Market Commentary

New Covenant Funds

March 2023

- Global equity markets garnered positive returns in the first quarter of 2023, amid numerous periods of volatility. Developed markets outperformed emerging markets.
- Fixed-income asset classes gained ground during the period as bond yields fell for all but the shortest segment of the U.S. Treasury curve.
- We believe that recent events in the financial markets have raised the odds of recession in the U.S. beginning later this year or in early 2024.

Economic Backdrop

Global equity markets finished in positive territory for the first quarter of 2023, amid numerous periods of volatility in reaction to the latest monetary policy actions and public comments from central banks. Additionally, late in the period, turbulence in the banking sectors in the U.S. and Europe led to a selloff in equity markets globally before stocks rallied towards the end of the quarter.

In early March, California-based Silvergate Capital, a major lender to the highly speculative cryptocurrency industry, announced that it was entering a voluntary liquidation due to significant losses following massive withdrawals of funds by depositors. Soon thereafter, two U.S.-based regional banks-Silicon Valley Bank (SVB) and Signature Bank–failed after depositors withdrew funds on fears regarding the valuation of the institutions' bond portfolios. The Federal Deposit Insurance Corporation (FDIC) was appointed as receiver to SVB on March 12 after the California Department of Financial Protection and Innovation closed the bank. Occurring on the heels of the collapse of Silvergate Capital, SVB's failure prompted investors to reconsider the safety of their positions across the banking industry. Signature Bank, which was shut down by New York state regulators on March 12, also was closely aligned with the cryptocurrency industry. In a separate matter, 11 of the largest U.S. banks deposited $30 billion with First Republic Bank, another troubled lender.

The bank troubles were not limited to the U.S. Swiss lender Credit Suisse also came under pressure after suffering significant investment losses in 2021 and 2022. Credit Suisse reported that clients had withdrawn 110 billion francs (US$119 billion) of funds in the fourth quarter of 2022. The Swiss National Bank, Switzerland's central bank, announced that it would provide the embattled bank with 50 billion francs ($54 billion) in financial support. Soon thereafter, Swiss bank UBS took control of rival lender Credit Suisse in an emergency 3 billion franc ($3.2 billion) deal negotiated by Swiss government regulators. While this development was not directly related to the failures of the U.S. regional banks, the timing resulted in significant declines in the share prices of other banks worldwide.

Developed markets garnered positive returns over the quarter and outperformed emerging markets. Europe was the top-performing region among developed markets for the quarter due primarily to strength in Ireland and the Netherlands. North America also performed well. The Far East region generated the largest gains in emerging markets, buoyed by robust performance in Taiwan and Korea.[1]

U.S. fixed-income assets ended the quarter in positive territory as Treasury yields declined for all maturities of one year or greater (yields and prices have an inverse relationship). High-yield bonds were the top performers for the period, followed by corporate bonds and U.S. Treasurys.[2] Mortgage-backed securities (MBS) saw relatively more modest gains and were the primary fixed-income market laggards.[3] The yields on two-, three-, five-, and ten-year Treasury notes decreased 0.35%, 0.41%, 0.39%, and 0.40%, respectively, over the quarter. The spread between ten- and two-year notes widened 0.05% to -0.58% during the period, further inverting the yield curve.

Global commodities markets generally lost ground over the quarter. The West Texas Intermediate (WTI) crude-oil spot price decreased 5.9%, while Brent crude oil fell 7.1% amid concerns that additional interest-rate hikes from central

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[1] All equity market performance statements are based on the MSCI All-Country World Index (ACWI).
[2] According to the ICE BofA U.S. High Yield Constrained, ICE BofA Corporate, and ICE BofA U.S. Treasury indexes.
[3] According to the S&P U.S. Mortgage-Backed Securities Index.

banks may weigh on global economic growth and reduce demand. However, the prices for both commodities rallied sharply over the last two weeks of the quarter amid easing worries about the banking crisis and supply concerns after Turkey stopped pumping oil from a pipeline in Kurdistan following an arbitration decision that the oil could not be shipped without the consent of Iraq's government. The New York Mercantile Exchange (NYMEX) natural gas price tumbled nearly 47% during the quarter as an unusually mild winter in the U.S. continued to weigh on demand during the home-heating season. The gold spot price was volatile, but ended the quarter with an 8.1% gain. The gold price rallied sharply in January due to weakness in the U.S. dollar and declining U.S. Treasury yields before falling in February on investors' worries that the Fed's rate hikes may lead to a recession in the U.S., which would hamper demand for precious metals. The spot price then rose during the banking crisis in March, as investors generally view gold as a "safe-haven" asset during times of uncertainty. Wheat prices fell 12.6% during the quarter as Egypt made a large purchase tender for Russian wheat at a relatively low price. Additionally, in March, Russia renewed a deal with Ukraine that allows the shipment of Ukrainian grain through the Black Sea.[4]

