Covenant
Asset Management, LLC

First Quarter 2023

Economic and Financial Markets Review & Outlook

Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review fourth 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. 2022 counts as the worst year in the stock market since 2008.
2. Bonds sustained their worst performance in over four decades.
3. Inflation may have peaked, but is still much too high.
4. The Fed seems determined to raise rates until inflation is back under control, regardless of the economic consequences.
5. Markets continue under pressure as we enter 2023, and will likely remain so until investors believe the Fed's mission to reign in inflation is complete.

S&P 500 Index at inflection points

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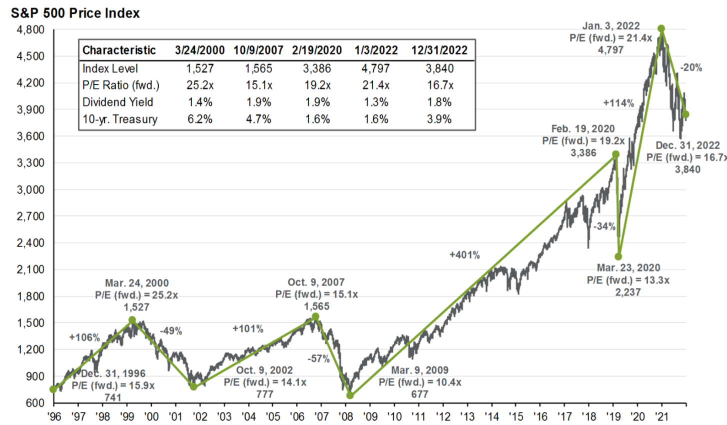
Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	12/31/2022
Index Level	1,527	1,565	3,386	4,797	3,840
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	16.7x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.8%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.9%



Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2022.

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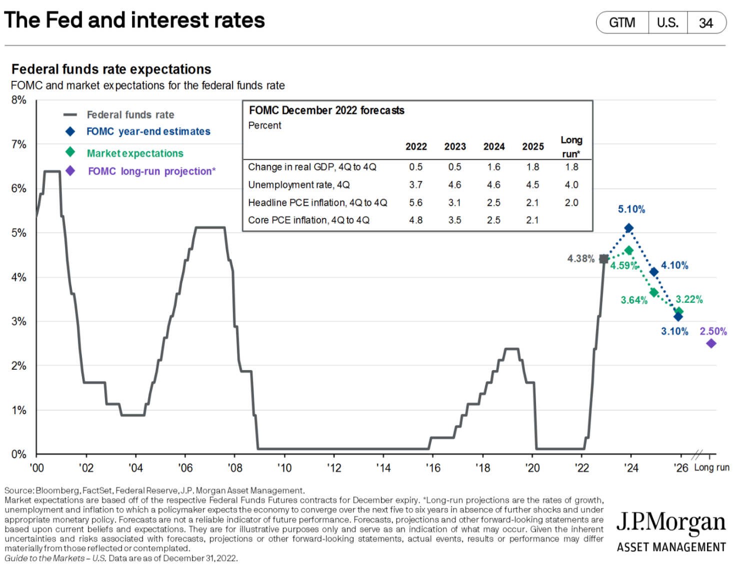
Investors are happy to turn the page on the year 2022. After three years of well-above-average returns, stock indices realized their worst calendar year performance since the financial crisis in 2008. While the Dow Industrials were down only 8.8%, the S&P 500 declined 19.4% and Nasdaq tumbled 33.1%. Many growth stocks and growth indices were down anywhere between 35% to 65%. The bear market in stocks is a direct result of the Federal Reserve Bank's mission to drive the highest inflation rates in more than forty years back to a sustainable level near 2%. Bonds had a similarly difficult year, the worst since the inflationary period in the early 1980s, for the same reason as stocks. Commodities and energy, traditional inflation hedges, were amongst the few exceptions to negative returns in 2022.

