Covenant
Asset Management, LLC

First Quarter 2024
Investment Perspectives

CELEBRATING 25 YEARS OF EXCELLENCE

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.

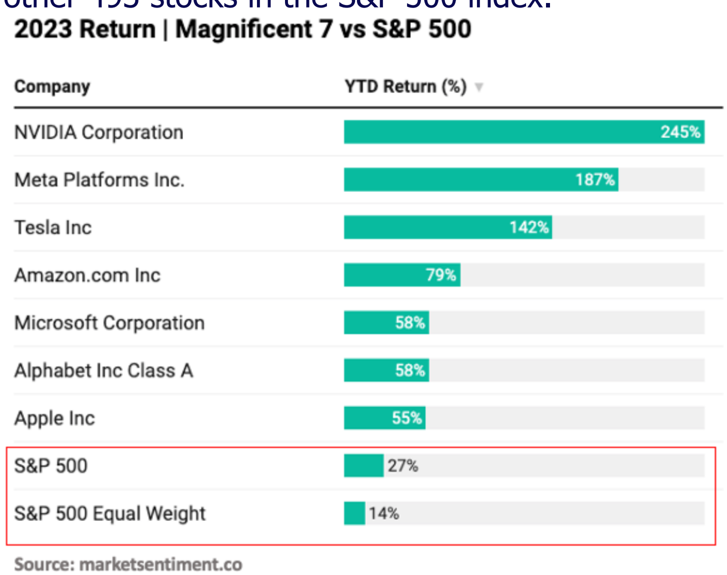
Key Themes

1. 2023 provided plenty of surprises in the economy and financial markets.
2. Bonds and stocks sustained a furious rally the last two months and enter 2024 with a lot of positive momentum.
3. Big-tech and AI led the stock market higher for most of the year before broadening out to small caps and other sectors in the final weeks of 2023.
4. Investors are expecting up to 150 basis points of Fed fund rate cuts in 2024, beginning as early as March.
5. Geopolitics could play an important role in financial markets with two major wars ongoing and important elections in many countries, including the U.S.

Investment Returns		
Benchmark	2023	2022
DJIA	16.25%	-6.86%
S&P 500	26.64%	-18.11%
Nasdaq	45.45%	-32.54%
Lipper Equity Income	10.30%	-5.58%
Russell 2000 (SmallCap)	18.73%	-20.43%
Bloomberg Aggregate Bond Index	5.54%	-13.01%
Bitcoin	154.37%	-65.01%
Gold	13.16%	0.40%
Oil	-10.00%	6.71%

Contrary to most economists' predictions, the U.S. economy did not enter into a recession in 2023. Inflation slowed and consumer spending remained strong, but inflation persisted above the Fed's 2% target. The decline in inflation and peak in interest rates was enough to produce a robust rebound in the value of financial assets. After the drubbing that occurred in 2022, at this time last year virtually no one was predicting a strong year for stocks. As it turned out, 2023 was nearly the opposite of 2022. The adjacent table reveals that the weakest indexes in 2022 rebounded and became the best performers last year.

To combat inflation, the Federal Reserve Bank raised interest rates at the fastest pace since the early 1980s. A consequence was the failure of several regional banks, including Silicon Valley Bank, in a six week period between mid-March and May 1. The Fed and U.S. Treasury acted quickly to prevent a spiraling crisis, and, after a brief correction, stocks rose. The recovery in stocks was predicated on investors' expectations that the Fed would soon end its rate hikes and pivot to lower rates, as the economy and inflation slowed. The S&P 500 and Nasdaq were up sharply by the end of July, but the rise was concentrated in a handful of stocks. The term "The Magnificent Seven" was coined at that time to reflect how much the rise in major stock indexes was determined by seven large-cap technology stocks - Nvidia, Microsoft, Apple, Alphabet, Amazon, Meta and Tesla. The following table shows just how much influence these seven companies had compared to the other 493 stocks in the S&P 500 index.

