THE CAPITAL MARKETS

New Covenant Trust Company

Issue 2 | February 2025

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished January at 44,545, up +4.70% for the month. The S&P 500 closed January at 6,041, up +2.70% for the month. The NASDAQ Composite gained +1.64% in January, and small-company stocks as measured by the Russell 2000 ended January up +2.58% for the month. Technology (-0.80%) was the worst-performing sector in January.

VOLATILITY IS PICKING UP AS INVESTOR SENTIMENT TURNS MORE CRITICAL

A striking aspect to the current 2+ year bull market, which has seen the S&P 500 climb over +60% since October 2022, has been the sometimes difficult-to-explain levels of nonchalance by market participants in response to typically worrisome signals in the economy and markets.

Core inflation has been mostly flat for six months in a row, expectations for Fed rate cuts have more than halved since last October, stock valuations remain near historic highs and continue to stretch, and suddenly there is uncertainty around the United States inevitable dominance in the artificial intelligence arena.

With much of this swirling since at least last fall, markets for the most part have continued to view things through rose-colored glasses. The S&P 500 kicked off 2025 with a +2.7% return in January, typically a positive sign for the year ahead, and continued to hit new record highs through mid-February. In recent weeks, however, trepidation has begun to grow in markets as recent economic reports have shown signs of a cautious and wary consumer in the United States.

The University of Michigan's Consumer Sentiment Survey in February suddenly dropped to its lowest level in 15 months, with consumers expressing concern around tariffs and inflation. Around the same time, Walmart, considered a bellwether for the U.S. consumer, reported in its earnings call a decrease in 2025 earnings guidance, driven by uncertainty around the consumer, inflation, tariffs and other geopolitical issues.

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"While the S&P 500 volatility has been contained, the stocks that are part of it have been bouncing wildly. Drops in some have offset surges in others, and vice versa."

(The Wall Street Journal, Jon Sindreau, Feb. 18, 2025)

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It's been enough to see the VIX Volatility Index, sometimes referred to as Wall Street's "Fear Index," approaching 20, a level it did not reach for the entire first half of an especially calm 2024.

Investors have also seen, through the first few months of 2025, a rotation away from the winning themes of the past few years.

Value stocks have outperformed growth stocks, and international stocks have outperformed U.S. stocks year-to-date at the time of this writing.

Of the Magnificent 7 tech stocks, which drove most of the return over the past two years, six are negative for the year and just one (Meta) is positive for the year to date.

The most certain thing about this moment is that elevated uncertainty will likely continue to permeate our politics, economy and markets.

In periods of elevated uncertainty, diversification remains one of the best tools investors have to ensure some areas of a portfolio will zig while others zag. Diversification across hundreds or thousands of stocks — to large, mid-size and small companies, to growth and value, to U.S. and international — is as important as ever in our view.

With markets just a few percentage points away from all-time highs, it also remains an attractive time to raise any near-term cash to weather any downdrafts.

"Looking outside the U.S. can also provide investors with a way to diversify. ... The iShares Europe ETF is up 10.2% year-to-date, compared with 1.9% for the S&P 500. One key reason: The fund owns far fewer big tech companies, such as the U.S.'s Magnificent Seven. That grouping drove U.S. stock market returns in 2024, but has weighed on them this year."

(Barron's, Ian Salisbury, Feb. 25, 2025)

ECONOMIC UPDATE

The U.S. economy added 143,000 jobs in January, below recent trends but viewed by many as a still solid number.

The unemployment rate ticked down to 4.0% as the labor force participation rate increased to 62.6%, both considered positive signals. Wage growth rose more than expected, 4.1% from a year ago. This measure has slowly but gradually been ticking up from a recent low of 3.6% hit last July.

Wage growth inflation is a meaningful indicator when considering the outlook for Consumer Price Inflation (CPI) which rose to 3.0% in January, up from a low of 2.4% hit last September.

Core inflation, which removes volatile energy and food prices, was 3.3% in January, mostly staying steady since hitting 3.2% in July 2024.

