New Covenant Funds.

Global equity markets gained ground during the third quarter amid periods of volatility. Emerging markets outperformed their developed-market counterparts. Stocks rallied amid investors' optimism leading up to the Federal Reserve's (Fed) interest-rate cut in mid-September, as well as previous rate reductions by several other major central banks. Global fixed-income assets posted gains for the quarter. U.S. Treasury yields moved significantly lower across the curve, resulting in a positively sloped yield curve for the first time in more than two years. (Bond prices move inversely to yields.) Given the near-term effects of early stimulus measures in the U.S. on an already healthy economy and the wide-ranging efforts from China to prompt a rebound, we see lower recession probabilities and a favorable environment for risk assets in the fourth quarter.

Economic backdrop

Global equity markets gained ground during the third quarter amid periods of volatility. Emerging markets outperformed their developed-market counterparts. Stocks rallied amid investors' optimism leading up to the Fed's interest-rate cut in mid-September, as well as previous rate reductions by several other major central banks. Stocks also benefited from generally favorable economic data and, late in the quarter, China's announcement of new economic stimulus measures. The U.S. broad-market S&P 500 Index posted its best performance for the first nine months of a calendar year since 1997, raising its aggregate market capitalization above $50 trillion for the first time.

By an 11-1 margin, the Federal Open Market Committee (FOMC) voted to reduce the federal-funds rate by 50 basis points (0.50%) to a range of 4.75% to 5.00% following its meeting on September 17-18. Fed Governor Michelle Bowman favored a 25-basis-point cut. According to a statement announcing the rate decision, the FOMC "has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance…The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the [FOMC's] goals."

The Fed's so-called dot plot of economic projections indicated a median federal-funds rate of 4.4% at the end of 2024, down from its previous estimate of 5.1% issued in June, signaling that the central bank anticipates additional federal-funds rate cuts totaling roughly 50 basis points by the end of this year. The central bank also projected that the benchmark rate will drop another 100 basis points to 3.4% by the end of 2025. The Fed estimated that core inflation, as measured by the core personal-consumption-expenditures (PCE) price index, will end the year at an annual rate of 2.6%—modestly lower than the central bank's 2.8% forecast in March. The core personal-consumption-expenditures (PCE) price index is the Fed's preferred measure of inflation as it excludes volatile energy and food prices.

The Pacific ex. Japan region was the strongest performer among developed markets for the third quarter, led by Hong Kong and Singapore. Conversely, in a reversal of a recent trend, the Nordic countries were the weakest performers due largely to Denmark, which declined during the quarter. Additionally, Norway recorded a relatively smaller positive return. The Association of Southeast Asian Nations (ASEAN) led the emerging markets for the quarter due mainly to strength in Thailand and the Philippines. Europe was the most notable laggard among emerging markets attributable primarily to weakness in Turkey and Poland.

Towards the end of the quarter, authorities in China announced a raft of new stimulus measures, dubbed a "policy bazooka" by some market observers, in hopes of turning around the world's second-largest economy. On September 24, the People's Bank of China, the nation's central bank, announced reductions in key interest rates and reserve requirements for banks (among other policy actions), following up with a 20-basis-point decrease in the one-year policy loan lending rate the following day. Moreover, on September 26, China's political leaders, including President Xi Jinping, made a statement vowing fiscal support for China's economy. In the last week of September, stocks in Asia rallied on the news, with the Shanghai Shenzhen CSI 300 Index, a market capitalization-weighted index that includes the largest companies on the Shanghai and Shenzhen stock markets, to its best weekly performance since 2008.

Global fixed-income assets, as measured by the Bloomberg Global Aggregate Bond Index, advanced 7.0% for the quarter. Investment-grade corporate bonds were the strongest performers within the U.S. fixed-income market, followed by mortgage-backed securities (MBS), high-yield bonds, and U.S. Treasury securities. Treasury yields moved significantly lower across the curve. Yields on 2-, 3-, 5- and 10-year Treasury notes fell by corresponding margins of 1.05%, 0.94%, 0.75%, and 0.55%, ending the quarter at 3.66%, 3.58%, 3.58%, and 3.81%, respectively. The spread between 10- and 2-year notes widened from -0.35% to +0.15% over the quarter, resulting in a positively sloped yield curve (in which longer-term yields are higher than shorter-term yields) for the first time in more than two years. A positively sloped yield curve generally indicates that the economy is expected to grow in the future.

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, saw an uptick of 0.7% during the quarter. The West Texas Intermediate (WTI) and Brent crude oil prices fell 16.4% and 15.6%, respectively, amid concerns that China's slowing economy could hamper demand for oil. The New York Mercantile Exchange (NYMEX) natural gas price climbed 12.5% for the quarter amid an increase in demand for natural gas-generated electricity spurred by unusually hot weather in much of the U.S. The gold spot price was up 13.7% during the quarter, benefiting from investors' growing optimism leading up to the Fed's interest-rate cut in September, as well as weakness in the U.S. dollar. (The gold price generally moves inversely to the U.S. dollar.) After declining in July due to relatively strong harvests (increasing supply) in the U.S., as well as a decline in exports from the country, wheat prices rallied to end the quarter up 1.8% amid increased demand.

