Market Commentary

New Covenant Funds

First Quarter 2019

- Investor sentiment took a 180-degree turn in the New Year. Stock markets rallied around the globe through most of the first quarter, reclaiming much of the fourth quarter's losses.
- The U.S. and China continued to negotiate the terms of a trade agreement after President Donald Trump's administration waived an early March deadline to impose tariffs in the absence of a deal.
- 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

Investor sentiment took a 180-degree turn in the New Year. Stock markets rallied around the globe through most of the first quarter, reclaiming much of the fourth quarter's losses. The S&P 500 Index delivered its best quarterly performance since 2009. West Texas Intermediate crude oil topped $60 per barrel at the end of the three-month period after climbing by more than 30%.

Government bond rates declined in the U.S., U.K. and eurozone during the first three months of the year. The U.S. Treasury yield-curve inversion continued to deepen over the quarter, with the yield on the 10-year Treasury ultimately falling below those of Treasurys with the shortest maturities. Long-term rates generally fell by more than short-term rates in the U.K. and eurozone, while German 10-year government bond yields dropped back below zero.

The U.S. and China continued to negotiate the terms of a trade agreement after President Donald Trump's administration waived an early March deadline to impose tariffs in the absence of a deal. China's negotiators provided assurances toward the end of the quarter that foreign companies will have greater access to Chinese investments. U.S. negotiators promoted the idea of retaining a portion of the U.S. tariffs imposed on $250 billion of Chinese products last year as leverage to ensure China's compliance with the terms of the eventual agreement. A second summit between Trump and North Korea's Supreme Leader Kim Jong Un faltered in February when they failed to strike a compromise on steps toward North Korean denuclearization in exchange for sanction relief.

On the domestic front, the U.S. government remained partially shuttered for most of January due to an impasse between Congress and the White House about whether to fund a multi-billion dollar wall on the U.S.-Mexico border championed by the president. The Trump administration received a measure of resolution in March, when the special counsel investigating the 2016 election reportedly "did not establish that members of the Trump campaign conspired or coordinated with the Russian government" to sway the election (although it did concur with the U.S. intelligence community's assessment that Russia sought to influence the outcome in Trump's favor). The special counsel also reportedly did not conclude that the president committed criminal obstruction of justice (but neither did it exonerate him); leadership at the Department of Justice found insufficient grounds to establish obstruction of justice charges based on the special counsel's report. Congressional Democrats intend to obtain and review the special counsel's report to make a separate determination in conjunction with information gathered through Congressional investigations.

The original Brexit Day (March 29) came and went without fanfare, as the EU granted an extension to the U.K. in hopes of avoiding a no-deal departure. Prime Minister Theresa May's deal was defeated in Parliament three separate times during the quarter—even as May offered to resign in exchange for votes in support of her deal—as were additional options that legislators debated and voted upon in late March (and again on April 1). These measures included a customs union between the U.K. and EU (which failed by only three votes in the second session) and a second referendum (which failed by only 12 votes in the second session). May's bid to resign in exchange for parliamentary support generated speculation about a change in leadership; separately, because the impasse risks provoking a no-confidence motion, the likelihood of a general election increased. Regardless, unless there is an immediate resolution, the U.K. is expected to participate in the EU's elections later this spring.

Elsewhere, Turkish stocks finished the quarter in negative territory after government-imposed currency controls triggered a sharp selloff in March. While local elections at the end of the quarter tilted the balance of power slightly away from President Tayyip Erdogan's Justice and Development Party, the ruling party remained Turkey's most dominant political force by a wide margin. In Ukraine, Volodymyr Zelenskiy—comedian, actor and political outsider—appeared set to win the presidency after a first-round election, which was held on the last day of the quarter.

Kazakhstan's President Nursultan Nazarbayev resigned in March after serving as the first and only leader of the country since it emerged from the USSR nearly 30 years ago. In Algeria, after military leadership sought to declare President Abdelaziz Bouteflika unfit for office, the ailing leader announced that he would step down in April after holding office for 20 years. Kazakhstan and Algeria are the ninth and tenth largest counties in the world, respectively, by land area.

Central Banks

- The Federal Open Market Committee took a dovish turn during the quarter, with new economic projections that showed zero interest-rate increases in 2019. It also unveiled a plan to start slowing the reduction of its balance sheet in May—before halting reduction altogether in September and converting its allocation of mortgage-related assets to Treasurys.

