# Market Commentary

## New Covenant Funds

October 2019

- Global equity markets' early-autumn rebound accelerated in October with a boost from emerging markets. Short-term Treasury rates declined, while long-term rates increased.
- The U.S. cancelled a planned increase in tariffs on Chinese products, while China announced $20 billion in purchases of U.S. agricultural goods and declared willingness to soften policies on forced technology transfers and barriers to foreign investment.
- In view of uncertainties facing investors today, we believe it is especially important for those with long time horizons to avoid trying to time the market or making outsized sector or regional bets.

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**Economic Backdrop**

Global equity markets climbed at an accelerating pace in October with a boost from emerging markets. U.S. and Japanese stocks followed a relatively steady upward path, while U.K. and European stocks advanced sharply after a mediocre start to the month. Mainland Chinese equity markets ended higher for the full month despite multiple rallies and selloffs; Hong Kong stocks fared well after a soft start.

Short-term Treasury rates declined and long-term rates increased marginally. The opposing changes in U.S. rates—driven largely by the Federal Reserve's most recent 0.25% cut to the federal-funds rate—resulted in the yield curve partially reverting to its "normal" upward slope, as longer-term Treasurys began to yield more than shorter-term Treasurys. Government bond rates increased fairly evenly across all maturities in the U.K. and Europe during October, with long-term yields rising slightly more than short-term yields.

Trade relations appeared to thaw between the U.S. and China—the two countries with the world's largest economies, which together account for 40% of global gross domestic product (GDP) as of 2018[1]. The U.S. cancelled a planned October 15 increase in tariffs on Chinese products; later in the month, China announced $20 billion in purchases of U.S. agricultural goods and declared willingness to soften policies on forced technology transfers and barriers to foreign investment.

Already-divisive U.S. domestic politics turned sharply contentious as Democrats in the House of Representatives continued their impeachment inquiry into President Donald Trump—punctuating the month with a full House vote to formalize the investigation. Democrats began the probe in response to allegations that the president urged Ukrainian President Volodymyr Zelensky to pursue investigations into Trump's political opponents in exchange for $400 million of congressionally-approved military aid meant to counter a five-year Russian-backed insurgence in Eastern Ukraine. (The aid was eventually released in September once the allegations came into public view.) Toward the end of October, Zelensky—armed with the belatedly-released U.S. military aid—succeeded in negotiating an artillery pullback from the front lines between Kremlin-backed separatist forces and the Ukrainian military.

Elsewhere in Eastern Europe, Polish and Hungarian voters continued to back the governing right-populist parties, but with less enthusiasm than in recent years: Poland's Law and Justice party lost its majority in the Senate, while Hungary's dominant Fidesz party lost mayoral races in a lengthy slate of major cities that included its capital city of Budapest.

The U.K.'s unclear path out of the EU came into focus during October. Prime Minister Boris Johnson's re-negotiated Brexit deal was deemed acceptable in principle by a majority of the House of Commons on October 22—marking the furthest progress toward resolution up until that point—but was ultimately defeated in Parliament on concerns about executing the solution within its proposed three-day timetable. EU leaders agreed to extend the departure date again, this time from October 31 to the end of the calendar year. Jeremy Corbyn, the main opposition leader, consented to Johnson's call for a snap election on December 12, increasing the likelihood that a solid road to Brexit will be paved before the next departure date.

Tensions rose in the Middle East after the U.S. announced and then partially reversed a military withdrawal from Syria:

[1] Source: U.S. Bureau of Economic Analysis, SEI

Turkey and Russia exerted greater control in the country's north, which put the U.S.-allied Kurdish population at risk. The prime ministers of Iraq and Lebanon each announced their resignations in late October after weeks of growing antigovernment protests rooted in economic dissatisfaction and concerns about corruption.

In South America, Chileans protesting higher subway fares remained in the streets despite producing concessions that included a pause on planned increases in electricity rates and a new slate of cabinet members. Brazil suffered one of the largest environmental disasters in its history during October when an oil spill off of its north-eastern shore (with no clear cause) spread to contaminate 1,400 miles of the country's coastline.

Alberto Fernandez unseated Argentinian President Mauricio Macri after only one term in the country's late-October election. While remarkable in that an Argentine incumbent lost for the first time, the result was unsurprising: Fernandez was expected to benefit from the popularity of his running mate, former President Cristina Fernandez de Kirchner. The prospect of a handover from conservatives to the center-left Peronist movement during a period of crippling pressure on Argentina's finances raised anxiety among investors, particularly given the movement's antagonistic relationship with foreign creditors. The International Monetary Fund (IMF) recently withheld $5 billion of loan aid in anticipation of the election results to determine whether Argentina's leadership would maintain a commitment to austerity, which appeared unlikely given the Peronist platform.

**Index Data (October 2019)**

- The Dow Jones Industrial Average improved by 0.59%.
- The S&P 500 Index jumped by 2.17%.
- The NASDAQ Composite Index inflated by 3.71%.
- The MSCI ACWI (Net), used to gauge global equity performance, increased by 2.74%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, swelled by 0.67%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", declined from 16.24 to 13.22.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, lifted from $54.07 a barrel at the end of September to $54.18 on the last day in October.
- The U.S. dollar ended October at $1.29 against sterling, $1.12 versus the euro and at 108.11 yen.

**Portfolio Review**

The Growth Fund performed in line with the Russell 1000 Index in October. Mid-cap stocks underperformed both large-cap and small-cap stocks, and growth continued to beat value. Within the large-cap space, health care and information technology were the best-performing sectors. Energy and utilities struggled.

The Income Fund outperformed its benchmark, the Bloomberg Barclays Intermediate U.S. Aggregate Bond Index in October. An overweight to corporate credit spreads, which narrowed during the month, was the primary driver of outperformance. The Income Fund's overweight to agency mortgage-backed securities, which outperformed non-agency mortgage-backed securities during the month, contributed. An overweight to asset-backed securities was slightly negative while an overweight to commercial mortgage-backed securities was modestly positive. An overweight to 30-year bonds detracted as 30-year U.S. Treasury yields rose. Duration positioning was in line with the benchmark and had no material impact on the Income Fund's performance.

**Manager Positioning and Opportunities**

The Growth Fund attempts to track the performance of the Russell 1000 Index while retaining a social screen and an ESG tilt.

The Income Fund's duration ended the month in line with its benchmark index while maintaining an overweight to the long of the curve. With the rally in yields year to date, the managers have been letting duration drift lower. In the current low-growth, low-inflation outlook, the Income Fund is likely to remain overweight taxable bonds, while adjusting duration and curve positioning 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. 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**