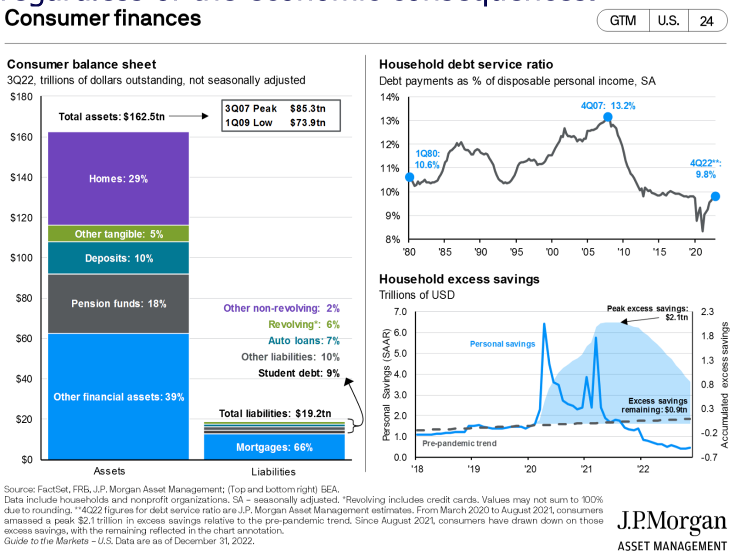
By now, most investors understand that the pandemic, war in Ukraine and poor economic policy decisions have led to the highest inflation levels since the early 1980s. The federal government's excessive spending has contributed to the spike in inflation during 2022 and seemingly has been at odds with the Fed's efforts to reign in inflation. After waiting far too long to begin tightening monetary policy, the Fed became fully engaged by May 2022. In a series of rate hikes, the Fed lifted the Fed Funds rate by more than 4 percentage points from May to December 2022, in one of the fastest upward rate adjustments in U.S. history. In an additional monetary tightening move, the Fed began shrinking its balance sheet of nearly $9 trillion of government and mortgage-backed securities by almost $100 billion per month. During the pandemic, supply chains were broken, as many businesses were forced to shut down. During 2021 and 2022, supply chains were slowly restored, but the war in Ukraine and low energy supplies contributed to energy and commodity price spikes.

Government spending provided an unprecedented level of pandemic-related stimulus which caused consumer savings to swell during a time when people were largely shut in their homes. When people returned to traveling, eating out and shopping in stores, service and wage inflation

Economic and Financial Markets Challenges

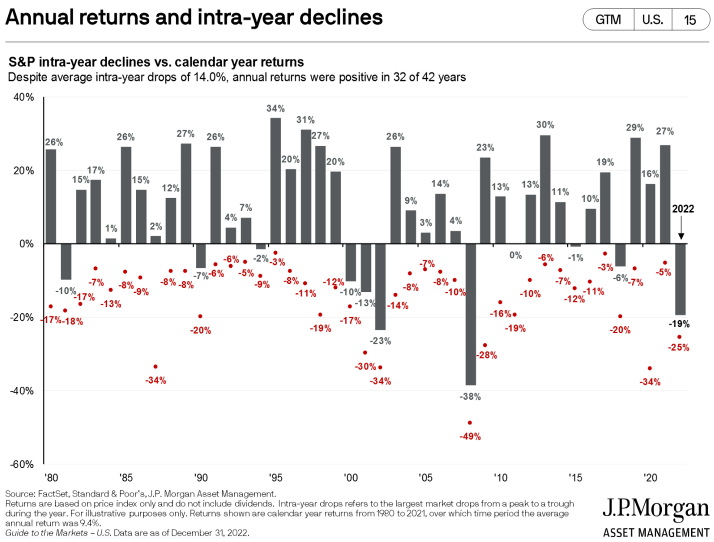


jumped. The excess pandemic-related savings, however, are expected to be depleted by the summer of 2023. Credit card debt and payment delinquencies are rising and there are signs that the U.S economy is weakening in many interest-rate sensitive sectors. Housing, autos and many goods-producing industries are experiencing softness. Commodity and energy prices have declined materially from their peak levels last summer. The risk of recession is high, especially if the Fed continues to raise the Fed Funds rate as the economy slows. Yet, Fed officials continue to express the importance of lowering inflation, regardless of the economic consequences.



