Market Commentary

New Covenant Funds

April 2019

- The global stock-market recovery that defined early 2019 extended into April. Major developed-market government bond rates generally increased and oil prices climbed.
- U.S.-China trade talks continued through the end of April—touching on foreign access to Chinese markets, subsidies for Chinese companies, enforcement mechanisms, and whether to remove tariffs erected last year.
- In a world where the best- and worst-performing asset classes tend to dominate headlines, it can be easy to forget that diversification has historically been a reliable approach for meeting long-term investment objectives.

Economic Backdrop

The global stock-market recovery that defined early 2019 extended into April. Major developed markets—the U.S., U.K., Europe and Japan—climbed steadily throughout the month. Emerging markets also gained, but performance diverged in China, with Hong Kong slightly higher and mainland stocks essentially flat after a late-month selloff. Intermediate- and long-term government bond rates generally increased in the U.S., U.K. and eurozone, while short-term rates were mixed, resulting in steeper yield curves. Oil prices advanced for the full month, but peaked in late April before retreating a bit.

U.S.-China trade talks continued through the end of April—touching on foreign access to Chinese markets—with China's negotiators showing willingness to remove some ownership caps, lower barriers to entry in the financial sector, and allow agreements to apply outside of geographically limited free-trade zones. Subsidies for Chinese companies remained a point of contention, however, since China's negotiators contend that a complex web of local, regional and country-level development initiatives makes enforcement intractable. Talks also covered whether and how far to remove tariffs erected last year, and mutually agreeable enforcement mechanisms appeared to take shape as talks progressed. A Chinese trade delegation is scheduled to visit Washington, DC beginning on May 8.

The U.K. and EU set a new Brexit deadline in early April, moving the U.K.'s departure from the EU to 31 October and requiring the U.K. to hold European parliamentary elections in late May. Citizens of England and Northern Ireland prepared for early May local elections as well; Conservatives appeared set to lose ground in polls for both elections, although by considerably more in EU elections as the new ascendant Brexit Party has sought to gain vote share. Tory-Labour negotiations in pursuit of a digestible Brexit solution continued into May, revolving around a customs union between the U.K. and EU (which is a must-have component of any Labour agreement but represents a deal breaker for many Tories) and a "Final Say" referendum (which would give voters the right to approve or deny the deal and is popular among party members but, on its own, does not have top-level Labour Party approval).

Elsewhere, Indians began casting votes in April for parliamentary elections that last more than a month and represent the largest democratic exercise on the planet. Early vote counts from April elections in Indonesia, the world's fourth most populous nation, appeared set to grant President Joko Widodo a second term and deliver the largest share of seats in the legislature to his Indonesian Democratic Party of Struggle. Spain's late-April election strengthened a governing center-left coalition, and South Africans prepared to head to the ballot box on May 8.

A small subset of the Venezuelan military publicly backed the opposition amid protests that began on the last day of April, amid a growing stream of military desertions across the border to Colombia and, to a lesser extent, Brazil. Volodymyr Zelensky, winner of Ukraine's run-off presidential election in April, was forced to contend with an offer of citizenship from Russia to Ukrainian citizens living in the war-torn eastern regions of Ukraine under separatist control. The president-elect made a counter-offer of Ukrainian citizenship to "all people who suffer from authoritarian and corrupt regimes" and "to the Russian people who suffer most of all."

Index Data (April 2019)

- The Dow Jones Industrial Average improved by 2.66%.
- The S&P 500 Index increased by 4.05%.
- The NASDAQ Composite Index lifted by 4.77%.
- The MSCI AC World Index (Net), used to gauge global equity performance, swelled by 3.38%.

- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, slid by 0.30%.
- 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 13.71 to 13.12.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inflated from $60.14 a barrel at the end of March to $63.91 on the last day in April.
- The U.S. dollar ended April at $1.30 against sterling, $1.12 versus the euro and at 111.38 yen.

Portfolio Review

The Growth Fund struggled in April due to its low-beta positioning and tilt away from the largest company stocks. Coho Partners’ overweights to health care and consumer staples detracted. Brandywine benefited from an overweight to financials, which was the best-performing sector in April. An underweight to health care, which was the worst-performing sector, also helped.

The Income Fund was slightly ahead of the Bloomberg Barclay’s Intermediate Aggregate Bond Index in April as a majority of spread sectors outperformed comparable Treasury bonds. Its overweight to corporate credit contributed, with industrials, financials and utilities generating excess returns. Its allocation to non-agency mortgage-backed securities (MBS) was additive. Overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed. Its overweight to the long end of the yield curve detracted as 30-year yields rose most. Agency mortgages struggled during the month, and the Income Fund’s slight overweight hurt. An overweight to 30-year bonds subtracted with the rise in yields. Its modestly longer duration posture had a limited impact as yields rose. Western Asset Management’s overweight to spread sectors was positive, as were overweights to non-agency MBS and CMBS. An overweight to agency MBS was a slight detractor. A longer duration and overweight to 30-year bonds hurt modestly as yields moved slightly higher. Income Research Management benefited from an overweight to credit and selection within and an underweight to agency MBS. Overweights to CMBS and ABS also added.

Manager Positioning and Opportunities

Economic activity and corporate earnings have continued to increase, but there are indications that the biggest increases are now behind us. Markets may experience more volatility due to continued uncertainty regarding government policies. Indexes have substantial weights in several popular growth stocks that are relatively expensive at this time. The Growth Fund’s managers continued to underweight some of the largest company stocks as they finding more attractively-valued opportunities further down the company size spectrum. The Growth Fund was also underweight utilities due to their interest-rate sensitivity, high-debt balance sheets and low profitability.

The Income Fund’s duration ended the month slightly long its benchmark index while maintaining an overweight to the long end of the curve. Managers have been letting duration drift closer to neutral. Markets have begun pricing in a higher probability for an interest-rate cut, but the Federal Reserve’s messaging stresses patience. In this environment, the Income Fund is likely to remain overweight spread products while adjusting duration and curve to changes in 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

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**