Market Commentary

New Covenant Funds

July 2021

- Globally, equities started the second half of 2021 with mixed performance. Developed markets generated positive returns for July, but emerging markets declined sharply—led by China's double-digit losses.
- Canada succeeded in vaccinating 72% of its population through the end of the month, followed closely by the U.K. (70%), and then France (63%), Germany (62%) and the U.S. (58%).
- Despite a tremendous amount of excess savings and pent-up demand in North America and Europe, investors could once again grow cautious of riskier asset classes if COVID-19 infection rates spike severely enough.

Economic Backdrop

Globally, equities started the second half of 2021 with mixed performance. Developed markets generated positive returns for July, but emerging markets declined sharply—led by China's double-digit losses.

Long-simmering concerns about high debt levels, heavy-handed regulation and the decoupling of U.S. and Chinese markets came into focus during July due to growing debt-driven troubles for China Evergrande Group, one of the country's largest property developers; a forced conversion of education companies from for-profits to non-profits; the imposition of new regulations on food-delivery apps; a demand that major technology company Tencent cancel licensing deals with numerous record labels; and the disappearance of Chinese ride-sharing app Didi Global from the country's app stores right after its U.S. trading debut.

Health care was the best-performing sector across global equities in July, followed by information technology. Energy stocks declined sharply. The price of West Texas Intermediate crude-oil was practically unchanged after a volatile month—initially selling off almost 10%, and then rebounding, from an announcement by OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) that production will increase again in August.

Government-bond rates declined across most maturities in the U.S., U.K. and eurozone during July, with longer-term rates falling by more than shorter-term rates. U.S. Treasury inflation-protected securities (TIPS) outpaced most other fixed-income asset classes. Nominal Treasurys and investment-grade corporates also performed well as rates declined. Local-currency emerging-market debt (EMD) fell, while foreign-currency EMD, high-yield and asset-backed securities (ABS) had relatively modest gains.

The U.S. reported approximately 80,000 new COVID-19 infections per day at the end of July—more than any other country, and double the second highest daily rate of 40,000 recorded in both India and Indonesia. A large share of Africa and East Asia remained at or near peak country-level infection rates, while South America's spread eased. Indonesia suffered the largest number of COVID-19-related deaths per day at the end of the month (1,200), followed by Brazil (987) and Russia (783).

Canada succeeded in vaccinating 72% of its population through the end of July; the U.K. closely followed with a rate of 70%, while smaller percentages were vaccinated in France (63%), Germany (62%) and the U.S. (58%).

At the end of the month, the U.S. Senate voted to begin negotiations about a bipartisan infrastructure plan. Formally called the Infrastructure Investment and Jobs Act, the plan includes roughly $1 trillion with $550 billion in new spending over a five-year period. It is projected to add approximately two million jobs per year for a decade as the nation undertakes modernizing roads, railways, ports, public transit, airports and power grids; improving water quality and broadband access; and cleaning abandoned environmentally hazardous sites.

Despite its high cost, funding the plan does not call for broad-based individual or corporate tax increases. In a rare demonstration of widespread support, a long list of business and labor organizations—including the U.S. Chamber of Commerce (the largest U.S. business lobbying organization) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO, the largest U.S. labor union group)—offered a joint endorsement of the deal in early July.

Finance ministers and central bank leaders from the Group of 20 (G-20), representing the world's 20 largest economies, unanimously agreed to endorse the major components of a tax plan that would establish a global minimum corporate tax of at least 15%. Finalization of the plan requires approval from national leaders. In deference to this effort, EU officials postponed review of its digital levy proposal until autumn.

Central Banks

- The Federal Open Market Committee (FOMC) made no changes following its late-July meeting but reported that progress had been made toward its goals for employment and inflation. Federal Reserve (Fed) Chairman Jerome Powell shared that the FOMC debated when and how to taper its asset purchases of $80 billion in Treasurys and $40 billion in agency mortgage-backed securities per month. The Fed also announced a standing repurchase-agreement (repo) facility with a daily capacity of $500 billion to extend liquidity to primary dealer banks in exchange for high-quality collateral. It indicated plans to establish a similar facility for other central banks as well.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) did not hold a July meeting; the bank rate remained 0.1% and the £895 billion maximum allowance for asset purchases was unchanged.

