

# Quarterly market commentary: New Covenant Funds.



Global equities, as measured by the MSCI ACWI Index, fell in the first quarter of 2026. A market upturn in the first two months of the period amid optimism regarding relatively strong corporate earnings was offset by a selloff in March as investors grappled with numerous periods of volatility and uncertainty surrounding the war in the Middle East. Emerging markets outperformed developed markets for the quarter. Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, lost ground for the quarter. U.S. Treasury yields rose for all maturities of two months or greater. The onset of hostilities in the Middle East is the latest test for investors and the broader market as fears of a protracted conflict raise the specters of stagflation, recessions, and bear markets.

## Economic backdrop

Global equities, as measured by the MSCI ACWI Index, fell in the first quarter of 2026. A market upturn in the first two months of the period amid optimism regarding relatively strong corporate earnings was offset by a selloff in March as investors grappled with numerous periods of volatility and uncertainty surrounding the war in the Middle East. Emerging markets outperformed their developed-market counterparts for the quarter. The military and economic impact of Iran's virtual closure of the Strait of Hormuz, a major shipping channel between the Persian Gulf and the Gulf of Oman, dominated the headlines in March. The blockade led to a surge in oil prices, with both the West Texas Intermediate (WTI) and Brent crude prices topping US\$100 a barrel in late March.

Latin American equities were the top performers among emerging markets during the first quarter, benefiting from notable rallies in Peru, Colombia, and Brazil. The Far East's outperformance was attributable to strength in Korea, Thailand, and Taiwan. In contrast, the Jordan + Egypt + Morocco market and Chinese stocks listed on the Hong Kong Stock Exchange were the primary emerging-market laggards. The Pacific region was the strongest performer among developed markets during the quarter, led by gains in Hong Kong and Australia. The Far East's relatively strong performance also was due to strength in Hong Kong, as well as an upturn in Japan. Conversely, Europe faced significant headwinds from markets in Ireland and Germany, while the U.S. was the main contributor to North America's weak performance for the quarter.<sup>1</sup>

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, returned -1.1% (in U.S. dollars) in the first quarter. Mortgage-backed securities (MBS) and U.S. Treasury securities eked out gains and led the U.S. fixed-income market, while investment-grade corporate bonds and high-yield bonds recorded modest losses. U.S. Treasury yields moved higher for all maturities of two months or greater. (Bond prices move inversely to yields.) Yields on 2-, 3-, 5-, and 10-year Treasury notes rose by corresponding margins of 0.32%, 0.26%, 0.19%, and 0.12%, ending the month at 3.79%, 3.81%, 3.92%,

<sup>1</sup> All equity market performance statements are based on the MSCI ACWI Index.

and 4.30%, respectively. The 10-year to 3-month yield curve widened by 9 basis points (0.09%) to +0.60% as of the end of the quarter.<sup>2</sup>

Global commodity prices, as represented by the Bloomberg Commodity Index, surged 24.4% over the quarter. The Mideast war led to soaring West Texas Intermediate (WTI) and Brent crude oil spot prices, which climbed 76.6% and 70.9%, respectively, during the period due to concerns over the security of flows through the Strait of Hormuz. The gold price ended the quarter with a 7.8% gain, rising sharply in January and February as investors sought safe-haven assets amid the growing geopolitical tensions in the Middle East. However, the price of the precious metal declined in March as global central banks—particularly those of Turkey and Russia—have been reducing their holdings in gold to protect their currencies and manage economic pressures from regional military conflicts and rising oil prices. After skyrocketing nearly 40% in January, attributable mainly to a sharp increase in demand caused by a massive winter storm in the U.S. Midwest and Eastern Seaboard regions and a stretch of unusually cold weather, the New York Mercantile Exchange (NYMEX) natural gas price fell significantly over the following two months, ending the quarter with a 7.9% decline in response to relatively warmer weather in much of the U.S., which dampened expectations for heating demand. The wheat price jumped 21.5% for the quarter due to concerns about dwindling supply in the near term, rising costs for fertilizer as Iran’s blockade of the Strait of Hormuz delayed shipments, as well as a prolonged period of dry and cold weather, high winds, and wildfire damage in the U.S. Great Plains, particularly Kansas, Oklahoma, and Texas.

