Market Commentary

New Covenant Funds

October 2020

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- A broad-based advance of global equity markets in the first few weeks of October gave way to a steep selloff driven by a new wave of rising COVID-19 cases.
- Early votes in the U.S. general election pointed to a high turnout, with a significant likelihood of reaching the largest participation rate in more than 50 years.
- We sense that the next few months of what has already been an eventful year could prove critical to the future course of the global economy and financial markets.

Economic Backdrop

Global equity markets declined in October for the second month in a row. A broad-based advance for the first few weeks of October gave way to a sharp late-month spike in volatility and a steep selloff driven by a new wave of rising COVID-19 cases. Developed markets were down for the period. European and U.K. equities declined most dramatically, followed by the US; Japan's loss was comparably mild. Emerging markets, on the other hand, rallied following their September slide. China's gains helped propel the rebound, while Brazilian shares were modestly negative.

The West-Texas Intermediate crude-oil price declined by approximately 11% from its October peak through the end of the month as prospects for global economic activity cooled alongside rising cases. U.S. and U.K. government-bond rates generally increased across the yield curve, while rates declined in the eurozone. U.S. dollar weakness returned in October after being temporary interrupted by a large rebound in late September, resuming its slide against a trade-weighted basket of foreign currencies that began in March after the passage of a massive U.S. fiscal stimulus.

Governments re-imposed lockdown measures as COVID-19 cases climbed through October. England announced four weeks of closures affecting pubs, restaurants gyms and other non-essential retail businesses. The restrictions were coupled with plans for greater government payments for affected self-employed workers as well as an extended deadline (until January) to apply for business loans underwritten by the government. France and Germany announced similar plans in late October centered on closing bars and restaurants for a month.

In the U.S., another major round of fiscal stimulus remained elusive. President Donald Trump expressed willingness to meet the high price tag proposed by Democrats in control of the House of Representatives, while Republicans with power in the Senate did not appear willing to go along. The 2020 U.S. general election featured the highest U.S. voter-participation rate in 120 years. Historic turnout, combined with an unprecedented surge in mail-in ballots, slowed the vote-counting process compared to past elections. Former Vice President Joe Biden appeared set to win the race, although he's expected to face vote re-counts and other election-related lawsuits before the results can be certified.

U.K. and EU negotiations over a potential post-Brexit trade agreement continued through the end of October but remained stuck on fishing rights and state aid to businesses. Specifically, the EU wants a long-term guarantee regarding the allocation of fishery rights and access to British waters, while the U.K. wants to renegotiate these rights every year. With regard to business subsidies, the EU seeks to ensure a level playing field that would unlikely give either side unfair advantages.

These talks accelerated to a daily pace as of late October; negotiators now estimate that final the terms must be settled by mid-November for any deal to be enforced by the end-of-year expiration of the Brexit transition period. An agreement would need to be passed through U.K. and EU Parliaments before becoming law. At the same time, an EU-U.K. joint committee had begun hashing out the real-world implications of the Withdrawal Agreement's Northern Ireland Protocol for customs and border cooperation under a no-deal Brexit scenario.

The World Trade Organization handed down a ruling in mid-October that allows the EU to impose retaliatory tariffs on $4 billion of U.S. exports in response to favorable tax treatment for major U.S. aerospace companies. Elsewhere, China demanded that the U.S. stop a planned sale of surface-to-surface missiles to Taiwan (which China considers part of its territory). China responded in part by announcing in late October that it intends to sanction major U.S. defense companies for arms sales to Taiwan.

Index Data (October 2020)

- The Dow Jones Industrial Average fell by 4.52%.
- The S&P 500 Index reduced by 2.66%.
- The NASDAQ Composite Index moderated by 2.26%.
- The MSCI ACWI (Net), used to gauge global equity performance, eased by 2.43%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, advanced by 0.10%.
- 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 26.37 to 38.02.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $40.22 a barrel at the end of September to $35.79 on the last day in October.
- The U.S. dollar ended August at $1.29 against sterling, $1.16 versus the euro and at 104.67 yen.

Portfolio Review

The Growth Fund's ESG screens led to unfavorable selection within the information technology and health care sectors.

The Income Fund benefited from its duration positioning during the month, which was slightly short versus the benchmark. Other contributors included an overweight to and selection within corporate bonds (industrials and utilities) as spreads tightened; and overweights to asset-backed securities (ABS), non-agency mortgage-backed securities (MBS) and higher-quality commercial MBS. An 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 industrials and financials. An allocation to non-agency MBS contributed, as did a small overweight to agency MBS. An overweight to the long-term segment of the yield curve hurt as 30-year Treasury yields rose. Income Research & Management benefited from an overweight to investment-grade corporates (industrials and financials) as spreads tightened. An overweight to ABS helped as the markets continued their gradual recovery from the forced selling earlier in the year. The allocation to CMBS was essentially flat. 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**