Covenant Asset Management, LLC

Second Quarter 2022

Investment Perspectives

Economic and Financial Markets Review & Outlook

Key Themes

1. A rapid reversal in monetary policy pressured financial markets in the first quarter of the year.
2. Rising inflation, especially energy and food prices have hurt consumer and investment sentiment.
3. The Russian invasion of Ukraine has increased financial risks and exacerbated inflation, particularly in commodities.
4. As the Fed tightens monetary policy to fight inflation, the odds of a policy mistake leading to a recession are rising.
5. A consequence of the factors listed above is one of the worst first quarter performances in many years for the bond and stock markets.

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 March 31, 2022.

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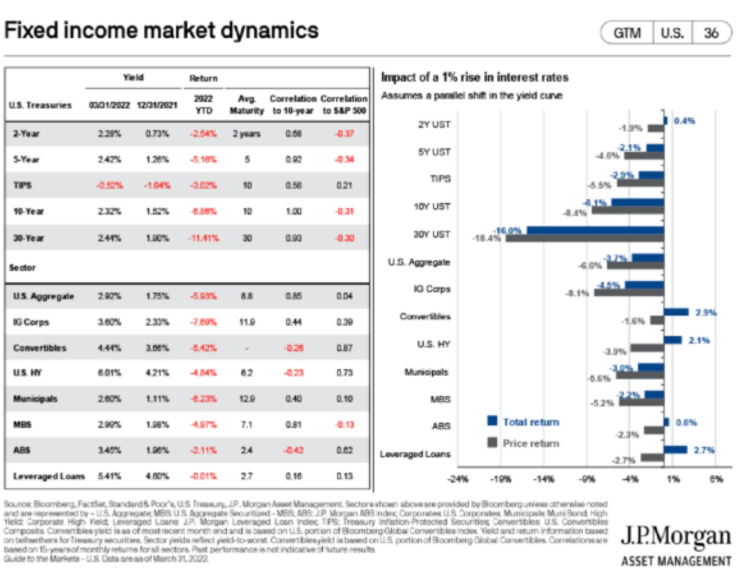
Financial markets struggled in the first quarter as the Federal Reserve Bank finally signaled their intention to fight rising inflation by tightening monetary policy and war broke out in Ukraine. The DJIA closed down 4.6%, the S&P 500 fell 4.9% while Nasdaq dropped 9.1%. Growth stocks were particularly hard hit as their higher valuation levels make them more sensitive to changes in interest rates. Bonds were also negative for the quarter with the Bloomberg Aggregate Bond Index off by 6.0%. Energy and commodities were the only notable segments showing positive results year-to-date.

Inflation has been on the rise since the fourth quarter of 2020 with worrisome indicators beginning about a year ago. During that period, many economists warned that the Fed should begin removing its stimulative policies and start raising short-term interests rates. In the first year of the pandemic, the federal government had supported the U.S. economy with over $4 trillion of Covid-19-related funding. In addition, the Fed had slashed the Fed funds rate to zero and purchased $3.5 trillion of treasury and mortgage-backed securities through March 2021. Rather than removing stimulus, the Fed insisted rising inflation was largely related to the pandemic and was transitory. They suggested that, as the economy fully re-opened, inflation would head back toward their 2% target. In the past twelve months, the Fed kept the Fed funds rate at zero until just a few weeks ago, when they raised rates by 25 basis points (1/4 of 1%). The Fed also purchased another $1 trillion of bonds in the past year. All of this stimulus, coupled with continued supply constraints, has led to the highest levels of inflation in forty years. Within the past few months, the Fed has become increasingly concerned about inflation, has ended its asset purchase program, and has signaled its intention to steadily raise the Fed funds rate throughout 2022 and 2023. There are increasing suggestions

Economic and Financial Markets Challenges

by Wall Street strategists and Fed officials, including Chairman Jay Powell, that the Fed may raise the Fed funds rate more quickly in the coming months, perhaps by 1 to 1.5 percentage points by the summer. In addition, the Fed has intimated that they might begin to shrink their nearly $9 trillion balance sheet soon by selling some of the bonds that they have accumulated over the past few years. Interestingly, as the pace of monetary policy tightening has quickened, U.S. treasury yields have jumped, but the yield curve has flattened and much of the treasury curve has inverted, meaning short-term rates are higher than longer-term rates. Inverted yield curves have often been an indicator of an economic slowdown or precursor to recession in the following 12-18 months. Typically, the Fed raises interest rates to try to cool down an over-heated economy. Had the Fed moved earlier to remove their accommodative monetary policies, it is possible it would have prevented inflation from rising as much as it has, while facilitating a smooth slowdown in the economy to a sustainable rate of growth. Having waited until inflation was out of control, there are increasing concerns that the Fed may be reversing monetary policy so quickly in an already



