Market Commentary

New Covenant Funds

January 2023

- Most equity markets rallied into the New Year as generally positive economic data globally bolstered investor optimism, with emerging markets outperforming their developed-market counterparts for the month.[1]
- Fixed-income asset classes ended January in positive territory amid declining bond yields (yields and prices have an inverse relationship).
- "Stagnation" is the best way to describe the state of the global economy, but several regions will likely enter recession in the coming months.

Economic Backdrop

Most global stock markets began 2023 with a strong rally, bolstered mainly by investor optimism amid generally positive economic data and signs that the U.S. Federal Reserve (Fed) will continue to slow the pace of interest-rate hikes. It appears that the so-called "January effect"—which theorizes that the financial markets (particularly small-cap stocks) tend to gain more in January than in any other month—has once again prevailed. Emerging-market equities performed particularly well, with Latin America and Emerging Asia generating the greatest returns.[2] Within developed-market equities, gains in the U.S. continued to lag amid ongoing weakness in the U.S. dollar, which boosted the performance of non-dollar-denominated stocks in international markets.[3]

U.S. fixed-income assets generally garnered strong returns in January as bond yields declined (yields and prices have an inverse relationship). High-yield and investment-grade corporate bonds performed in line with each other, outpacing mortgage-backed securities (MBS) and U.S. Treasurys. All Treasury yields with maturities of one year or greater declined during the month, with the intermediate- and long-term segments of the yield curve falling further than short-term yields. Consequently, the yield curve remained inverted (short-term yields exceeded long-term yields).

Regarding the global commodities markets, prices generally decreased during January. The West Texas Intermediate crude-oil spot price was down 1.4% while Brent crude oil fell by 0.4% amid concerns about additional interest-rate hikes from central banks and an increasing supply of Russian crude oil. The NYMEX natural gas price declined by 34% as an unusually mild winter in the U.S. resulted in lower demand and higher inventories. Wheat prices decreased by 3.8% after Russia renewed a deal with the UN, Ukraine, and Turkey that allows the shipment of Ukrainian grain through the Black Sea.[4]

U.S. Treasury Secretary Janet Yellen announced that the Treasury Department began taking "extraordinary measures" after the government reached its $31.4 trillion borrowing limit on January 19. In the U.S. House of Representatives, leaders of the newly elected Republican majority indicated that they would not approve an increased debt limit (commonly referred to as the debt ceiling) unless the administration of President Joe Biden, a Democrat, agrees to specific spending cuts. Yellen estimated that the U.S. government might run out of money and be unable to meet its financial obligations in early June if the House of Representatives does not vote to raise the debt ceiling. She urged Congress to "act promptly to protect the full faith and credit of the United States."[5]

The International Monetary Fund (IMF) projected that the U.K. will be the lone member of the G7 (an intergovernmental political forum representing the world's most advanced economies) to face a recession in 2023. According to the IMF, the U.K.'s gross domestic product (GDP) will likely decline by 0.6% this year—a dramatically weaker forecast compared to its initial estimate of 0.3% economic growth issued in October 2022—due to the government's tighter fiscal and monetary policies.[6] Following the release of the IMF report, U.K. Chancellor Jeremy Hunt issued the following statement: "The governor of the Bank of England recently said that any U.K. recession this year is likely to be shallower than previously predicted. We are not immune to the pressures hitting nearly all advanced

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[1] According to the MSCI World and MSCI Emerging Markets indexes.
[2] According to the MSCI Emerging Markets Latin America and MSCI Emerging Markets Asia indexes.
[3] According to the MSCI North America and MSCI USA indexes.
[4] According to market data from The Wall Street Journal.
[5] "Treasury to take 'extraordinary measures' as US hits debt ceiling." Financial Times. January 19, 2023.
[6] Source: IMF World Economic Outlook Update. January 2023.

economies. Short-term challenges should not obscure our long-term prospects."[7] Separately, in a late-January speech to business lobbyists, Hunt outlined his plan to boost economic growth; the U.K. government's budget proposal, scheduled to debut in mid-March, will not include sizeable tax cuts as the government focuses on curbing inflation. Several members of the lobbyist group expressed concerns about the plan's lack of new policies and the absence of assistance pledged for smaller businesses.[8]

