THE CAPITAL MARKETS

NEW COVENANT TRUST
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The Dow Jones Industrial Average (DJIA) finished February at 30,932, up +3.17% for the month, and +1.06% year-to-date. The S&P 500 closed February at 3,811, up +2.61% for the month, and +1.47% so far for the year. The NASDAQ Composite gained +0.93% in February, up +2.36% for the year. Small-company stocks as measured by the Russell 2000, ended February up +6.14% for the month, +11.45% year-to-date. Energy (+22.34%) was the best performing sector in February.

"The economy this year should 'run hotter than at any time in the past 35 years,' wrote Credit Suisse chief U.S. stock strategist Jonathan Golub ... Investors have been murmuring that faster growth could stoke inflation." (Barron's, *Streetwise*, Jack Hough, March 1, 2021)

Rising Yields and Inflation Fears Lead to Volatility for Growth Stocks

After ending last July at 0.55% and opening this year at 0.93%, the yield on the 10-year U.S. Treasury is hovering around 1.60% at the time of this writing. This sharp increase reflects the bond market's expectation for better than expected future economic growth and rising interest rates. Readers may recall instances in 2018 when good news became bad news, as stronger than expected GDP or jobs reports led some market participants to fear inflation would pick up, and the Federal Reserve would raise interest rates ahead of schedule. Markets have responded similarly to recent developments including a quicker than expected COVID vaccination timeline, strong consumer spending to start the year, a better than expected February jobs report, and an additional stimulus bill just passed. As bond yields have increased, the high-flying technology stocks that have driven the market for the past 3 years have been particularly impacted. Some of the impact is from demand for certain technologies decreasing when restrictions ease and people leave home more, some is from bonds becoming more relatively attractive to investors at higher yields, and some is from the future profits of these companies being discounted at higher interest rates which makes their present value lower.

At this time, we view the market activity as healthy and a correction as unsurprising given the recent prolonged out-performance of large technology stocks vs. other segments of the market. Many companies and industries that were particularly hard hit during the COVID pandemic have begun to recover, and the broader market recovery is reflecting expectations for a recovery in the real economy — not just success for a few large 'stay-at-home' stocks. We're encouraging investors, as always, to remain broadly diversified and balanced across each sector of the economy, across geographies, and with exposure to large, mid, and small capitalization companies. The risk of inflation is elevated and is being closely watched, although there is still uncertainty at this time around the ultimate effect and magnitude of recent developments on expected inflation. We continue to encourage investors to evaluate near term cash needs, and to consider maintaining 6-12 months of liquidity in cash reserves given the potential for volatility in both stocks and bonds at this time.

"Markets were weighed down by uncertainty over the pace of global economic recovery, as well as concerns that quickening inflation could eventually lead to higher interest rates, according to Justin Tang, the head of Asian research at United First Partners in Singapore. 'On one hand, you want the economy to grow, but the massive cash in the economy raises the boogeyman of inflation,' he said ... Mr. Tang said the recent pullback was reminiscent of 2018, when the tech sector sold off as bond yields rose, though he noted that episode quickly eased." (The Wall Street Journal, *Stock Selloff Accelerates After Powell's Comments*, Caitlin Ostroff, March 4, 2021)

Hiring Snaps Back in February

U.S. employers added 379,000 jobs in February, driven by an increase of 355,000 jobs in the particularly hard hit leisure and hospitality sector. With the unemployment rate ticking down to 6.2%, from a peak of nearly 15% in April 2020, many observers are optimistic that the economy is poised for a strong recovery through the spring as the pace of vaccinations continues to pick up, cases trend lower, and warm weather returns. Despite a better than expected recovery from the winter months, the labor market is still short 9.5 million jobs since before the pandemic began, and what's been referred to as a k-shaped recovery continues to deliver disproportionate outcomes across the population. For example, jobs earning more than $60,000 per year have seen job increases since the beginning of the pandemic, while wage earners earning less than $27,000 per year have seen a drop of -25% in employment rates. The Federal Reserve and other policy makers are said to be evaluating not only the pace, but also the breadth, of the jobs recovery as it continues.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 01/31/2021	CLOSE AS OF 02/28/2021	CHANGE PREVIOUS MONTH END	2021 YTD % CHANGE
Dow Jones Industrial Average	29,982.62	30,932.37	+949.75	+1.06%
S&P 500	3,714.24	3,811.15	+96.91	+1.47%
NASDAQ Composite	13,070.69	13,192.34	+121.65	+2.36%
RUSSELL 2000	2,073.64	2,201.05	+127.41	+11.45%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.13%	0.14%	+0.01%	
10-Year Treasury	1.11%	1.44%	+0.33%	
Crude Oil $ per Barrel	$52.20	$61.50	+$9.30	+26.75%
Gold $ per Troy oz.	$1,850.30	$1,728.80	-$121.50	-8.78%
UK Pound in U.S. $	$1.3732US = 1£	$1.3981US = 1£	$ WEAKER	+2.28%
Euro in U.S. $	$1.2149US = 1€	$1.2138US = 1€	$ STRONGER	-0.80%
Canada $ per U.S. $	$1.27745C = $1.00US	$1.266C = $1.00US	$ WEAKER	-0.63%
Japan Yen per U.S. $	104.695¥ = $1.00US	106.54¥ = $1.00US	$ STRONGER	+3.19%

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