

Market Commentary

New Covenant Funds

February 2023



- Following strong performance to start the year, most global equity markets reversed direction in February. Developed markets outperformed emerging markets.
- Fixed-income asset classes posted losses in February as bond yields rose.
- Further Fed monetary-policy tightening is expected to continue in 2023 beyond the 0.25% interest-rate hike at the beginning of February.

Economic Backdrop

Following strong performance to start the year, most global equity markets reversed direction in February. Investors were concerned that ongoing inflationary pressures, including stronger-than-expected labor market data, would prompt the U.S. Federal Reserve (Fed) and other major central banks to extend their interest rate-hiking cycles. Developed-market equities saw less significant declines than their emerging-market counterparts during the month. Europe was the strongest performer within both the developed and emerging markets in February. Conversely, North America was the weakest-performing developed market, with Canada trailing the U.S. Among emerging markets, Asia was the primary laggard due mainly to weakness in China. Latin America stocks also recorded sizeable losses, most notably in Brazil.¹

U.S. fixed-income assets posted losses in February as bond yields rose across the U.S. Treasury yield curve (yields and prices have an inverse relationship). High-yield bonds saw the smallest declines and were the top performers for the month, followed by U.S. Treasuries and mortgage-backed securities (MBS).² Corporate bonds were the primary fixed-income market laggards in February.³ The increase in Treasury yields during the month was most pronounced in the two-, three- and five-year segments of the curve. The spread between two- and ten-year notes increased 0.20% over the month, further inverting the yield curve.

Prices in the global commodities markets generally lost ground in February. The West Texas Intermediate crude-oil spot price decreased 2.3%, while Brent crude oil fell 2.4% amid concerns that additional interest-rate hikes from central banks will weigh on global economic growth and reduce demand. The NYMEX natural gas price climbed 6.7% during the month, bolstered by the U.S. Energy Information Administration's report of a greater-than-expected decline in inventories during the week ending February 20. Natural gas prices had fallen steadily since mid-December of last year as an unusually mild winter in the U.S. continued to weigh on demand during the winter home-heating season. The gold spot price was down 5.6% in February amid investors' worries that the Fed's rate hikes may lead to a recession in the U.S., which would hamper demand for precious metals. Wheat prices fell 7.3% in February as Egypt made a large purchase tender for Russian wheat at a relatively low price. Russia reduced its prices in a bid to undercut those of other wheat-exporting countries.⁴

In the U.S., all eyes (and ears) were on the Fed in February. During a discussion at the Economic Club of Washington, D.C., early in the month, 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." Later in the month, Federal Reserve Bank of Cleveland President Loretta Meister stated her view that the federal funds rate must surpass 5% in order to bring inflation down to the central bank's 2% target rate. In light of this assessment, she believed that there was "a compelling economic case" for a 50-basis-point (0.50%) increase at the Fed's meeting on January 31-February 1. The Federal Open Market Committee (FOMC) approved a 25-basis-point rate hike during the meeting.

The U.S. dollar made a strong comeback in February following a four-month retreat. After reaching a bottom on February 1, the ICE U.S. Dollar Index (DXY), which measures the value of the greenback relative to a basket of foreign

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 U.S. Treasury and S&P U.S. Mortgage-Backed Securities indexes.

³ According to the ICE BofA U.S. Corporate Index.

⁴ According to market data from The Wall Street Journal.

currencies, rose over 3%, benefiting mainly from expectations that the Fed will need to increase interest rates further to tame stubbornly high inflation. The DXY fell more than 11% between late September 2022 and late January of this year due to investors' worries about a possible recession in the U.S.

There were signs of a break in the ongoing labor tensions between U.K. public employees and the government. The administration of Prime Minister Rishi Sunak has been plagued by public-sector employee strikes and other job actions as pay increases have not kept up with the U.K.'s inflation rate, which rose 10.1% year over year in January.⁵ Sunak is considering pay increases of a maximum of 5% for public employees after the Office for National Statistics (ONS) reported that the public sector had a budget surplus of £5.4 billion (US\$6.5 billion) in January. During the current financial year (which runs from April 6, 2022, to April 5, 2023) through January, the U.K. public sector borrowed £30.6 billion (US\$36.7 billion) less than the Office for Financial Responsibility had projected in November 2022. The lower-than-expected credit costs resulted mainly from higher-than-expected tax revenues, reduced borrowing by local authorities and nationalized industries, and lower-than-anticipated government subsidies for household and company energy bills. U.K. Chancellor Jeremy Hunt will introduce the government's budget proposal for the 2023-2024 financial year in mid-March. In response to the news of a possible pay raise, the Royal College of Nursing canceled its plan for a 48-hour strike to restart labor negotiations with the U.K. National Health Service (NHS). In a related matter, the Financial Times reported that, according to an internal memo from the HM Treasury, the U.K.'s economic and finance ministry, there was minimal risk that public-sector pay hikes of up to 5% would establish a precedent for large pay increases for private-sector workers.⁶

In the eurozone, there were fears of recession in Germany 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 quarter.⁷

Nearly a year after the beginning of Russia's invasion of Ukraine, U.S. President Joe Biden made an unannounced visit to Ukraine to meet with his counterpart, Volodymyr Zelenskyy, and to encourage ongoing support from U.S. allies. The visit occurred as Russian President Vladimir Putin increased military activity in eastern Ukraine. Biden's trip was particularly risky as there was no protection from U.S. military personnel on the ground in Ukraine.⁸

