THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished 2021 at 36,338, up 5.38% for the month, up 18.73% for the year. The S&P 500 closed December at 4,766, up 4.36% for the month, up 26.89% in 2021. The NASDAQ Composite gained 0.69% in December, up 21.39% for the year. Small-company stocks as measured by the Russell 2000, ended December up 2.11% for the month, up 13.70% year-to-date. Energy (+55.66%) was the best performing sector in 2021.

> ***"Stocks coasted higher for much of the past year, repeatedly smashing records... But that mentality has shifted in 2022 as the rally lost one of its biggest friends: the Fed keeping interest rates at rock-bottom levels."***
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> (The Wall Street Journal, *Stocks Come Back to Finish Positive After Volatile Day*, Alexander Osipovich, Jan. 24, 2022)

Special Report - 2021 in Review and 2022 Volatility

By the end of the holidays, as we entered 2022, investors were celebrating more record highs on the S&P 500 and were cheered by having just finished the fourth year out of five with 15%+ returns on the stock market. Markets, in many ways, knew that major risks existed through the December rally, including the unresolved Omicron variant of COVID-19, ongoing inflationary and supply chain issues, and a Federal Reserve set to tighten monetary stimulus in order to address inflation. Even so, markets continued their calm march higher, with the S&P 500 ending 2021 up 26.89%, after finishing 2020 up 16.26% and 2019 up 28.88%. With markets having doubled since their pandemic lows, the unemployment rate below 4%, and healthy and elevated demand from U.S. consumers – the Federal Reserve has signaled an intent to begin removing monetary stimulus from the economy and to begin tightening monetary policy to address inflation and to better reflect current economic conditions.

While this pivot in monetary policy is based on the good news that the economy is recovering more swiftly than previously expected, many traders are fearful that the Federal Reserve may be behind on raising interest rates and may need to rapidly respond more aggressively in order to tamp down inflation. Historically, initial interest rate increases do not necessarily spell the immediate end for bull markets, but unpredictability and rapid reversals in monetary policy do tend to rattle markets. At this time, we are encouraging investors to maintain an appropriate context and to zoom out to the long-term time horizon of their investments. After such a long run higher, markets eventually need to price correct, especially as changes in monetary policy are digested. While -10%+ corrections can be alarming, they happen rather frequently, and long-term investors will experience many corrections over their investing horizon. Regular readers may be familiar with our advice to maintain healthy cash reserves with between 6-12 months of spending. This best practice is for just these events, allowing you to avoid needing to sell stocks in volatile markets. In our view, the underlying market and economic conditions remain moderately healthy and the volatility so far has been consistent with normal recalibration following developments in interest rate policy. We are carefully monitoring and will be in regular contact if conditions change. Following three great years in a row, in 2022 it will be more important than ever for investors to follow a prudent and measured approach to their investments. Please don't hesitate to reach out to us during this time, it's what we're here for.

> ***"Stocks have been whipsawed in recent days by expectations that the Fed will embark on a series of rate increases this year to temper heightened inflation. The prospect of a shrinking balance sheet and higher rates has prompted some to sell risky assets, including shares of technology companies ... Investors are also monitoring rising tensions between Russia and Ukraine."*** (The Wall Street Journal, *Stocks Open Higher as Fed Rate Call Looms*, Caitlin Ostroff, Jan. 26, 2022)

Hiring in 2021 Hits Annual Record, Omicron and Shortages Affect December

Despite a below trend, 199,000 jobs were added in December, 2021 ended with the most jobs added in a single year ever. Over 6.4 million Americans were hired for the year, and with wages increasing and plentiful job openings, many expect 2022 to be a great year for workers as well. The unemployment rate fell to 3.9% and wages grew at 4.7% annualized, well above previous trends of around 3%. Many economists are pointing to the difficulty in filling positions as one of the primary reasons for disappointing headline jobs numbers in recent months, rather than a weakening jobs market. The recent surge in Omicron cases and disruptions to schools, child care, and widespread quarantines may also result in uneven hiring numbers through the early months of 2022. A very strong labor market, rising wages, and ongoing difficulty in hiring is one of the key drivers of the Fed's aggressiveness on easing stimulus. Jobs reports will be a very carefully monitored indicator moving forward.

Market Metrics

INDEX OR METRIC	CLOSE AS OF 11/30/2021	CLOSE AS OF 12/31/2021	CHANGE PREVIOUS MONTH END	2021 YTD % CHANGE
Dow Jones Industrial Average	34,483.72	36,338.30	+1,854.58	+18.73%
S&P 500	4,567.00	4,766.18	+199.18	+26.89%
NASDAQ Composite	15,537.69	15,644.97	+107.28	+21.39%
RUSSELL 2000	2,198.91	2,245.31	+46.40	+13.70%
Fed Funds Rate	0.00%-0.25%	0.00%-0.25%	UNCHANGED	
2-Year Treasury	0.52%	0.73%	+0.21%	
10-Year Treasury	1.43%	1.52%	+0.09%	
Crude Oil $ per Barrel	$66.18	$75.21	+$9.03	+55.01%
Gold $ per Troy oz.	$1,776.50	$1,828.60	+$52.10	-3.51%
UK Point in U.S. $	$1.3230US=1£	$1.3545US=1£	$ WEAKER	-0.91%
Euro in U.S. $	$1.1256US=1€	$1.1372US=1€	$ WEAKER	-7.06%
Canada $ per U.S. $	$1.2828C=$1.00US	$1.26315C=$1.00US	$ WEAKER	-0.85%
Japan Yen per U.S. $	113.545¥=$1.00US	115.155¥=$1.00US	$ STRONGER	+11.54%