Market Commentary

New Covenant Funds

January 2022

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- Global equities tumbled into the New Year with the largest one-month decline since March 2020. Value-oriented stocks fell by considerably less than their growth-oriented counterparts.
- Government-bond rates rose across maturities in major developed markets; most fixed-income asset classes suffered losses.
- Although there have been pockets of speculative behavior in some areas of the financial world, we do not see the sort of widespread frenzy that would point to a serious equity correction in 2022.

Economic Backdrop

Global equities tumbled into the New Year with the largest one-month decline since March 2020. Volatility increased slightly during the first half of January, then marched higher before jumping erratically at the end of the month amid dramatic intraday price swings.

The specter of rising rates in the face of persistently high inflation, coupled with geopolitical uncertainty driven by Russia's military encirclement of Ukraine, were widely cited as sources of investor consternation.

Hong Kong and U.K. equities stood apart from other major markets as both registered positive performance in January. In emerging markets, huge gains in Latin America more than offset plummeting stocks in China; this resulted in a considerably smaller decline in emerging-market equities compared to the selloff in developed-market stocks. Japanese equities fell by less than the U.S., while Europe lagged both.

Value-oriented stocks fell by considerably less than their growth-oriented counterparts.

Government-bond rates rose across maturities in the U.S., U.K. and eurozone. Shorter-term rates were the largest gainers in the U.S., while intermediate-to-long-term rates increased by more than other maturities within the U.K. and eurozone.

Local-currency emerging-market debt was essentially flat in January, halting a string of recent negative performance; the rest of the fixed-income universe was negative. Investment-grade corporates had the steepest decline for the month.

Commodity prices continued a seemingly relentless climb. West-Texas Intermediate and Brent crude oil prices were up a respective 17.2% and 14.8% in January, while the Bloomberg Commodity Index advanced by 8.8%.

With a growing Russian military presence at Ukraine's border, Nord Stream 2—Russia's not-yet-operational (although completed) natural gas pipeline that runs along the Baltic seabed directly to Germany—became the subject of renewed Trans-Atlantic interest in late January given the leverage it would provide the Kremlin over Europe. U.S. senators introduced a bill directed at preventing the pipeline from being put into service. German Chancellor Olaf Scholz has been scheduled to visit President Joe Biden at the White House in early February.

U.S. deliveries of liquefied natural gas to Europe via cargo ships accounted for nearly half of the Continent's record imports in January—helping to restock depleted reserves as year-ago levels nearly tripled.

The U.S. deployed 2,000 troops to Germany and Poland, mobilized 1,000 troops to Romania, and ordered additional troops to stand by for deployment at the beginning of February, after having prepared an initial 8,500 troops to deploy in January.

Shortly after January's close, U.K. energy regulator The Office of Gas and Electricity Markets (Ofgem) announced that a cap on energy prices is set to increase by more than 50% this spring, effectively guaranteeing dramatically higher household energy bills. The U.K. Treasury reportedly intends to help counteract rising living costs via discounts on energy bills, accommodative loans to suppliers, and larger disbursements this year from a reserve established to help low-income households cover spikes in fuel costs each winter.

Central Banks

- The Federal Open Market Committee (FOMC) met toward the end of January. In its post-meeting statement, the central bank affirmed its expectation that high inflation and a strong labor market will necessitate an increase in the federal-funds rate in the near future; Federal Reserve (Fed) Chair Jerome Powell echoed this in his press conference. The FOMC also confirmed a final $30 billion round of new asset purchases will take place in February before it can consider increasing rates, and it released a statement following its January meeting outlining its principles for reducing the size of its balance sheet. Powell had referred to high inflation as a severe threat earlier in January during his Senate reconfirmation hearing.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) reconvened at the beginning of February for its first meeting since raising its bank rate in December 2021, and issued another increase—by 25 basis points (bps) to 0.50%—for the first back-to-back rate hike in 18 years. A large minority of MPC members voted for a larger 50 bps increase to counteract high inflation. The central bank also said it intends to reduce the size of its balance sheet by ceasing to re-invest proceeds from its asset-purchase program.

- The European Central Bank (ECB) also held its inaugural meeting of 2022 at the beginning of February. It remained committed to the policy path it articulated in December—yet ECB President Christine Lagarde avoided affirming her recent expectation that a 2022 rate increase would be unlikely, and acknowledged that the widespread stress that inflation has caused will likely continue over the short term. She also said that asset purchases would need to conclude before rates can increase; this would necessitate a policy change as asset purchases are currently scheduled to continue on an indefinite basis once they decline in size over the course of 2022.

- The Bank of Japan (BOJ) was the first major central bank to hold a monetary policy meeting in the New Year, convening in mid-January. While the central bank's policy orientation remained fixed—with the short-term interest rate at -0.1% and the 10-year government bond yield target near 0%—its expectations increased for higher inflation. The BOJ announced after its December meeting that it would revert purchases of corporate bonds and commercial paper to pre-pandemic levels beginning in April.

- The People's Bank of China (PBOC) cut its one-year-loan prime rate by 10 bps to 3.7% in January after having made a smaller cut in December and reducing its reserve-requirement ratio (which dictates the amount of money banks are required to hold in reserves) in the same month.

Index Data (January 2022)

- The Dow Jones Industrial Average diminished by 3.24%.
- The S&P 500 Index fell by 5.17%.
- The NASDAQ Composite Index decreased by 8.96%.
- The MSCI ACWI (Net), used to gauge global equity performance, deteriorated by 4.91%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, declined by 2.05%.
- 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 17.22 to 27.66.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, surged from $75.21 a barrel at the end of December to $88.15 on the last day in January.
- The U.S. dollar ended August at $1.34 against sterling, $1.12 versus the euro and at 115.15 yen.

Portfolio Review

The Growth Fund outperformed its benchmark during the month. The environmental, social and governance screen (ESG) had a positive impact in January. The allocation to financials boosted returns. Meanwhile, consumer discretionary and information technology companies underperformed other sectors.

The Income Fund underperformed its benchmark during January. The Fund's slightly longer duration positioning detracted. An overweight to investment grade credit and an overweight to financials and industrials also hurt performance. The Fund's overweight within commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) benefited performance. An underweight to agency MBS enhanced returns. Western Asset Management suffered from a longer duration posture. Western's overweight to corporates (industrials anf financials) further detracted. Western's allocation to agency MBS and selection within higher-quality CMBS contributed. Income Research & Management's overweight to ABS and CMBS boosted performance. Security selection within higher quality tranches within CMBS further contributed.

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.

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**