THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished March at 33,274, up +1.89% for the month, up +0.38%% so far for the year. The S&P 500 closed March at 4,109, up +3.51% for the month, up +7.03% year to date. The NASDAQ Composite gained +6.69% in March, up +16.77% so far in 2023. Small-company stocks as measured by the Russell 2000, ended March down -4.98%for the month, up +2.34% so far year to date. Technology (+20.94%) was the best performing sector in the first quarter.

> *"The [banking] crisis raised concerns that a potential pullback in lending could slow the economy further. Small businesses and consumers might find it harder to get loans, which could ultimately result in layoffs."*
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> (The Wall Street Journal, Sarah Chaney Cambon, April 7, 2023)

FIRST QUARTER REVIEW: MARCH MADNESS ENDS WITH MARKETS UP

It was an exciting March for college basketball fans, with the annual national tournaments offering no shortage of surprises and great games. It was also an eventful month for markets, with the collapse of Silicon Valley Bank and Signature Bank in just a matter of days, setting off market volatility and an urgent government response. While the backstops and liquidity being offered to the banking system has calmed many of the fears around additional failures for now, the episode has highlighted the very real effects just beginning to be felt in the economy following the Federal Reserve's historic pace of interest rate increases.

As we entered the month of March, concerns were beginning to mount that the resilience of the economy and of economic growth, despite the rate increases, would mean that interest rates must go higher and stay there longer than previously anticipated in order to bring inflation down. Following the bank failures in March, however, along with ongoing cautiousness in the banking sector and an increasing number of layoffs being announced across the economy — markets are now anticipating that we may likely be near the end of this interest rate hiking cycle, and that the Fed may pivot toward accommodative policy sooner than previously expected.

This has been good news for stocks and risk assets, with the S&P 500 finishing the first quarter up +7.03%. Bonds have also seen a welcome reprieve, with the U.S. Aggregate Bond index up around +2.96% for the quarter in volatile trading. Despite this near-term strength, meaningful risks remain in markets, including pressures on corporate profits, inflation that is still above target, and both political and geopolitical risk factors including a debt ceiling deadline, ongoing war in Ukraine, and increasing tensions with China. Markets have traded up and down in a range since last spring. The S&P 500 has dipped below 4,000 and subsequently rallied above it 6 separate times since May 2022, and is currently trading at levels first seen in April 2021. Given this sluggish and uncertain dynamic, we would encourage investors to continue to expect volatility in the near term, and to consider replenishing cash reserves during times of relative strength. The recent weakness in very specific banks has also supported our general advice to remain broadly diversified across hundreds or thousands of companies, and not be overconcentrated in any one industry or sector. While storm clouds and uncertainties are apparent in the near term, we remain optimistic that long-term, diversified, and disciplined investing will continue to reward investors over time.

> *"That caution makes sense as we head into what is expected to be a confusing — and volatile — earnings season. Already, there have been 81 negative preannouncements for first-quarter earnings among companies in the S&P 500, compared with 26 positive ones, exceeding the average ratio of negative to positive announcements of 2.5, according to Refinitiv data going back to 1997."* (Barron's, The Trader, Carleton English, April 8, 2023)

EMPLOYMENT AND INFLATION UPDATE

The U.S. economy added 236,000 jobs in March. Prior to the pandemic, this would have been an especially strong number. However, in the current environment, it's actually the smallest gain in over two years. The unemployment rate ticked down to 3.5%, amid an always encouraging increase in labor force participation. Wage gains, importantly, cooled to 4.2%, the lowest level since June 2021.

Many took the jobs report as a signal that the labor force remains healthy and stable, but is cooling from the red-hot dynamics seen in the recent past, an encouraging sign for a continued deceleration in inflation. March Consumer Price Inflation came in at 5%, its lowest level in two years, down from 6% in February. Core CPI, which excludes the volatile food and energy components, accelerated slightly to 5.6% from 5.5%. Core inflationary components, especially housing costs, have remained stubbornly high. Whether core inflation can decelerate amid still tight labor conditions will be closely watched by markets moving forward.

Market Metrics

INDEX OR METRIC	CLOSE AS OF 2/28/2023	CLOSE AS OF 3/31/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	32,656.70	33,274.15	+617.45	+0.38%
S&P 500	3,970.15	4,109.31	+139.16	+7.03%
NASDAQ Composite	11,455.54	12,221.91	+766.37	+16.77%%
RUSSELL 2000	1,896.99	1,802.48	-94.51	+2.34%
Fed Funds Rate	4.50%-4.75%	4.75%-5.00%	+0.25%	
2-Year Treasury	4.81%	4.06%	-0.75%	
10-Year Treasury	3.92%	3.48%	-0.44%	
Crude Oil $ per Barrel	$77.05	$75.67	-$1.38	-5.72%
Gold $ per Troy oz.	$1,836.70	$1,986.20	+$149.50	+8.76%-
UK Point in U.S. $	$1.2107US=1£	$1.2365US=1£	$ WEAKER	+2.79%
Euro in U.S. $	$1.0605US=1€	$1.0865US=1€	$ WEAKER	+1.80%
Canada $ per U.S. $	$1.36145C=$1.00US	$1.35335C=$1.00US	$ WEAKER	-0.12%
Japan Yen per U.S. $	136.215¥=$1.00US	133.09¥=$1.00US	$ WEAKER	+0.87%