Market Commentary

New Covenant Funds

December 2022

- Most equity markets finished the fourth quarter of 2022 in positive territory, trimming their losses for the full calendar year, despite significant volatility in December. Regionally, developed-market stocks marginally outperformed their emerging-market counterparts for the quarter;[1] advanced countries generally produced favorable economic data, and major central banks indicated intentions to slow the pace of interest-rate hikes.
- Fixed-income asset classes posted gains over the quarter, but the direction of bond yields was mixed (yields and prices have an inverse relationship).
- We anticipate a less robust global economy in 2023 than that of the past year. "Stagnation" is probably the best word for it, while "recessionary" almost certainly will apply in some countries and regions.

Economic Backdrop

Most equity markets finished in positive territory during the fourth quarter of 2022, trimming their losses for the full calendar year. Developed-market stocks marginally outperformed their emerging-market counterparts. Regionally, emerging markets in Europe generated the world's strongest equity gains over the quarter, while developed markets in Europe and the Asia-Pacific region also performed well.[2] Conversely, the North American market lagged as U.S. stocks posted relatively smaller gains.[3]

Despite the upturn in the fourth quarter, both fixed-income and equity markets chalked up big losses for the full 2022 calendar year—almost regardless of region or style. U.S. long-duration bonds, as represented by the Bloomberg Long U.S. Government/Credit Index, endured a stunning decline of 27%, exceeding the sharp losses sustained by U.S. and international equities. While emerging-market equities and bonds fared relatively better, the only asset class to post a positive absolute return for the year was commodities.

Yields on U.S. Treasury securities rose in the short and long parts of the curve over the quarter and declined modestly in the intermediate segment (yields and prices have an inverse relationship). Short-term yields increased by a larger margin than long-term yields. Consequently, the 2-to-10-year yield curve inverted further (short-term yields exceeded long-term yields), widening by 0.14% to 0.53%. U.K. gilt yields decreased across the curve during the reporting period. Eurozone government bond yields increased for all maturities, particularly at the short end of the curve.

U.S. fixed-income asset classes garnered positive returns in the fourth quarter as intermediate-term bond yields declined. High-yield bonds led the rally, while investment-grade corporate bonds also performed well.[4]

There was mixed performance in the global commodities markets during the quarter, The West Texas Intermediate crude-oil spot price was up 1.2% for the period due to continued strength in the U.S. dollar, while the Brent crude-oil price fell by 2.3% on investors' worries about recession. The NYMEX natural gas price declined nearly 34% during the period as forecasts for relatively warmer winter weather in the U.S. spurred concerns of weakening demand. Wheat prices decreased by 14%, hampered by larger-than-expected shipments by Russia.[5]

Liz Truss resigned as U.K. prime minister in late October after the disastrous reception of her fiscal program sent gilt and sterling markets reeling, collapsing her support within the Conservative Party. Her departure cleared the way for Rishi Sunak to ascend as Conservative leader and prime minister. Sunak was forced to deal with his first domestic crisis as prime minister just weeks after succeeding Truss, when members of trade unions representing National Health Service (NHS) nurses, ambulance workers and rail and Border Force employees staged targeted strikes over compensation and

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[1] According to the MSCI World and MSCI Emerging Markets indexes.
[2] According to the MSCI Emerging Markets Europe, MSCI Europe and MSCI Pacific indexes.
[3] According to the MSCI North America and MSCI USA indexes.
[4] According to data from FactSet and Lipper.
[5] According to market data from *The Wall Street Journal*.

working conditions.[6] Negotiations with the unions have proven especially challenging given that U.K. Chancellor Jeremy Hunt is seeking to reduce the government's £55 billion (roughly US$66 billion) deficit through tax increases and drastic spending cuts. Under the government's current deficit-reduction plan, a gross domestic product (GDP) growth rate of 2% would result in savings of approximately £23 billion (about US$27.6 billion) for the U.K. government by the 2027-to-2028 fiscal year.[7],[8]

In November, Ukraine's military regained control of the southern city of Kherson as Russian Defense Minister Sergei Shoigu ordered his troops to retreat from what had been sole regional Ukrainian regional capital that Moscow had held since invading the country in late February of this year. This was a major setback for Russia's Vladimir Putin. Ukraine's president, Volodymyr Zelenskyy, addressed a joint session of the U.S. Congress in late December in an effort to secure additional financial aid from the U.S. and its allies. President Joe Biden reiterated the U.S. government's support for Ukraine in its conflict with Russia. In late December, the U.S. Congress approved $US45 billion in additional financial assistance to Ukraine.

Chinese President Xi Jinping's administration faced anti-government demonstrations across the country in November in response to its zero-tolerance policy regarding COVID-19. Local police forces moved quickly to diffuse the protests, which China's National Health Commission (NHC) blamed on local governments; a spokesperson for the NHC stated that some local authorities "take a one-size-fits-all approach, and take excessive policy steps that have neglected the demands of the public."[9] Xi's administration announced an initiative to accelerate vaccinations for elderly citizens in an effort to ease the COVID-19-induced restrictions. The government subsequently announced that it will end all quarantine requirements and permit international travelers to enter the country beginning in early January.