	Yield		Return			
U.S. Treasuries	03/31/2022	12/31/2021	2022 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	2.28%	0.73%	-2.54%	2 years	0.68	-0.37
5-Year	2.42%	1.26%	-5.16%	5	0.92	-0.34
TIPS	-0.52%	-1.04%	-3.02%	10	0.58	0.21
10-Year	2.32%	1.52%	-6.86%	10	1.00	-0.31
30-Year	2.44%	1.90%	-11.41%	30	0.93	-0.30
Sector						
U.S. Aggregate	2.92%	1.75%	-5.93%	8.8	0.85	0.04
IG Corps	3.60%	2.33%	-7.69%	11.9	0.44	0.39
Convertibles	4.44%	3.66%	-5.42%	-	-0.26	0.87
U.S. HY	6.01%	4.21%	-4.84%	6.2	-0.23	0.73
Municipals	2.60%	1.11%	-6.23%	12.9	0.40	0.10
MBS	2.99%	1.98%	-4.97%	7.1	0.81	-0.13
ABS	3.45%	1.96%	-2.11%	2.4	-0.42	0.62
Leveraged Loans	5.41%	4.60%	-0.01%	2.7	0.16	0.13

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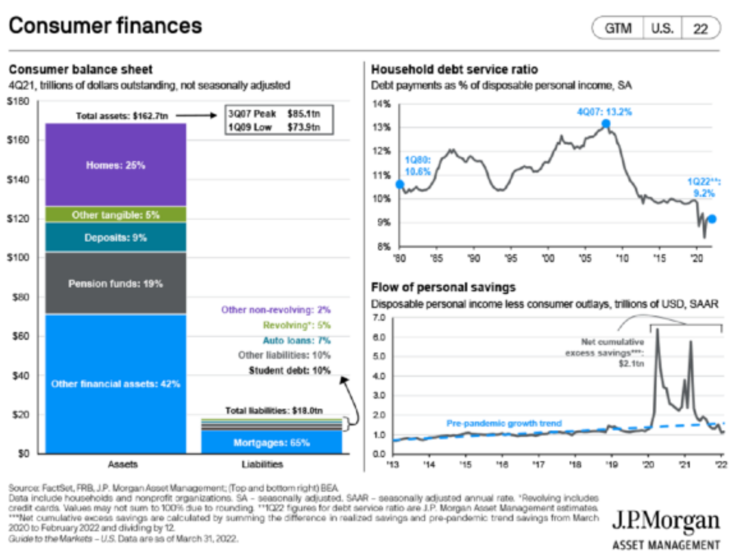
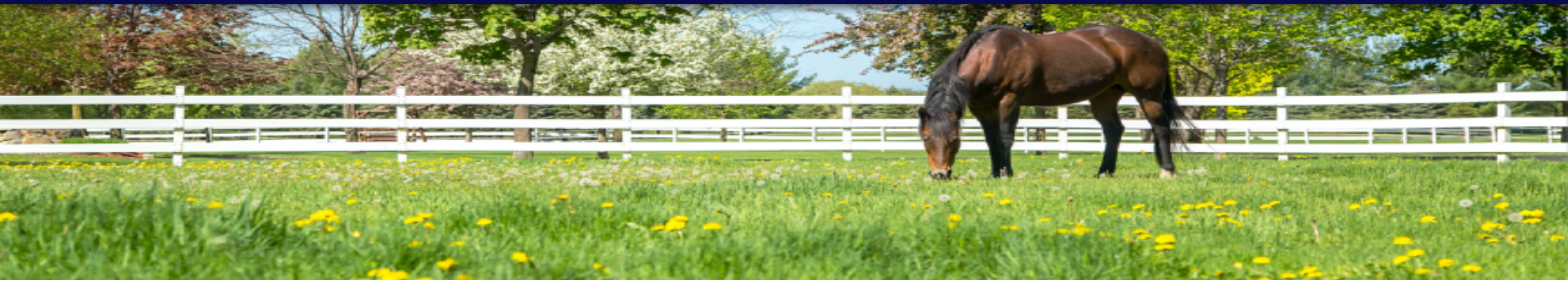
decelerating economy that they will eventually trigger a recession. Many economists now believe that the odds of the Fed engineering a soft landing, reducing inflation from four-decade highs without increasing unemployment or starting a recession, are unlikely. We believe the partially inverted yield curve is signaling this sentiment.

