Covenant Asset Management, LLC

First Quarter 2022 Investment Perspectives

Economic and Financial Markets Review & Outlook

Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review third quarter results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

Key Themes

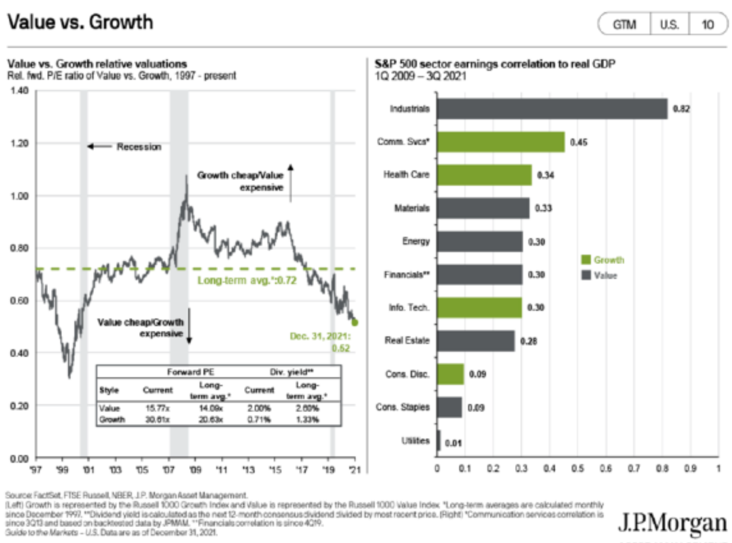
1. Major stock market indexes registered their third straight annual double-digit gains in 2021.
2. The 2021 market rose on low interest rates, government stimulus and a huge rebound in corporate earnings.
3. Labor shortages and supply constraints, significant issues in 2021, will likely remain key concerns as 2022 begins.
4. Rising inflation caught the Fed off guard in 2021, but recent comments by Fed officials indicate that monetary policy will become less accommodative soon.
5. As the world enters its third year dealing with the Covid-19 pandemic, widespread availability of vaccines, natural immunity from previous infections and new anti-viral medications signal a transition from pandemic to endemic in 2022.

In 2021 stocks rose to record high levels propelled by low interest rates, government stimulus and a huge rebound in corporate earnings. The S&P 500 returned 28.7%, the DJIA 20.9% and Nasdaq 22.2%, the third straight year of double-digit gains for the market averages. S&P 500 earnings likely grew by 45%, a robust rebound from depressed levels in 2020 caused by pandemic-related economic shutdowns. The Federal government and Federal Reserve Bank continued to provide massive economic stimulus in 2021 which buoyed the economy and financial markets. The flip side of this stimulus is it also contributed to labor shortages and a spike in inflation. Covid-19 continued to affect humanity and world economic behavior in 2021, while financial markets looked ahead to a more normalized post-pandemic environment.

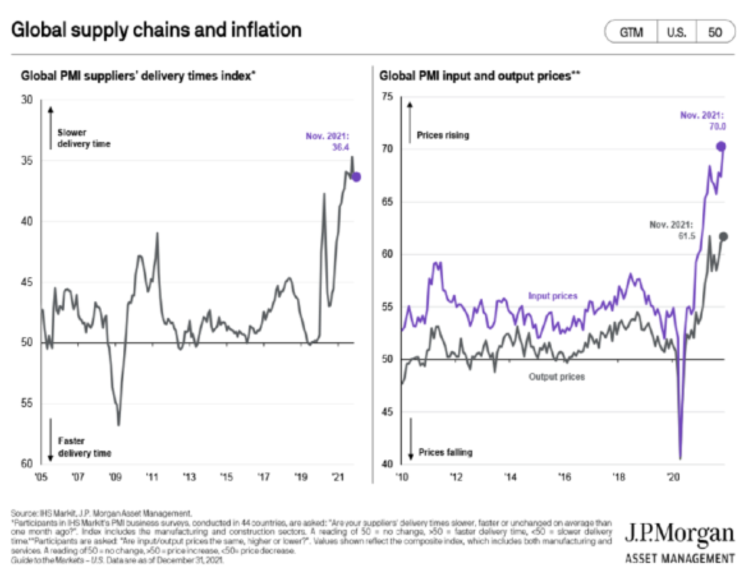
With federal government fiscal stimulus diminished and monetary stimulus likely to end in the first quarter, 2022 is likely to be a more volatile year than the past three. Except for the panic selling in March 2020, when markets dove by 35% in three weeks before quickly rebounding, investors have not been confronted with a correction exceeding 5% since late 2018. A directional change in monetary policy, no matter how well signaled, may be enough to trigger a more significant pullback at some point this year. It is never comforting for investors to consider an environment where the Fed will be ending its asset purchase program and raising short-term interest rates in the midst of an expected deceleration in economic and corporate earnings growth. The length and severity of any correction will likely be determined by inflation expectations and the rapidity of Federal Reserve Bank interest rate hikes. If market participants believe the Fed is moving too aggressively in raising rates, the correction will likely be harsher and more punishing to interest rate sensitive categories like stocks with high valuation levels.