Put another way, the Fed is willing to crush demand and put people out of work in order to achieve its goals. We believe a determined Fed will be successful in reigning in inflation, but unlikely to do so without triggering a recession. In most recessions, the Fed and the Federal government would typically come to the rescue with stimulative policies intended to restore economic growth. This time, the Fed will likely delay monetary stimulus until it is confident inflation is under control. The new Republican-controlled House of Representatives will also likely be slow to agree to any material fiscal stimulus without accommodations on tax or regulatory relief from the Democrat-controlled Senate, both supply-side measures.

After significant declines in 2022, we believe markets should fare better in the year ahead. We enter the new year with market momentum to the downside. Uncertainty surrounding the extent and duration of Fed Funds rate increases continues to weigh on financial markets. A Fed pause in raising rates would likely provoke a strong move higher in stocks. Nevertheless, a durable recovery and return to a bull market would be unlikely to occur until the Fed begins cutting the Fed Funds rate and investors expect a healthy, low inflation economic rebound.



Economic and Financial Markets Challenges

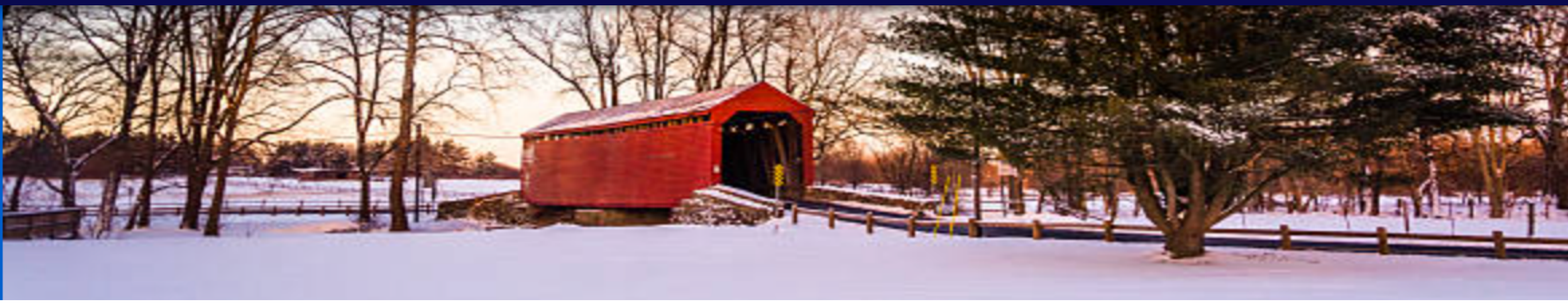
Growth stocks endured the brunt of the declines last year. At the peak of the bull market in the Fall of 2021, large-cap growth stocks were heavily owned in investor portfolios. The top 5 stocks by market capitalization at that time (Apple, Microsoft, Amazon, Google and Tesla) represented 27% of the S&P 500 market weight. Berkshire Hathaway has replaced Tesla amongst the top 5, but after shedding nearly $3 trillion of market cap, they now represent 18.7% of the S&P 500 Index. Growth stock valuation levels are much more reasonable today than during their peak 2021 levels. Going forward, weak and declining earnings, not high valuation levels, are likely to be the greatest headwind for strong growth stock performance. Consumers and businesses loaded up on technology products during the pandemic shut-down which created a need to work remotely or for video gaming. With personal and business life getting back to normal in 2022, demand for many tech products has fallen. Within a year or so, however, we expect demand for PCs, smart phones, video games and other consumer and business electronics products to turn higher. Lower valuations, coupled with rising demand, should then draw investors back to investing in technology and other growth stocks.

Until technology demand improves and tech stocks return to favor, we believe investors will benefit from a diversified mix of stocks that include not only technology, but also healthcare, industrials, consumer, communications and energy. For the first time in nearly twenty years, investors can earn a reasonable rate of return on high quality bonds. U.S. Treasury securities, depending on maturity date, yield near or above 4%. High grade government or corporate bonds can yield an additional 1/2% to 1% above Treasuries. Investors in high tax brackets can earn taxable equivalent returns of 5.5% to 7% in high-grade tax-exempt bonds. Lower-grade bonds now yield 7% to 10%, depending on credit quality and maturity date.