- The Bank of England's Monetary Policy Committee took no action in either of its two meetings this quarter. Its post-meeting statements expressed continued bias toward gradually tightening monetary policy (depending, of course, on the Brexit outcome).

- The European Central Bank said it intends to maintain current interest-rate levels through at least the end of the year (rather than through the summer) and continue re-investing proceeds from its asset-purchase program for just as long if not longer. The central bank also announced the scheduled September revival of its targeted longer-term refinancing operation to provide banks with funding for credit to households and businesses.

- The Bank of Japan made no changes to its accommodative monetary-policy orientation in either of its two meetings this quarter (first in late January and then in mid-March).

- The People's Bank of China undertook several initiatives early in the first quarter to increase liquidity through open-market operations, reducing reserve requirement ratios, establishing a new medium-term lending facility, and creating a line to swap perpetual bank bonds for the central bank's bills that can be pledged as collateral.

Economic Data

- U.S. manufacturing conditions oscillated between modest and healthy growth during the quarter, while services sector activity showed firmer strength. The unemployment rate declined to 3.8% in February, and the labor-force participation rate increased; more Americans joined or returned to the labor market amid an increase in average earnings. The U.S. economy expanded by a 2.2% annualized rate during the fourth quarter, propelled by strong consumer spending.

- British manufacturing growth cooled through January and February before rebounding convincingly in March; services sector growth slowed to a standstill in January, re-accelerated in February and then contracted in March. Claimant-count unemployment edged up to 2.9% in February after a flat January. The U.K. economy grew by 0.2% during the fourth quarter and 1.4% year over year.

- Conditions in eurozone manufacturing deteriorated during the first quarter, starting in slow-growth territory, contracting modestly in February and tumbling further in March. Services sector activity picked up from slow growth to healthier levels over the same three-month period. Unemployment ticked down to a rate of 7.8% in January, where it remained in February. The eurozone economy expanded by 0.2% during the fourth quarter and by 1.1% for all of 2018—recording the softest year-over-year expansion in five years.

Index Data for First Quarter

- The Dow Jones Industrial Average increased by 11.81%.
- The S&P 500 Index heightened by 13.65%.
- The NASDAQ Composite Index picked up by 16.81%.
- The MSCI AC World Index (Net), used to gauge global equity performance, accelerated by 12.81%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 2.20%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the "fear index," dropped, moving from 25.42 to 13.71.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rebounded from $45.41 a barrel on the last day in December to $60.14 on March 31.
- The U.S. dollar moved to $1.30 versus sterling, $1.12 against the euro and 110.69 yen.

Portfolio Review

The Growth Fund underperformed the Russell 1000 Growth Index in the first quarter. An underweight to information technology and overweight to health care detracted. Favorable stock selection within financials somewhat offset this. The Growth Fund's overweight to and selection within energy, which rebounded during the quarter, also helped. Coho's low-beta positioning and overweight to health care hurt. Alger's exposure to information technology was beneficial.

The Income Fund outperformed the Bloomberg Barclay's Intermediate Aggregate Bond Index during the quarter as all spread sectors outperformed comparable Treasury bonds. An overweight to 30-year bonds added as yields declined. The Income Fund benefited from an overweight to corporate credit. Agency mortgages did well during the period, and the Income Fund's slight overweight helped. Overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed as the high-quality risk/return profile of both sectors attracted demand. The Income Fund's somewhat longer duration posture helped as yields declined. An underweight to investment-grade sovereign bonds detracted.

Manager Positioning and Opportunities

During the quarter, the Growth Fund added Alger to provide momentum growth exposure. It was overweight consumer discretionary due to company-specific opportunities. The Growth Fund was underweight information technology. Managers view the sector as expensive.

The Income Fund's duration ended the period in line with its benchmark while maintaining an overweight to the long end of the yield curve. Managers allowed duration to drift to a neutral posture in March due to the large decline in U.S. Treasury yields.

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.

Glossary

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.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ.

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 NASDAQ Composite Index is an unmanaged, market-capitalization weighted index that consists of all securities listed on the NASDAQ exchange. It is often used to gauge performance of global technology stocks.

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 (formerly Lehman Brothers Global Aggregate 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 FTSE/Russell 1000 Index includes 1000 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 Bloomberg Barclays U.S. Aggregate Bond Index is a benchmark index composed of U.S. securities in Treasury, government-related, corporate, and securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.

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.

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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 Fund(s) are an appropriate investment for you, carefully consider the investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, the summary prospectus, which can be obtained by calling 1-877-835-4531. Read the prospectus 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***