

# Market Commentary

## New Covenant Funds

November 2020

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New answers.®

- Equity markets shot higher on a series of encouraging vaccine-related announcements. U.S. stocks performed exceptionally well compared to historical returns, but lagged most of the developed world.
- In the U.S. general election, Joe Biden was declared the winner of the presidential race in early November. Most candidates from the Republican Party performed better in their races for state- and national-level offices compared to President Trump's quest for a second term.
- 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.

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### Economic Backdrop

Despite a U.S. presidential election that featured the highest turnout rate in 120 years, and 11<sup>th</sup>-hour negotiations between Europe and the U.K. as the real-and-final Brexit Day ticked ever closer, the most pivotal developments in November were the promising results of clinical trials for a short list of COVID-19 vaccines.

The series of vaccine-related announcements injected great enthusiasm into equity markets around the world. European and U.K. stocks led the way, with the MSCI Europe Index and MSCI United Kingdom Index posting their best one-month returns since 1975 and 1981, respectively. The MSCI Japan Index had a record-breaking month as well, nearly doubling their *annualized* return over the last decade. U.S. stocks also performed exceptionally well, but lagged most of the developed world. Emerging-market equities trailed developed markets, as China's relatively subdued returns masked a huge rally by Latin America, reversing their roles from October.

U.S. Treasury rates fell slightly across most maturities, with the longest-term rates declining furthest. U.K. and eurozone government-bond rates increased across all maturities, led by intermediate-term rates. The West-Texas Intermediate crude-oil spot price rose by 27% during November, hitting the highest level since February after declining in late October as lockdowns were reintroduced.

The UK's share of positive COVID-19 tests (that is, positive tests as a percentage of all tests administered) peaked in early November and began to improve by the middle of the month, after an accelerated climb that started in early October forced a return to lockdown conditions. France's situation looked more perilous—its share of positive tests spiked in late October after rising steadily since mid-Summer—but began to improve sharply in mid-November as a result of France's decision in October to re-impose lockdowns. The increase in Germany's share of positive tests began later—at the beginning of October—but continued to rise slowly through late November, even as the metric had begun to fall in the U.K. and France. In the U.S., the climb in its share of positive tests lagged that of France by about a month, with a worrying acceleration through most of November followed by a jump even higher during the last week of the month.

The U.S. general election produced a dismissal of Donald Trump's administration. Most candidates from the president's Republican Party performed better in their races for state- and national-level offices compared to his quest for a second term. Former Vice President Joe Biden was declared the winner of the presidential race in early November by the Associated Press (which serves as the traditional, if not formal, arbiter of U.S. presidential election outcomes).

A multi-week vote-certification process continued on a state-by-state basis through the end of November, further formalizing Biden's win, which will be made official in mid-December when state-level electors cast votes in accordance with the certified results of each state's popular vote. Nevertheless, President Trump's campaign persisted in contesting the results of the election in a handful of states where Biden had relatively small margins of victory—demanding recounts, requesting that courts throw out specific types of ballots, and asking judges to invalidate state-wide election results in favor of allowing Republican-majority state legislatures to select the winner of the presidential race. The legal effort to alter the election's outcome remained unsuccessful through the end of November.

Negotiations between the U.K. and EU over a post-Brexit trade agreement were being conducted face-to-face in London at the end of November. At this point, even if both sides agreed to a deal, there would no longer be adequate time for it to

be approved by each government's respective parliament and then implemented by January 1 without creating disruptions. The sticking points remained on fishing rights, state aid to businesses, and cross-border dispute resolution.

The Regional Comprehensive Economic Partnership (RCEP), a free-trade group composed of 15 Asia-Pacific countries including China, was formalized in mid-November. RCEP nations have a combined population of 2.2 billion people and produce about one-third of global gross-domestic product, representing the most expansive free-trade area on the planet.

### **Index Data (November 2020)**

- The Dow Jones Industrial Average surged by 12.14%.
- The S&P 500 Index advanced by 10.95%.
- The NASDAQ Composite Index jumped by 11.91%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 12.33%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, increased by 1.82%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", fell from 38.02 to 20.57.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, swelled from \$35.79 a barrel at the end of October to \$45.34 on the last day in November.
- The U.S. dollar ended August at \$1.33 against sterling, \$1.19 versus the euro and at 104.32 yen.

### **Portfolio Review**

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

The Income Fund benefited from an overweight to 30-year U.S. Treasury bonds as long-term Treasury yields declined during the month. 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. Its duration positioning, which was slightly short versus its benchmark, detracted modestly as yields declined. An allocation to agency MBS had little impact on performance; although selection within specified loan pools contributed. 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 overweights in CMBS and ABS. An overweight to the long-term segment of the U.S. Treasury yield curve added as long-term yields declined. Income Research & Management benefited from an overweight to investment-grade corporates (industrials and utilities) 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**