Central banks

- At a news conference following the FOMC meeting on September 18, Fed Chair Powell noted that the central bank does not feel the urgency to implement more aggressive interest-rate reductions. "There is nothing in the [dot plot] that suggests the [FOMC] is in a rush," he said. Powell added that the Fed is "moving at a pace we think is appropriate." He also commented that the central bank is "committed to maintaining our economy's strength. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained." When asked if the larger rate cut was an effort by the central bank to compensate for not easing monetary policy sooner, Powell replied, "We don't think we are behind. We think this is timely but you can take this as a sign of our commitment not to get behind."

- The Bank of England (BOE) maintained the Bank Rate at 5.00% at its meeting on September 19. One BOE Monetary Policy Committee (MPC) member voted to reduce the benchmark interest rate by 25 basis point (0.25%) to 4.75%. In its announcement of the rate decision, the MPC commented, "In the absence of material developments, a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting."

- For the second time over its past three meetings, the ECB reduced its benchmark interest rate by 0.25% points to 4.00% on September 12. The ECB had cut its benchmark rate by 0.25% in early June—its first cut since 2019. In a statement announcing the rate decision, the ECB's Governing Council noted that "the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to take another step in moderating the degree of monetary policy restriction." The central bank projects that the eurozone economy will grow 0.8% for the 2024 calendar year—down marginally from its previous estimate of 0.9%, due to 'a weaker contribution from domestic demand over the next few quarters."

- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at 0.25% following its meeting on September 19-20. In a statement announcing the rate decision, the BOJ commented, "Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions."

- The central bank expects inflation to increase gradually and that "medium- to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify." During a news conference following the meeting, BOJ Governor Kazuo Ueda noted that there is some uncertainty regarding the ability of the U.S. economy to achieve a soft landing; consequently, the BOJ must take more time to determine if more interest-rate hikes are needed. "The outlook for overseas economic development is highly uncertain. Markets remain unstable. We need to scrutinize such developments carefully for the time being," he said.

Index data (Third quarter 2024)

- The Dow Jones Industrial Average increased by 8.72%.
- The S&P 500 Index rose by 5.89%.
- The NASDAQ Composite Index advanced by 2.76%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 6.61%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, increased by 6.98%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", advanced from 12.44 in June to 16.73.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $81.54 a barrel in June to $68.17 at the end of September.
- The U.S. dollar ended the quarter at $1.34 against sterling, $1.12 versus the euro, and at 143.04 yen.

Portfolio review

Over the quarter, the Growth Fund saw solid selection in financials and real estate, countered by unfavorable selection in health care, industrials, and information technology.

The Income Fund benefited from its slightly longer duration posture as yields declined over the period. Yield-curve positioning was neutral. Other contributors included overweights to agency mortgage-backed securities (MBS), corporates (especially money center banks), and commercial mortgage-backed securities (CMBS); a small allocation to high-yield bonds; and selection in specified agency MBS pools and higher-quality tranches of asset-backed securities (ABS) and CMBS. An allocation to AAA rated collateralized loan obligations detracted from performance.

Manager positioning and opportunities

Over the quarter, the Growth Fund continued to provide exposure to U.S. large-cap, mid-cap, and small-cap stocks. The Fund employs a passive strategy designed to track the performance of the Russell 3000 Index, which represents the largest 3,000 U.S. companies and approximately 98% of the investable U.S. equity market, subject to such variation as may arise as a result of implementation of the social witness principles of the General Assembly of the Presbyterian Church (U.S.A.).

The Income Fund maintained overweights to agency MBS (a high-quality, higher-yielding, liquid alternative to Treasurys), corporates (especially money center banks given solid fundamentals and relatively attractive spread levels), and ABS (on a solid labor market, strong consumer, and rising house prices). With investment-grade spreads near their tightest levels since the global financial crisis, managers have been gradually reducing their corporate positioning. In terms of yield-curve posture, the Fund moved into intermediate maturities as the Fed reduced interest rates in September.

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

The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the U.S. Federal Reserve) to another depository institution overnight in the U.S.

Duration is a measure of risk in bond investing and indicates how price-sensitive a bond is to changes in interest rates. A long (overweight) duration stance indicates the portfolio duration is higher than that of the benchmark whereas a short (underweight) duration stance indicates a lower duration. Duration is measured in years and securities with longer durations are more sensitive to interest-rate changes.

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 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 Russell 3000 Index includes 3000 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. equity market.

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 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.

The Funds seek to invest consistent with social-witness principles established by the General Assembly of the Presbyterian Church (U.S.A.) (the "Presbyterian Principles"), as reflected in Guidelines put forth by the Committee on Mission Responsibility Through Investing (the "Committee"). The Funds seek to avoid investing in companies involved in tobacco, alcohol, and gambling, along with for-profit prisons, and some companies related to weapons production, antipersonnel and mines, handguns and assault weapons. In addition, at times a company involved in serious human rights violations may also be screened. The Funds may also screen companies for other reasons when deemed appropriate to implement the Presbyterian Principles. The Funds may choose not to purchase, or may sell, otherwise profitable investments in companies which have been identified as being in conflict with its established social-witness principles. This means that the Funds may underperform other similar mutual funds that do not consider social-witness principles in their investing.

The Funds' Sub-Advisers will also consider environmental, social, and governance (“ESG”) criteria in the selection of securities for the Funds' portfolios. Each Sub-Adviser has the ability to consider its own ESG criteria based on its own ESG methodologies and assessments or those of third-party providers. The consideration of such ESG criteria as part of the decision-making process may result in the selection of individual securities that are not in the Funds' benchmark, or the overweighting or underweight of individual securities relative to the benchmark.

Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. For more information, visit www.sustainalytics.com

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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. 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. 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.