In Latin America, Luiz Inácio Lula da Silva (Lula) of the progressive Workers' Party won Brazil's presidential election in November by a narrow margin over the conservative incumbent, President Jair Bolsonaro. Lula, who previously served two terms as Brazil's president from 2003 to 2011, returned to office on January 1 amid political tensions and a foggy economic outlook due to concerns about high interest rates, fiscal uncertainty, and the broader global slowdown.[10]

Central Banks

- The Fed raised the federal-funds rate by 0.50% in December following a 0.75% increase in November—bringing its benchmark rate to a range of 4.25% to 4.50%. This has resulted in higher borrowing costs for consumers and businesses. In a December statement, the U.S. central bank's policy makers said they expect further increases in an effort to reduce inflation to the Fed's 2% target over time and will adjust monetary policy, as necessary, in order to meet its objectives.

- The Bank of England (BOE) raised its benchmark interest rate by 0.75% to 3.0% in early November before increasing by 0.5% to 3.5% in December. After the December hike, the BOE noted that global supply- chain constraints have eased, but global inflation is still elevated. Although labor demand has begun to ease, the labor market remains tight.[11]

- The European Central Bank (ECB) boosted its benchmark interest rate to 2.0% after implementing increases of 0.75% and 0.5% in October and December, respectively. Following its most recent hike, the ECB commented, that interest rates will still need to rise significantly at a steady pace to reach its 2% medium-term target.[12] Additionally, the central bank's applicable rates for its third targeted longer-term refinancing operation (TLTRO III) aligned with its deposit-facility rate on November 23. The lending facility was originally established to foster credit availability but has essentially enabled bank subsidies as interest rates have risen, prompting the ECB's action.

- At its meeting in December, the Bank of Japan (BOJ) unexpectedly announced that it would allow the 10-year Japanese government bond yield to move 0.5% below or above the central bank's 0% target, doubling the previous 0.25% limit. After the announcement, BOJ Governor Haruhiko Kuroda said, "Today's step is aimed at improving market functions, thereby helping enhance the effect of our monetary easing. It's therefore not an interest rate hike. This

[6] "U.K. Nurses, Emergency Responders and Rail Workers Walk Out." *New York Times*. 20 December 2022.
[7] "Jeremy Hunt unveils £55bn fiscal squeeze as UK economic outlook darkens." *Financial Times*. 17 November 2022.
[8] "UK's Next Budget Will Take Place on March 15, Jeremy Hunt Says." *Reuters*, 19 December 2022.
[9] "China blames local officials for outbreaks as Beijing sticks to zero-COVID plan," *Financial Times*. 29 November 2022.
[10] "Brazil faces economic headwinds as Lula prepares to take office." *Financial Times*. 27 December 2022.
[11] "Monetary Policy Summary, December 2022." Bank of England. 15 December 2022.
[12] "Monetary policy decisions." European Central Bank. 15 December 2022.

change will enhance the sustainability of our monetary policy framework. It's absolutely not a review that will lead to an abandonment of [yield curve control] or an exit from easy [monetary] policy."[13]

Index Data (December 2022)

- The Dow Jones Industrial Average increased by 16.01%.
- The S&P 500 Index rose by 7.56%.
- The NASDAQ Composite Index decreased by 0.79%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 9.76%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, increased by 4.55%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the “fear index”, retreated from 31.62 to 21.67.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, rose from $74.49 a barrel at the end of September to $80.26 on the last day in December.
- The U.S. dollar ended the month at $1.20 against sterling, $1.07 versus the euro and at 131.95 yen.

Portfolio Review

Results in the Growth Fund were modestly positive during the quarter. The environmental, social and governance screen (ESG) led to a favorable allocation to information technology, consumer staples and energy stocks. Stock selection within consumer staples and information technology aided performance. The Growth Fund’s underweight to low-quality stocks contributed. Stock selection within telecommunications detracted.

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

[13] “BOJ jolts markets in surprise change to yield curve policy.” Reuters, 20 December 2022.

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.

The Funds seek to invest consistent with social-witness principles established by the General Assembly of the Presbyterian Church (U.S.A.) (the "Presbyterian Principles"), as reflected in Guidelines put forth by the Committee on Mission Responsibility Through Investing (the "Committee"). The Funds seek to avoid investing in companies involved in tobacco, alcohol, and gambling, along with for-profit prisons, and some companies related to weapons production, antipersonnel and mines, handguns and assault weapons. In addition, at times a company involved in serious human rights violations may also be screened. The Funds may also screen companies for other reasons when deemed appropriate to implement the Presbyterian Principles. The Funds may choose not to purchase, or may sell, otherwise profitable investments in companies which have been identified as being in conflict with its established social-witness principles. This means that the Funds may underperform other similar mutual funds that do not consider social-witness principles in their investing.

The Funds' Sub-Advisers will also consider environmental, social, and governance (“ESG”) criteria in the selection of securities for the Funds' portfolios. Each Sub-Adviser has the ability to consider its own ESG criteria based on its own ESG methodologies and assessments or those of third-party providers. The consideration of such ESG criteria as part of the decision-making process may result in the selection of individual securities that are not in the Funds' benchmark, or the overweighting or underweight of individual securities relative to the benchmark.

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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**