Economic and Financial Markets Challenges

Twenty twenty-one was a great illustration of what happens when interest rates rise and fall. Early in the year, highly valued growth stocks performed relatively well as rates remained low. By mid-February when ten-year U.S. Treasury Note yields jumped from 1.30% to 1.75% in a matter of weeks, a rotation from growth stocks to value stocks occurred and lasted until early May. When investors became concerned about the Covid-19 delta variant threatening to cause an economic slowdown, the ten-year U.S. Treasury yield reversed course and eventually dropped back below 1.30% by August, triggering a rotation back to growth stocks. Investors trying to anticipate these rotations could easily have been whipsawed by selling too late or buying too early and are cautioned that 2022 could experience a similar ebb and flow between growth and value. Another concern for investors are any legislative initiatives that might effect economic growth or individual or corporate tax rates. In Congress, there's currently no clear path for another massive spending bill right now. However, with mid-term elections approaching in November and prospects for a change in control of Congress likely, Democrats are determined to pass some legislation before their power is diminished. A smaller or more focused bill is still possible in coming weeks. The characteristics of any legislation will determine if there are any worrisome provisions investors need to consider in their decision making.

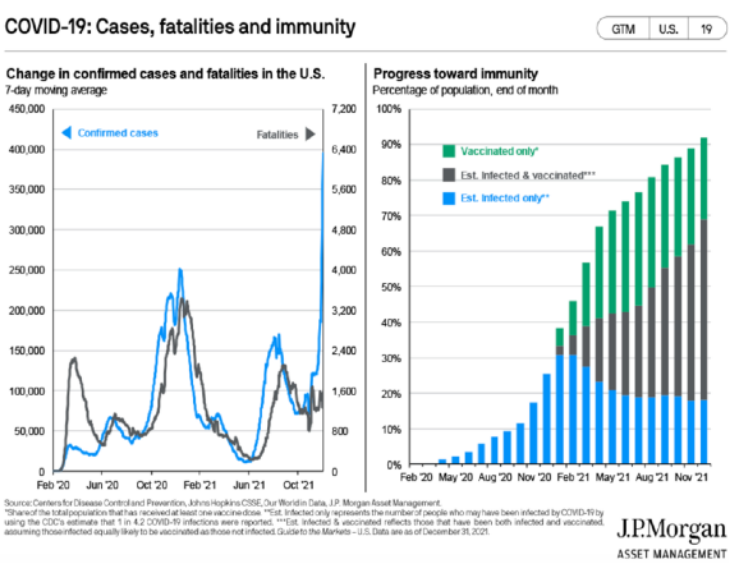


Supply constraints in many areas of the economy may also continue to influence the economy and investment opportunities. Early in the pandemic, major sectors shut down for certain lengths of time to protect workers from catching and spreading the virus. Governments and central banks around the world distributed financial support to businesses and individuals to tide them over until conditions normalized and economies fully re-opened. The massive financial support triggered a surge in demand, particularly for goods, as the service sector has still not returned to normal operations. Surging demand coupled with still constrained supply in raw materials, manufactured products (including semiconductors), and labor have pushed prices higher.   Until these supply issues are corrected, higher levels of inflation will remain a problem for businesses and consumers. Companies that have pricing power or are not labor or capital intensive are best positioned to thrive in inflationary periods.



Economic and Financial Markets Challenges

Covid-19 will continue to impact both the economy and financial markets in 2022. Mass vaccinations and newly approved anti-viral pills are expected to allow the U.S. and other developed nations to transition away from dealing with Covid-19 as a pandemic and accepting the virus as endemic and learning to live with it as another health risk. Testing needs to become more rapid, available and accurate; and treatment protocols need to be in place before this transition can fully occur. Political leaders and health experts continue to grapple with how best to deal with a virus that is highly contagious, regardless of vaccination status. Fortunately, the most recent Omicron variant does not appear to be as virulent as earlier strains of Covid-19 and many individuals testing positive are either asymptomatic or have mild, cold-like symptoms. This does not suggest there are no health risks, especially for high risk individuals, but the latest data indicates death rates from Omicron are similar to that of the flu. A big question for investors is whether policymakers will continue with restrictions and mandates as waves of Covid-19 and its variants hit different regions of the country or world. These restrictions and mandates, while well intended, do have real world economic and other health consequences for society to deal with.



