Market Commentary

New Covenant Funds

July 2019

- Developed-market stocks crept higher in July, while emerging markets slid amid continued signs of slowing global economic growth. Government bond rates declined across all maturities in the U.K. and eurozone during the month.
- Top-level U.S. negotiators wrapped up recently-resumed trade talks with China at the end of July. President Donald Trump announced that the U.S. will impose 10% tariffs on $300 billion of Chinese goods beginning in September.
- Major central banks continue to have investors' backs, as they promise to (or already have) cut interest rates and provide other forms of monetary accommodation.

Economic Backdrop

Developed-market stocks crept higher in July, while emerging markets slid amid continued signs of slowing global economic growth. Regionally, the Middle East delivered some of the best country-level returns—Turkey and the United Arab Emirates were the month's top performers; Israel and Qatar also registered among the best returns—while Europe and Asia lagged the rest of the world.

Second quarter earnings reports for the companies in the S&P 500 Index appeared on track for the second-consecutive quarter of declining year-over-year earnings, which hasn't happened since early 2016.

The shortest-maturity U.S. Treasury rates fell in July, while short-to-intermediate-term rates increased, reducing (but not eliminating) the yield-curve inversion that has persisted since the spring. Government bond rates declined across all maturities in the U.K. and eurozone during the month.

Top-level U.S. negotiators wrapped up recently-resumed trade talks with China at the end of July. President Donald Trump announced on August 1 that the U.S. will impose 10% tariffs on $300 billion of Chinese goods beginning in September, essentially covering all remaining yet-to-be-tariffed imports. China responded that it will retaliate if the tariffs are enacted, but the uneven trade relationship leaves a limited pool of U.S. exports to China that can be tariffed (although China allowed the yuan, its currency, to depreciate in early August as a countermeasure). The Congress approved a two-year budget agreement in late July, as was expected given sufficient bipartisan support for the deal.

Boris Johnson began serving as U.K. Prime Minister and leader of the Conservative Party toward the end of July, using his new platform to double down on his campaign promise to depart the EU—with or without a Brexit deal—on October 31. He signaled that if the EU wants to avoid a no-deal departure, the Irish "backstop" (part of the deal struck between former Prime Minister Theresa May and the EU) would need to be dropped before any substantive renegotiation could commence. EU negotiators, for their part, have expressed no plans to renegotiate the withdrawal agreement struck with Johnson's predecessor.

In mid-July, European Parliament approved Ursula von der Leyen—long-time cabinet member in German Chancellor Angela Merkel's government—to succeed Jean-Claude Juncker as president of the European Commission beginning in November. Earlier in the month, David Sassoli, an Italian member of European Parliament, was elected and immediately began to serve as president of the EU's legislative body. The European Council selected Belgian Prime Minister Charles Michel to succeed Donald Tusk as its next president later this year; it also appointed Christine Lagarde, chairman and managing director of the International Monetary Fund, to follow Mario Draghi as president of the European Central Bank (ECB) before year end.

Trade relations between Japan and South Korea began to deteriorate in July when Japan tightened exports on input materials critical to South Korea's technology hardware industry. By the beginning of August, each country downgraded the trade-relationship status of the other in an effort to impose hurdles that could put pressure on commerce.

Index Data (July 2019)

- The Dow Jones Industrial Average improved by 1.12%.
- The S&P 500 Index heightened by 1.44%.
- The NASDAQ Composite Index inflated by 2.15%.
- The MSCI AC World Index (Net), used to gauge global equity performance, picked up by 0.29%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, diminished by 0.28%.
- 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 15.08 to 16.12.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inched higher from $58.47 a barrel at the end of June to $58.58 on the last day in July.
- The U.S. dollar ended May at $1.22 against sterling, $1.11 versus the euro and at 108.58 yen.

Portfolio Review

The Growth Fund slightly underperformed the Russell 1000 Index in July. The U.S. equity market rose in July, led by growth stocks. Large-cap stocks returned 1.55% as indicated by the Russell 1000 Index. Mid-cap and small-cap stocks lagged; the Russell Midcap Index returned 1.42% and the Russell 2000 Index returned 0.57%. The Russell 1000 Growth Index returned 2.26% and the Russell 1000 Value Index returned 0.83% as growth continued to beat value. From a sector perspective, information technology and communication services were the best performers. Energy was the worst-performing sector for the month.

The Income Fund outperformed the Bloomberg Barclays Intermediate Aggregate Bond Index in July. Western Asset Management benefited from overweights to and security selection within both investment-grade and high-yield bonds. The manager’s overweight to non-agency mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) also added to performance. An overweight to 30-year U.S. Treasury bonds also helped modestly. Income Research and Management’s overweight to credit contributed. Selection within industrials was beneficial, as was an overweight to and selection within agency MBS. Overweights to CMBS and asset-backed securities also helped.

Manager Positioning and Opportunities

The Growth Fund seeks to track the performance of the Russell 1000 Index.

With bond prices rising and interest rates falling notably year-to-date, the Income Fund’s underlying investment managers have been letting the average duration of the portfolio’s holdings drift closer to neutral (the benchmark’s duration). Accordingly, the Income Fund’s duration ended the period in line with its benchmark index while maintaining an overweight to the long end of the yield curve. In the current low-growth, low-inflation environment, the Income Fund is likely to remain overweight corporate bonds while adjusting duration and positioning on the yield 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**