradition treaty with Hong Kong. In addition, the U.S. imposed sanctions on senior government officials in China and Hong Kong, including Hong Kong's Beijing-appointed Chief Executive Carrie Lam, over their suppression of political dissent in the territory. Finally, the U.S. formalized accounting rule changes, mandating that U.S.-traded Chinese firms comply with U.S. accounting standards by 2022 or else de-list from U.S. securities exchanges. With regard to the ongoing global pandemic, the U.S. and Hong Kong each reported their first confirmed case of COVID-19 re-infection.

U.K. and EU representatives made only marginal progress toward a trade deal during August. Negotiations hit an apparent impasse as the EU made two demands that had previously been declared non-starters by U.K. negotiators: (1) continued EU fishing rights in U.K. waters, and (2) U.K. adherence to EU state-aid rules that would limit the likelihood of anti-competitive subsidies to U.K. industry.

In late August, Japanese Prime Minister Shinzo Abe announced his intention to resign due to issues with his personal health. Abe is the longest-serving prime minister in Japan's history and a chief proponent of a multi-pronged approach to fiscal and monetary policy designed to boost the country's economic revival, which was dubbed "Abenomics."

Index Data (August 2020)

- The Dow Jones Industrial Average surged by 7.92%.
- The S&P 500 Index rallied by 7.19%.
- The NASDAQ Composite Index advanced by 9.70%.
- The MSCI ACWI (Net), used to gauge global equity performance, accelerated by 6.12%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, narrowed by 0.15%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", picked up from 24.46 to 26.41.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, increased from $40.27 a barrel at the end of July to $42.61 on the last day in August.
- The U.S. dollar ended August at $1.34 against sterling, $1.19 versus the euro and at 105.91 yen.

Portfolio Review

The Growth Fund's ESG screens led to a favorable overweight to information technology and underweights to certain aerospace and defense stocks within industrials.

The Income Fund benefited from its duration positioning during the month, which was slightly short versus the benchmark; a favorable overweight to corporate bonds (industrials and banks) as spreads tightened; and overweights to asset-backed securities (ABS) and higher-quality commercial mortgage-backed securities (CMBS). Favorable selection within specified mortgage pools partially offset an unfavorable underweight to agency mortgage-backed securities (MBS). The Income Fund's overweight to 30-year bonds detracted as 30-year U.S. Treasury yields rose during the month. Western Asset Management gained on a favorable overweight to corporate bonds as spreads tightened during the month, especially in energy and financials. An allocation to non-agency MBS contributed. An overweight to the long-term segment of the yield curve hurt as 30-year Treasury yields rose. An allocation to agency MBS had no material impact on performance. Income Research & Management benefited from an overweight to investment-grade corporates (industrials and financials). Overweights to CMBS and ABS helped as the markets continued their gradual recovery from the forced selling earlier in the year. An overweight to taxable municipal bonds contributed. An unfavorable underweight to MBS somewhat offset solid selection within the sector. An underweight to non-corporate bonds detracted slightly.

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 3,000 U.S. companies and approximately 98% of the investable U.S. equity market, subject to such variation as may arise as a result of implementation of the social witness principles of the General Assembly of the Presbyterian Church (U.S.A.).

The Income Fund's duration positioning ended the month slight short versus the benchmark, but remained overweight the long-term segment of the U.S. Treasury yield curve. Duration is a measure of risk in bond investing and indicates how price-sensitive a bond is to changes in interest rates. A long (overweight) duration stance indicates the portfolio duration is higher than that of the benchmark whereas a short (underweight) duration stance indicates a lower duration. Duration is measured in years and securities with longer durations are more sensitive to interest-rate changes. It was overweight corporates while adjusting duration and curve positioning as the market shifted. The Income Fund's managers are taking a "follow the Federal Reserve" approach in maintaining exposure to investment-grade credit and agency MBS, as both are the initial two areas of support from the central bank.

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**