Fixed-income investors are advised to extend maturity dates in a laddered structure between 1 and 5 years or more, as it is unlikely interest rates will remain at current levels if the Fed is successful in reigning in inflation. Energy master limited partnerships also look attractive for investors seeking current income with many yielding in the 6% to 8% range. REITs may offer longer-term potential, but don't appear to be as attractive presently as other high yield alternatives. Diversification across asset classes and different investment styles is generally considered the best method of reducing risk. After a difficult 2022, odds favor a rebound at some point in 2023 with a good chance the next bull market in stocks and bonds will begin in the the next 12 to 24 months.

We wish everyone a heathy, happy and prosperous New Year. Your Covenant financial advisor looks forward to speaking or meeting with you soon to review your individual needs and objectives.

Economic and Financial Markets Charts



S&P 500 valuation measures

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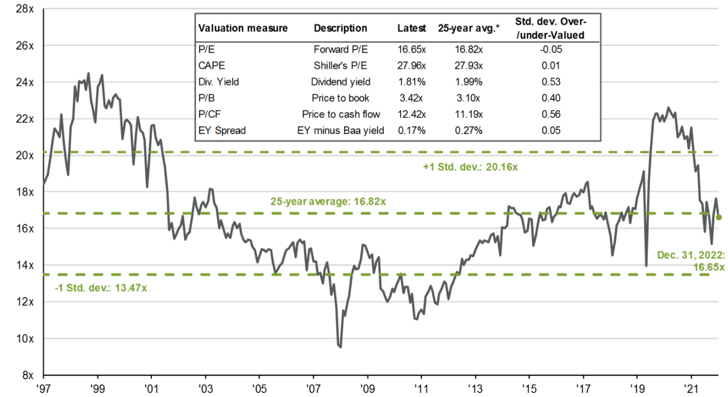
S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.65x	16.82x	-0.05
CAPE	Shiller's P/E	27.96x	27.93x	0.01
Div. Yield	Dividend yield	1.81%	1.99%	0.53
P/B	Price to book	3.42x	3.10x	0.40
P/CF	Price to cash flow	12.42x	11.19x	0.56
EY Spread	EY minus Baa yield	0.17%	0.27%	0.05

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $231. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.
Guide to the Markets – U.S. Data are as of December 31, 2022.

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Consumer confidence and the stock market

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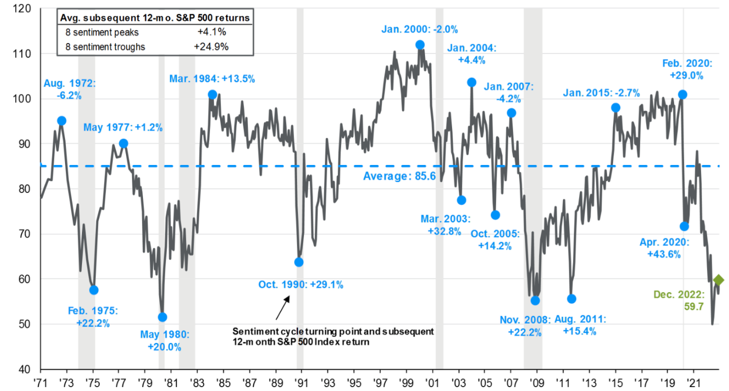
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
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Labor demand

