Market Commentary

New Covenant Funds

February 2021

- Stocks were higher around the world until an upward spike in government-bond yields sent chills through markets during the second half of February. Even still, most equity markets finished positive for the month.
- The Centers for Disease Control and Prevention released updated school reopening guidelines in mid-February that spurred state health departments and local school districts to coordinate plans for more in-person learning and fewer virtual classes.
- We anticipate ongoing signs of a global economic recovery as COVID-19 abates and activity normalizes. In the meantime, fiscal spending and accommodative central-bank policy should sustain gross domestic product (GDP) growth and eventually cause inflation to rise.

Economic Backdrop

Risk assets continued their advance through the first half of February without any real setbacks. Stocks were higher around the world until the middle of the month, when government-bond yields (which had been rising slowly since the fall) began to spike further. The specter of a sharp increase in borrowing costs sent chills through markets during the second half of February, leading to selloffs of varying intensity. Full-month equity performance, however, was still positive around most of the world.

Developed-market equities outperformed emerging markets during the month, with mainland Chinese equities negative and Brazil among the worst performers. U.K. stocks led among major developed markets, followed by the U.S., Hong Kong, eurozone and Japan. Energy and financials delivered the best sector-level performance in February. Value-oriented stocks beat their growth-oriented peers, and small-cap stocks outpaced large caps.

Short-term Treasury rates fell by a small amount, while long-term rates pushed higher. The 10-year Treasury yield—a reference rate for everything from corporate debt to mortgages—briefly rose to its highest level in more than a year near the end of February. U.K. and eurozone government-bond rates increased across all maturities during the month, although long-term rates rose by considerably more than short-term rates.

The U.S. dollar stayed near its January low (relative to a trade-weighted basket of foreign currencies) and remained confined to the range it has established since early December. The West Texas Intermediate crude-oil price climbed from $52.20 to $61.50 per barrel, or 17.8%, during the month.

Estimated daily U.S. COVID-19 case counts had fallen by the end of February toward the low point of September last year. The Centers for Disease Control and Prevention (CDC) released updated school reopening guidelines in mid-February that spurred state health departments and local school districts to coordinate plans for more in-person learning and fewer virtual classes.

The House of Representatives passed a $1.9 trillion economic relief bill at the end of February. The bill will likely be modified by the Senate to exclude a minimum-wage increase that is not allowed in packages passed under the Senate's reconciliation rules (under which bills may be passed with a simple majority rather than the Senate's typical 60% majority requirement—as long as the whole bill directly addresses taxes, spending or the level of the U.S. debt).

Johnson & Johnson's (J&J) COVID-19 vaccine received emergency-use authorization from the U.S. Food and Drug Administration at the end of February. While less effective than the Pfizer-BioNTech and Moderna vaccines that received the first two emergency approvals, the J&J vaccine only requires one dose (as opposed to the others' two-dose regimen) and can be stored at the temperature of a regular refrigerator (as opposed to the sub-zero temperatures required to sustain the others). J&J announced an immediate shipment of four million doses, and plans to ship 100 million doses by June and potentially one billion doses by the end of the year.

In late February, with COVID-19 cases expected to continue declining with the aid of vaccines, U.K. Prime Minister Boris Johnson unveiled a four-stage plan to reopen England:

1) Reopen schools on March 8 and larger outdoor gatherings and sports on March 29.
2) Reopen non-essential retail businesses and cease curfews for restaurants and pubs (still limited to outdoor seating) as early as April 12, depending on the progression of the infection rate.
3) Conclude most social-contact rules (two households will be allowed to meet indoors), and reopen hospitality businesses to indoor service as soon as May 17.
4) Retire any remaining social-contact limits and reopen all still-closed businesses as early as June 21.

Following the January collapse of Italy's governing coalition and subsequent resignation of Prime Minister Giuseppe Conte, Italian President Sergio Mattarella asked former European Central Bank President Mario Draghi to form a technocratic government. Draghi answered his call, and his national unity platform—which includes cabinet ministers from across and outside of the political spectrum—received support from parties in the center, left, and right. He was sworn in as prime minister on February 13.

Index Data (February 2021)

- The Dow Jones Industrial Average advanced by 3.43%.
- The S&P 500 Index jumped by 2.76%.
- The NASDAQ Composite Index increased by 1.01%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 2.32%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, declined by 1.72%.
- 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 33.09 to 27.95.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, swelled from $52.20 a barrel at the end of January to $61.50 on the last day in February.
- The U.S. dollar ended January at $1.39 against sterling, $1.21 versus the euro and at 106.56 yen.

Portfolio Review

The Growth Fund's ESG screens led to unfavorable selection within consumer staples and health care.

The Income Fund's overweight to 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 hindered returns. Conversely, the allocation to non-agency MBS contributed. Western Asset Management gained on a favorable overweight to corporate bonds. The allocation to non-agency MBS, ABS and CMBS contributed. Selection within industrials hurt returns. 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 investment-grade corporates (industrials). However, selection within industrials detracted. The overweight to ABS and CMBS helped as the markets continued their gradual recovery from the forced selling earlier in the year. 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 long versus the benchmark and 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.

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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 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**