Market Commentary

New Covenant Funds

February 2019

- Equity markets around the globe continued their recoveries unabated in February. U.S., U.K. and eurozone government-bond yield curves steepened as long-term rates increased by more than short-term rates.
- President Trump announced that the March 1 deadline to reach a trade deal with China would be extended as U.S. negotiators expressed optimism about progress during February.
- Even if an extraordinarily unfavorable economic scenario comes to pass, with tariff wars deepening and the Federal Reserve hiking rates too far and too fast, we doubt the U.S. economy will experience anything worse than a garden-variety recession by 2021.

Economic Backdrop

Equity markets around the globe continued their recoveries unabated in February. U.S., U.K. and eurozone government-bond yield curves steepened as long-term rates increased by more than short-term rates; and as oil prices ended the month slightly higher.

U.S. trade negotiators expressed optimism about progress with their Chinese counterparts during February, although concrete developments remained limited to assurances from China to boost U.S. agricultural imports; President Donald Trump announced that the March 1 deadline to reach a trade deal would be extended. The president and North Korea's Supreme Leader Kim Jong Un held a second summit in Vietnam near the end of the month. Trump concluded that North Korea was not making adequate concessions about denuclearization to warrant the removal of sanctions, and ended the meeting earlier than planned.

U.K. Prime Minister Theresa May delayed a parliamentary confrontation on the path forward for Brexit, setting up a series of votes to occur from March 12 to 14—first on whether to approve her deal, then (if the first vote fails) on whether to offer explicit support for a no-deal Brexit, and finally (if the second vote also fails) on whether to delay Brexit. If all three proposals are rejected and no action is taken by March 29, members of parliament can push for votes on a second referendum or a revocation of Article 50 (which is the U.K.'s notice of departure to the EU). The prime minister ruled out the passive outcome of a no-deal Brexit.

May informed European Council President Donald Tusk in late February that she may need to delay Brexit even if her deal earns parliamentary approval; there's evidence that EU leaders would prefer one large postponement—likely by converting the transition period through 2020 into a delayed divorce—rather than an open-ended number of multi-month extensions. An increasingly active bi-partisan alliance in U.K. parliament has also been agitating for a delayed Brexit, which is why May is including this as an option in the mid-March series of parliamentary votes.

The Federal Reserve (Fed) did not conduct a monetary policy meeting in February, but several key members of its policy-setting committee gave speeches confirming its patient, data-dependent approach to future tightening decisions. The Bank of England's early-February Monetary Policy Committee meeting produced no new actions. Its post-meeting statement expressed continued bias toward a gradually tighter policy; however, if the Brexit outcome creates economic stress, the central bank is widely expected to provide an accommodative response. Neither the European Central Bank (ECB) nor the Bank of Japan held monetary policy meetings in February; minutes from the ECB's January meeting revealed rising concerns about weak economic growth..

Activity in the U.S. services sector accelerated significantly in February; manufacturing growth moderated, albeit to still-healthy levels. Total economic growth measured an annualized 2.6% during the fourth quarter, slower than the previous quarter but above expectations. U.K. manufacturing conditions settled into slow-growth territory in February. The British economy grew by 0.2% in the fourth quarter of 2018 and 1.3% year over year. Eurozone manufacturing contracted in February after modestly accelerating in the prior month, yet services growth accelerated. The unemployment rate was 7.8% in January, unchanged from December's downward-revised level. Overall economic growth registered 0.2% in the fourth quarter and 1.2% year over year.

Index Data (February 2019)

- The Dow Jones Industrial Average improved by 4.03%.
- The S&P 500 Index increased by 3.21%.
- The NASDAQ Composite Index lifted by 3.60%.
- The MSCI AC World Index (Net), used to gauge global equity performance, swelled by 2.67%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, slid by 0.58%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the “fear index”, decreased from 16.57 to 14.78.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inflated from $53.79 a barrel at the end of January to $57.22 on the last day in February.
- The U.S. dollar ended February at $1.33 against sterling, $1.14 versus the euro and at 111.32 yen.

Portfolio Review

The Growth Fund underperformed the Russell 1000 Growth Index in January due to its underweight to the growth stocks that rallied during the month, which a beneficial underweight to real estate could not overcome. Brandywine’s underweights to consumer staples and information technology (IT) offset its beneficial underweight to healthcare. Fred Alger’s overweight to IT and underweight to financials helped, while its overweight to consumer discretionary detracted.

The New Covenant Income Fund (the Income Fund) outperformed the Bloomberg Barclays Intermediate Aggregate Bond Index in February as all spread sectors outperformed comparable Treasury bonds. An overweight to corporate credit enhanced performance. The Income Fund’s overweight to and selection within financials and industrials helped. Agency mortgages outperformed during the month, and the Income Fund’s slightly overweight positioning contributed. An allocation to non-agency mortgages also helped. Overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed. A slightly longer duration posture and an overweight to the 30-year segment of the yield curve detracted as yields rose. Income Research and Management’s overweight to credit was beneficial. Selection within MBS and ABS also contributed. Western Asset Management’s longer duration and overweight to the 30-year part of the yield curve detracted as yields moved slightly higher. An overweight to spread sectors, agency and non-agency MBS contributed.

Manager Positioning and Opportunities

The Growth Fund’s managers continued to underweight some of the largest company stocks as our managers found more attractively-valued opportunities further down the company size spectrum. The Fund was underweight utilities due to its interest-rate sensitivity, high-debt balance sheets, and low profitability.

The Income Fund’s duration ended the month slightly long its benchmark while maintaining an overweight to the long end of the yield curve. Following the back-up in yields in May 2018 and September 2018, our managers added a little duration and have let it drift with the recent rally.

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

Beta: Beta is a measure of sensitivity to movements in the market. High beta stocks are more sensitive to movements in the broad market. Low-beta stocks are less sensitive.

Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

Spread Sectors: sector spread is the difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors. As with any type of yield spread, this can help investors compare the potential return between two different types of investment securities, which also implies the comparative levels of risk involved with the two options.

Index Glossary

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 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 Barclays Global Aggregate Bond 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 1000 Index includes 1,000 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. large-cap equity market.

The Bloomberg Barclays 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.

The Dow Jones Industrial Average is a price-weighted average of 30 large, publicly owned companies based in the U.S. and traded on the New York Stock Exchange and the NASDAQ.

The NASDAQ Composite is a market capitalization-weighted index of approximately 3,000 common stocks listed on the Nasdaq stock exchange, including American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The Nasdaq Composite is not limited to companies that have U.S. headquarters.

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 Funds are an appropriate investment for you, carefully consider the investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Funds’ full and summary prospectuses, which can be obtained by calling 1-877-835-4531. Read them carefully before investing.

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. 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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

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**