THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished December at 37,690, up +4.84% for the month, up +13.70% in 2023. The S&P 500 closed December at 4,770, up +4.42% for the month, up +24.23% year to date. The NASDAQ Composite gained +5.52% in December, up +43.42% in 2023. Small-company stocks, as measured by the Russell 2000, ended December up +12.05% for the month, up +15.09% year to date. Technology (+52.53%) was the best-performing sector in 2023.

> ***"Investors say a decline in enthusiasm is normal after a stretch of robust gains like those that capped 2023. They also say they have many questions about the path of the economy and interest rates that will be key to discerning the market's trajectory this year."***
>
> (The Wall Street Journal, Hardika Singh, Jan. 16, 2024)

2024 OUTLOOK: MARKETS HOPING FOR A MORE NORMAL YEAR

The S&P 500 ended 2023 up more than +24% for the year, a strong recovery following a miserable 2022 for investors. With some up and down throughout the year, markets surged at the end — gaining for nine straight weeks to close out the year, adding +13% in just the final two months. Much of the optimism has centered around expectations that the Federal Reserve will soon begin to soften its interest rate policy, as inflation gradually declines and the economy remains healthy. While investors are likely enjoying the strong run, in our view it's important to always remain cognizant of what's behind recent market activity — and to consider what that may mean for the market moving forward.

Below, we cover a few of the key themes we're watching as we head into what many market participants hope is the beginning of a more normal period for markets and the economy.

STOCK VALUATIONS ARE HIGH, ESPECIALLY AT THE TOP OF THE MARKET

It's been well-documented that much of the strength in 2023's S&P 500 performance was driven by just seven of the companies in the index, referred to by many as the "Magnificent Seven." Of note, each of these seven companies are in technology-related industries, increasing the potential risk for volatility in the overall market if the technology sector is challenged. Also of note, following the markets' strong end to the year, valuations have become stretched in the aggregate, with much of 2024's expected earnings already priced into stocks at current levels. While it was a welcome rally to end the year, in the near term the downside risk for a correction in markets is elevated in our view, given how high valuations are.

HIGH INTEREST RATES HAVE BENEFITED THE FIXED INCOME OUTLOOK FROM HERE

While high interest rates have challenged the economy and the stock markets, fixed income investing is now positioned to benefit in our view. The rise in interest rates led to a miserable experience for bond investors since 2021, but the next three to five years look optimistic by many observers estimation. With many bonds currently yielding 4% to 5%+, investors are positioned to earn not only the current yield, but also price appreciation if and when interest rates soften.

Many strategists are predicting that we may be heading toward a more normalized interest rate environment, and that the ultra-low rates common since the 2008 recession will be a historical exception. This may be a positive development for more income-focused investors.

LONG-TERM AND SHORT-TERM OUTLOOKS ARE DIVERGING

While we recognize that the risk of volatility and a potential correction in the stock market are elevated in the near term, given how far and fast the market rallied to end 2023, our medium- to long-term outlook on markets remains constructive, and we expect long-term investors to continue to be rewarded by the capital markets. Technological and other innovations are expected to continue, and the global economy has proven resilient through various risks and crises over time. To weather any near-term volatility — which would not be surprising in 2024 — we encourage investors to ensure that their accounts with equities have a medium- to long-term time horizon, and that any cash that may be needed in the next 12 to 18 months is held in reserve in a money market.

> ***"This dynamic is prompting some analysts to warn that further stock gains might be halting because the rate cuts that are widely expected to power the market higher might not arrive as quickly as bullish investors had wagered. 'Clearly, the consensus is that inflation is under control and we're heading for a soft landing,' said Doug Fincher, a portfolio manager at Ionic Capital Management. 'It's certainly possible — but a lot of that is priced in.' "***
> (The Wall Street Journal, Eric Wallerstein, Jan. 21, 2024)

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 11/30/2023	CLOSE AS OF 12/31/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	35,950.89	37,689.54	+1,738.65	13.70%
S&P 500	4,567.80	4,769.83	+202.03	24.23%
NASDAQ Composite	14,226.22	15,011.35	+785.13	43.42%
RUSSELL 2000	1,809.02	2,027.07	+218.05	15.09%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.73%	4.23%	-0.50%	
10-Year Treasury	4.37%	3.88%	-0.49%	
Crude Oil $ per Barrel	$75.96	$71.65	-$4.31	-10.73%
Gold $ per Troy oz.	$2,057.20	$2,071.80	+$14.60	13.45%
UK Pound in U.S. $	$1.266US=1£	$1.2748US=1£	$ WEAKER	5.98%
Euro in U.S. $	$1.0911US=1€	$1.1047US=1€	$ WEAKER	3.50%
Canada $ per U.S. $	$1.35585C=$1.00US	$1.3186C=$1.00US	$ WEAKER	-2.68%
Japan Yen per U.S. $	147.835¥=$1.00US	140.98¥=$1.00US	$ WEAKER	6.85%

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