Market Commentary

New Covenant Funds

November 2021

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- Global equities started November on promising footing. Shares advanced for the first week, then treaded water through mid-month before declining—modestly at first, and then sharply during the last week.
- U.S. Treasurys were the best-performing fixed-interest segment, while emerging-market debt continued to sustain the deepest losses.
- This lowering of the bar for next year could allow for upward revisions in analysts' earnings estimates—assuming, as we do, that the renormalization of global economic growth gets back on track with wider vaccine distribution and a declining COVID-19 wave.

Economic Backdrop

Global equities started November on promising footing. Shares advanced for the first week, then treaded water through mid-month before declining, modestly at first, and then sharply during the last week.

Developed-market stocks continued to perform better than emerging markets. China, Hong Kong, the U.K. and Europe sustained sharp one-month drops. Japan's losses were less severe, and the slide in U.S. shares was mild compared to other major markets.

Short-term U.S. Treasury rates increased, while intermediate-to-long-term rates declined, resulting in a flatter yield curve. Government-bond rates declined across all maturities in the U.K. and eurozone; yields went negative on eurozone bonds with maturities all the way out to 30 years (negative yields were out to 12 years at the end of October). Treasurys were the best-performing fixed-income segment, while emerging-market debt continued to sustain the deepest losses.

Commodity prices reversed lower in November. The Bloomberg Commodity Index was mostly flat until a selloff during the last week of the month, finishing November down by 7.3%. Crude-oil prices moved slightly lower throughout the month, and then similarly tumbled to end November. The West Texas Intermediate crude oil price dropped by 20.8% for the full month, while the price of Brent crude fell by 17.3%.

Emergence of the omicron coronavirus variant in southern Africa was a key factor in rattling investors as November progressed. Omicron appears to contain significantly more mutations than other variants, which could potentially make it more effective in sidestepping neutralization by antibodies generated from earlier infections and vaccinations.

The U.S. reported the highest country-level number of new COVID-19 infections per day at the end of November, followed by Germany, the U.K., France and Russia. Daily deaths associated with COVID-19 were highest in Russia, then the U.S., Ukraine, India and Poland.

Vaccination drives mirrored stock performance in November: the UAE, Cuba and Chile have the highest population shares with at least one dose of vaccine. The two best-performing country-level equity performances for the month were the UAE and Chile.

For the second time this fall, Congressional negotiators appeared on the verge of a last-minute agreement to fund the government in early December ahead of a funding lapse that would otherwise take effect on 4 December. The agreement, which has already passed the House of Representatives, would provide funding through mid-February.

U.K. Chancellor of the Exchequer Rishi Sunak faced scrutiny from House of Commons Treasury Committees at the beginning of the month for tax increases included in his Autumn Budget. He contended that the revenue raisers—including a 1.25% bump in national insurance contributions set to begin in the spring, as well as a long-telegraphed increase in the corporations tax—are needed to fund necessary spending and intended to be temporary.

The cost side of the budget included a notable pair of adjustments for low-income workers: a reduction in the universal credit's taper rate (from 63% to 55%, meaning that the credit will phase out more slowly) and an annual £500 pound sterling increase in work allowances. Brick-and-mortar stores will also see more relief via a temporary 50% cut in business rates and no increase in 2022.

Germany's new governing coalition came together in late November. The center-left Social Democrats (SPD, with 25.7% of the September election's vote share) will work with the progressive environmentalist Greens (14.8%) and pro-business Free Democrats (FDP, 11.5%). SPD leader Olaf Schultz will head the government as chancellor, while Christian Lindner, the FDP's leader, will serve as finance minister.

The coalition's policy pledges include a hefty environmental agenda, including an accelerated coal phase-out, greater reliance on rail transport, an ambitious goal for electric-vehicle adoption, and the promotion of an EU-wide air-travel surcharge. An increase in the minimum wage, plans to construct 400,000 apartments per year, and reforms to the immigration and citizenship eligibility system also made it to the top of the agenda.

Germany's "debt brake" will be re-instated in 2023, limiting government borrowing to 0.35% of GDP, and the FDP extracted a commitment to no new taxes or tax increases in order to join the coalition, raising the question about how the government will fund its goals.

Central Banks

- The Federal Open Market Committee (FOMC) announced a long-anticipated timetable to reduce its asset purchase program following its early-November meeting. The central bank will shrink its monthly asset purchases by $15 billion—split between a $10 billion reduction in Treasury purchases (from purchases of $80 billion per month in October) and $5 billion in agency mortgage-backed securities (from purchases of $40 billion per month in October)—in November and again in December. Reductions were expected to continue until asset purchases conclude altogether in June 2022, although the pace can be adjusted "if warranted by changes in the economic outlook." At the end of November, in testimony to the U.S. Congress, Federal Reserve (Fed) Chair Jerome Powell expressed that high inflation could drive the FOMC to reduce asset purchases at an accelerated pace and conclude the program a few months earlier than planned. Powell was nominated for a second term as Fed Chair by President Biden during the month.

- The Bank of England's Monetary Policy Committee left its policy orientation unchanged at its early-November meeting, with the bank rate remaining at 0.1% and the maximum allowance for asset purchases at £895 billion pound sterling. The central bank's November report on monetary policy upgraded its inflation forecast to peak at 5% in spring 2022, and indicated that a rate hike would be necessary if its economic outlook comes to pass.

- The European Central Bank (ECB) did not hold a meeting on monetary policy during November and continued to pursue a moderately lower pace of net asset purchases under the pandemic emergency purchase program (PEPP) than the target of approximately €80 billion per month that prevailed over the summer. The European Commission's Autumn Economic Forecast, released in November, showed inflation projections above the ECB's 2% target in 2021 and again next year, with import prices contributing steeply and compensation to a lesser extent.

- The Bank of Japan (BOJ) did not hold a monetary policy meeting during November. Its short-term interest rate remained at -0.1% and its 10-year government bond yield target held 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 (November 2021)

- The Dow Jones Industrial Average diminished by 3.50%.
- The S&P 500 Index fell by 0.69%.
- The NASDAQ Composite Index increased by 0.33%.
- The MSCI ACWI (Net), used to gauge global equity performance, deteriorated by 2.41%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, declined by 0.29%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", advanced from 16.26 to 27.19.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, reduced from $83.57 a barrel at the end of October to $66.18 on the last day in November.
- The U.S. dollar ended August at $1.33 against sterling, $1.13 versus the euro and at 113.16 yen.

Portfolio Review

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

The Income Fund underperformed its benchmark during November. An overweight to investment grade credit and an overweight to financials and industrials hurt performance. Other detractors included selection within financials and industrials and an overweight within commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). An underweight to agency MBS enhanced returns. Western Asset Management suffered from an overweight to credit sectors (industrials), non-corporates, ABS and CMBS. Western's allocation to non-agency MBS and selection within higher-quality CMBS contributed. 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 ABS and CMBS detracted. However, a higher quality bias within CMBS 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 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 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**