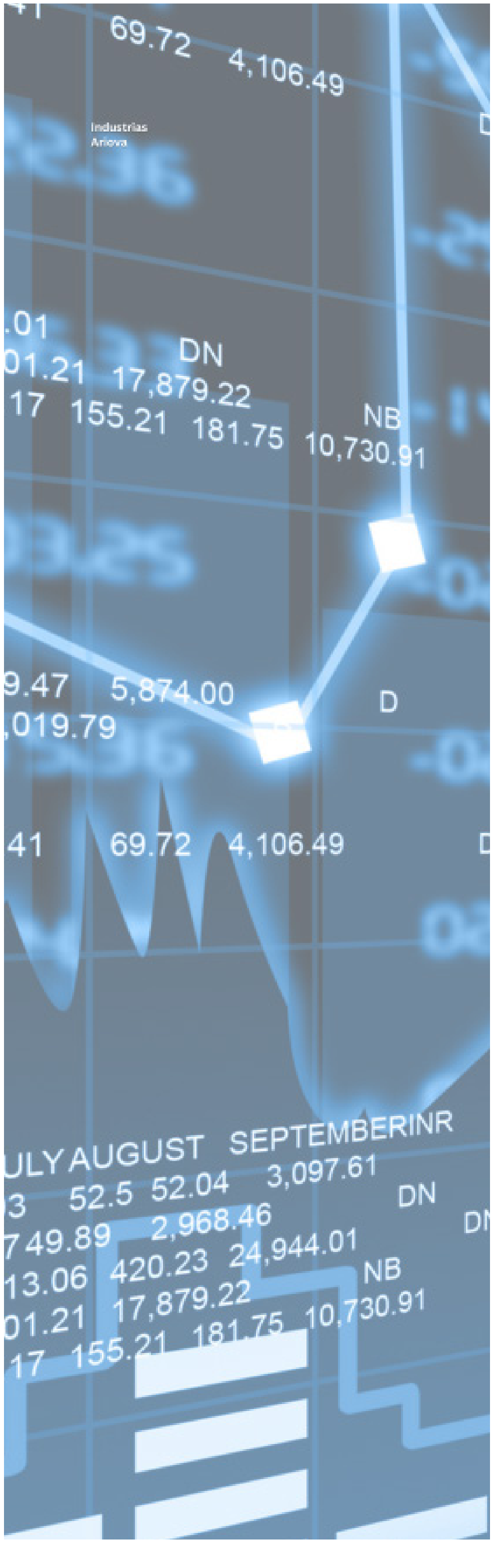
Markets so far have remained relatively sanguine about the stalling out of inflation's march lower in recent months, and about the potential levels and breadth of future tariffs.

A strong labor market and stubborn inflation makes the case for additional interest rate cuts more difficult.

CPI and jobs reports will be closely watched for signals of inflationary pressures, and worse-than-expected news on tariffs may trigger volatility in markets as investors recalibrate their optimistic assumptions.

Market Metrics

Index or Metric	Close as of 12/31/2024	Close as of 1/31/2025	Change Previous Month End	2025 YTD % Change
Dow Jones Industrial Average	42,544.22	44,544.66	+2,000.44	4.70%
S&P 500	5,881.63	6,040.53	+158.90	2.70%
NASDAQ Composite	19,310.79	19,627.44	+316.65	1.64%
RUSSELL 2000	2,230.16	2,287.69	+57.53	2.58%
Fed Funds Rate	4.25% - 4.00%	4.25% - 4.00%	UNCHANGED	
2-Year Treasury	4.25%	4.22%	-0.03%	
10-Year Treasury	4.58%	4.58%	UNCHANGED	
Crude Oil $ per Barrel	$71.72	$72.53	+0.81	1.13%
Gold $ per Troy oz.	$2,641.00	$ 2,835.00	+$194.00	7.35%
UK Point in U.S. $	$1.2524US=1£	$1.2426US=1£	$ STRONGER	-0.79%
Euro in U.S. $	$1.0355US=1	$1.0396US=1	$ WEAKER	0.39%
Canada $ per U.S. $	$1.4382C=$1.00US	$1.44825C=$1.00US	$ STRONGER	0.70%
Japan Yen per U.S. $	157.16¥=$1.00US	154.85¥=$1.00US	$ WEAKER	-1.47%



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