- The European Central Bank (ECB) unveiled the results of its strategy review in early July, adopting a symmetric inflation target of 2% over the medium-term, meaning that it views deviations above or below its target as undesirable and that it anticipates fluctuations over shorter time frames. At its late-July monetary-policy meeting, the ECB maintained its expectation that purchases under the pandemic emergency purchase programme (PEPP) will be conducted at a significantly higher pace than during the first months of the year. Purchases averaged about €80 billion per month during the second quarter after running closer to a monthly pace of €60 billion during the first quarter. The ECB also said it expects to continue its pre-pandemic asset purchase programme at a pace of €20 billion per month.

- The Bank of Japan (BOJ) adjusted its outlook at its mid-July meeting; growth expectations were lowered for 2021 and increased for 2022 as the country's recovery is projected to take longer, and inflation is estimated to increase for both calendar years. The BOJ also shared details about its green loan initiative, including extending 0% interest-rate credit to banks for their "green" lending efforts, waiving punitive negative interest rates for associated bank reserve requirements, and allowing foreign-currency bonds issued by Japanese companies to be eligible for the programme.

Index Data (July 2021)

- The Dow Jones Industrial Average advanced by 1.34%.
- The S&P 500 Index jumped by 2.38%.
- The NASDAQ Composite Index fell by 1.19%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 0.69%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, widened by 1.33%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", increased from 15.8 to 18.2.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inched higher from $73.47 a barrel at the end of June to $73.95 on the last day in July.
- The U.S. dollar ended January at $1.39 against sterling, $1.18 versus the euro and at 109.69 yen.

Portfolio Review

Results in the Growth Fund were in line with the benchmark during the month. The environmental, social and governance screen (ESG) had a neutral impact in July with modest deviation from the benchmark across most sectors.

The Income Fund suffered from an overweight to investment grade credit and an overweight to industrials. Other detractors included an overweight to commercial mortgage-backed securities (MBS). Selection within financials (banking) and underweights to agency MBS and non-corporates enhanced returns. Western Asset Management suffered from an overweight to and selection within credit sectors (financials and industrials) as spreads tightened over the quarter. Exposure to dollar denominated sovereign bonds detracted. Western's allocation to non-agency MBS and underweights to agency MBS and non-corporates helped returns. Income Research & Management benefited from an overweight to corporates. An overweight to and selection in industrials and financials helped. An overweight to and strong selection in ABS and commercial MBS contributed as markets continued to gradually recover from last March's forced selling. Income Research & Management was hurt from an overweight to investment grade credit and an overweight to industrials. An overweight to commercial mortgage-backed securities (MBS) also detracted. Selection within financials (banking) and underweights to agency MBS and non-corporates boosted 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.).

Fixed-income markets have signaled improved growth prospects on the tail of higher interest rates in addition to increased stimulus and infrastructure spending that should result in higher deficits and more U.S. Treasury issuance. Inflation expectations are higher in the short term than in the long term. Inflation expectations have risen above the Fed's target and rest at their highest levels in over a decade. We share the Federal Reserve's sentiment that higher short-term inflation will likely be transitory. Securitized sectors remain attractive in our view, especially agency mortgage-backed securities. The Income Fund's duration positioning began the quarter slightly neutral the benchmark, but ended the period slightly underweight. 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. With yields near historic lows, the Fund's managers are likely to stay close to neutral until volatility subsides. It was overweight corporate bonds as managers viewed them as a better relative value despite higher prices than last year. Within the long-term overweight to securitized sectors, commercial MBS and ABS were the largest allocations while the agency MBS allocation was close to that of the benchmark. An overweight to off-benchmark non-agency MBS remained as the sector continued to trade at attractive spreads.

The New Covenant Balanced Growth Fund invests about 60% of its assets in the Growth Fund and 40% in the Income Fund. The New Covenant Balanced Income Fund invests about 35% of its assets in the Growth Fund and about 65% in the Income Fund.

Financial Glossary:

Federal-funds rate: The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the U.S. Federal Reserve) to another depository institution overnight in the U.S.

Index Glossary:

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ.

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 NASDAQ Composite Index is an unmanaged, market-capitalization weighted index that consists of all securities listed on the NASDAQ exchange. It is often used to gauge performance of global technology stocks.

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 (formerly Lehman Brothers Global Aggregate 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.

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 Fund(s) are an appropriate investment for you, carefully consider the investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, the summary prospectus, which can be obtained by calling 1-877-835-4531. Read the prospectus 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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. 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. 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**