THE CAPITAL MARKETS

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NEW COVENANT TRUST

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The Dow Jones Industrial Average (DJIA) finished March at 39,807, up +2.08% for the month and +5.62% so far in 2024. The S&P 500 closed March at 5,254, up +3.10% for the month and +10.16% year-to-date. The NASDAQ Composite gained +1.79% in March, up +9.11% for the year. Small-company stocks as measured by the Russell 2000 ended March up +3.39% for the month, up +4.81% so far for the year. Energy (+13.08%) was the best-performing sector in the first quarter.

> ***"Inflation failed to come down in March, dealing a blow to stocks. But taking a step back, what is remarkable is actually how resilient equities have been to a changing inflation story."***
>
> (The Wall Street Journal, Aaron Back, April 10, 2024)

Q1 2024 REVIEW: GREAT QUARTER FOR STOCKS, BUT RAIN CLOUDS ARE FORMING

The S&P 500 gained over +10% in the first three months of 2024, extending a rally going back to October 2022, during which the index has now gained over +40%. Optimism around a resilient U.S. economy, declining inflation, and new technology innovations such as artificial intelligence have all helped drive the market higher through this rally. While we've suspected market participants may be getting a little ahead of themselves for a few months now, recent developments on the path of inflation and interest rates may be close to confirming a paradigm shift for markets as we move ahead.

STUBBORN INFLATION IS MAKING THE CASE FOR RATE CUTES MURKY

As we entered 2024, with the S&P 500 coming off a +24% gain in 2023, many observers were optimistic about the path of inflation to that point. After rising to above 9% in June 2022, year-over-year Consumer Price Inflation was at 3.4% in December of 2023. Comments made by Federal Reserve Chairman Jerome Powell in late 2023 were viewed by many as a pivot toward a more dovish stance on interest rates, and despite the Feds own dot plot, suggesting an expectation for three interest rate cuts in 2024 — markets were pricing in a whopping six interest rate cuts for 2024 in the early months of the year.

Since then, inflation has mostly flatlined, registering a 3.1%, 3.2% and 3.4% year-over-year increase in January, February and March, respectively. Fed Funds futures have gone from pricing in six rate cuts in 2024, to anything from 0 to 3. The yield on the 10-year U.S. Treasury has gone from 3.88% at the end of 2023 to 4.50% at the time of this writing. With declining inflation and falling interest rates a precursor to the soft-landing outcome markets have been pricing in for some time, the delay or disruption to that outcome is likely to create some volatility and repricing of markets in the near term.

The good news, in our view, is that this sort of volatility has been expected for some time. Markets cannot continue to rapidly climb uninterrupted in a healthy and functioning market. Even a moderately sharp correction from these price levels would not be unusual after the rally we've seen. As markets recalibrate their interest rate and inflation expectations in the coming weeks, we would encourage investors not to panic if price volatility picks up. It's still a good time, in our view, to replenish any cash reserves needed for spending over the next six to 12 months.

Otherwise, we'd encourage long-term investors to view these developments in their long-term context. There will be many more inflation and business cycles to come. Markets have rewarded disciplined, long-term investors over time.

"While a strong economy is generally good news for business, investors are scrutinizing incoming data for signs that activity is so vigorous it could thwart the central bank's campaign to tame inflation. 'The economy is still hotter than the Fed would like,' said Jim Baird, CIO at Plante Moran Financial Advisors. 'Inflation is still stubbornly high by virtually any measure, and the employment market is still pretty robust.' "

(The Wall Street Journal, Karen Langley, April 9, 2024)

ECONOMIC UPDATE

The jobs numbers beat expectations yet again in March, as 303,000 jobs were added to the U.S. economy and the unemployment rate ticked lower to 3.8%. The unemployment rate has been below 4% for 27 straight months since January 2022. The average hourly earnings growth was 4.1%, in line with expectations. While the strong labor market has previously been viewed as a positive signal that a soft landing may be possible, in recent months and in the context of stubbornly high inflation, some observers have begun to view the tight labor market as a liability for the Fed's efforts to guide inflation lower to its 2% target. The delicate balance between promoting full employment and a healthy labor market, while ensuring stable prices, will continue to be a difficult but critical balance for the Fed to try and achieve.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 2/29/2024	CLOSE AS OF 3/31/2024	CHANGE PREVIOUS MONTH END	2024 YTD % CHANGE
Dow Jones Industrial Average	38,996.39	39,807.37	+810.98	5.62%
S&P 500	5,096.27	5,254.35	+158.08	10.16%
NASDAQ Composite	16,091.92	16,379.46	+287.54	9.11%
RUSSELL 2000	2,057.30	2,124.55	+67.25	4.81%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.64%	4.59%	-0.05	
10-Year Treasury	4.25%	4.20%	-0.05	
Crude Oil $ per Barrel	78.26	83.17	4.91	9.23%
Gold $ per Troy oz.	2,054.70	2,238.40	183.70	-0.83%
UK Point in U.S. $	$1.2649US=1£	$1.2633US=1£	$ STRONGER	-0.91%
Euro in U.S. $	$1.0822US=1€	$1.08US=1€	$ STRONGER	-2.23%
Canada $ per U.S. $	$1.35635C=$1.00US	$1.353256C=$1.00US	$ WEAKER	2.63%
Japan Yen per U.S. $	149.67¥=$1.00US	151.345¥=$1.00US	$ STRONGER	7.35%