# Market Commentary

## New Covenant Funds

February 2022

- Global equities saw their 2022 losses deepen during February, although they fell by less than in January. Russia was unsurprisingly the worst-performing country.
- Government-bond rates increased across maturities for the month, rising sharply through mid-February before partially retreating during the second half of the period.
- There are always uncertainties to consider when it comes to investing; currently, we are focused on geopolitical risk and the economic fallout from Russia's invasion of Ukraine.

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**Economic Backdrop**

Global equities saw their 2022 losses deepen during February, although they fell by less than in January. Russia was unsurprisingly the worst-performing country, with the MSCI Russia Index plunging by 52.75% for the month; shares cratered as its invasion of Ukraine invited sanctions from around the world that crippled its financial markets.

Russia (which accounted for roughly 3% of the MSCI Emerging Markets Index as at 31 January 2022) weighed on emerging markets, which slightly lagged developed markets in February. A boost from commodity exporters in Latin America helped to minimize the gap between emerging- and developed-market performances.

Among major equity markets, the U.K. was the best performer with a small gain. Japan declined but fared better than both Europe and the U.S., while Hong Kong and China had steeper selloffs.

Value-oriented shares continued to fall by considerably less than their growth-oriented counterparts. Globally, the only equity sectors with positive performance were materials and energy.

Government bond rates increased across maturities in the U.S., U.K. and eurozone during February. Rates rose sharply through mid-month before partially retreating during the second half of the month. Long-term U.S. Treasury yields fell significantly in late February, flattening the Treasury yield curve.

Emerging-market debt plummeted during the month, most sharply within local-currency assets, and most other areas of fixed interest were also down. Inflation-indexed securities were positive.

Commodity prices made a subdued advance for most of February before catapulting higher in the final days of the month (and into the beginning of March) as markets reacted to the unfolding attack on Ukraine. The Bloomberg Commodity Index increased by 6.2% in February, while Brent and West-Texas Intermediate crude oil prices gained 9.8% and 8.6%, respectively, before racing past the $100 per barrel mark on 1 March. Russian oil prices actually declined at the end of February as refiners and lenders began to limit financial commitments with Russian producers.

Ukraine's emergency service reported in early March that more than 2,000 civilians had been killed during Russia's invasion. The Russian Defense Ministry stated that 498 soldiers had been killed and more than 1,500 wounded, significantly below the 5,800 Russian casualties reported by Ukrainian officials. Approximately one million Ukrainians had fled their country by early March.

Western nations responded to Russia's offenses with an array of sanctions, bans, and other coordinated actions—largely focused on disrupting the country's financial, energy, technology and transportation activities, as well as state-owned enterprises and high-profile individuals in public and business positions.

In addition to having mounted a fierce resistance to Russia's invasion, Ukraine submitted a formal application for admission to the EU. NATO activated its Response Force for the first time, calling up 40,000 troops to bolster the eastern part of the alliance in the face of intensifying aggression toward Ukraine.

The European Commission, France, Germany, Italy, the U.K., Canada, and the U.S. committed to removing Russian banks from the SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging system for financial payments; block the Russian Central Bank from deploying its international reserves; limit the sale of citizenship to wealthy Russians; and launch a transatlantic task force to freeze the assets of sanctioned entities.

In practice, the moves have essentially blocked Russian entities from trade in major foreign currencies. Upon imposition of these coordinated sanctions, the Russian Central Bank was forced to hike its benchmark rate from 9.5% to 20%; offer unlimited liquidity support to banks as they faced runs; raise capital controls on exporters and residents; and shutter its financial markets.

Corporations across industries began to disentangle their relationships with Russia and Belarus at the end of February and in early March. Major energy companies announced withdrawals from Russian partnerships, including BP's large stake in Rosneft and joint ventures involving Exxon Mobil, Shell, Total and others.

Russian airlines were banned from Western airspace, largely crippling Russia's ability to maintain an international flight industry. Boeing and Airbus announced they would stop providing parts and services to Russian companies, which is expected to disrupt Russian domestic flight as well.

**Central Banks**

- The Federal Open Market Committee (FOMC) did not hold a meeting in February. Federal Reserve (Fed) Chair Jerome Powell stated at the beginning of March that he thinks a 0.25% increase in the fed-funds rate would be appropriate; if enacted at the FOMC's mid-March meeting, this would be the central bank's first rate hike since December 2018. The FOMC made a final $30 billion round of new asset purchases in February after releasing a statement in January outlining principles for reducing the size of its balance sheet.

- 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 its first back-to-back rate hike in 18 years with an increase of 25 basis-point (bps) to 0.50%. (A large minority of MPC members voted for a more aggressive 50 bps increase to counteract high inflation.) Additionally, the central bank 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, after which ECB President Christine Lagarde acknowledged that the widespread stress inflation has caused will likely continue over the short term. Following Russia's invasion of Ukraine, Lagarde pledged that the ECB "will ensure smooth liquidity conditions and access of citizens to cash," and that it "stands ready to take whatever action is needed to fulfil its responsibilities to ensure price stability and financial stability in the euro area."

- The Bank of Japan (BOJ) also held no meetings on monetary policy in February. The central bank's policy orientation remained fixed following its mid-January meeting, with its short-term interest rate at -0.1% and the 10-year government bond yield target near 0%—but its expectations increased for higher inflation. Previously, the BOJ announced that it would revert purchases of corporate bonds and commercial paper to pre-pandemic levels beginning in April.

**Index Data (February 2022)**

- The Dow Jones Industrial Average diminished by 3.29%.
- The S&P 500 Index fell by 2.99%.
- The NASDAQ Composite Index decreased by 3.35%.
- 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 2.58%.
- 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 24.83 to 30.15.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, surged from $88.15 a barrel at the end of January to $95.72 on the last day in February.
- The U.S. dollar ended the month at $1.34 against sterling, $1.12 versus the euro and at 114.97 yen.

**Portfolio Review**

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

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

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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**

 