THE CAPITAL MARKETS

Issue 07 | July 2023

NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished June at 34,407, up +4.56% for the month, up +3.80% so far for the year. The S&P 500 closed June at 4,450, up +6.47% for the month, up +15.91% year to date. The NASDAQ Composite gained +6.59% in June, up +31.73% so far in 2023. Small-company stocks, as measured by the Russell 2000, ended June up +7.95%for the month, up +7.24% so far year to date. Technology (+14.95%) was the best-performing sector in the second quarter.

> *"But there's a truism investors should fall back on: It's the direction, not the level. And since the direction of inflation is down, the direction of the stock market is up. It really is that simple, and it's a big part of why the stock market has raced higher in 2023."*
>
> (Barron's, Ben Levisohn, July 14, 2023)

FIRST HALF ENDS WITH MARKETS HIGHER, FUTURE UNSETTLED

While the drivers, effects and outlook for a down market tend to engulf investors attention, when markets are marching higher, there are often fewer questions and less consternation. While many investors are not keen to argue with a strong market, and are enjoying the latest bull run, we'd encourage investors not to lose the thread of current market dynamics and what they may mean for the outlook moving forward. A combination of softening inflation, falling interest rate expectations and market optimism around artificial intelligence has driven the technology sector higher in a big way in 2023. In fact, through June 7, a basket of the seven largest growth and tech companies in the S&P 500 was up +53%, while the other 493 stocks in the index were a combined flat +0%. The indexes +15.9% return YTD through June has been largely driven by these companies, sometimes referred to as the "Super 7" or "Magnificent 7."

With such a significant run up in these shares already, many expect it will require additional sectors and industries to begin seeing strength in order for the current rally to continue. There's also elevated risk in a market like this that a sudden reversal in optimism around inflation, interest rates or the impact on artificial intelligence could lead to a sharp reversal in these companies and, subsequently, the broader market.

Ever since the COVID-19 pandemic turned the global economy upside down in 2020, economic data has been unusually noisy and contradictory. For example, the Conference Board's Index of Leading Indicators, an index of 10 leading indicators meant to signal economic expectations over the next six months, is deeply negative and suggests a recession is likely.

Similarly, the yield curve is deeply inverted, another frequently cited recessionary indicator. At the same time, the labor market is seeing unemployment levels near all-time lows, and other economic signals suggest we may be at the beginning of an expansion. In an unusual and contradictory economy, we would encourage investors focus on their asset allocations — ensuring that long- and short-term assets are allocated to the correct buckets.

While there may be near-term volatility and uncertainty as this post-pandemic recovery is worked out, in the medium and longer term, we remain constructive on the outlook for investors. By ensuring any short-term needs are in short-term accounts or cash reserves, investors can have the patience to ride through a potentially volatile second half.

> *"Data midweek invigorated hopes that the Federal Reserve's rate-raising campaign could be drawing to a close. Inflation eased in June to its slowest pace in more than two years. … Investors welcomed the price figures as evidence that the Fed may succeed in taming the red-hot inflation of recent months without plunging the economy into recession."*
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> (The Wall Street Journal, Karen Langley, July 14, 2023)

JUNE INFLATION VIEWED FAVORABLE

Markets received very welcome news in June when the inflation report showed that inflation cooled to its slowest pace in more than two years, coming in at 3%, down from 4% in May. The core CPI reading, which excludes volatile energy and food prices, came in at 4.8%, down from 5.3% in May. Gasoline prices were a major driver of the softer inflation, as were airfares, electronics and used cars. Some trouble spots remain, however, for the inflationary outlook. Property and casualty insurance prices have risen meaningfully, and rent and housing inflation, a major component of overall inflation, remains stubbornly elevated. The fact that inflation is directionally lower is certainly a positive for markets and consumers, but certain measures such as core inflation is still meaningfully higher than the Fed's targets.

Some observers believe that the road ahead will be slower and more difficult for inflation to soften further, and that the path so far has included much low-hanging fruit. Investors should expect inflation to remain a key driver to investor sentiment in the near term.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 5/31/2023	CLOSE AS OF 6/30/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	32,908.27	34,407.60	-1,499.33	3.80%
S&P 500	4,179.83	4,450.38	+270.55	15.91%
NASDAQ Composite	12,935.28	13,787.92	+852.64	31.73%
RUSSELL 2000	1,749.65	1,888.73	+139.08	7.24%
Fed Funds Rate	5.00% - 5.25%	5.00% - 5.25%	UNCHANGED	
2-Year Treasury	4.40%	4.87%	+0.47%	
10-Year Treasury	3.64%	3.81%	+0.17%	
Crude Oil $ per Barrel	$68.09	$70.64	+$2.55	-11.99%
Gold $ per Troy oz.	$1,982.10	$1,929.40	-$52.70	5.65%
UK Point in U.S. $	$1.2394US=1£	$1.2714US=1£	$ WEAKER	5.69%
Euro in U.S. $	$1.0661US=1€	$1.091US=1€	$ WEAKER	2.23%
Canada $ per U.S. $	$1.3593C=$1.00US	$1.32325C=$1.00US	$ WEAKER	-2.34%
Japan Yen per U.S. $	139.715¥=$1.00US	144.535¥=$1.00US	$ STRONGER	9.54%

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