The Russian invasion and war in Ukraine is not only a human tragedy, but it has added to inflation concerns. Ukraine has been a significant supplier of wheat and other grains to the world markets. Sanctions on Russian goods, particularly oil and



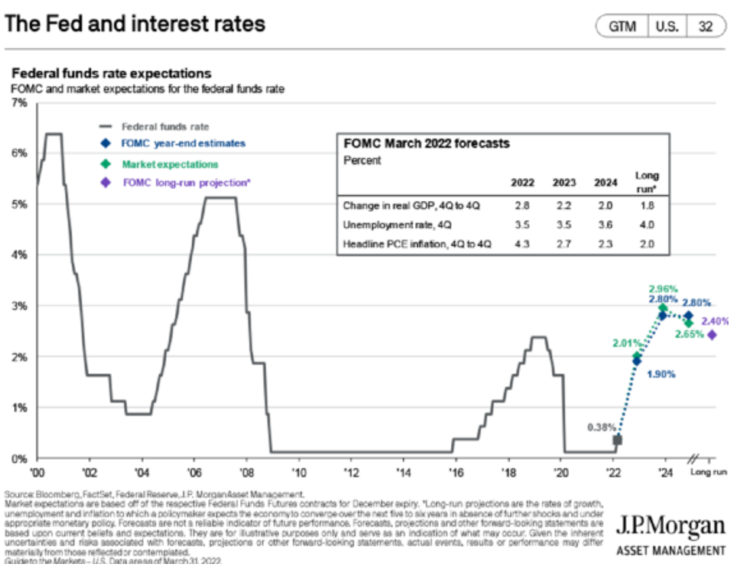
natural gas, have further compromised an already short supply of energy products. At one point last year, an estimated $2.5 trillion of pandemic-related savings were held by U.S. consumers. During that timeframe, consumer spending for goods was strong, but much of the service sector had not fully reopened. Now that the economy is nearly fully re-opened from pandemic-related shutdowns, pent-up spending demand still exists, especially for services like dining out and travel. But much of the excess savings have been spent or invested, and consumer sentiment has plummeted, likely due to the rising cost of goods and services.

Economic and Financial Markets Challenges



Real wage growth has been negative for the better part of a year, a factor which will likely crimp consumer spending.

After three years of above-average returns, it is not surprising that financial markets have struggled this year. High inflation, rising interest rates and increased geo-political risks create a level of concern that is likely to exist throughout much of 2022. In addition, the bond market is now reflecting the possibility of recession on the horizon. If the Fed tightens monetary policy too aggressively in an effort to fight inflation in the midst of a slowing economy, the likelihood of a policy error causing recession will increase. Unfortunately, we will not know the full economic impact of changes to monetary policy for 6-9 months as consumer responses happen slowly over time. For instance, mortgage rates have increased by 1% in the past six months, but housing prices are still rising. Homebuyers still believe that, if they don't buy now, prices will be higher in coming months. But, at some point, rising home prices and higher mortgage rates will affect affordability and home prices will stop rising. Demand destruction is likely already occurring in some areas, as higher gas and food prices leave less disposable income to spend elsewhere. January and February consumer spending were both below expectations. With all of this in mind, markets are likely to be range-bound within the highs and lows we have experienced year-to-date, until it is clear that inflation is under control and we have a better sense of the trajectory of economic growth.

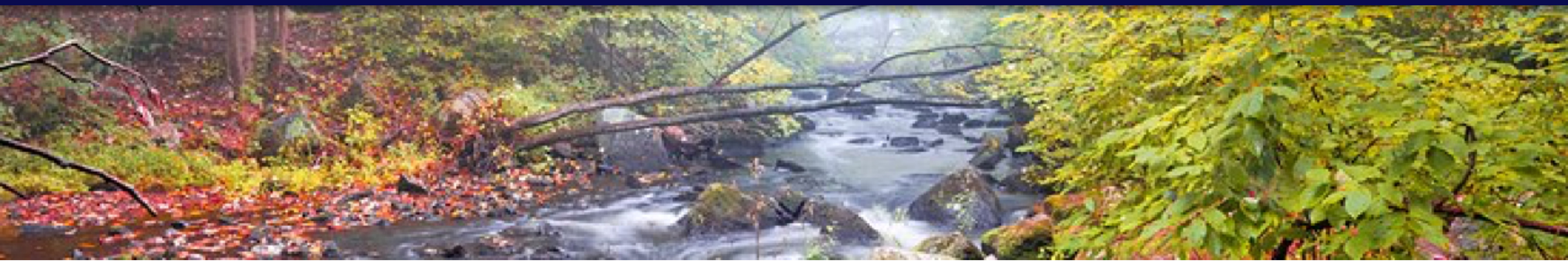


	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	2.8	2.2	2.0	1.8
Unemployment rate, 4Q	3.5	3.5	3.6	4.0
Headline PCE inflation, 4Q to 4Q	4.3	2.7	2.3	2.0