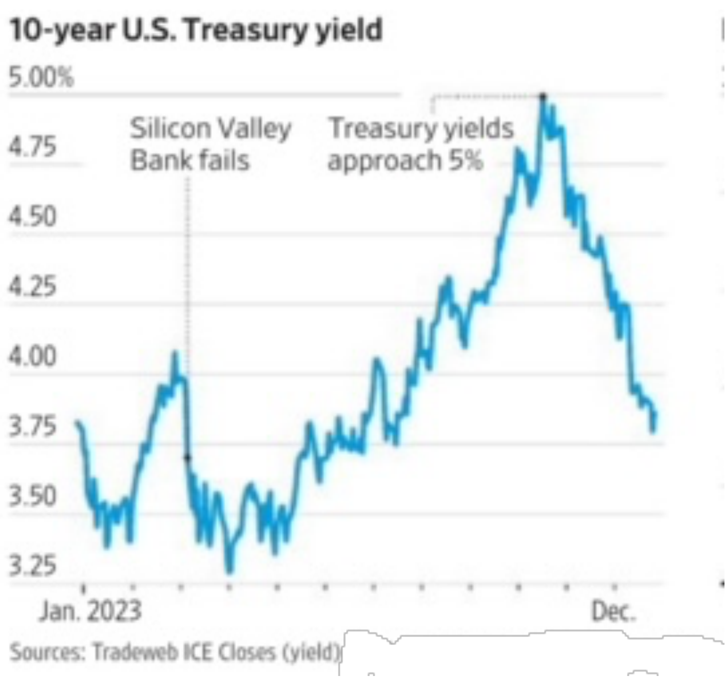


Economic and Financial Markets Challenges

Driving the performance of several of these leaders was the mania surrounding artificial intelligence (AI). The craze began early in January 2023, when Microsoft announced a $10 billion investment in OpenAI, the creator of the generative AI software known as ChatGPT. A couple of weeks later, Microsoft announced it was integrating the AI technology behind ChatGPT into its Bing search engine. Alphabet responded the next day by announcing its own version of AI, a chatbot named Bard, would be integrated into its popular Google search engine. The AI boom accelerated on May 25, when Nvidia stock surged 24% on blowout earnings and guidance related to demand for AI and data center chips. As the year progressed, investors identified additional perceived AI beneficiaries, driving other semiconductor and software stocks higher.

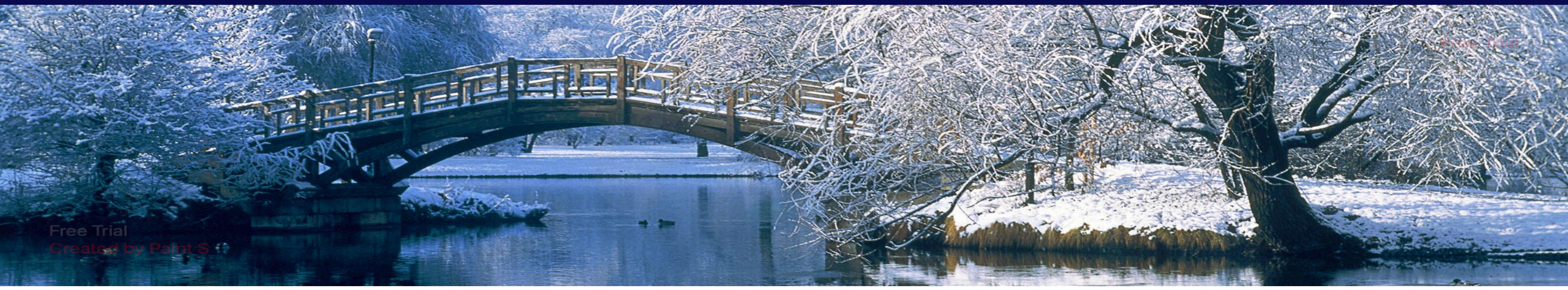
The rally in stocks stalled at the end of July and the market corrected harshly in the seasonally weak months of September and October. Bond yields jumped to the highest levels in nearly twenty years on concerns the Fed would keep the Fed Funds rate higher for longer. In addition, investors were worried that the federal government's enormous borrowing needs would keep bond yields elevated, even after the Fed began to lower short-term interest rates. Interest rates peaked in late October when the yield on the 10-year Treasury note pierced 5% for the first time since 2007.