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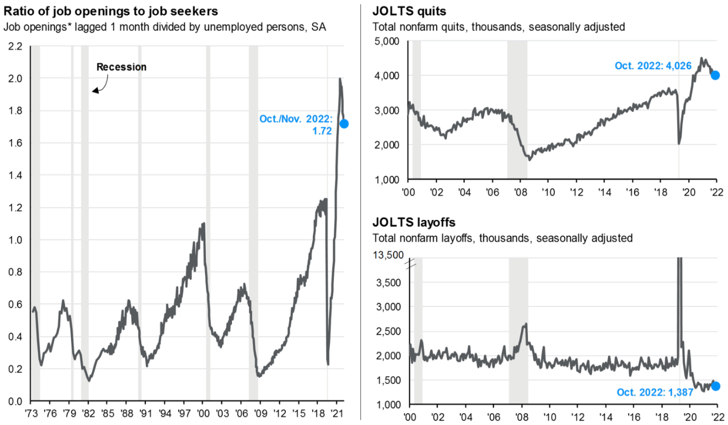

Source: U.S. Department of Labor, J.P. Morgan Asset Management. *JOLTS job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of December 31, 2022.

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Unemployment and wages

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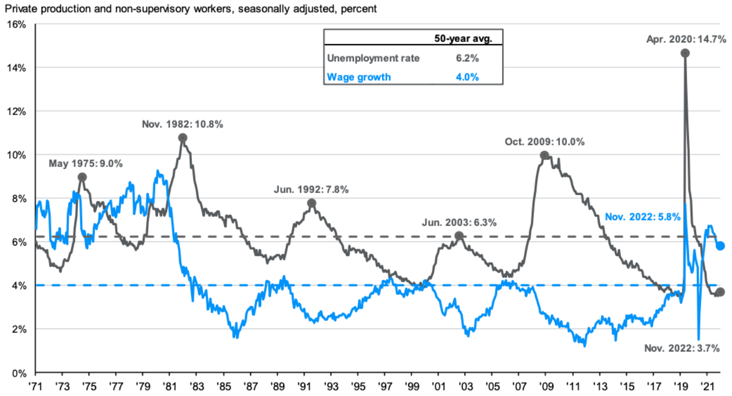
Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.
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Economic and Financial Markets Charts

Inflation

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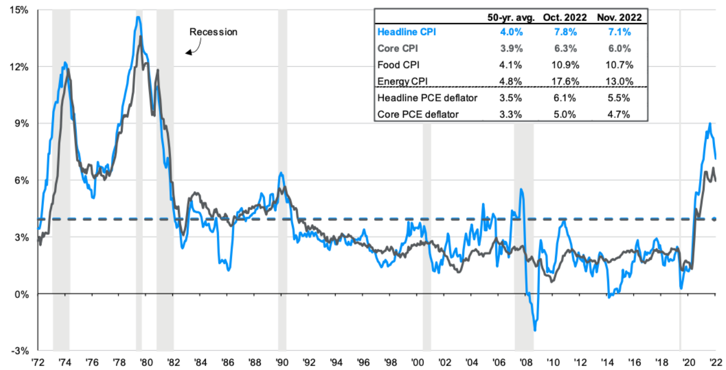
CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Oct. 2022	Nov. 2022
Headline CPI	4.0%	7.8%	7.1%
Core CPI	3.9%	6.3%	6.0%
Food CPI	4.1%	10.9%	10.7%
Energy CPI	4.8%	17.6%	13.0%
Headline PCE deflator	3.5%	6.1%	5.5%
Core PCE deflator	3.3%	5.0%	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.
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The Fed and interest rates

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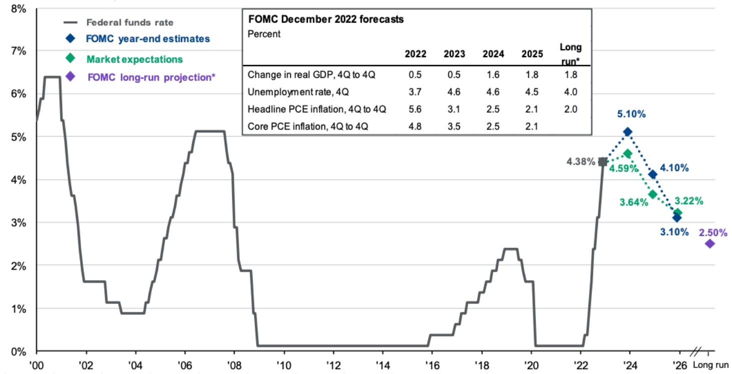
Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC December 2022 forecasts