Regarding investment strategy, long-term investors should focus on the optimal asset mix and risk profile that aligns with their goals and objectives. It is nearly impossible to predict market bottoms or tops. We therefore do not recommend clients spend time focused on short-term market volatility. Our economy and financial markets generally adjust to changing conditions within relatively short periods of time. The average length of recessions and bear markets are both less than one year. We suggest that clients should hold or have access to one year of cash flow needs at all times, so that assets do not have to be liquidated when markets are weak. Cash reserves should be used when markets are weak and replenished when markets strengthen.

We are available to meet or discuss any specific needs or concerns and wish you all a happy and healthy spring!

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	19.46x	16.83x	0.78
CAPE	Shiller's P/E	37.45x	27.98x	1.47
Div. Yield	Dividend yield	1.46%	2.00%	1.63
P/B	Price to book	4.07x	3.09x	1.22
P/CF	Price to cash flow	14.80x	11.12x	1.69
EY Spread	EY minus Baa yield	0.86%	0.19%	-0.34

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 March 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $233. 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.
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Profit margins and input costs

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Source: BEA, Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not indicative of future returns. *Labor share of income and profit margins are shown on a 4-quarter moving average basis. Compensation and adjusted after-tax corporate profits are shown as a percentage of real GDP, SAAR. **Correlation is calculated using monthly y/y percent changes over the last 20 years between S&P 500 sales per share and PPI for intermediate materials.
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Inflation

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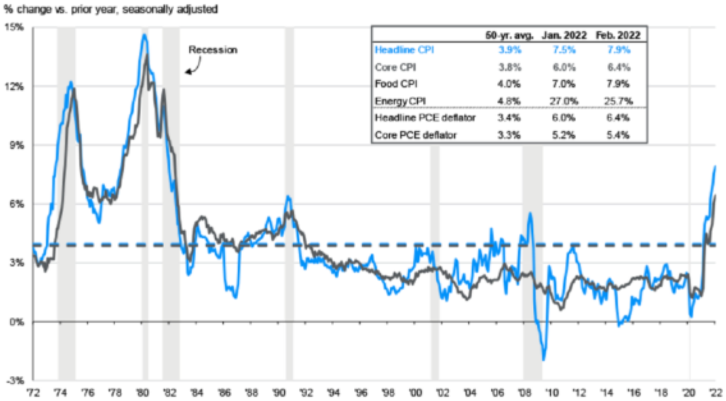
CPI and core CPI
% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2022	Feb. 2022
Headline CPI	3.9%	7.5%	7.9%
Core CPI	3.8%	6.0%	6.4%
Food CPI	4.0%	7.0%	7.9%
Energy CPI	4.8%	27.0%	25.7%
Headline PCE deflator	3.4%	6.0%	6.4%
Core PCE deflator	3.3%	5.2%	5.4%

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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Inflation components

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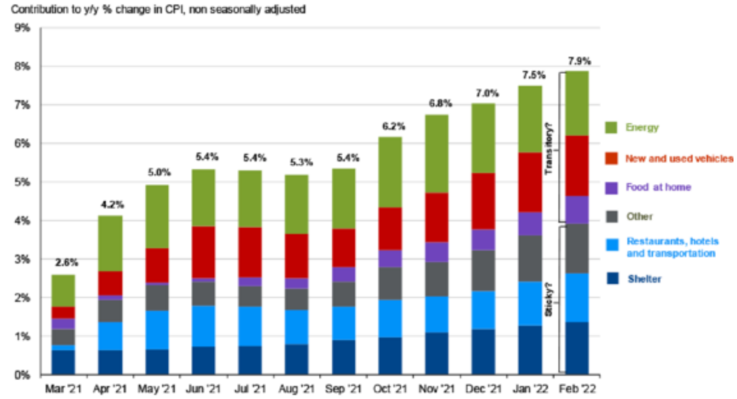
Contributors to headline inflation
Contribution to y/y % change in CPI, non seasonally adjusted