The first few days of November proved pivotal, when the November Fed meeting and October jobs report both created the sense that the Fed was done raising the Fed Funds rate and the next move for monetary policy would be rate cuts. The change in sentiment caused a sharp rally in bonds and stocks. During the final two months of 2023, the 10-year U.S. Treasury bond yield dropped to 3.87%. Stock indexes surged, with the Dow Industrials gaining 14.5%, the S&P 500 14.1%, the Nasdaq 17.0% and the small-cap Russell 2000 22.4%. The year's laggards played catch-up as the market gained momentum into year-end. After such an impressive rally, there is always the possibility of a temporary pullback early in the new year. The biggest winners from 2023 are the most vulnerable to pullback risk, as taxable investors may have waited until a new tax year to take gains. But the recent improvement in market breadth and decline in volatility, measured by the VIX, increase the likelihood that the market rally will continue into early 2024.



The bullish trend for asset prices is sustainable further into 2024, unless the narrative changes. Markets are currently discounting a soft landing for the economy, with slower, but still positive growth. Investors are expecting 4 to 6 Fed Funds rate cuts by year-end, with the first cut expected as early as the March Fed meeting. Inflation is expected to continue falling toward the Fed's 2% target and S&P 500 earnings are projected to rebound to an 11% growth rate, up from 3% in 2023. Any material changes to these expectations could disrupt the rally in stocks and bonds.

Economic and Financial Markets Challenges



Geopolitical risks are more elevated than normal, with the war in Ukraine about to enter its third year and war in the Middle East expected to continue for some time. Any escalation of either or both of these conflicts that drags in other countries or compromises the supply of oil or other resources could unsettle financial markets. China continues its military buildup and talks of the inevitability of reunification with Taiwan. There are plenty of concerns that China may move unilaterally within the next few years to annex Taiwan, which could have broad ramifications for international relations and trade. Elections in more than 60 countries, representing half the world's population, are scheduled to take place in 2024. The implications of these elections could shake up global affairs and heighten geopolitical tensions. Perhaps the most important election for U.S. investors is our own Federal election on November 5, which will determine the Presidency and control of congress. The composition and control of the federal government could have significant economic consequences regarding the size of government spending and borrowing and tax policy for the next decade. There is also the matter of passing a 2024 federal budget. Any drama that results in shutting down the federal government or other political disruptions could affect financial markets and the November elections.

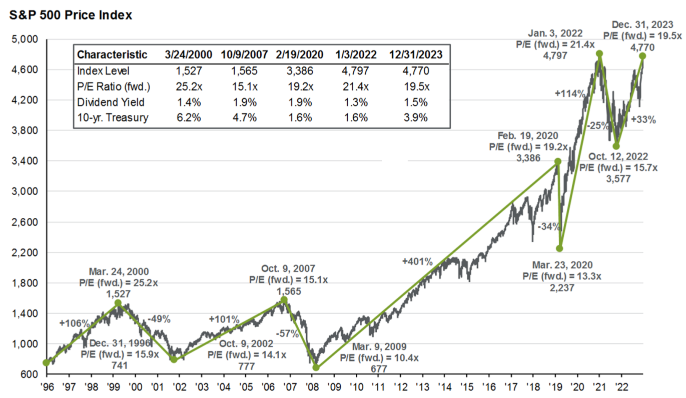
Notwithstanding the risks identified above, with inflation and interest rates well off their peak levels during this market cycle, financial markets are poised for another positive year. It is hard to imagine stocks could enjoy another year as strong as the last, but most strategists believe investors should look forward to healthy returns in most asset classes in 2024.