In the U.S., all eyes (and ears) were on the Federal Reserve (Fed) over the quarter. During a discussion at the Economic Club of Washington, D.C., in early February, soon after the Federal Open Market Committee (FOMC) had implemented a 25-basis-point (0.25%) increase in the federal-funds rate, Fed Chair Jerome Powell commented that the central bank's efforts to cool inflation are "likely to take quite a bit of time. It's not going to be smooth. So we think we're going to have to do further [rate] increases, and we think we'll have to hold policy at a restrictive level for some time." The subsequent banking crisis in March may have tempered the Fed's aggressive rate-hiking policy. At a news conference following the announcement of a 25-basis-point (0.25%) increase in the federal-funds rate to a range of 4.75%-5.00%, a reporter inquired about the possibility of interest-rate cuts later this year. Powell responded, "That's not our baseline expectation." He acknowledged that the FOMC members had considered a pause in the rate-hiking cycle, given the recent turmoil in the banking sector. He also noted that prior to the onset of the banking crisis, the Fed had discussed the possibility of a more hawkish 0.50% rate increase as U.S. economic data remained relatively strong.

On March 15, U.K. Chancellor Jeremy Hunt unveiled the government's new budget, which directly addresses the nation's tight employment situation. Among some of the proposals: increasing vocational training; providing tax incentives, enhancing access to capital and easing certain regulations to encourage the creation of new enterprises. Elsewhere, the labor tensions between U.K. public employees and the government appeared to be easing. The administration of Prime Minister Rishi Sunak had been plagued by public-sector employee strikes and other job actions since late 2022, as pay increases have not kept up with the U.K.'s inflation rate, which was up 10.4% year-over-year in February, according to the Office for National Statistics (ONS).[5] Several National Health Service (NHS) unions–including the Royal College of Nursing, GMB and Unison–supported the government's offer of a pay raise of 2% in 2022-2023, followed by a 5% increase in 2023-24, with larger raises for the lowest-paid employees.[6] While labor issues in the health care industry appeared to be resolved, a problem arose in another area. Leaders of the National Education Union, the U.K.'s largest teachers' union, urged their members to reject the government's offer of a 4.5% wage increase over the next academic year "in the strongest possible way," commenting that the proposal was an "insulting offer from a government which simply does not value teachers."[7]

Within the eurozone, the proposal of President Emmanuel Macron of France to raise the minimum retirement age for the country's public pension program from 62 to 64 led to civil unrest in that country. There were many violent demonstrations and several large labor unions staged widespread job actions in opposition to the plan. The tensions were exacerbated as Macron did not put the measure up for a vote in the National Assembly, France's lower house, in which his political party does not have a majority.[8] Fears of recession in Germany arose as the nation's economy contracted by a greater-than-expected annual rate of 0.4% in the fourth quarter of 2022. High inflation weighed on consumer spending and investments in buildings and machinery during the period.[9]

The Russia-Ukraine conflict raged on. In March, President Xi Jinping of China met with Russian President Vladimir Putin in Moscow to discuss China's proposal to end the conflict with Ukraine. The Biden administration criticized the plan as "the ratification of Russian conquest," as it proposed a ceasefire that would recognize Russia's right to occupy territory in Ukraine and provide Putin with time to bolster the nation's military forces.[10]

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[4] According to market data from The Wall Street Journal.
[5] According to the U.K. Office for National Statistics. March 2023.
[6] "Pay deal for NHS workers in England paves way to end strikes." Financial Times. March 16, 2023.
[7] "Teaching union urges members to reject UK government's new pay offer." Financial Times. March 27, 2023.
[8] "French protest against Macron's 'provocation' on pensions." Financial Times. March 23, 2023.
[9] According to the Federal Statistical Office of Germany. February 2023.
[10] "Xi Jinping praises Vladimir Putin's 'strong leadership' in Kremlin talks." Financial Times. March 20, 2023.

