THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished January at 38,150, up +1.22 % for the month. The S&P 500 closed January at 4,846, up +1.59 % for the month. The NASDAQ Composite gained +1.02% in January, and small-company stocks as measured by the Russell 2000 ended January down -3.93% for the month. Communication services were the best (+3.97%) and real estate the worst (-4.95%) performing sectors in January.

"Stock market gains have been unusually concentrated since the beginning of last year. The so-called Magnificent Seven stocks made up nearly 30% of the S&P 500's market value at the end of 2023 after doubling as a group during the year."

(The Wall Street Journal, Jack Pitcher, Feb. 12, 2024)

MARKETS CONTINUE THEIR CLIMB, MAY BE DUE FOR A BREATHER

The S&P 500 has set new all-time highs in recent weeks and has crossed the 5,000-level for the first time ever. After closing as low as 3,670 in October of 2022, the bull market run in stocks has been robust and has been welcome news for investors. What has driven this market higher, however, and what may lie ahead are also important factors for investors to consider in our view. We've covered recently that more than 90% of the gain in the S&P 500 in 2023 was driven by just seven stocks out of the 500, each of which were technology companies. Anytime one sector is driving that level of performance in the overall market, and as the broad market becomes increasingly concentrated in that one sector, we view the risk of volatility as elevated. If that sector were to reverse in fortune, so also would the overall market likely see a similar reversal. The recent pace of market appreciation is also important in our view, with the S&P 500 up over +18% in just the last 100 or so days at the time of this writing. Markets often can get a bit ahead of themselves to both the upside and the downside in the short term, and anytime markets rally significantly in a very short period of time, the risk of an eventual price correction is elevated in our view, and may even be healthy for a long-term functioning market.

ADVICE FOR NAVIGATING THIS MARKET

With stock market valuations stretched by a number of metrics, and with no shortage of potential downside risks to stocks at these levels, investors should not be surprised to see some price volatility or a correction in the near term. These types of drawdowns in markets are common, especially after the run we've had recently. In fact, in more than 95% of years, the market has seen a decline of at least -5% at some point in the year, and in 63% of years, there has been a drawdown of -10% or more from recent peaks. With this risk elevated in our view, we'd encourage investors to have six to 12 months of spending needs in cash, which should help you avoid selling equities for spending needs in the event of a drawdown. With stocks near record levels, it may not be a bad time to evaluate these cash levels and consider replenishing them as needed. For long-term investors, dozens of corrections and multiple bear markets are likely to occur over time. Remaining focused on the long-term rewards of disciplined investing can also be helpful in years that are more volatile or sluggish than what we saw in 2023.

"For many investors, Tuesday represented a realization: Disinflation was easy in 2023, when inflation fell from 6.4% at the start of the year to 3.4% in December … and led some to hope the path all the way back to the Fed's 2% target would also be relatively easy. Although January's report is just one month's data, it raises the risk that the path could be uneven."

(The Wall Street Journal, Justin Lahart, Feb. 13, 2024)

INFLATION UPDATE

January's inflation report generated much news recently, coming in at 3.1% relative to a year earlier, down from 3.4% in December.

While the trend is lower, and levels are much better than a few years ago, it was slightly above market estimates for 2.9% — and was disappointing to some investors who are hoping for more interest rate cuts by the Federal Reserve this year.

Markets have mostly shaken the report off at the time of this writing, with some observers pointing to nuances in how housing costs and other metrics are tracked, potentially causing the Fed's interpretation to remain relatively positive.

With core inflation having declined from only 4.3% to 3.9% since August 2023, however, the data is continuing to reinforce that the "last mile" on inflation down to the Fed's 2% target will be the hardest part to achieve. More disappointing inflation news is a key risk for markets at this time.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 12/31/2023	CLOSE AS OF 1/31/2024	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	37,689.54	38,150.30	+460.76	1.22%
S&P 500	4,769.83	4,845.65	+75.82	1.59%
NASDAQ Composite	15,011.35	15,164.01	+152.66	1.02%
RUSSELL 2000	2,027.07	1,947.34	-79.73	-3.93%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.23%	4.27%	+0.04	
10-Year Treasury	3.88%	3.99%	+0.11	
Crude Oil $ per Barrel	71.65	75.85	-4.31	-10.73%
Gold $ per Troy oz.	2,071.80	2,067.40	+14.60	13.45%
UK Point in U.S. $	$1.2748US=1£	$1.2735US=1£	$ STRONGER	5.98%
Euro in U.S. $	$1.1047US=1€	$1.0863US=1€	$ STRONGER	3.50%
Canada $ per U.S. $	$1.3186C=$1.00US	$1.33605C=$1.00US	$ STRONGER	-2.68%
Japan Yen per U.S. $	140.98¥=$1.00US	146.175¥=$1.00US	$ STRONGER	6.85%

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