As Covenant enters its twenty-fifth year as an independent financial advisor, we are most appreciative of our clients and the relationships we've built together. We are grateful for your business and thankful for the continued opportunity to serve you. We look forward to another year of helping you achieve your financial goals and wish you and your family a healthy, happy and prosperous 2024!

Economic and Financial Markets Charts

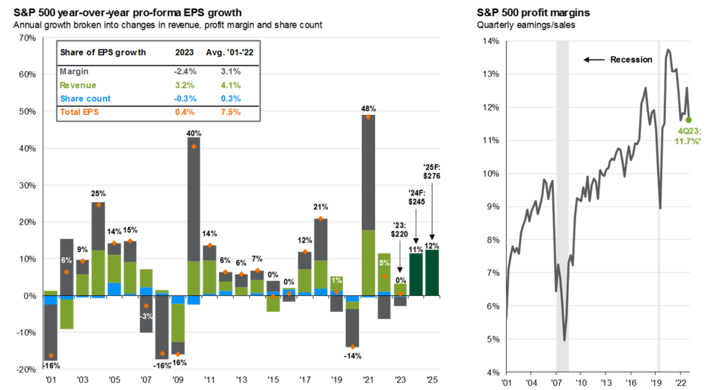
All charts below are sourced from JP Morgan Guide to Markets 12/31/2023

S&P 500 index at inflection points



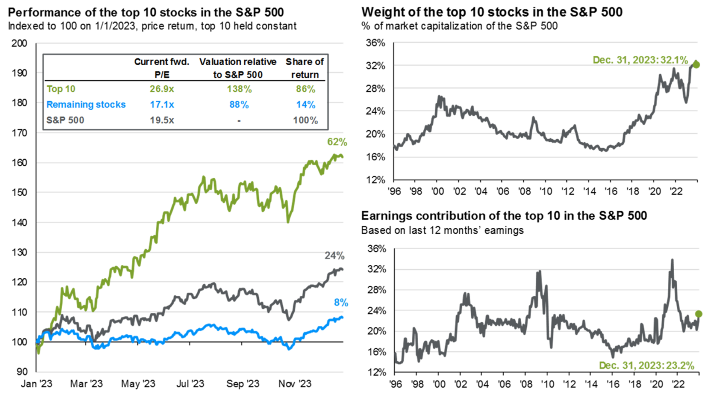
Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	12/31/2023
Index Level	1,527	1,565	3,386	4,797	4,770
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	19.5x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.5%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.9%

Sources of earnings growth and profit margins



Share of EPS growth	2023	Avg. '01-'22
Margin	-2.4%	3.1%
Revenue	3.2%	4.1%
Share count	-0.3%	0.3%
Total EPS	0.4%	7.5%

S&P 500: Index concentration



	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	26.9x	138%	86%
Remaining stocks	17.1x	88%	14%
S&P 500	19.5x	-	100%

Returns and valuations by style

10-year annualized

	Value	Blend	Growth
Large	8.4%	12.1%	14.9%
Mid	8.3%	9.5%	10.6%
Small	6.8%	7.2%	7.2%

2023

	Value	Blend	Growth
Large	11.5%	26.3%	42.7%
Mid	12.7%	17.2%	25.9%
Small	14.6%	16.9%	18.7%

Since market peak (February 2020)

	Value	Blend	Growth
Large	31.0%	50.0%	63.5%
Mid	31.3%	34.0%	31.8%
Small	34.4%	26.2%	15.1%

Since market low (March 2020)

	Value	Blend	Growth
Large	111.8%	126.5%	138.6%
Mid	132.1%	124.4%	105.0%
Small	136.3%	112.6%	87.1%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	14.9 / 13.7	19.5 / 15.6	26.5 / 18.9
Mid	15.0 / 14.5	17.1 / 16.4	26.4 / 20.5
Small	16.3 / 16.7	21.9 / 21.3	34.5 / 26.6

