Market Commentary

New Covenant Funds

September 2022

- Developed-market equities fell by less than emerging markets in the third quarter, although the relatively small decline posted by the U.S. masked steeper declines by Europe and the U.K.
- Government-bond rates climbed during the quarter. Fixed-interest performance produced a range of losses as yields increased around the globe (yields and prices have an inverse relationship).
- A global recession is forming on the horizon, with Europe and the U.K. more vulnerable to a downturn than the U.S. in the months immediately ahead. Short-term gyrations notwithstanding, the primary trend in risk assets still appears negative.

Economic Backdrop

A line chart of global equity market performance during the third quarter looks remarkably like a mirror image: climbing higher toward mid-quarter, then tumbling downward thereafter.

The relationship between signs of softening economic activity in late spring and the presumption that it would enable central banks to increase rates by less than feared spurred a rally across equity and fixed-income markets from June to August. Federal Reserve (Fed) Chair Jerome Powell shattered this complacency by explaining that lower growth and softer labor markets will likely be the unfortunate costs of hiking rates to fight inflation, and that expectations for a premature pivot to looser policy will probably be disappointed. His remarks sent markets reeling through the end of the quarter.

Developed-market equities fell by less than emerging markets during the third quarter, although the relatively small decline posted by the U.S. masked steeper declines by Europe and the U.K. Latin American shares had the only positive regional performance for the period, while China and Hong Kong had the steepest declines.

Government-bond rates climbed in the U.S., U.K., and eurozone for the full third quarter—declining during July in the U.K. and eurozone while the U.S. yield curve flattened as short-term rates rose and long-term rates fell; rates then climbed through August and September across all three jurisdictions. The U.S. and U.K. yield curves grew more inverted (that is, when shorter-term rates are higher than longer-term rates) as the quarter progressed.

Fixed-income performance produced a range of losses during the quarter as yields increased around the globe (yields and prices have an inverse relationship). Global government bonds had the deepest losses, while U.S. high-yield bonds had a comparably modest decline.

Commodity markets were mixed during the third quarter. The Bloomberg Commodity Index fell by 4.75% as West-Texas Intermediate and Brent crude-oil prices plummeted 24.84% and 21.91%, respectively. However, natural gas prices jumped 25.60% for the full quarter (including a decline after skyrocketing by 79.59% thru mid-to-late August) and wheat prices increased by 4.24%.

Liz Truss was chosen as leader of the Conservative Party and became U.K. prime minister in early September, promising tax cuts to stimulate economic growth and relief for mounting electricity bills over the next two years. The tax program was detailed in a “mini-budget” by Kwasi Kwarteng, the new chancellor of the exchequer, on September 23. Totaling roughly £45 billion, the tax cuts were perceived as irresponsible; long-term gilt rates spiked to their highest levels in 20 years and sterling fell to its lowest-ever exchange rate versus the U.S. dollar. The disruption strained pension funds, which depend heavily on the long-term gilt market, and forced the Bank of England to offer open-ended gilt purchases to restore order. The new government partially reversed course in early October, announcing that it would scrap its tax-cut plans for top earners.

The German government announced in late September it would nationalize Uniper, a major European electricity producer with heavy dependence on natural gas, after seeking to rescue the company with a recapitalization in July. At the end of the quarter, Germany announced a €200 billion package intended to cap gas and electricity prices for businesses and consumers amid the energy crisis.

Russia's pipeline-supplied natural gas flows to Europe via Nord Stream 1 completely ceased by late August. The pipeline and its never-operational counterpart Nord Stream 2 were sabotaged in late September, rendering their future use questionable.

Ukraine mounted a counteroffensive against Russia's invasion as summer progressed, targeting Kherson in the south and Kharkiv in the east. Its eastern initiative produced a string of successes, enabling defense forces to push south into the northern Donbas region. Russia announced plans to mobilize 300,000 citizens in late September, prompting at least as many draft-eligible Russian men to flee the country. Vladimir Putin also threatened to use nuclear weapons against any outside power that sought to intervene in its invasion of Ukraine. At the end of the quarter, Putin presided over a ceremony to annex four south-east regions of Ukraine based on sham referendums despite limited control over the regions.