Geo-political risks have the potential to rise to the top of investor concerns given increasing tensions in Taiwan, Ukraine, Iran and elsewhere. China, Russia and Iran, amongst other countries would benefit by a less influential United States. One or more of these countries, could decide to become more aggressive in expanding their economic or military power.

From an investment strategy standpoint, we believe we are now in the middle of an economic expansion and there is no immediate reason to suggest a recession will occur this year. With inflation a current concern and the Fed becoming less accommodative regarding monetary policy, stocks are expected to perform better than bonds once again. We prefer high yield bond funds relative to high grade bonds or bond funds and prefer shorter duration bond funds at this time. We also believe modest allocations to foreign stocks and other asset classes such as real estate (through REITs) and energy-related master limited partnerships (MLPs) for investors in need of income are appropriate.

We look forward to speaking or meeting with you concerning your individual objectives in the near future and wish you a happy, healthy and prosperous New Year!

Economic and Financial Markets Charts

Inflation

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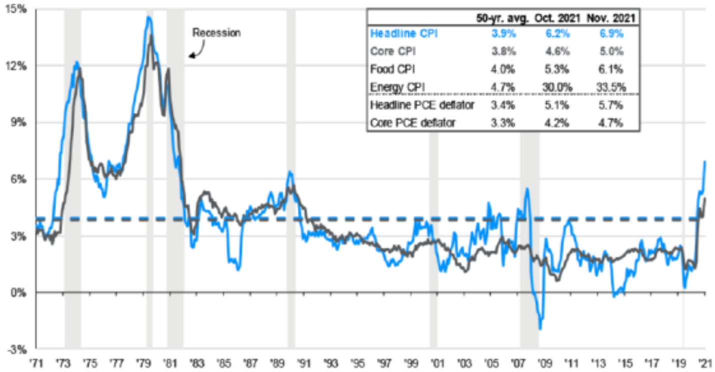
CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Oct. 2021	Nov. 2021
Headline CPI	3.9%	6.2%	6.9%
Core CPI	3.8%	4.6%	5.0%
Food CPI	4.0%	5.3%	6.1%
Energy CPI	4.7%	30.0%	33.5%
Headline PCE deflator	3.4%	5.1%	5.7%
Core PCE deflator	3.3%	4.2%	4.7%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of December 31, 2021.

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The Fed and interest rates

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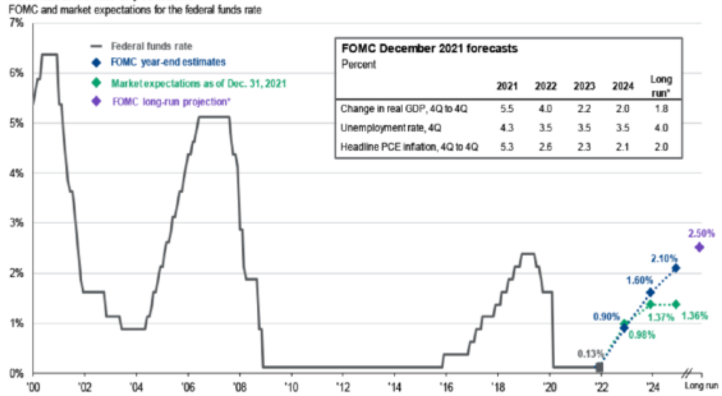
Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC December 2021 forecasts

Percent

	2021	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	5.5	4.0	2.2	2.0	1.8
Unemployment rate, 4Q	4.3	3.5	3.5	3.5	4.0
Headline PCE inflation, 4Q to 4Q	5.3	2.6	2.3	2.1	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the USD Overnight Index Forward Swap rates. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of December 31, 2021.