On the geopolitical front, on February 28, President Donald Trump announced that the U.S. and Israel had launched strikes against several military and government targets in Iran after the Iranian government failed to accept an agreement to end its nuclear enrichment program. The Trump administration warned that Iran could use the enrichment program to develop nuclear weapons. The Iranian government confirmed that the initial bombings killed Ayatollah Ali Khamenei, Iran's Supreme Leader. Tensions regarding the standoff in the Strait of Hormuz have garnered most of the attention during the Middle East war thus far after Iran effectively closed the Strait of Hormuz, affecting a significant amount of global oil capacity. In mid-March, the U.S. and its allies expanded efforts to reopen the strait, employing A-10 warplanes and Apache helicopters to target Iran’s attack boats, drones, and missile sites.

On March 26, the Israeli government announced the killing of Alireza Tangsiri, the commander of Iran’s Revolutionary Guard navy, who Israel said was responsible for the mining and blocking of the strait. Also in late March, President Trump extended a deadline for Iran to open the Strait of Hormuz to shipping to avoid attacks on the country’s energy infrastructure until April 6 to allow more time for negotiations to end the war. Trump said that Iran had requested the extension; however, mediators involved in the peace talks indicated that Iran had not asked the U.S. to delay the deadline.

According to a story published in The New York Times, in late March, the U.S., employing Pakistan as an intermediary, sent the Iranian government a 15-point plan to end the war. According to two unnamed U.S. officials, the proposal focuses on Iran’s ballistic missile and nuclear programs and addresses the blockade of the Strait of Hormuz.

There was a significant development in the Middle East war at the end of March. The Wall Street Journal reported that Trump informed some administration officials that he was considering ending the conflict without reopening the strait. The decision followed the administration’s assessment that it would take longer than the initial estimate of four-to-six weeks to reopen the vital shipping lane. Trump determined that the U.S. should focus on disabling Iran’s navy and depleting the country’s supply of missiles, and he favored pressuring the Iranian regime to reach a diplomatic solution to reopen the strait.

U.S. trade policy took center stage again mid-quarter. In a 6-3 decision on February 20, the U.S. Supreme Court ruled that President Trump had exceeded his powers by imposing tariffs without clear authorization from Congress. The Supreme Court rejected the administration’s argument that the International Emergency Economic Powers Act (IEEPA), enacted in 1977, implicitly allowed such tariffs. The ruling leaves unresolved whether the government must refund tariff revenue already collected, a question likely to be litigated in lower courts.

<sup>2</sup> According to the U.S. Department of the Treasury. As of March 31, 2026.

# Central banks

- In a split 11-1 vote, the Federal Open Market Committee (FOMC) maintained the federal funds rate in a range of 3.50%-3.75% following its meeting on March 17-18. FOMC member Stephen Miran favored a 0.25% rate cut. In a statement announcing the rate decision, the FOMC stated, “Uncertainty about the economic outlook remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain. The Committee is attentive to the risks to both sides of its dual mandate [price stability and maximum employment].” The Fed’s so-called dot plot of economic projections indicated a median federal funds rate of 3.4% at the end of 2026, unchanged from its forecast in December 2025, signaling that the central bank anticipates one rate cut this year. The Fed projected that core inflation, as measured by the core personal-consumption expenditures (PCE) price index, will rise 2.7% for the current year, up from the central bank’s initial estimate of 2.5% in its December dot plot.
- The European Central Bank (ECB) left its benchmark interest rate unchanged at 2.00% for its sixth consecutive meeting on March 19, noting the Mideast conflict’s impact on the European economy. In a news release, the ECB’s Governing Council commented, “The war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. It will have a material impact on near-term inflation through higher energy prices.” In prepared remarks for a news conference following the rate announcement, ECB President Christine Lagarde and Vice President Luis de Guindos said, “Inflation has been at around our two percent target, longer-term inflation expectations are well anchored, and the economy has shown resilience over recent quarters. The incoming information in the period ahead will help us assess how the war will affect the inflation outlook and the risks surrounding it.”
- At its meeting on March 18, the Bank of England (BOE) voted unanimously to maintain the Bank Rate at a three-year low of 3.75%, citing the ongoing tumult in the Middle East. The Monetary Policy Committee (MPC) noted, “Conflict in the Middle East has caused a significant increase in global energy and other commodity prices, which will affect households’ fuel and utility prices and have indirect effects via businesses’ costs. Prior to this, there had been continued disinflation in domestic prices and wages. CPI [consumer-price index] inflation will be higher in the near term as a result of the new shock to the economy.” The central bank’s announcement provided insights into the views of the MPC members. BOE Governor Andrew Bailey said, “Large movements in energy prices have resulted from events in the Middle East and uncertainty over the duration of supply disruptions. Monetary policy cannot reverse this shock to supply. Its resolution depends on action taken at its source to restore the safe passage of shipping through the Strait of Hormuz.” MPC member Swati Dhingra stated, “The economic outlook is at a crossroads following hostilities in the Middle East. The U.K. economy will face higher energy prices, though how much higher and for how long makes all the difference.”
- At its meeting on March 18-19 (local time), the Bank of Japan (BOJ) voted by an 8-1 majority to leave its benchmark interest rate unchanged at a 30-year high of 0.75%, but left open the possibility of a rate hike in the near future. In a statement announcing the rate decision, the central bank noted the economic uncertainty surrounding the Mideast conflict. “Japan’s economy is likely to continue growing moderately, with overseas economies returning to a growth path,” the central bank commented. “However, in the wake of increased tension over the situation in the Middle East, global financial and capital markets have been volatile and crude oil prices have risen significantly; future developments warrant attention.” At a news conference following the meeting, BOJ Governor Kazuo Ueda stated that any negative impact on Japan’s economy resulting from the Mideast conflict most likely would be short-lived. “Even if economic growth were to decline, if that development is temporary and there’s not so much impact on the trajectory of the price trend, then, of course, it will be possible to raise interest rates,” he said.
- The Bank of Canada (BOC) maintained its policy rate at 2.25% at its March 18 meeting. In a statement announcing the monetary policy decision, the BOC noted that the Middle East conflict “has increased volatility in global energy prices and financial markets, and heightened the risks to the global economy. The breadth and duration of the conflict, and hence its economic impacts, are highly uncertain,” the central bank commented. “Since the outbreak of the conflict in the Middle East, global oil and natural gas prices have risen sharply, and this will boost global inflation in the near-term.” During a news conference following the BOC’s interest-rate announcement, Governor Tiff Macklem cited the economic uncertainty surrounding the Mideast conflict and U.S. trade policy. “Now the war in Iran has added a new layer of