Hong Kong concluded its three-day hotel quarantine requirement for foreigners in late September, allowing visitors to travel freely aside from a three-day ban from restaurants, bars, and entertainment venues. Japan also announced looser travel restrictions will begin in early October, with plans to let individual tourists return (as opposed to tour groups), the removal of a cap on daily visitors, and the resumption of visa-free short-term travel. Taiwan entered the fray as well, with plans to end three-day quarantine in October and a return to visa-free entry.

Central Banks

- The Federal Reserve's (Fed) Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.75% toward the end of July, and again in late September, raising the benchmark rate's target range to 3.0%-3.25%. The central bank also began to accelerate balance sheet reduction in September, doubling the amount of monthly Treasury and mortgage holdings that mature without being replaced to maximum respective paces of $60 billion and $35 billion.

- At its early August meeting, the Bank of England's (BoE) Monetary Policy Committee hiked its benchmark rate by 0.50%, the largest individual increase in 27 years, and then issued another increase of the same size at its late September meeting, bringing the bank rate to 2.25%. The BoE was compelled to intervene with temporary gilt purchases toward the end of the quarter over concerns about financial stability as long-term rates skyrocketed in response to the new government's mini-budget.

- The European Central Bank (ECB) increased its three benchmark rates by 0.50% at its July meeting for the first time in 11 years, surprising investors who were expecting hikes of 0.25%. At the same meeting, the ECB approved the establishment of a Transmission Protection Instrument (TPI) to ensure the smooth transmission of monetary policy normalization across eurozone countries. At its early September meeting, the ECB raised rates by 0.75%. ECB President Christine Lagarde emphasized that rates were well below the levels likely needed to get inflation under control and that a few more "large steps" lie ahead.

- The Bank of Japan (BOJ) earned the distinction of being the last major central bank with a negative interest-rate target during the third quarter as the ECB began to lift rates. Its short-term interest rate remained at -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0% at both its July and September meetings. The central bank continued to offer purchases of 10-year JGBs at 0.25% in order to keep its yield within the BOJ's acceptable range. It also announced its first intervention in currency markets since 1998 to limit the yen's slide.

Index Data (September 2022)

- The Dow Jones Industrial Average diminished by 6.17%.
- The S&P 500 Index fell by 4.88%.
- The NASDAQ Composite Index decreased by 3.91%.
- The MSCI ACWI (Net), used to gauge global equity performance, deteriorated by 6.82%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, declined by 6.94%.
- 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 28.71 to 31.62.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, lowered from $105.76 a barrel at the end of June to $74.49 on the last day in September.
- The U.S. dollar ended the month at $1.12 against sterling, $0.98 versus the euro and at 144.72 yen.

Portfolio Review

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

During the quarter, the Income Fund suffered from an overweight to corporate bonds. Other detractors included an overweight to commercial mortgage-backed securities (CMBS); an underweight to agency mortgage-backed securities (MBS); exposure to non-agency MBS; 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 asset-backed securities (ABS) and the intermediate-term segment of the U.S. Treasury yield curve. An underweight to taxable municipals bonds and exposure to AAA collateralized loan obligations (CLOs) and student loans enhanced performance. Western Asset Management suffered due to its long duration posture, while an overweight to the long-term segment of the U.S. Treasury yield curve aided returns. An overweight to corporate bonds detracted. Western's overweight to ABS and underweight to agency MBS contributed. Income Research & Management performed modestly outperformed the benchmark during the quarter. An overweight to ABS and CMBS was additive. An underweight to agency MBS also boosted returns. An overweight to corporate bonds was negative.

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. Securitized sectors remain attractive in our view, especially agency mortgage-backed securities. The Income Fund's duration positioning was neutral to the benchmark. 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**