Current P/E as % of 20-year avg. PE

	Value	Blend	Growth
Large	108.9%	125.2%	140.3%
Mid	103.4%	104.7%	128.6%
Small	97.4%	102.8%	129.7%

Economic and Financial Markets Charts

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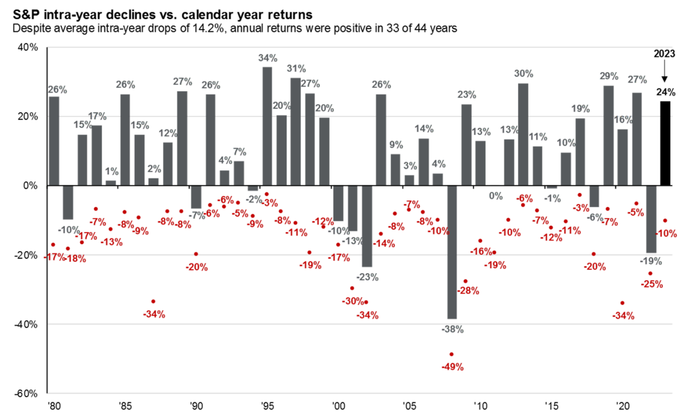
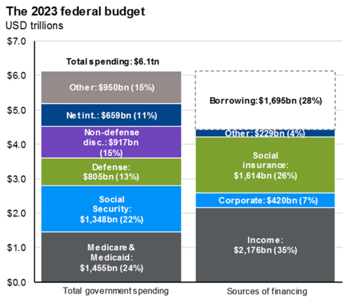
Annual returns and intra-year declines

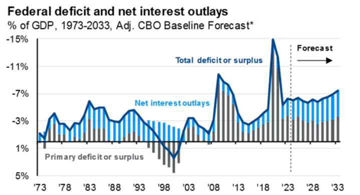


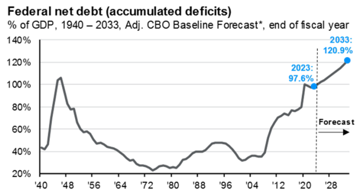
Federal finances



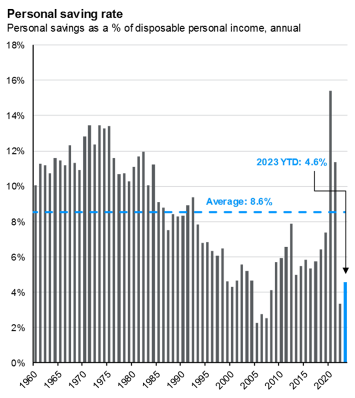
CBO's Baseline economic assumptions

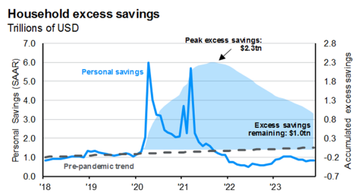
	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.9%	2.0%	2.4%	1.9%
10-year Treasury	4.0%	3.8%	3.8%	3.8%
Headline inflation (CPI)	3.3%	2.5%	2.1%	2.2%
Unemployment	4.1%	4.6%	4.5%	4.5%



