

Market Commentary

New Covenant Funds

May 2019

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- The early-year global rebound in stocks came to a halt during May, and government-bond yields declined in the U.S., U.K. and Europe for the month.
- The U.S. announced an escalation in tariffs on Chinese imports, delayed a decision on auto import tariffs, exempted Canada and Mexico from steel and aluminum tariffs, and then imposed immigration-linked tariffs on Mexico.
- There's no denying that a synchronized global growth slowdown is underway—but that does not mean the global economy is in (or near) recession.

Economic Backdrop

The early-year global rebound in stocks came to a halt during May. Emerging-market equities were hit hard, particularly China, and cyclical sectors around the globe tumbled sharply alongside oil prices. Government-bond yields declined in the U.S., U.K. and Europe; the 3-month-to-10-year spread on Treasuries turned negative again after briefly inverting in March, prompting renewed speculation about the reliability of this fairly dependable recession indicator.

Prime Minister Theresa May announced on May 24 her intention to resign in early June following a poor showing for Conservatives in European Parliamentary elections. May's inability to establish sufficient support for her Brexit deal or a viable alternative had become an impasse, and her recent overtures for a second referendum alienated a large subset of her party's leadership. Since May's announcement, more than a dozen candidates have announced plans to run as her replacement. Former foreign secretary and prominent Brexit proponent Boris Johnson was polling ahead of other candidates, offering campaign assurances that he would steer the U.K. out of the EU by the Brexit deadline of October 31—with or without a deal.

Elections for European Parliament exposed support for centrist parties shifting toward more polarizing alternatives on the left and right. Concerns about the impact of climate change bolstered the Green Party alliance, especially in Germany, where it outpaced the Social Democratic Party (which serves as the junior partner in Chancellor Angela Merkel's coalition government). Euro-sceptic nationalist parties also fared well, particularly in France and Italy, where they earned a plurality of votes.

The U.S. announced an escalation in tariffs on Chinese imports in early May as a trade delegation was headed to Washington, DC, and talks appeared to be in advanced stages. Tariffs on \$200 billion of Chinese imports were increased from 10% to 25% (joining \$50 billion of Chinese imports that have been taxed at 25% since 2018). The Office of the United States Trade Representative also proposed additional tariffs of 25% on the remaining \$300 billion in U.S. imports from China, which could take effect in the coming months. China responded with plans to raise the tariff rates on about \$60 billion of imports from the U.S. in June.

Elsewhere, the EU and Japan temporarily avoided tariffs on U.S. imports of their automobiles. President Donald Trump opted to delay a decision on import taxes in favor of trade negotiations with a limited six-month window. Mexico and Canada were extended temporary relief from broadly-applied U.S. tariffs on imports of their steel (at 25%) and aluminum (at 10%) as the Trump administration prepared to seek Congressional approval of the United States–Mexico–Canada Agreement. The honeymoon was cut short for Mexico, however, with Trump's late-month announcement that there will be 5% tariffs on all goods imported from the country beginning in June—until it stops illegal immigration across the southern U.S. border. These immigration-linked tariffs are set to escalate by 5% on the first day of each subsequent month until reaching 25% in October.

The Federal Open Market Committee and the Bank of England's Monetary Policy Committee held their respective meetings at the beginning of May; both declined to adjust their policy paths. Neither the European Central Bank nor the Bank of Japan convened monetary policy meetings during May.

Index Data (May 2019)

- The Dow Jones Industrial Average declined by 6.62%.
- The S&P 500 Index moderated by 6.35%.
- The NASDAQ Composite Index eased by 7.79%.
- The MSCI AC World Index (Net), used to gauge global equity performance, diminished by 5.93%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 1.35%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the “fear index”, jumped from 13.12 to 18.71.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, narrowed from \$63.91 a barrel at the end of April to \$53.50 on the last day in May.
- The U.S. dollar ended May at \$1.26 against sterling, \$1.11 versus the euro and at 108.58 yen.

Portfolio Review

The Growth Fund slightly underperformed the Russell 1000 Index in May. A small overweight to consumer discretionary and underweight to real estate detracted. An overweight to health care was beneficial.

The Income Fund modestly lagged the Bloomberg Barclays Intermediate Aggregate Bond Index in May. An overweight to corporate credit detracted, as spreads widened after four consecutive months of tightening. The Income Fund's overweight to agency mortgages, which struggled during the month, hurt performance. An overweight to 30-year bonds added to performance as rates dropped sharply. The Income Fund's allocation to non-agency mortgage bonds contributed, as did overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS). Duration positioning was neutral to the benchmark index and had no material impact on performance. Income Research and Management suffered due to an overweight to credit, which performed poorly during the period. Selection within industrials and agency mortgage-backed securities (MBS) also detracted; although selection within the latter somewhat offset this. Overweights to CMBS and ABS also contributed. Western Asset Management struggled due to overweights to both investment-grade and high-yield credit as spread sectors widened during the month. Strong security selection within credit somewhat offset this. An overweight to agency MBS detracted. Overweights in non-agency MBS and CMBS added to performance. Longer duration positioning and an overweight to 30-year Treasury bonds helped as yields declined.

Manager Positioning and Opportunities

During the month, the Growth Fund was transitioned from an actively-managed fund to a passively-managed fund. Parametric Portfolio Associates, LLC (Parametric) is now the sole sub-advisor to the Growth Fund, and manages a passive-only mandate designed to track the Russell 1000 Index.

The Income Fund's duration ended the period in line with its benchmark index while maintaining an overweight to the long of the Treasury yield curve. With the year-to-date rally in yields, the Income Fund's managers allowed duration positioning to drift closer to neutral. Inflation and inflation expectations remained below the Federal Reserve's (Fed) target, especially with the Fed's dovish pivot in 2019. Markets are now focused on the Fed's commitment to patience following predictions of a global economic slowdown due to escalating trade tensions between the U.S. and China. The recent announcement of a 5% tariff on Mexican imports is also a concern. The tariff may gradually increase to 25% later this year if Mexico does not provide more assistance in reducing illegal immigration to the U.S. As a result, an interest-rate cut is expected this year, despite the Fed's message stressing patience. In this environment, the Income Fund is likely to remain overweight spread products while adjusting duration and curve positioning as changes occur 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**