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Interest rates and inflation

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Nominal and real U.S. 10-year Treasury yields

	Average (1958 - YTD 2021)	Dec. 31, 2021
Nominal yields	5.82%	1.51%
Real yields	2.20%	-3.45%
Inflation	3.62%	4.96%

Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.
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Yield curve

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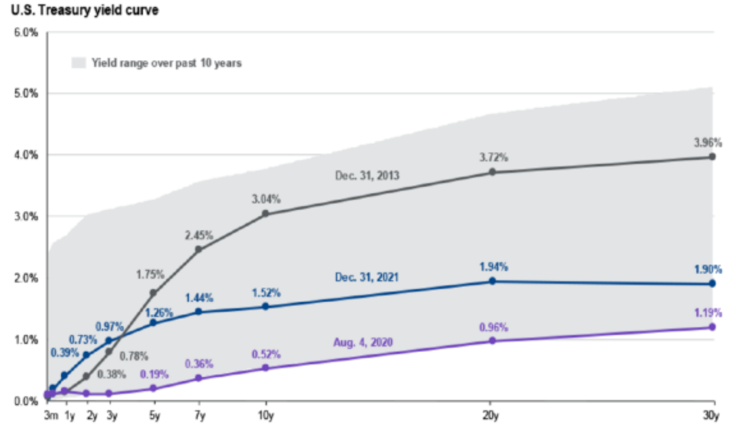
U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. 12/31/2013 is the date the yield curve reached one of its steepest levels in reaction to the Fed announcing it would begin paring down its bond-buying program. 08/04/2020 is the date of a record low on the 10-year, driven by safe haven demand and pessimism around the U.S. pandemic recovery.
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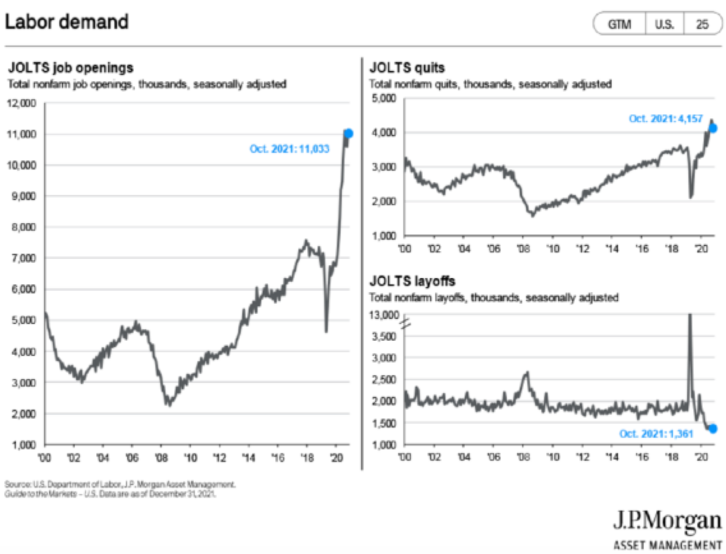
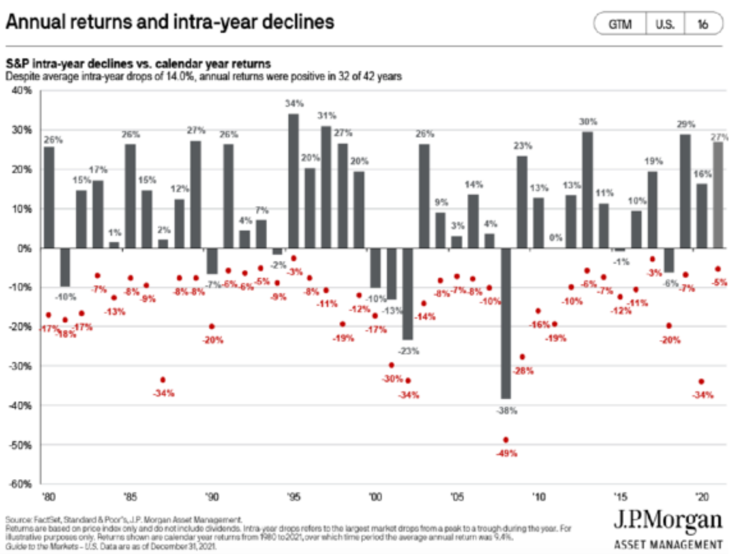
Economic and Financial Markets Charts





Asset class returns

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2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2007 - 2021 Ann.	2007 - 2021 Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.4%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2021.

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*Any performance-related data listed in this report may represent un-audited results compiled by Covenant Asset Management or others. It could be intended to reflect results that are indicative of Covenant's individual client's equity performance who religiously invest according to our model portfolios. This performance data represents past performance and individual client results may vary materially. Past performance does not guarantee future results and current performance may be higher or lower than the performance data quoted.

Covenant
Asset Management, LLC

125 Maple Avenue,
Chester, NJ 07930

www.covasset.com

Main: (908) 879-4090
fax: (908) 879-6468