Source: BLS, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel and medical care services.
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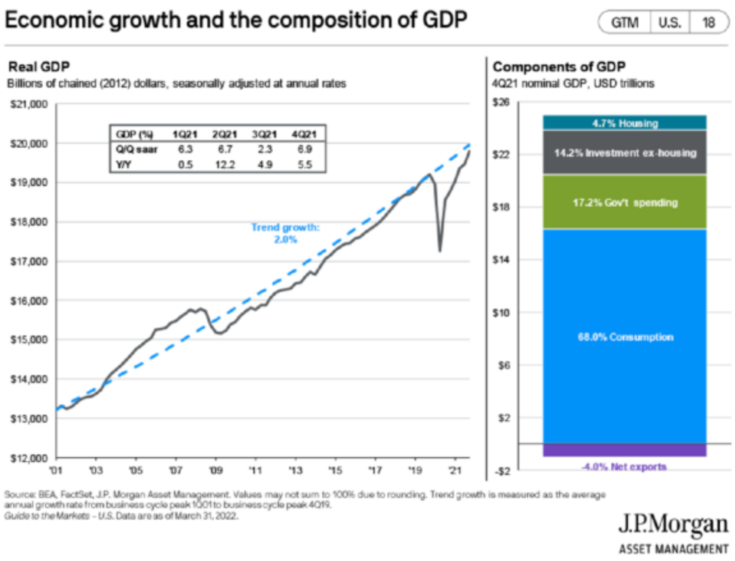
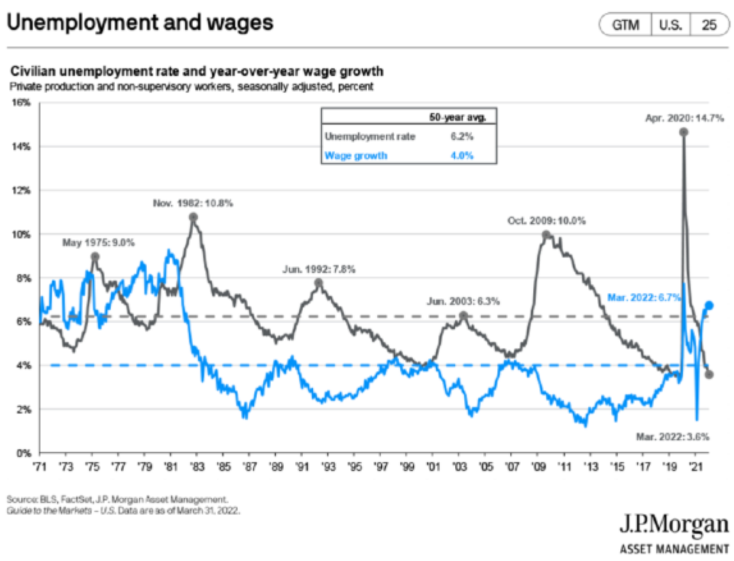
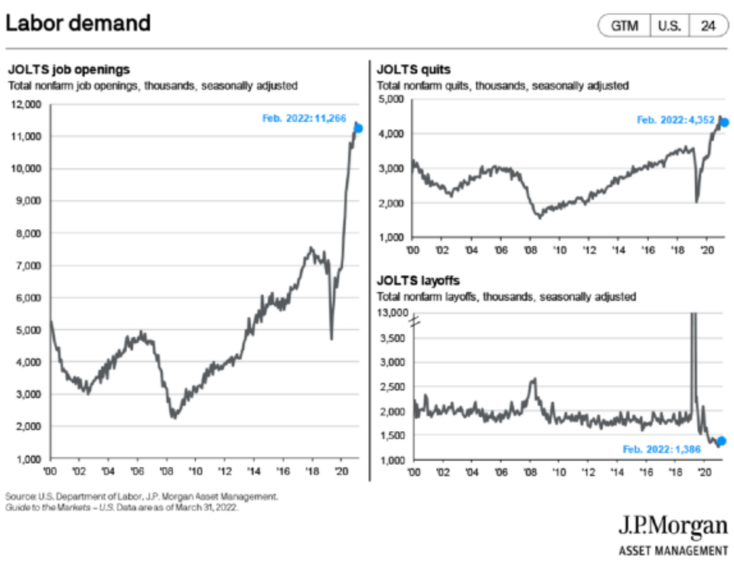
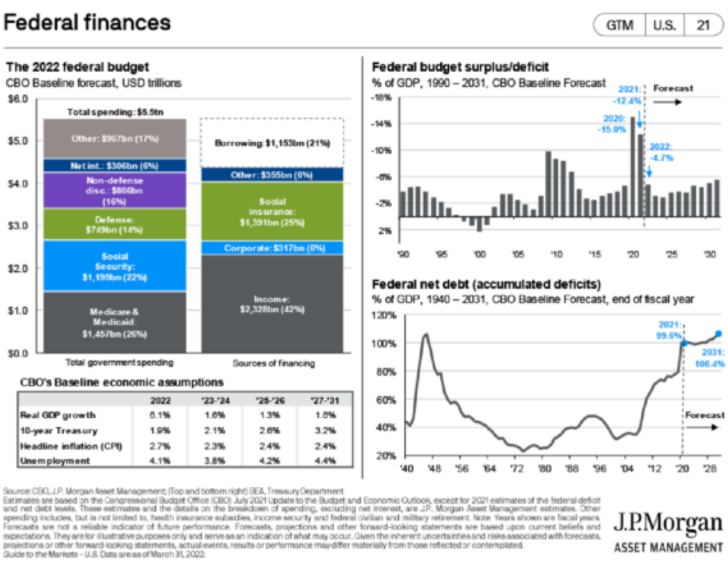
Economic and Financial Markets Charts