Percent

	2022	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.5	0.5	1.6	1.8	1.8
Unemployment rate, 4Q	3.7	4.6	4.6	4.5	4.0
Headline PCE inflation, 4Q to 4Q	5.6	3.1	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	4.8	3.5	2.5	2.1	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *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.
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Yield curve

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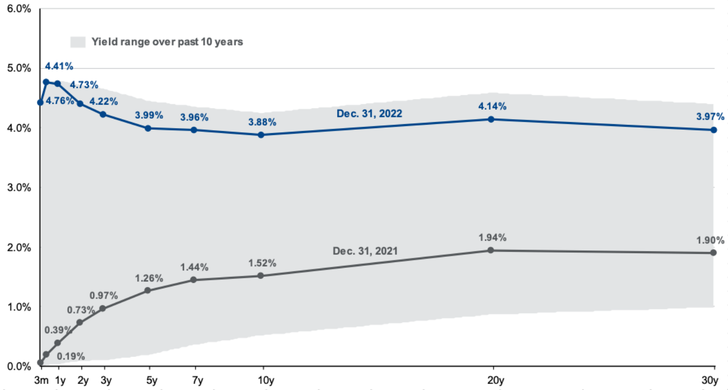
U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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Global supply chains and inflation

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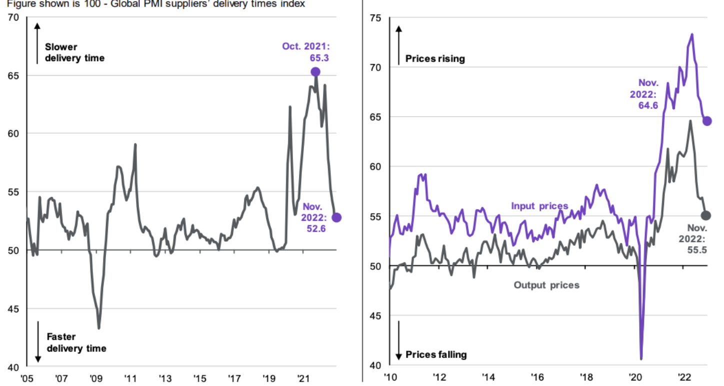

Source: Standard & Poor's, J.P. Morgan Asset Management.
*Participants in Standard & Poor's PMI business surveys, conducted in 44 countries, are asked: "Are your suppliers' delivery times slower, faster or unchanged on average than one month ago?". Index includes the manufacturing and construction sectors. PMI score reflected above is 100 – PMI report by Standard & Poor's. A reading of 50 = no change, <50 = faster delivery time, >50 = slower delivery time.**Participants are asked: "Are input/output prices the same, higher or lower?". Values shown reflect the composite index, which includes both manufacturing and services. A reading of 50 = no change, >50 = price increase, <50= price decrease.
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Economic and Financial Markets Charts

Asset class returns

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															2008 - 2022	
2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Ann.**	**Vol.**
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%	Comdty. 16.1%	Large Cap 8.8%	REITs 23.4%
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%	Cash 1.5%	Small Cap 7.2%	Small Cap 23.2%
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%	High Yield -12.7%	REITs 6.6%	EM Equity 23.0%
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%	Fixed Income -13.0%	Asset Alloc. 6.1%	Comdty. 20.2%
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. 13.5%	Asset Alloc. -13.9%	High Yield 5.4%	DM Equity 20.0%
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%	DM Equity -14.0%	Fixed Income 2.7%	Large Cap 17.7%
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%	Large Cap -18.1%	DM Equity 2.3%	High Yield 13.0%
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%	EM Equity -19.7%	EM Equity 1.0%	Asset Alloc. 12.4%
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%	Small Cap -20.4%	Cash 0.6%	Fixed Income 4.2%
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%	REITs -24.9%	Comdty. -2.6%	Cash 0.4%

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 12/31/2008 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.
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