THE CAPITAL MARKETS

NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished September at 33,507, down -3.50% for the month, up +1.09% so far for the year. The S&P 500 closed September at 4,288, down -4.87% for the month, up +11.68% year to date. The NASDAQ Composite lost -5.81% in September, up +26.30% so far in 2023. Small-company stocks as measured by the Russell 2000, ended September down -6.03%for the month, up +1.35% so far year to date. Energy (+13.08%) was the best performing sector in the third quarter.

> ***"The 2023 stock rally has faltered in recent months as yields on longer-term government bonds surged. ... Higher yields have weighed on stocks because they give investors new opportunities to earn returns at lower risk."***
>
> (The Wall Street Journal, Karen Langley, Oct. 12, 2023)

THIRD-QUARTER REVIEW: YIELDS SPIKE, STOCKS SLUMP AS FED SIGNALS HIGHER RATES FOR LONGER

September lived up to its reputation as a tough month for stocks, as markets across the board struggled and the S&P 500 finished down nearly -5% for the month. The U.S. 10-year treasury yield spiked to levels not seen since 2007, and the popular 30-year fixed rate mortgage rose to its highest level since 2000, above 8%. Yields rose following the Federal Reserve's September FOMC meeting, where an expectation for just two interest rate reductions in 2024 was penciled in, down from previous expectations for four. The rise of U.S. borrowing costs accelerated further as the U.S. Congress appeared headed toward a government shutdown, and then subsequently the House vacated its Speaker. Areas of the market that had previously seen strong gains, namely large-cap technology and growth stocks, suffered the most as the market recalibrated for potentially higher interest rates, less monetary accommodation in 2024, and a less certain fiscal outlook moving forward.

EMPLOYMENT UPDATE

The U.S. economy added 336,000 jobs in September, well above estimates of 170,000, as the unemployment rate held steady at 3.8%. Importantly, wages increased at a softer-than-expected 4.2% annualized rate, a data point that markets found encouraging. The report included mixed signals, however, with some observers considering that the tight labor market may make the Fed less likely to reduce interest rates anytime soon. Others were encouraged that the labor market remains healthy, making a recession less likely, and that wage inflation is moderating. Consumer spending drives around two-thirds of U.S. GDP, so a healthy labor market is often a positive sign for the economy, but a too tight labor market can drive inflation higher and make life more difficult for the Fed. This delicate dynamic is being watched closely by markets each month.

OUR ADVICE: FOCUS ON THE FUNDAMENTALS

With optimism high surrounding markets and the outlook for inflation, interest rates and artificial intelligence, and with the fact that much of 2023's gains had been concentrated in just one sector — large U.S. tech — the risk of a market correction was elevated in our view coming out of the summer. Despite a difficult September, however, the S&P 500 is still up double digits for the year, and up around +17% from the lows of October 2022. In a healthy and functioning market, prices will occasionally correct when markets become overly optimistic or when markets need to digest developments in the economic outlook, in this case higher interest rates. Since 1946, markets have corrected -5% or more 84 times, a little more than once a year. Markets have corrected -10% or more 29 times, around once every 2.5 years. Importantly, on average, markets have taken only one month to recover from -5% corrections and 4 months to fully recover from -10% corrections.

With no shortage of risks and uncertainties facing markets, we would encourage investors to keep this perspective in mind as additional bouts of volatility may be likely in our view. With so much unsettled, including the path of inflation and the ultimate effects of high interest rates on the economy, rather than trying to predict the future, we're encouraging investors to focus on the fundamentals of investing: broad diversification, equity exposure that matches your time horizon, wise cash management, and discipline to your investment plan through volatility.

We, as always, are happy to help you during this time of elevated uncertainty.

> ***"Driving the volatility was the 10-year Treasury yield, which surged as high as 4.89% this past week, up from a March low of 3.23%. Gone are the fears of recession, replaced with worries that the economy remains too hot and the Federal Reserve, which in September said it wants to keep interest rates higher for longer, will have to do more to ensure that inflation gets back to its 2% target."***
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> (Barron's, Jacob Sonenshine, Oct. 6, 2023)

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 8/31/2023	CLOSE AS OF 9/30/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	34,721.91	33,507.50	-1,214.41	1.09%
S&P 500	4,507.66	4,288.05	-219.61	11.68%
NASDAQ Composite	14,034.97	13,219.32	-815.65	26.30%
RUSSELL 2000	1,899.68	1,785.10	-114.58	1.35%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.85%	5.03%	+0.18%	
10-Year Treasury	4.09%	4.59%	+0.50%	
Crude Oil $ per Barrel	$83.63	$90.79	+$7.16	13.12%
Gold $ per Troy oz.	$1,965.90	$1,866.10	-$99.80	2.18%
UK Point in U.S. $	$1.2672US=1£	$1.2206US=1£	$ STRONGER	1.47%
Euro in U.S. $	$1.0854US=1€	$1.0588US=1€	$ STRONGER	-0.80%
Canada $ per U.S. $	$1.35295C=$1.00US	$1.352C=$1.00US	$ WEAKER	-0.22%
Japan Yen per U.S. $	145.585¥=$1.00US	149.225¥=$1.00US	$ STRONGER	13.10%