Market Commentary

New Covenant Funds

January 2021

- The presidential transition took a bizarre turn in early January as President Trump's supporters descended on the Capitol Building, interrupting the counting of electoral votes in a violent security breach. Two weeks later, Joe Biden was inaugurated as president under heavy security.
- Emerging-market equities had strong performance in January, yet their developed-market counterparts were generally negative. U.S. large caps and Japanese equities lagged U.K. stocks, which were modestly lower for the full month, while European equities had a steeper decline.
- We expect to continue seeing signs of an economic recovery emerge as COVID-19 abates and activity normalizes. In the meantime, fiscal spending and accommodative central-bank policy should sustain gross domestic product growth and eventually cause inflation to rise.

Economic Backdrop

January set a high bar for memorability. Six days into the month, the U.S. presidential transition took a bizarre turn as thousands of President Donald Trump's supporters gathered in Washington, DC, to protest the formal declaration of Joe Biden's victory. Trump rallied the crowd to descend on the U.S. Capitol Building, where the historically tedious ritual of counting electoral votes in the U.S. Congress was just getting underway. This culminated in a violent security breach of the Capitol by a mob of protesters who successfully delayed—but did not stop—the vote count, while damaging property and causing severe injury to and loss of life both for police officers and rioters.

Trump was impeached by the House of Representatives for inciting an insurrection—the first president in U.S. history to be impeached twice. Still, perhaps the most consequential fallout of the riot was Trump's permanent ban from Twitter, his preferred mode of public communication for much of the last decade. Two weeks later, Joe Biden was inaugurated as president under heavy security provided by 25,000 National Guard troops.

The U.K. and EU parted ways upon entering the New Year, finally fulfilling the Brexit referendum of 2016. They returned to separate political realms for the first time since 1993 (when the U.K. joined the EU) and distinct economic realms for the first time since 1973 (when the U.K. joined the European Communities).

Capital markets were resilient throughout the uncharted political waters that engulfed the first few weeks of January, with equity-market volatility actually declining during these events. Later in the month, however, volatility spiked as subscribers to WallStreetBets (a popular and irreverent community of equity-market speculators within the Reddit social-media sphere) triggered a classic speculative frenzy by focusing their collective trading heft on a handful of unloved stocks. Several hedge fund giants were briefly paralyzed by the amateurs' coordinated trading bonanza. This shift in attention benefited smaller beleaguered stocks, yet weighed on broad market indexes as it detracted from mega-cap technology stocks that have been leading markets in recent years.

Emerging-market equities had strong overall performance in January, with gains in the Asia-Pacific region more than offsetting steep losses in Latin America. In developed markets, stocks were generally negative for period—excluding U.S. small caps, which were among the best-performing equities. U.S. large caps and Japanese equities lagged U.K. stocks, which were modestly lower for the full month, while European equities had a steeper decline.

Fixed-income sectors, with the exception of inflation-protected securities and high-yield bonds, were also down in January. U.S. investment-grade corporate debt, global sovereign bonds and emerging-market debt had the poorest performance. Government-bond yield curves generally steepened across major developed markets for the month. U.K. gilt rates increased for all maturities, although more significantly for longer-term rates than shorter-term rates. Long-term eurozone government-bond rates also increased, while short-to-intermediate-term eurozone rates were mixed in January. U.S. Treasury short-term rates edged downward, and intermediate-to-long-term U.S. rates increased.

COVID-19 infection rates continued to climb around the world during January. U.S. daily case counts topped in late December, while its daily death toll peaked in mid-January. The pandemic's foothold strengthened as new, more infectious coronavirus mutations that originated in the U.K. and South Africa began spreading around the globe—a disconcerting development that risked setting back timetables for a return to normal.

The new Biden administration worked with the Congress to confirm top-level cabinet positions, enacted a series of COVID-19-related executive actions, and began to tackle a range of other priorities. President Biden also began promoting the "American Rescue Plan," which proposes a $1.9 trillion fiscal stimulus package that combines extended unemployment benefits and housing-related protections with tax credits for lower-to-middle-income families along with funding for state and local governments, education, health care, small businesses and direct payments to Americans. Biden's Democratic Party holds slim majorities in both houses of the Congress and can therefore enact budget-related plans without bi-partisan support; nevertheless, as January concluded, the new administration remained open to negotiations with moderate Republicans over a potential compromise.

U.K. Chancellor of the Exchequer Rishi Sunak announced a one-time grant programme for hospitality, leisure and retail businesses at the beginning of January. The programme pledges to appropriate £4.6 billion for grants of up £9,000, which the treasury projected would reach 600,000 businesses.

Index Data (January 2021)

- The Dow Jones Industrial Average fell by -1.95%.
- The S&P 500 Index dropped by -1.01%.
- The NASDAQ Composite Index advanced by 1.44%.
- The MSCI ACWI (Net), used to gauge global equity performance, diminished by -0.45%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, declined by -0.88%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", jumped from 22.75 to 33.09.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, swelled from $48.52 a barrel at the end of December to $52.20 on the last day in January.
- The U.S. dollar ended January at $1.37 against sterling, $1.21 versus the euro and at 104.69 yen.

Portfolio Review

The Growth Fund's ESG screens led to favorable selection within the industrials, real estate and health care sectors.

The Income Fund's overweight to and selection within corporate bonds (industrials) and overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed. The overweight to 30-year U.S. Treasury bonds detracted as long-term Treasury yields increased during the month. 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. An allocation to non-agency MBS contributed. An overweight to the long-term segment of the U.S. Treasury yield curve detracted as long-term yields increased. Income Research & Management benefited from an overweight to and selection within investment-grade corporates (industrials). The overweight to ABS and CMBS helped as the markets continued their gradual recovery from the forced selling earlier in 2020. An overweight to taxable municipal bonds contributed modestly.

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**