ENDOWMENT MANAGEMENT
BRINGING ASSETS TO LIFE
25 years
SINCE 1998

ecf Insights

ECF Endowment Management | Fourth Quarter 2023

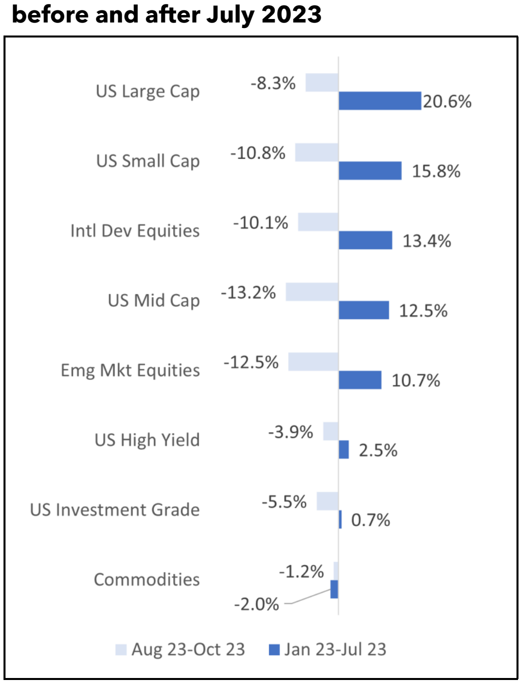
Nearing a Fed "Pause"

Following a strong first half of 2023, financial markets declined sharply in the third quarter. Several unexpected events have occurred in recent months, including the Middle East conflict and the US congressional turmoil. Yet the monetary policy of the Federal Reserve (the Fed) – specifically, their decisions regarding their benchmark interest rate – continues to be a dominant influence on the markets.

The Fed's Influence During Rate Hikes

The Fed has been raising interest rates for over a year. During this rate hike cycle, the primary objective of its monetary policy has been to manage inflation. This is achieved through adjustments to the Fed Funds Rate, their benchmark rate that serves as the basis for overnight lending and borrowing among banks. While hikes in this rate primarily impact banks and short-term loans, the Fed's decisions have a ripple effect across all loan types – when the Fed raises its benchmark interest rate, interest rates on various other loans also increase. Elevated interest rates make borrowing more expensive, potentially

Chart 1: S&P 500 Performances before and after July 2023



Source: Morningstar, 10/31/23

Cont'd on Page 2

Endowment Tip

Year-End Giving

Did you know that nearly one-third of annual giving occurs in the month of December, with a remarkable 12% occurring in the final three days of the year? As the year winds down, many individuals in your faith community may be considering where to allocate their year-end donations.

Utilizing a wide variety of communication channels is a great way to let donors know what you've accomplished in 2023 and invite them to consider a gift to further your impact and reach in 2024 and beyond. Newsletters, weekly announcements, service bulletins, websites, and social media are all wonderful tools for engaging with members of your community.

Is your endowment utilizing all available communication channels to connect with stakeholders? Your friendly partners at ECF are ready and able to support your year-end giving efforts this holiday season. Contact us at ***endowment@ecf.org*** and let us know how we can help support you!

Cont'd from Page 1

Chart 2: S&P 500 and Bond performance during Fed "Pauses"

Last Hike	First Cut	Months from last hike to first cut	S&P 500 Return	Investment Grade bonds return
Aug-84	Oct-84	1.4	11%	4%
Sep-87	Oct-87	1.5	-2%	-2%
Feb-89	Jun-89	3.3	11%	7%
Feb-95	Jul-95	5.1	19%	10%
May-00	Jan-01	7.6	-7%	11%
Jun-06	Sep-07	14.6	25%	10%
Dec-18	Jul-19	7.3	18%	7%
	Average	**5.8**	**11%**	**7%**

Source: Morningstar, 9/30/23

slowing economic growth. Markets are sensitive to changes in this measure.

For most of 2023, market movements have been centered around identifying and timing the maximum rate for this cycle. Although the Fed provides a projected path for interest rates, it also made it clear that this trajectory could change in response to unexpected inflation figures or other economic data. This uncertainty instilled volatility in the financial markets. Near the end of July, the Fed signaled that interest rates could remain high for an extended period, raising concerns about slower economic growth, a message that markets received negatively. The S&P 500 index plunged 8.3% between July 31 and October 31. This significant decline contrasts sharply with the index's 20.6% year-to-date gain as of July 31 (see Chart 1).

Markets During Fed "Pauses"?

From March 2022 to October 2023, markets focused primarily on the Fed's likely path to maximum interest rate levels. However, in November, this focus shifted to the Fed "pause" – the point at which the Fed has reached the maximum interest rate for this cycle. As of July 26, the Fed Funds rate is in the range of 5.25% to 5.50%. Projections indicate a stop at 5.6%, suggesting just one more increase may be necessary. In addition, after eleven rate hikes totaling 5% from early-2022 to mid-2023, inflation (as measured by the Consumer Price Index (CPI)) has eased from its peak of 9.1%. Indeed, CPI readings in August and September dropped to 3.7%, providing a reason for the Fed to maintain current rates (or "pause") during its last two meetings in September and early November 2023. This has also raised hopes that the Fed may be approaching the end of its rate hike cycle. Markets reacted accordingly. The S&P 500 gained 8.88% in November (through 11/24/23).

Even during periods of interest rate "pauses", the Fed's decisions on interest rates could continue to influence market movements. During the last seven pauses, spanning the period from 1984 to 2019, on average, markets had positive performances during these times, with the S&P 500 generating an average 11% return and the Bloomberg US Aggregate yielding an average 7% return. The duration of these "pauses", measured from the last rate hike to the first rate cut, was relatively brief. Historically, the pauses ranged from 1 to 14 months, with an average length of just under 6 months (see Chart 2).

Although the Fed's work may not be not finished, a pause may imminent. And historically, both equities and bond markets have performed well during Fed rate pauses.

SAVE THE DATE

Upcoming Webinar in February

EPN 2024 Conference, Endowment Pre-Conference

Digital Session: Are You Ready for New Endowment Gifts?

Whether you are just starting your first endowment, establishing a new fund, or rethinking your existing endowment, this session will address what leaders need to know to create, manage, and oversee endowments today. Hear from leaders at the Episcopal Church Foundation so that you can be ready for new gifts, for an unexpected conversation with a donor, and to define the needs of your church for the future.

This session is ideal for:

- New endowment committee members or trustees, and new vestry or board members
- Lay and clergy leaders looking into the potential of endowments
- Endowment leaders seeking a baseline for comparison

This webinar is a primer on endowment management in advance of EPN's conference in Houston on March 6-8, 2024, where our Pre-Conference Sessions will include presentations and discussion on current issues in endowment management, planning sessions to improve oversight and performance, and practical advice from case studies.

Panelists include Carsten Sierck, Director of Endowment Management, Episcopal Church Foundation and Anne Richardson, Senior Program Director for Investor Relations, Episcopal Church Foundation.

Tuesday, February 6, 2024 at 3 pm Eastern

Registration Info Available Soon

ecf Endowment Management

Carsten Sierck
(347) 803-9389 | csierck@ecf.org

Anne Richardson
(800)-697-2858 | arichardson@ecf.org

Aline Sun
(212) 870-2842 | asun@ecf.org

Juliette Acker
(800)-697-2858 | jacker@ecf.org

Josh Anderson
(212) 870-2841 | janderson@ecf.org

Brad Roberts
(212) 870-2857 | broberts@ecf.org