Quarterly market commentary: New Covenant Funds.

Global equities, as measured by the MSCI ACWI Index, posted notable gains in the second quarter of 2026, supported by optimism regarding an agreement to end the hostilities in the Middle East, as well as a rally in the technology sector, particularly artificial intelligence (AI)-related companies. Emerging markets significantly outperformed developed markets for the quarter. Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, ticked up 0.9% for the quarter. U.S. Treasury yields moved higher for all maturities, except for one-month T-bills. We remain constructive overall on the global economy and risk assets, but we are more selective. Capital markets are entering a more complicated reflationary phase.

Economic backdrop

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The Far East and Asia were the top performers among emerging markets over the quarter, as both regions benefited from significant market rallies in Korea and Taiwan. Conversely, Chinese stocks listed on the Hong Kong Stock Exchange were the most notable market laggards, while Latin America also lost ground due to a downturn in Brazil. The Gulf Cooperation Council (GCC) countries finished the quarter in modestly positive territory but underperformed due to weakness in Saudi Arabia. North America was the top-performing developed market in the second quarter due to strength in the U.S. The Euro region benefited from market upturns in the Netherlands and Austria, while both the Far East and Pacific regions were bolstered by strength in Japan and Singapore. The Pacific ex Japan market posted a gain for the quarter but was the primary market laggard due to a decline in Hong Kong.[1]

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, ticked up 0.9% (in U.S. dollars) for the quarter. High-yield bonds led the U.S. fixed-income market, followed by investment-grade corporate bonds, U.S. mortgage-backed securities (MBS), and U.S. Treasury securities. Treasury yields moved higher for all maturities, except for one-month T-bills. (Bond prices move inversely to yields.) Yields on 2-, 3-, 5-, and 10-year Treasury notes rose 0.35%, 0.34%, 0.27%, and 0.14%, ending the quarter at 4.14%, 4.15%, 4.19%, and 4.44%, respectively. The 10-year to 3-month yield curve narrowed by 6 basis points (0.06%) to +0.57% as of the end of the quarter.[2]

[1] All equity market performance statements are based on the MSCI ACWI Index.
[2] According to the U.S. Department of the Treasury. As of June 30, 2026.

Global commodity prices, as represented by the Bloomberg Commodity Index, declined 8.1% in the second quarter. Oil prices fell sharply on hopes for a resolution of the blockade of the Strait of Hormuz, a major shipping channel between the Persian Gulf and the Gulf of Oman in the Middle East, with West Texas Intermediate (WTI) and Brent crude tumbling 31.4% and 29.8%, respectively, during the quarter. The gold price fell 13.7% for the quarter amid rising U.S. Treasury yields and a strengthening U.S. dollar. (The gold price tends to move inversely to the dollar.) Despite a pullback in June following a sharp rally in May, the New York Mercantile Exchange (NYMEX) natural gas price still ended the quarter with a 13.6% gain as warmer weather forecasts bolstered expectations for stronger summer cooling demand. The wheat price decreased 4.4% during the quarter amid anticipation that improving weather in the U.S. could lead to increases in crop yields and overall supply.

The U.S.-Israel-Iran war dominated the geopolitical news throughout the quarter. The ceasefire appeared to be in jeopardy numerous times during the period, with both the U.S. and Iran accusing the other of violating the truce. Iran launched missile and drone attacks on U.S. warships and other targets in the Gulf region in May, triggering U.S. strikes on Iranian military sites. The United Arab Emirates intercepted several Iranian missiles and drones as Iran sought to retaliate against neighboring countries allying with the U.S. and Israel. Nonetheless, U.S. officials signaled that a peace deal was possible even amid continued military strikes launched by both sides.

Toward the end of the quarter, the U.S. and Iran signed a memorandum of understanding (MOU), which moved the Mideast conflict from active escalation to conditional diplomacy. President Donald Trump signed the preliminary agreement on June 17, setting a 60-day negotiating window intended to end hostilities, reopen the Strait of Hormuz, and address Iran's nuclear program. The framework provides immediate oil-sanctions relief for Iran and calls for the U.S. to ease its naval blockade, while Tehran agreed to restore commercial shipping through the Strait. However, U.S. officials stressed that the MOU is not a final deal, and Trump indicated that military action could resume if Iran fails to comply. On June 25, the GCC welcomed the agreement and backed U.S. objectives to prevent Iran from acquiring a nuclear weapon, address Iran's ballistic missiles, and preserve free and unrestricted navigation through the Strait of Hormuz. However, Iranian authorities reportedly warned vessels transiting the strait without identification signals or Iranian permission, leading at least three oil tankers and two other ships to reverse course. The episode highlighted the gap between the diplomatic framework and conditions on the water. The MOU has reduced near-term escalation risk, but freedom of navigation through the Strait remains contested.

Trump and President Xi Jinping of China met in Beijing in mid-May to discuss, among other topics, Xi's intentions regarding possible military action against Taiwan to force reunification with China, and the war in the Middle East. Xi cautioned Trump that mismanagement of the Taiwan situation could result in an "extremely dangerous situation." Trump and Xi found some common ground regarding the Mideast conflict, agreeing that the Strait of Hormuz should be reopened and that Iran should not be allowed to produce a nuclear weapon.

Elsewhere, on June 22, Keir Starmer announced his resignation as both U.K. prime minister and Labour Party leader. It appeared that significant Labour Party losses in local elections had eroded his authority and triggered calls for him to step down. Starmer acknowledged internal political pressure and accepted that he was no longer best placed to lead but said that he would remain in office until the Labour Party chooses a successor to ensure an orderly transition.

