Market Commentary

New Covenant Funds

June 2022

- Equities and fixed-income asset classes alike capsized around the globe during the second quarter, and commodity prices ran aground as the likelihood of recession increased.
- U.K. stocks posted significant losses, but they were not as steep as those of Japanese or European equities. U.S. stocks, meanwhile, had the sharpest drop among major markets.
- It's been our mantra for the past year that U.S. inflation would be higher for longer than most economists and investors appeared to expect. We believe this remains the case, although the gap between our expectations and those priced in markets has narrowed considerably. Investors, however, still seem to be betting that inflation pressures will ebb significantly starting in the second half of this year and fall to 3% by the end of 2023.

Economic Backdrop

There was no safe harbor from choppy market cross currents during the second quarter. Equities and fixed-income asset classes alike capsized around the globe, and even commodity prices ran aground as the likelihood of recession increased.

Emerging-market equities fell by double digits during the quarter, although they still fared better than their developed-market counterparts, buoyed by a rebound in China. U.K. stocks posted significant losses, but they were not as steep as those of Japanese or European equities. U.S. stocks, meanwhile, had the sharpest drop among major markets as the U.S. dollar appreciated by 6.49% versus a trade-weighted basket of foreign currencies.

Value-oriented equities tended to fall by less than growth-oriented equities across both large- and small-cap markets, although the performance spread was much wider within larger companies. No sectors were spared from losses, but energy and consumer staples had the mildest declines, while information technology and consumer discretionary had the steepest.

Government-bond rates climbed throughout the second quarter as prices fell. U.S. Treasury yields increased across the yield curve, with shorter-term rates outpacing longer-term rates for the full quarter, flattening the curve. U.K. and eurozone government-bonds rates also rose across the curve, but longer-term rates increased by more than shorter-term rates.

Fixed-income performance ran the gamut of losses, moving from relatively modest declines for government bonds to more severe losses for emerging-market and high-yield bonds.

The tide began to turn on commodity markets, as prices began to recede in various commodities from mid-quarter onward. The Bloomberg Commodity Index fell by 5.92% during the second quarter, while Brent and West-Texas Intermediate crude-oil prices climbed by 4.13% and 5.46%, respectively. Natural gas prices fell by 4.43% and wheat prices tumbled by 12.13%. Energy commodity prices peaked in early June, while the high water mark for wheat prices came in mid-May.

OPEC+ (the Organization of the Petroleum Exporting Countries—plus Russia) agreed at the beginning of June to boost the size of an oil production increase by roughly 50% in July and August, totaling 648,000 new barrels per day.

The European Union (EU) imposed a partial ban on Russian crude oil and petroleum products in early June, blocking seaborne oil shipments but allowing Hungary, Slovakia and the Czech Republic to continue pipeline imports for domestic consumption. In a farther-reaching move, EU companies were banned from providing shipping insurance to transporters of Russian petroleum products—regardless of the destination country—depriving shippers of a critical market for insurers.

Russia began reducing natural gas pipeline supply to Europe in mid-June, limiting its ability to stockpile for winter, and driving prices in the region much higher.

The 27 members of the European Council agreed in late June to formally accept Ukraine and Moldova's candidacies to join the EU, taking the first steps to expand the union since Croatia's entrance in 2013.

Toward the end of the quarter, the North Atlantic Treaty Organization (NATO) announced a plan to increase its high-readiness Response Force (NRF) from 40,000 to 300,000 after activating NRF troops for the first time in its history following Russia's attack on Ukraine. Sweden and Finland's paths to join NATO brightened at the end of June. Turkey unblocked their applications and signed a trilateral memorandum of support for their memberships in exchange for weapons sales, and prioritization by the Scandinavian countries of Turkish extradition requests for purported Kurdish militants.

The U.S. followed NATO's planned increases with its own European expansion announcement at the end of the quarter. The buildout will include a permanent Army base in Poland, rotations through Romania and the Baltics, more Navy ships in Spain, air defenses in Italy, and fighter jets in the U.K.

Central Banks

- The Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.50% (the first hike of its size since 2000) at its early-May meeting, and then by 0.75% (the first of its size since 1994) at its mid-June meeting, bringing the benchmark rate to a range between 1.50% and 1.75%. The central bank also announced plans to reduce its balance sheet in June, allowing Treasurys and mortgages to run off (that is, mature without being replaced) at maximum respective paces of $60 billion and $35 billion per month. Economic fundamentals deteriorated in the FOMC's latest quarterly Summary of Economic Projections (SEP), released in June. Real GDP projections declined for 2022, 2023, and 2024 compared to the March SEP, while projections for the unemployment rate increased across all three years, and inflation expectations increased for 2022. Projections for the federal funds rate were higher across the board as well.

- The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to increase the bank rate by 0.25% at both its May and June meetings, increasing the benchmark rate to 1.25%. It also continued to reduce its balance sheet by ceasing to reinvest proceeds from its asset-purchase program, with an expected £3.2 billion (British pounds) in redemptions for July 2022.

- The European Central Bank (ECB) concluded new purchases in its Asset Purchase Programme (APP) with net purchases of €40 billion (euros) in April, €30 billion in May, and €20 billion in June. Following its early June meeting, the central bank announced it would cease new purchases in the APP and intended to increase benchmark rates in July and September. The specter of rising rates sent government bond spreads higher for economically weaker European countries—like Italy, Greece and Spain. The ECB convened an unscheduled meeting in mid-June to ensure markets it would intervene to avoid the fragmentation of the European government bond market.

- The Bank of Japan's (BOJ) redoubled its commitment to loose policy at its April and June meetings. Its short-term interest rate remained at -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0%. The central bank continued to offer unlimited purchases of 10-year JGBs at 0.25% in order to keep its yield within the BOJ's acceptable range.

Index Data (June 2022)

- The Dow Jones Industrial Average diminished by 10.78%.
- The S&P 500 Index fell by 16.10%.
- The NASDAQ Composite Index decreased by 22.28%.
- The MSCI ACWI (Net), used to gauge global equity performance, deteriorated by 15.66%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, declined by 8.26%.
- 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 20.56 to 28.71.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, surged from $100.28 a barrel at the end of March to $105.76 on the last day in June.
- The U.S. dollar ended the month at $1.22 against sterling, $1.05 versus the euro and at 135.69 yen.

Portfolio Review

Results in the Growth Fund were negative during the quarter. The environmental, social and governance screen (ESG) led to an unfavorable underweight to energy stocks. Stock selection within consumer staples, financials and health care enhanced returns. The Growth Fund's underweight to low-quality stocks contributed.

During the quarter, the Fund suffered from an overweight to asset-backed securities (ABS). Other detractors included an overweight to commercial mortgage-backed securities (CMBS); and an underweight to agency mortgage-backed securities (MBS); an underweight to taxable municipals bonds; a small allocation to non-U.S.-dollar currencies; allocations to hard and local currency debt; exposure to high-yield bonds; and an underweight to non-corporate bonds. The Fund gained on an overweight to corporate bonds and the intermediate-term segment of the U.S. Treasury yield curve. Western Asset Management suffered due to its long duration posture and overweight to the long-term segment of the U.S. Treasury yield curve. Western's overweight to ABS detracted. An overweight to corporate bonds and non-corporate bonds contributed. Income Research & Management underperformed due to poor selection and an overweight to ABS and CMBS. An underweight to agency MBS also anchored returns. An overweight to corporate bonds was positive.

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. Inflation expectations are higher in the short term and 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**