Market Commentary

New Covenant Funds

Third Quarter 2021

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- The global equity rally staged a modest retreat for the third quarter, with challenges accumulating as the clock ticked toward the final hours of September.
- Developed-market equities were mixed for the period, while their emerging-market counterparts sank on deep losses from China and Brazil.
- We believe that analysts are still underestimating the earnings strength of publicly traded companies, which remains robust around the world. This could allow for upward revisions in earnings estimates—assuming that the renormalization of global economic growth gets back on track, as we suspect it will.

Economic Backdrop

The global equity rally staged a modest retreat for the third quarter, with challenges accumulating as the clock ticked toward the final hours of September, flipping performance from positive to negative in most regions. Developed-market equities were mixed for the period but generally remained quite strong in the year to date; Japan was a rare bright spot among major markets during the quarter. Meanwhile, China and Brazil registered deep losses for the three-month period that sank emerging-market equity returns for the quarter, which tipped returns negative for the year to date.

Across the U.S., U.K. and eurozone, government bond rates generally increased for the full three-month period. After declining across the yield curve in July, rates rose in August and accelerated their climb in September. Inflation-protected securities were the top-performing segment of fixed-income markets during the quarter; high yield followed, while emerging-market debt and global sovereigns had the steepest losses.

Crude-oil prices moved lower during the first half of the quarter but then reversed to end the period higher. OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) decided at the beginning of October to maintain (rather than accelerate) the monthly increase in production of 400,000 barrels per day, which sent the price of West Texas Intermediate crude oil to its highest level since 2014.

The Delta wave of new COVID-19 cases drove U.S. infection and hospitalization counts to a peak at the beginning of September, just two weeks ahead of the country's mid-September top in daily deaths. U.K. cases peaked during mid-July, and had a smaller resurgence in early September. Both episodes roughly coincided with high points in the hospitalization rate, while the number of daily deaths crested along with the early September infections surge.

Regions that were at or near all-time high infection rates included Northern South America and the Lesser Antilles of the Caribbean; Eastern Europe; Australia; and pockets within Sub-Saharan Africa and Asia-Pacific.

Countries with the highest percent of their populations having received at least one dose of the COVID-19 vaccine through the end of the third quarter were the United Arab Emirates (95%), Portugal (86%), Cuba (83%) and Singapore (82%), while Canada (78%), the U.K. (73%) and U.S. (65%) lagged. Cuba's vaccination pace led the world as of September 30, administering more than 2,000 daily doses per 100,000 people.

The People's Republic of China (PROC) had an outsized sway over capital markets during the third quarter. President Xi Jinping's "Common Prosperity" campaign accelerated in July with a number of regulatory steps to rein in e-commerce companies and for-profit schools. Evergrande, one of China's largest real estate developers, also faced a pivotal turning point in July when several banks began denying mortgages on its backlog of unfinished projects. The late-September selloff in stocks around the globe exacerbated concerns about the extent of potential fallout effects if the company defaulted on its roughly $300 billion in debt.

Germany's center-left Social Democrats (SPD)—led by current vice chancellor and finance minister Olaf Scholz—earned the greatest share of votes in the country's September election, edging out its coalition partner CDU/CSU. A coalition with SPD at its head will likely form this fall, leaving Chancellor Angel Merkel to remain at the top of a caretaker government in the interim.

In the U.S., a razor-thin majority that President Joe Biden's Democrats have enjoyed in the Congress has created an evolving array of challenges during the quarter. The progressive and moderate wings of his party debated through the end of September over the size and scope of legislation necessary to fund an infrastructure plan, the overall federal budget, and an increase in the U.S. government's debt ceiling (that is, the total borrowing limit). Secretary of the Treasury Janet Yellen had warned that the debt ceiling would need to be increased by mid-October in order to avoid a government shutdown.

Central Banks

- Over the course of the third quarter, the Federal Open Market Committee (FOMC) moved incrementally closer to declaring a start date for tapering (reducing) asset purchases. Its late-September statement said, "If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." The FOMC currently purchases $80 billion in Treasurys and $40 billion in agency mortgage-backed securities per month; Federal Reserve (Fed) Chairman Jerome Powell indicated that the tapering timeline could be determined at the November FOMC meeting. The central bank noted in its latest quarterly Summary of Economic Projections that the projected timing of the next fed-funds interest-rate hike has moved up to 2022 from 2023 (as projected in June).

- The Bank of England's (BOE) Monetary Policy Committee (MPC) voted twice during the second quarter to maintain its policy path; the bank rate remained 0.1% and the maximum allowance for asset purchases was unchanged at £895 billion. Elevated inflation pressures provoked the BOE to acknowledge in its September Monetary Policy Summary that modest policy tightening may eventually be warranted.

- The European Central Bank (ECB) began the third quarter adopting a symmetric inflation target of 2% over the medium-term (meaning that it views deviations above or below its target as undesirable) and acknowledging that it anticipates greater fluctuations over shorter time frames. After reaffirming in July that purchases under the pandemic emergency purchase programme (PEPP) would be conducted at a significantly higher pace than during the first months of the year (approximately €80 billion per month compared to €60 billion), ECB President Christine Lagarde stated in September that the eurozone's economic rebound and higher inflation would enable "a moderately lower pace of net asset purchases."

- The Bank of Japan (BOJ) maintained its monetary-policy path throughout the third quarter, with its short-term interest rate at -0.1% and 10-year government bond yield target near 0%; it also continued open-ended asset purchases. The central bank's green lending programme came into focus: starting in December, 0% interest-rate loans will be made available to banks for lending that supports efforts to counteract climate change. Banks will be able to roll these loans forward until 2030.

Index Data for Third Quarter 2021

- The Dow Jones Industrial Average fell by 1.46%.
- The S&P 500 Index lifted by 0.58%.
- The NASDAQ Composite Index diminished by 0.23%.
- The MSCI ACWI (Net), used to gauge global equity performance, decreased by 1.05%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, moderated by 0.88%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the "fear index," accelerated, moving from 15.8 to 23.1.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, gained from $73.47 a barrel on the last day in June to $75.03 on September 30.
- The U.S. dollar moved to $1.35 versus sterling, $1.16 against the euro and 111.28 yen.

Portfolio Review

Results in the Growth Fund were modestly negative during the quarter. The environmental, social and governance screen (ESG) led to an unfavorable overweight to information technology stocks and poor selection within industrials. Negative selection and an underweight within consumer discretionary also hampered returns. The Growth Fund's underweight to communication services and consumer staples contributed. An overweight to real estate enhanced returns.

The Income Fund benefited from an overweight to corporates and solid security selection. Other contributors included an underweight to agency mortgage-backed securities (MBS); an overweight to asset-backed securities (ABS); and an underweight to U.S. Treasurys. Income Research & Management suffered from an overweight to corporates but gained from selection within industrials and energy. An overweight to and strong selection in ABS and commercial MBS contributed as markets continued to gradually recover from last March's forced selling. IRM's underweight to agency MBS detracted. Western Asset Management benefited from overweights to ABS and commercial MBS. The allocation to non-agency MBS also boosted returns. Western was hurt by an overweight to credit sectors and duration positioning. An underweight to agency MBS and non-corporates hindered 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.).

In the core investment-grade bond market, inflation has continued to command attention with readings well above the ranges that central banks typically target. We still view a significant portion of this as transitory, but it may take some time to work its way out of the system. Interest rates remain high, but much of the increase took place early in 2021. Core fixed income offers diversification benefits when added to a portfolio of stocks. U.S. Treasurys, for example, tend to be more defensive and have historically been negatively correlated with stock-market performance. 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. 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**