uncertainty. Its impact on the global and Canadian economies will depend on how long the conflict lasts and the extent to which it spreads across the Middle East.”

## Index data (First quarter 2026)

- The Dow Jones Industrial Average decreased by 3.19%.
- The S&P 500 Index fell by 4.33%.
- The NASDAQ Composite Index retreated 6.96%.
- The MSCI ACWI (Net), used to gauge global equity performance, depreciated by 3.20%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, fell 1.07%.
- 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 14.95 in December to 25.25.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, rose from \$57.42 a barrel in December to \$101.38 at the end of March.
- The U.S. dollar ended the quarter at \$1.32 against sterling, \$1.15 versus the euro, and at 159.09 yen.

## Portfolio review

The Growth Fund’s underweight to the outperforming energy sector detracted from performance over the quarter. An underweight to the aerospace and defense industry also hampered results. The Fund’s exposure to small- and mid-capitalization stocks pared these losses.

The Income Fund benefited from overweights to agency MBS, asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS) over the quarter. A small underweight to corporates also contributed, as did positioning in higher-quality CMBS tranches and selection in specified agency MBS pools, banks, and high-quality consumer ABS. The Fund’s slightly longer-duration posture and steepening bias detracted as yields rose and the yield curve flattened. Income Research and Management’s overweights to ABS and CMBS contributed. Metropolitan West Asset Management’s overweight to and selection in agency MBS enhanced performance.

## Manager positioning and opportunities

Over the quarter, the Growth Fund continued to provide exposure to U.S. large-, mid-, and small-cap stocks while avoiding securities that violate its investment screens. The 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.).

Over the quarter, the Income Fund maintained overweights to agency mortgage-backed securities (a high-quality, higher-yielding, liquid alternative to Treasuries), asset-backed securities (resilient consumer and labor market, modest home-price appreciation), and commercial mortgage-backed securities. It also retained a small underweight to corporates, primarily in industrials; this underweight may increase further at the margin given the tightness in spreads. In terms of yield-curve posture, the Fund maintained its positioning in intermediate maturities following Federal Reserve interest-rate cuts in 2025; its steepening bias remained given the prospect of further rate cuts and upward pressure on long-term yields from inflation and debt concerns. Until there is a durable solution to reopen the Strait of Hormuz—a vital shipping lane in the Middle East that closed due to military conflict—the markets will likely remain volatile.

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.

## GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see: <https://www.sei.com/ent/imu-communications-financial-glossary>

## 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.

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