THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished May at 32,908, down -3.49% for the month, down -0.72% so far for the year. The S&P 500 closed May at 4,180, up +0.25% for the month, up +8.86% year to date. The NASDAQ Composite gained +5.80% in May, up +23.59% so far in 2023. Small-company stocks as measured by the Russell 2000, ended May down -1.09%for the month, down -0.66% so far year to date. Technology (+30.75%) is the best-performing sector year-to-date.

> *"After getting pummeled last year by a rapid rise in interest rates, stocks have recovered this year thanks in part to a stronger-than-expected economy and hopes that rates might not have much further to climb. Shares of a few big technology companies have led the way."*
>
> (The Wall Street Journal, Sam Goldfarb, June 12, 2023)

MARKETS DRIVEN HIGHER BY BIG TECH, SOFTENING INFLATION

After 248 trading days in bear market territory — the longest bear market since 1948 — the S&P 500 entered a new bull market June 8. Optimism has been driven by softening inflation, a timely deal on the debt ceiling and huge gains in the tech sector, particularly for companies involved in artificial intelligence.

The eight largest tech and growth stocks in the S&P 500 (Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Tesla and Nvidia) now account for 30% of the S&P 500, up from 22% to start the year. Apple is approaching an astonishing $3 trillion market capitalization, after becoming the first $1 trillion company less than five years ago in August 2018.

Through early June, the S&P 500 was up +12%, while the equal-weighted version of the index was up only +1.8%. This indicates that market gains have been driven by just a handful of companies at the top of the index, and the gap is as wide as it's ever been in the data going back to 1990.

While a new bull market is welcome news for investors, what's driving it and what's ahead are important questions to be considered. The strength in mega-cap tech, the largest companies in the sector, has been driven in part by a new consensus around the actual defensiveness of the sector. If the much-anticipated moderate recession in the United States does occur sometime in late 2023 to early 2024, the view is that these companies and their healthy cash flows, strong balance sheets and strong demand may actually weather the downturn better than other sectors and companies might. There's also been a surge in attention paid to artificial intelligence and the role it will play in the future economy, driving interest in companies positioned to participate and benefit if these developments occur.

In our view, much of the market action this year has supported our ongoing advice that broad diversification, balance and a long-term, disciplined asset allocation strategy is often the best way to pursue efficient investment returns over time. This year's winners are often last year's biggest losers, as we've seen with the tech sector, and vice versa with the energy sector and banking. Attempting to time these moves often eventually leads to mistimings and mistakes. With uncertainty still abounding, and an eventual market breather increasingly possible, we continue to recommend investors keep six to 18 months of cash needs on the sidelines to weather any near-term storms. We would consider it a good time to evaluate such reserves and possibly replenish them.

> *"If the Fed does stay on hold through the remainder of 2023, it could solve a lot of the market's problems, including what appears to be the S&P 500's steep valuation. The index trades at 18.6 times 12-month forward earnings, down from 21.5 times at the end of 2021 but still above its 20-year average of 15.7. If the Fed pauses, it would allow price to earnings ratios to stabilize and perhaps even grow."*
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> (Barron's, Jacob Soneshine, June 8, 2023)

EMPLOYMENT AND INFLATION UPDATE

More than 1.5 million jobs have been added in 2023, as another 339,000 were added in the month of May. The unemployment rate ticked up slightly, but only to 3.7%, still indicative of tight labor conditions and a healthy job market.

Some observers pointed to a few cracks beginning to appear, including the average workweek falling to 34.3 hours, the lowest since April 2020 at the start of the pandemic. The labor-force participation rate has also remained flat and is still below pre-pandemic levels. May's inflation report was a welcome one, showing CPI at its lowest annual rate in more than two years, coming in at 4%. Some of this was driven by volatile gas and energy prices, however, as the Core-CPI measure (which excludes food and energy) registered a 5.3% inflation rate, down only slightly from 5.5% in April.

The inflation report was viewed positively by markets, but a continued softening towards the Fed's 2% target will be likely be necessary for the current market optimism to continue.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 4/30/2023	CLOSE AS OF 5/31/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	34, 098.16	32,908.27	-1,189.89	-0.72%
S&P 500	4,169.48	4,179.83	+10.35	8.86%
NASDAQ Composite	12,226.58	12,935.28	+708.70	23.59%
RUSSELL 2000	1,774.80	1,749.65	-25.15	-0.66%
Fed Funds Rate	5.00% - 5.25%	5.00% - 5.25%	UNCHANGED	
2-Year Treasury	4.04%	4.40%	+0.36%	
10-Year Treasury	3.44%	3.64%	+0.20%	
Crude Oil $ per Barrel	$76.78	$68.09	-$8.69	-15.16%
Gold $ per Troy oz.	$1,999.10	$1,982.10	+$12.90	8.54%
UK Point in U.S. $	$1.2569001US=1£	$1.2394US=1£	$ STRONGER	3.03%
Euro in U.S. $	$1.104US=1€	$1.0661US=1€	$ STRONGER	-0.11%
Canada $ per U.S. $	$1.3563C=$1.00US	$1.3593C=$1.00US	$ STRONGER	0.32%
Japan Yen per U.S. $	136.165¥=$1.00US	139.715¥=$1.00US	$ STRONGER	5.89%

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