According to The Wall Street Journal, a classified intelligence report recently provided to the White House and several members of the U.S. Congress revealed that the U.S. Department of Energy agreed with the Federal Bureau of Investigation's (FBI) determination that the COVID-19 pandemic began with a leak in a lab in China; four other U.S. agencies still believe that the virus likely originated from natural transmission. The Energy Department reached this conclusion based on new intelligence information. However, the agency noted that it made its judgment with "low confidence."⁹ China's government vehemently disputed the determination of the Department of Energy. A spokesperson for the National Security Council said that the Biden Administration still has not come to a conclusion regarding the origin of COVID.¹⁰

Central Banks

- It appears that the Fed believes that it will need to raise the federal funds rate above the previously expected year-end 2023 median of 5.1%, as noted in its "dot plot" of economic projections published in December of last year. In the minutes of its meeting concluded on February 1, the FOMC observed that "a policy stance that proved to be insufficiently restrictive could halt recent progress in moderating inflationary pressures, leading inflation to remain above the Committee's 2 percent objective for a longer period, and pose a risk of inflation expectations becoming unanchored."
- The Bank of England (BOE) released its monthly monetary policy survey of 59 financial market participants. The survey participants anticipate that the BOE will raise the Bank Rate by 0.25% at its next meeting in late March, then leave it unchanged for the remainder of the year. The central bank conducted the survey from January 18-20, so the participants may not express as much optimism in the next monthly survey, as the U.K.'s year-over-year inflation rate remains in double digits. The BOE increased its benchmark rate by 0.5% to 4.0% in early February.
- The respondents to the European Central Bank's Survey of Professional Forecasters (SPF) for the first quarter of 2023 increased their projections for eurozone inflation to annual rates of 5.9% for 2023 and 2.7% in 2024—up from their estimates of 5.8% and 2.4%, respectively, noted in the Q4 2022 survey released in late October. The

⁵ According to the U.K. Office for National Statistics. February 2023.

⁶ "Rishi Sunak weighs 5% public-sector pay offer to end waves of strikes." Financial Times. 21 February 2023.

⁷ According to the Federal Statistical Office of Germany. February 2023.

⁸ "Biden Makes Surprise Visit to Kyiv in Show of Support for Ukraine." The Wall Street Journal. 21 February 2023.

⁹ "Lab Leak Most Likely Origin of Covid-19 Pandemic, Energy Department Now Says." The Wall Street Journal. 26 February 2023.

¹⁰ "White House Says No Consensus on Covid Origin." The Wall Street Journal. 27 February 2023.

participants also forecasted eurozone GDP to increase by 0.2% in 2023 and 1.4% in 2024 compared to their previous estimates of 0.1% and 1.6% for the corresponding calendar years.

- In an address to the National Diet, Japan's legislative body, Kazuo Ueda, the nominee for governor of the Bank of Japan (BOJ), signaled that he will maintain the central bank's loose monetary policy even though annual inflation of 4.3% in January is well above the BOJ's 2% target. Ueda commented: "I believe it is appropriate to continue monetary easing measures while being creative in line with the situation." He cautioned that raising interest rates in the near term could slow the economy, as strong demand is not driving the current rise in inflation. Both Ueda and the two nominees for deputy governor are expected to be confirmed by the Diet in March.¹¹

Index Data (February 2023)

- The Dow Jones Industrial Average decreased by 3.94%.
- The S&P 500 Index fell by 2.44%.
- The NASDAQ Composite Index lost 1.01%.
- The MSCI ACWI (Net), used to gauge global equity performance, depreciated by 2.87%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, decreased by 3.32%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", advanced from 19.40 to 20.70.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from \$78.87 a barrel on the last day in January to \$77.05 at the end of February.
- The U.S. dollar ended the month at \$1.21 against sterling, \$1.06 versus the euro and at 136.22 yen.

Portfolio Review

Results in the Growth Fund performed in line with its benchmark during the month. Stock markets declined in February, with the Russell 3000 Index returning -2.34%. Small cap stocks held up slightly better than larger capitalization stocks, with the Russell 2000 Index returning -1.69%. The fund continues to provide exposure to large cap, medium cap, and small cap securities in the U.S. market.

During the month of February, the Income Fund outperformed its benchmark, the Bloomberg Intermediate US Aggregate Bond Index (USD). The Fund's duration posture was mostly neutral to the benchmark and had little impact on relative performance. Overweight positions in corporate bonds - specifically industrials, financials, and utilities - detracted. Allocations to non-agency mortgages enhanced performance on increased demand due to attractive valuations. Overweights to asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), and taxable municipal bonds all contributed. At a manager level, Income Research & Management outperformed the benchmark during the month, with overweights to ABS and CMBS contributing. Western Asset Management underperformed due to its slightly longer duration posture.

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 are beginning to pare back, given the narrowing of credit quality spreads, especially in issuers whose valuations are ahead of fundamentals. Duration positioning became more neutral, with overweights still in the belly and the long end of the yield curve, although given the rally in the belly of the curve, managers continue 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.

¹¹ "Next Bank of Japan head Kazuo Ueda calls for 'creative' monetary policy." Financial Times. 24 February 2023.

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.

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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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- **May Lose Value**