Central Banks

- The Fed raised the federal-funds rate to a range of 4.75%-5.00% in two increments of 0.25% on February 1 and March 22. In a statement announcing the rate increase in March, the Federal Open Market Committee (FOMC) noted that, despite the current financial difficulties, "The banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain." The FOMC also commented that it "anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time." The statement omitted the Fed's longstanding reference to "ongoing increases in the (federal-funds) target range," suggesting that the central bank may be nearing the end of its rate-hiking cycle.

- The Bank of England (BOE) increased its benchmark rate by an aggregate of 0.75% to 4.25% over the quarter. The central bank noted its ongoing concerns about inflation, as the government's consumer-price index rose 10.4% year-over-year in February (the most recent available data). Even in the midst of a banking maelstrom, BOE Governor Andrew Bailey warned that further policy-rate hikes may be needed.

- The European Central Bank (ECB) boosted its benchmark interest rate from 2.0% to 3.0% in two increments of 0.50% in February and March. In its rate-hike announcement in March, the ECB commented that "Inflation is projected to remain too high for too long" that the increase was "in line with [the ECB's] determination to ensure the timely return of inflation to the 2% medium-term target."

- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meetings in January and March. At a news conference after the announcement of the interest-rate decision in March, outgoing BOJ Governor Haruhiko Kuroda said that the central bank "has been taking various steps to mitigate the side effects of its monetary easing. I can say that the benefits of our monetary easing have far exceeded the demerits." Kazuo Ueda will succeed Kuroda as BOJ governor in April.

Index Data (March 2023)

- The Dow Jones Industrial Average increased by 0.93%.
- The S&P 500 Index rose by 7.50%.
- The NASDAQ Composite Index increased by 17.05%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 7.31%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, increased by 3.01%.
- 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 21.67 in December to 18.70.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $80.26 a barrel at the end of December to $75.67 on the last day in March.
- The U.S. dollar ended the quarter at $1.24 against sterling, $1.09 versus the euro and at 133.09 yen.

Portfolio Review

In an environment where stocks generally produced positive returns, the Growth Fund produced a positive return similar to that of its benchmark during the quarter. In a reversal from the performance trends of 2022, growth stocks led while value stocks lagged. Information technology, communication services, and consumer discretionary sectors were the best performers. Traditional value sectors such as energy, utilities, and financials lagged as concerns about potential declines in commodity prices, as well as a crisis of confidence in the banking system, weighed on investor sentiment.

During the quarter, the Income Fund outperformed the Barclays Intermediate Aggregate Index. Duration had little impact on relative performance, while an overweight to 30-year bonds modestly detracted. An overweight to corporate bonds enhanced returns; an overweight to industrials was additive, while an overweight to banks detracted. Positive selection in money center banks and an underweight to subordinated bank debt offset the sector's performance. Allocations to agency mortgage-backed securities (MBS), non-agency mortgages, and commercial mortgage-backed securities (CMBS) detracted, though selection within specified agency MBS pools and higher-quality CMBS tranches was additive. An underweight to taxable municipals detracted. Western Asset Management's overweight to corporate bonds, especially industrials, contributed. Selection within agency MBS contributed, while an allocation to non-agency mortgages was a marginal detractor. An overweight to asset-backed securities (ABS) was positive. An overweight to CMBS detracted, though selection in bonds at the top of the capital structure added. An overweight to non-corporates detracted, along with selection in dollar-denominated sovereigns and foreign agencies. Income Research & Management outperformed during the quarter. An overweight to corporate bonds, especially industrials, contributed. Selection within the consumer non-cyclical, communications, and transportation sectors was additive. An overweight to financials detracted but was offset by selection in money center banks and an underweight to subordinated debt. An overweight to CMBS detracted, while selection in bonds at the top of the capital structure added. A small underweight to agency MBS was positive, along with selection in specified pools.

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.).

The Income Fund's duration positioning was neutral to the benchmark, with an overweight in the belly and the long-end of the yield curve. 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. The Fund was overweight corporate bonds, with a focus on financials, a small overweight in industrials, and a more neutral stance on utilities. An overweight to CMBS remains in the higher quality tranches of the capital structure. An allocation to non-agency MBS remained as the sector continued to trade at attractive spreads. Overall, the managers remain defensive and will use periods of volatility to add attractively priced securities to portfolio. We anticipate that heightened volatility will likely remain, as tightening lending conditions, slower growth, and recession risks continue to be priced into the market.

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.

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**