The U.S., Germany, and several other European allies agreed to send tanks to Ukraine in support of its defense against Russia's ongoing brutality. The U.S. plans to provide 31 M1 Abrams tanks. Germany agreed to send 14 Leopard2 tanks and plans to work with other European countries to create two tank battalions of Leopard2s, which is equivalent to roughly 90 tanks.[9]

Central Banks

- As widely expected, the U.S. Fed raised the federal-funds rate by 0.25% to a range of 4.50% to 4.75%—the smallest increase since its rate-hiking policy began in March 2022. The central bank's policymakers reiterated their commitment to reducing inflation to the 2% target rate, and said they would continue to monitor the labor market, inflation pressures and expectations, and financial and international developments to inform its economic outlook.

- The Bank of England (BOE) raised its benchmark interest rate by 0.5% to 4.0% in early February as inflation remained elevated. However, the central bank noted that overall inflation has slowed and likely will decline significantly during the coming year. The BOE also said that, although the labor market remains tight, there have been signs of slower wage growth.

- The European Central Bank (ECB) boosted its benchmark interest rate by 0.5% to 2.5% in early February in its ongoing effort to combat inflation. The ECB commented that it expects to implement another 0.5% increase during its next meeting in March, and then evaluate the direction of its monetary policy.

- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meeting in January. The central bank also said it would continue to allow the 10-year Japanese government bond (JGB) yield to move 0.5% above or below the central bank's 0% target.

Index Data (January 2023)

- The Dow Jones Industrial Average increased by 2.93%.
- The S&P 500 Index rose by 6.28%.
- The NASDAQ Composite Index added 10.72%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 7.17%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, increased by 3.28%.
- 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 to 19.40.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $80.26 a barrel on the last day in December to $78.87 at the end of January.
- The U.S. dollar ended the month at $1.23 against sterling, $1.09 versus the euro and at 130.05 yen.

Portfolio Review

Results in the Growth Fund kept up with its benchmark during the month. January was a strong month of performance for the market with the Russell 3000 Index rising by 6.89% and the Russell 2000 Index, representing small-cap stocks, rising by 9.75%. The fund continues to provide exposure to large-, medium-, and small-cap securities in the US market.

During the month of January, the Income Fund outperformed its benchmark, the Bloomberg Intermediate US Aggregate Bond Index (USD). The Fund's slightly longer duration posture enhanced relative performance as yields declined, while its overweight to 30-year bonds benefited from flattening of the yield curve. Overweight positions in ABS, CMBS and corporates – specifically industrials, financials, and utilities – contributed as well. Selection in banks and communications was also additive. An underweight to taxable municipals bonds detracted. 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

[7] "UK to Be Only G-7 Economy in Recession This Year, IMF Says." Bloomberg. 30 January 2023.
[8] "Business complains Jeremy Hunt's UK growth plan lacks new policies." Financial Times. 27 January 2023.
[9] "US and Germany to send main battle tanks to Ukraine." Financial Times. 25 January 2023.

duration posture and overweight to the long-term segment of the U.S. Treasury yield curve. Overweights to corporate bonds, ABS, and agency MBS also contributed. Income Research & Management also outperformed the benchmark during the month. An overweight to corporate bonds, ABS, and CMBS was positive. An underweight to agency MBS detracted slightly.

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.).

During the month, the Income Fund's allocations did not materially change, with managers still cautious on overall market valuations. They have been selectively adding to corporate positioning, primarily in financials and to a lesser extent, industrials, but may soon begin paring back given the narrowing of credit quality spreads, especially in issuers whose valuations are ahead of fundamentals. Duration remains slightly long, with overweights in the belly and the long end of the yield curve. In light of the rally in the belly of the curve, managers began to reduce that position. The Fund maintained its overweight to ABS with strong consumer sentiment, improving wages, and resilient housing sector, along with its overweight to higher quality tranches of CMBS. The allocation to non-agency securities was unchanged as the housing market exhibits resiliency, lack of supply, and strong demand. Overall, the Fund remains defensive and plans to use periods of volatility to add attractively priced securities to the portfolio. Heightened volatility will likely remain as 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**