Central banks

- At Kevin Warsh's first meeting as Federal Reserve (Fed) Chair on June 16-17, the Federal Open Market Committee (FOMC) voted unanimously (12-0) to maintain the federal funds rate in a range of 3.50%-3.75%. Warsh was sworn in as Fed chief on May 22, succeeding Jerome Powell, who still serves as a member of the Fed Board of Governors. In its statement announcing the rate decision, the FOMC noted the resiliency of the U.S. economy. "Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East," the FOMC said. The Fed's so-called dot plot of economic projections indicated a median federal funds rate of 3.8% at the end of 2026, up from its forecast of 3.4% in March, signaling that the committee anticipates one rate hike this year. During a news conference on Wednesday afternoon following the FOMC meeting, Warsh said that the central bank did not consider a rate cut. "There was one proposal on the table, there was no discussion of any other proposals," he commented. Warsh also noted that the Fed provided little forward guidance for policy because it is "not well suited to the current policy conjuncture."
- The European Central Bank (ECB) voted unanimously to raise its benchmark interest rate by 25 basis points (0.25%) to 2.25% at its June 10-11 meeting, citing the Mideast conflict's impact on the European economy. In a news release, the ECB's Governing Council commented, "The outlook remains uncertain, with upside risks for inflation and downside risks for economic growth. The full implications of the war for medium-term inflation and growth will depend on the intensity and duration of the energy price shock, as well as the scale of its indirect and second-round effects." In prepared remarks for a news conference following the rate announcement, ECB President Christine Lagarde and Vice President Boris Vujčić said, "The risks to the growth outlook are to the downside, mainly owing to the war in the Middle East, which has added to the volatile global policy environment. Prolonged disruption of energy supplies could increase energy prices further and for longer than currently expected. These factors would erode real incomes even more and make firms and households more reluctant to invest and spend."
- At its meeting on June 17, the Bank of England (BOE) voted by a margin of 7-2 to maintain the Bank Rate at 3.75%, citing the impact of the ongoing Mideast war. Monetary Policy Committee (MPC) members Megan Greene and Huw Pill supported a 25-basis-point (0.25%) rate increase. The MPC stated, "Global energy prices have fallen since the previous meeting in response to events in the Middle East. But they remain higher than pre-conflict and have continued to be volatile. The impact of the energy shock on the U.K. economy remains uncertain. Monetary policy cannot influence energy prices but is being set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably." The central bank's announcement provided insights into the views of the MPC members. BOE Governor Andrew Bailey said, "There has been a marked fall in energy prices in recent days, reflecting progress on talks involving U.S. and Iran. But the situation remains unpredictable, and there is clearly a risk that energy prices remain elevated for an extended duration. Recent inflation outturns give greater confidence that gradual underlying disinflation has continued."
- At its meeting on June 15-16, the Bank of Japan (BOJ) voted by a 7-1 margin to raise its benchmark interest rate by 25 basis points (0.25%) to a 31-year high of 1.00%. Board member Toichiro Asada favored maintaining the rate at 0.75%. BOJ Governor Kazuo Ueda did not attend the meeting as he was undergoing medical treatment. In a statement announcing the rate decision, the central bank commented, "While higher crude oil prices have been exerting downward pressure on economic activity, the economy has generally been supported by factors such as high levels of corporate profits and an improvement in the employment and income situation. Meanwhile, the risk of a significant slowdown in the economy appears to have decreased compared with a while ago." At a news conference following the meeting, BOJ Deputy Governor Shinichi Uchida noted that the BOJ could implement additional rate hikes if inflation pressures do not subside, "With underlying inflation approaching 2%, we need to be mindful of upward price risks. We will guide policy so that we won't fall behind the curve," he said.
- The Bank of Canada (BOC) maintained its policy rate at 2.25% following its June 10 meeting. In a statement announcing the monetary policy decision, the central bank noted the economic impact of the ongoing Mideast conflict as well as U.S. trade policy. "The resulting increases in energy prices and disruptions in global supply chains are weighing on global economic growth and pushing up inflation," the BOC stated. "At the same time, the U.S. administration continues to propose new tariffs, and trade policy uncertainty remains elevated." At a news conference following the interest-rate

announcement, BOC Governor Tiff Macklem commented that the BOC is waiting to see if higher energy prices lead to a broader rise in inflation. “Economic weakness combined with rising inflation is a dilemma for monetary policy,” he said. “Raising rates to dampen inflation could further slow the economy. Easing rates to support growth increases the risk that higher inflation becomes persistent. For now, holding the policy rate unchanged balances those risks.”

Index data (Second quarter 2026)

- The Dow Jones Industrial Average increased by 13.38%.
- The S&P 500 Index rose by 15.20%.
- The NASDAQ Composite Index advanced 21.60%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 14.93%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, rose 0.87%.
- 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 25.25 in March to 16.45.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $101.38 a barrel in March to $69.50 at the end of June.
- The U.S. dollar ended the quarter at $1.33 against sterling, $1.14 versus the euro, and at 162.53 yen.

Portfolio review

The Growth Fund’s overweight to information technology contributed as the sector led the equity market’s positive performance over the quarter. An underweight to the aerospace and defense industry also benefited performance. The Fund’s holdings in smaller companies outperformed its positions in larger companies.

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 slightly longer duration and steepening bias detracted from 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 MBS (a high-quality, higher-yielding, liquid alternative to Treasurys), ABS (resilient consumer and labor market, modest home-price appreciation), and CMBS. 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 given the potential for an interest-rate increase from the Fed; its steepening bias remained given the likelihood that inflation and debt concerns will push up long-term yields. Oil prices moved lower after the U.S. and Iran agreed to a tentative ceasefire, reducing inflation expectations. While uncertainty persists and isolated hostilities continue, markets appear comfortable believing the worst-case scenario has been avoided.

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.seic.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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