Market Commentary

New Covenant Funds

Second Quarter 2021

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- Developed-market equities outpaced their emerging-market counterparts in the second quarter; U.S. shares gained the most among major markets, followed by Europe, the U.K., Hong Kong and mainland China. Japanese equities were slightly negative.
- The world's daily COVID-19 infection rate climbed to an all-time high at the end of April, while the daily number of virus-related deaths reported globally remained significantly below its early-year peak.
- Vaccination rates have slowed in developed regions, leaving more shots available to the rest of the world. We therefore expect a rolling reopening of the global economy that will extend well into 2022; this should resemble an extended up-cycle that keeps the pressure on supply chains and leads to continued shortages of goods and labor.

Economic Backdrop

The broad-based advance in equities, commodities and riskier fixed-interest asset classes since earlier this year accelerated during the second quarter.

Trendwise, a shift among global investors toward favoring cyclical and value-oriented asset classes that began in the second half of 2020 halted in mid-June. Market observers attributed this to the Federal Open Market Committee (FOMC)—the Federal Reserve's monetary policymakers—deciding to increase its projection for the federal-funds rate in 2023. Meanwhile, for the first time since April this year, the seven-day moving average of new COVID-19 cases reported in the U.S. stopped falling in mid-June after an impressive period of declines that brought cases to their lowest levels since March 2020. The FOMC development and the bottoming of COVID-19 cases can both be taken as evidence that the rebound taking place as the U.S. economy reopens may be near its peak.

Developed-market equities outpaced emerging markets for the second quarter. U.S. shares gained the most among major markets, followed by Europe, the U.K., Hong Kong and mainland China. Japanese equities were modestly negative.

U.S. Treasury and U.K. gilt rates declined across most maturities for the first two months of the second quarter; short-term rates bounced in June to finish higher for the second quarter as intermediate-to-long-term rates continued to drop—resulting in flatter yield curves. Conversely, eurozone government-bond rates climbed throughout April and May before falling in June, but generally ended up higher compared to the beginning of the quarter.

Emerging-market debt was the best-performing fixed-interest asset class. U.S. corporate bonds followed—with investment grade outpacing high yield, and inflation-protected securities also performed notably well.

The Bloomberg Commodity Index increased by 13.3% during the second quarter, with most of the advance occurring in April and May. The FOMC's modest evolution toward tighter monetary policy spurred the U.S. dollar higher in June, tempering the rally in commodities; although the U.S. dollar finished the three-month period slightly lower, according to the U.S. Dollar Index (DXY). The price of West Texas Intermediate crude oil increased by 24.2% during the quarter to $73.47 per barrel.

The world's daily infection rate climbed past the peak recorded in January to an all-time high at the end of April as India continued to battle a severe COVID-19 outbreak. While the daily number of virus-related deaths reported globally also increased during the second quarter, it remained significantly below its early-year peak. India's daily case count began to rapidly decline in early May, leaving Brazil with the highest country-level count by the end of the second quarter. At this time, countries reporting cases at or near their all-time peaks were concentrated in Southeast Asia, Sub-Saharan Africa and the Caribbean-Central America region.

As for COVID-19 vaccination trends, Canada, the U.K. and Chile reported the largest numbers of people (relative to their total populations) that received at least one vaccine dose by the end of the three-month period. Perhaps as a result, the daily average number of deaths in the U.K. attributed to COVID-19 remained in the low double digits despite a resurgence in new infections that began in mid-May and topped 20,000 cases per day as the quarter came to a close.

The prospect of a bipartisan U.S. infrastructure deal appeared to brighten in mid-June as a group of Senate Republicans and Democrats agreed to a White House compromise that would direct $1.2 trillion toward improving the country's structures and facilities over an eight-year period. The plan would provide about $580 billion in new spending and sidestep tax increases. However, the possibility of a party-line vote on a larger package by President Biden's Democrats remained on the table as Republicans took issue with plans by the Democrats to enact other parts of their spending agenda once the infrastructure deal had concluded.

Central Banks

- The FOMC held the federal-funds rate near zero throughout the second quarter and continued its asset purchases apace ($80 billion in Treasurys and $40 billion in agency mortgage-backed securities per month). Its latest Summary of Economic Projections (SEP), released in mid-June, featured a projected increase in the federal-funds rate to 0.6% in 2023 (up from 0.1% in its March projection). The SEP also depicted significantly higher real gross domestic product (GDP) and inflation projections for 2021, although out-year projections were only modestly higher.
- The Bank of England's (BOE) Monetary Policy Committee (MPC) kept the bank rate at 0.1% and retained an £895 billion maximum allowance for asset purchases throughout the second quarter. It shared a projection following its late-June meeting that inflation would temporarily top 3% amid the country's economic reopening before returning toward 2%.
- The European Central Bank (ECB) began the second quarter with a pledge to increase the pace of asset purchases under its €1.85 trillion Pandemic Emergency Purchase Programme (PEPP). It reaffirmed the acceleration at its June meeting. 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 Bank of Japan (BOJ) announced following its June meeting that the central bank's emergency pandemic-related programs would extend past their scheduled September 2021 end date. A new programme targeted at promoting lending to counteract climate change was also announced in June. The BOJ intends to announce final plans for the programme by the end of 2021, but has said it will likely be based on offering banks attractive loan terms when their lending supports mitigating the effects of climate change.

Index Data for Second Quarter 2021

- The Dow Jones Industrial Average advanced by 5.08%.
- The S&P 500 Index lifted by 8.55%.
- The NASDAQ Composite Index surged by 9.68%.
- The MSCI ACWI (Net), used to gauge global equity performance, increased by 7.39%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, inflated by 1.31%.
- 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," decelerated, moving from 19.4 to 15.8.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, gained from $59.16 a barrel on the last day in March to $73.47 on June 30.
- The U.S. dollar moved to $1.38 versus sterling, $1.19 against the euro and 111.11 yen.

Portfolio Review

Results in the Growth Fund were positive during the quarter. The environmental, social and governance screen (ESG) led to a favorable overweight to information technology stocks and solid selection within financials, particularly in the insurance industry. The Growth Fund's underweight to industrials also contributed.

The Income Fund benefited from an overweight to corporates and solid selection in industrials and financials. 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. A neutral to short duration posture detracted from 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. Western Asset Management gained on an overweight to credit sectors (financials and industrials) as spreads tightened over the quarter. Overweights to ABS and commercial MBS contributed. However, 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.).

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.

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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 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**