Market Commentary

New Covenant Funds

May 2021

- Global equity markets advanced during May for the fourth straight month. Europe generated the greatest equity gains among major markets; U.K. shares also performed well.
- 51% of the U.S. population had received at least one dose of a COVID-19 vaccine by the end of May, while its daily COVID-19 infection rate fell to 7% of its all-time peak.
- President Joe Biden's administration proposed a $6 trillion budget for the 2022 fiscal year centered on his two major economic initiatives—infrastructure (estimated $2.3 trillion) and families programs (estimated $1.8 trillion)—along with $1.5 trillion for defense.

Economic Backdrop

Global equity markets advanced during May for the fourth straight month. Emerging-market stocks outpaced developed markets as a group, but performance varied widely from country to country.

Europe generated the greatest equity gains during May, driven by sharp rallies across Hungary, Poland, Austria and Czech Republic; U.K. shares also performed quite well. Japan and Hong Kong equities produced healthy returns, while mainland China and U.S. performance was positive but restrained.

Rates for U.S. Treasurys and U.K. gilts declined across most maturities during May, with the most pronounced moves centered on intermediate- to long-term rates. Eurozone government-bond rates increased across all maturities. The West Texas Intermediate crude-oil price crept up to its highest level since late 2018 as energy demand continued to rise during May. OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) announced on June 1 that it will continue to loosen supply cuts that were implemented to counteract plummeting demand early on in the pandemic.

51% of the U.S. population had received at least one dose of a COVID-19 vaccine by the end of May, while its daily COVID-19 infection rate fell to 7% of its all-time peak. In the U.K., the one-dose number stood at 58% of its population as its daily infection rate was 5% of its all-time high; Germany's respective figures were 43% and 16%, while France's were 37% and 17%. India's severe COVID-19 outbreak eased somewhat, with its daily infection rate falling to 45% of its peak by the end of May; several other countries in Southeast Asia along with a number of South American and Caribbean countries remained at or near their highest infection levels.

President Joe Biden's administration proposed a $6 trillion budget for the 2022 fiscal year that would serve as a starting point from which Congress can decide how to appropriate the country's economic funding. The president incorporated his two major economic initiatives into the budget—infrastructure (estimated $2.3 trillion) and families programs (estimated $1.8 trillion)—along with $1.5 trillion for defense. Negotiations during May produced an offer from the White House to lower its infrastructure price tag to $1.7 trillion and a counter bid from Senate Republicans for a $928 billion package.

England's reopening timetable has continued according to schedule. Restaurants and pubs were allowed to provide indoor service starting on 17 May, while hotels opened up, and people from multiple households were permitted to congregate inside. Prime Minister Boris Johnson said there was no apparent reason to doubt that the final reopening stage—which would eliminate all remaining restrictions on social contact, live performances and nightclubs—would occur on 21 June as scheduled.

In a push to re-establish tourism ahead of the traditionally busy summer season, the EU approved a proposal made by the European Commission in May to ease travel restrictions within the bloc for vaccinated foreigners. Tensions between the EU and China—which have flared over the last six months as the EU condemned China's record on human rights and China imposed retaliatory economic sanctions—remained unsettled. In May, the European Parliament suspended ratification of the Comprehensive Agreement on Investment that EU and Chinese leaders had finalized in December 2020. As for U.S.-EU trade relations, friction smoothed as the European Commission delayed an increase to tariffs on the U.S. that had been planned in response to the Trump administration's tariffs on European metals; existing tariffs will remain as the two sides negotiate a long-term solution.

Index Data (May 2021)

- The Dow Jones Industrial Average advanced by 2.21%.
- The S&P 500 Index jumped by 0.70%.
- The NASDAQ Composite Index fell by 1.44%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 1.56%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, widened by 0.94%.
- 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 18.6 to 16.7.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, swelled from $63.58 a barrel at the end of April to $66.32 on the last day in May.
- The U.S. dollar ended January at $1.42 against sterling, $1.22 versus the euro and at 109.58 yen.

Portfolio Review

The Growth Fund’s ESG screens led to unfavorable selection within information technology. Stock selection within financials was beneficial.

The Income Fund’s overweight to corporate bonds and overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed. The overweight to 30-year U.S. Treasury bonds contributed as long-term Treasury yields fell during the month. An allocation to agency MBS was modestly positive. Western Asset Management gained on a favorable overweight to corporate bonds. The allocation to non-agency MBS, ABS and CMBS contributed. Selection within financials and industrials aided returns. An overweight to the long-term segment of the U.S. Treasury yield curve contributed as long-term yields decreased. Income Research & Management benefited from an overweight to investment-grade corporates (industrials). Selection within industrials and financials detracted. The overweight to ABS and CMBS helped as the markets continued their gradual recovery from the forced selling earlier in the year. IRM’s allocation to agency MBS hurt returns.

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 neutral 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.

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**