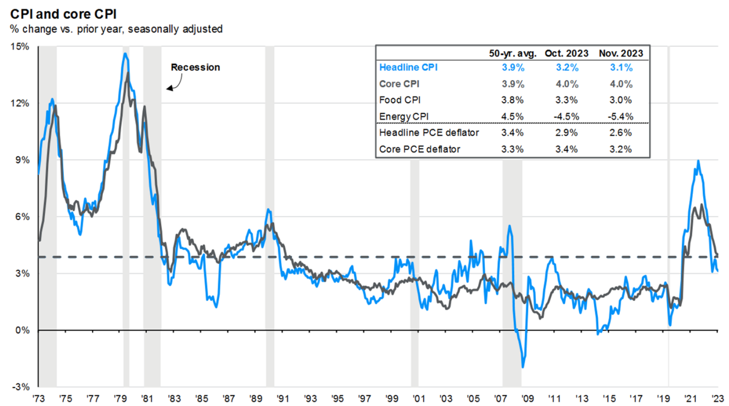


Consumer saving and borrowing





Inflation



	50-yr. avg.	Oct. 2023	Nov. 2023
Headline CPI	3.9%	3.2%	3.1%
Core CPI	3.9%	4.0%	4.0%
Food CPI	3.8%	3.3%	3.0%
Energy CPI	4.5%	-4.5%	-5.4%
Headline PCE deflator	3.4%	2.9%	2.6%
Core PCE deflator	3.3%	3.4%	3.2%

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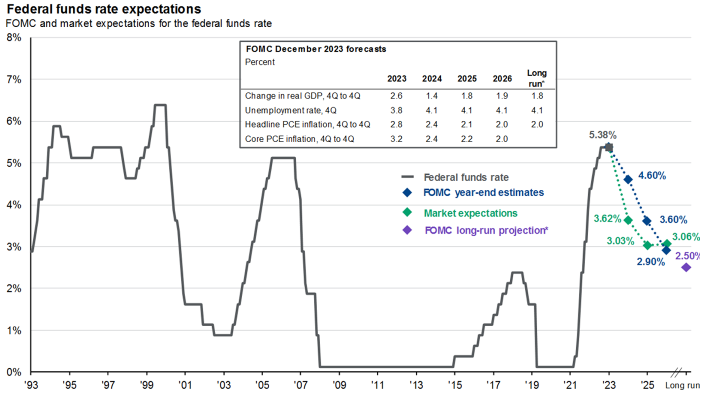
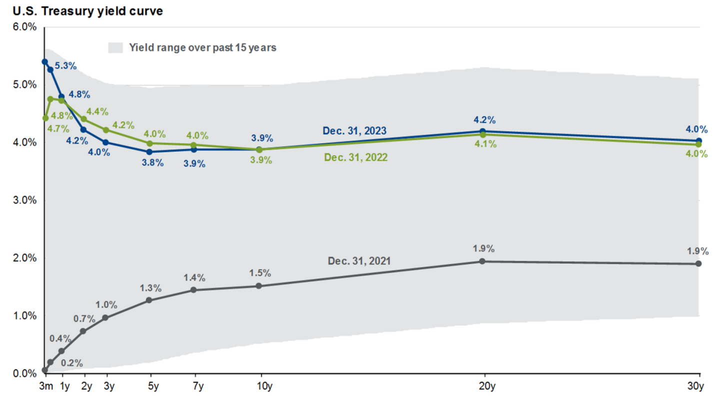
The Fed and interest rates



Yield curve



Asset class returns

2009-2023																	
Ann.	Vol.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Large Cap 14.0%	Small Cap 21.9%	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 26.3%
Small Cap 11.3%	REITs 21.2%	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%	Cash 1.5%	DM Equity 18.9%
REITs 10.9%	EM Equity 20.3%	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%	Small Cap 16.9%
High Yield 8.6%	DM Equity 18.4%	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. 14.1%
Asset Alloc. 8.1%	Comdty. 16.6%	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 14.0%
DM Equity 7.4%	Large Cap 16.1%	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%	REITs 11.4%
EM Equity 6.9%	High Yield 11.5%	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%	EM Equity 10.3%
Fixed Income 2.7%	Asset Alloc. 11.5%	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%	Fixed Income 5.5%
Cash 0.8%	Fixed Income 4.5%	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 5.1%
Comdty. -0.2%	Cash 0.7%	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%	REITs -24.9%	Comdty. -7.9%

*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.

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