Market Commentary

New Covenant Funds

October 2021

- Equities charged ahead around most of the world in October, erasing September's dip. Developed-market stocks surged, while emerging-market stocks mounted a subdued advance.
- Government-bond yield curves flattened during the month; inflation-indexed sovereign debt was the top performer within fixed income, retaining its lead from the third quarter.
- While U.S. inflation may be near a peak, Europe appears poised for further acceleration given immediate concerns about the cost of energy.

Economic Backdrop

Equities charged ahead around most of the world in October, erasing September's dip. Developed-market stocks surged, with the U.S. at the helm, while emerging-market stocks mounted a subdued advance. European and U.K. stocks delivered strong performance in October, while Japan continued its countertrend pattern with a plunge that offset its sizeable September gain.

Outside of developed markets, Argentina and Indonesia sustained remarkable multi-month runs, and China offset recent drops with a healthy showing in October. Peru outpaced nearly all other markets (second only to Egypt), but Latin America's overall equity-market performance sank as Brazil and Chile clocked the worst emerging-market country-level performance.

Government-bond yield curves flattened in the U.S., U.K. and eurozone during October as short-to-medium-term rates climbed and longer-term rates declined. Inflation-indexed sovereign debt retained its third-quarter rank as the top-performing segment of fixed-income markets in October, while local-currency emerging-market debt continued to sustain deepest losses.

The price of West Texas Intermediate crude oil increased by 11.4% to end October at $83.57 per barrel, its highest level since October 2014.

The number of new COVID-19 cases reported globally appeared to bottom in mid-October after hitting a recent peak in mid-August (as measured by the seven-day average, according to Reuters' global tracker). By the month's end, Eastern Europe (and, to a lesser degree, the Caribbean and Southeast Asia) had the highest concentrations of countries contending with all-time peak or near-peak outbreaks.

On a country-level, the U.S. continued to report the highest average number of new infections and COVID-19-related deaths per day at the end of October; yet its infection rate declined to 29% of its all-time high. The U.K. averaged the second-largest number of daily infections and recorded a rising infection trajectory for most of October, but it registered a much lower death rate compared to other countries. Russia had the third-highest average number of new infections per day in late October (hitting its all-time peak at the end of the month) and averaged the second-highest daily number of COVD-19-related deaths. By the end of the month, large majorities of the U.K. (74%) and U.S. (67%) populations had received at least one COVID-19 vaccine dose, while 38% of Russia's residents had received the same.

The Congress voted to increase the federal debt ceiling by $480 billion in mid-October, effectively allowing federal borrowing until early December in order to temporarily prevent a government shutdown. Competing priorities—centered on funding for a large multi-year infrastructure plan and a wide-ranging healthcare, education and child care program—have fragmented the Democrats' razor-thin majority; although there appears to be enough votes to enact the infrastructure priorities.

In early October, U.S. Trade Representative Katherine Tai formally articulated the U.S.-China trade policy of President Joe Biden's administration, which includes retaining existing tariffs, avoiding new ones, and committing to the Phase One trade deal. She also announced the reinstatement of an exclusion process for U.S. companies that apply for relief from tariff-induced damages.

Beleaguered Chinese property developer Evergrande made two interest payments in October as 30-day grace periods were set to expire, narrowly averting defaults. Fantasia Holdings Group, a much smaller developer, failed to repay a $206 million bond payment early in the month.

Central Banks

- The Federal Open Market Committee (FOMC) did not hold an October meeting, but announced in early November a long-anticipated timetable to reduce its asset purchase programme, which is currently running at purchases of $80 billion in Treasurys and $40 billion in agency mortgage-backed securities (MBS) per month. The central bank will shrink its monthly asset purchases by $15 billion—split between a $10 billion reduction in Treasury purchases and $5 billion in MBS—in November and again in December, with the expectation that the reductions will continue until asset purchases conclude altogether in June 2022, although the pace can be adjusted "if warranted by changes in the economic outlook."

- The Bank of England (BOE) did not convene its Monetary Policy Committee (MPC) during October. The bank rate remained 0.1% at its last meeting. The maximum allowance for asset purchases was unchanged at £895 billion, but 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) kept its monetary-policy orientation on hold at its late-October meeting, enabling a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than the target of approximately €80 billion per month that prevailed prior to its September meeting. ECB President Christine Lagarde stated that market expectations for an ECB rate hike in 2022 seemed a bit premature based on the central bank's analysis.

- The Bank of Japan (BOJ) maintained its monetary-policy course at its late-October meeting—holding its short-term interest rate at -0.1% and its 10-year government bond yield target near 0%, while continuing open-ended asset purchases. The central bank downgraded its near-term consumer inflation forecast in its latest quarterly economic outlook.

Index Data (October 2021)

- The Dow Jones Industrial Average advanced by 5.93%.
- The S&P 500 Index jumped by 7.01%.
- The NASDAQ Composite Index fell by 7.29%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 5.10%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, diminished by 0.24%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", decreased from 23.14 to 16.4.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, increased from $75.03 a barrel at the end of September to $83.57 on the last day in October.
- The U.S. dollar ended August at $1.37 against sterling, $1.16 versus the euro and at 114.02 yen.

Portfolio Review

The Growth Fund outperformed its benchmark during the month. The environmental, social and governance screen (ESG) had a positive impact in October. The allocation to communication services and information technology boosted returns.

The Income Fund underperformed its benchmark during October. An overweight to investment grade credit and an overweight to financials hurt performance. Other detractors included selection within transportation and a higher quality bias within commercial mortgage-backed securities (MBS). Selection within energy, collateralized loan obligations (CLO) and asset-backed securities (ABS) boosted returns. An underweight to agency MBS was neutral. Western Asset Management suffered from an overweight to credit sectors (industrials), non-corporates and ABS. Western's allocation to non-agency MBS did not impact performance. An overweight to CMBS contributed and security selection within financials aided returns. Income Research & Management suffered from an overweight to corporates and investment grade credit. An overweight to financials and selection within industrials and transportation anchored returns. An overweight to and strong selection in ABS and CMBS contributed. However, a higher quality bias within CMBS detracted.

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**