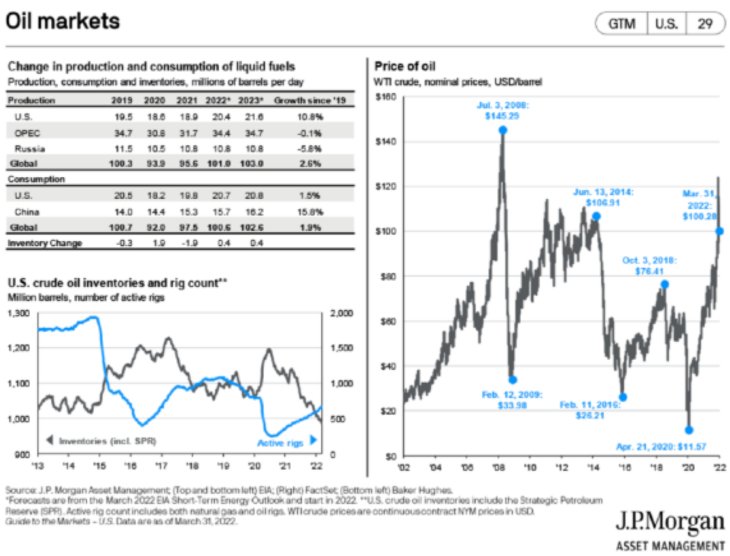




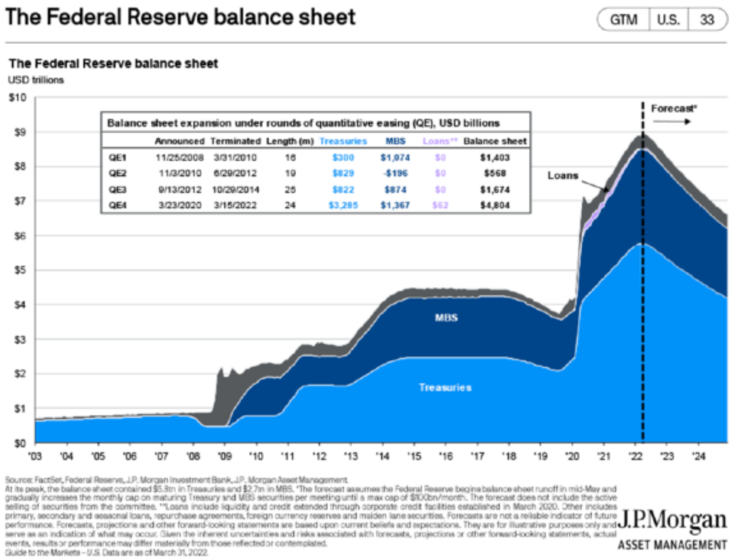
Economic and Financial Markets Charts



	2022	'23-'24	'25-'26	'27-'31
Real GDP growth	6.1%	1.6%	1.3%	1.6%
10-year Treasury	1.9%	2.1%	2.6%	3.2%
Headline inflation (CPI)	2.7%	2.3%	2.4%	2.4%
Unemployment	4.1%	3.8%	4.2%	4.4%



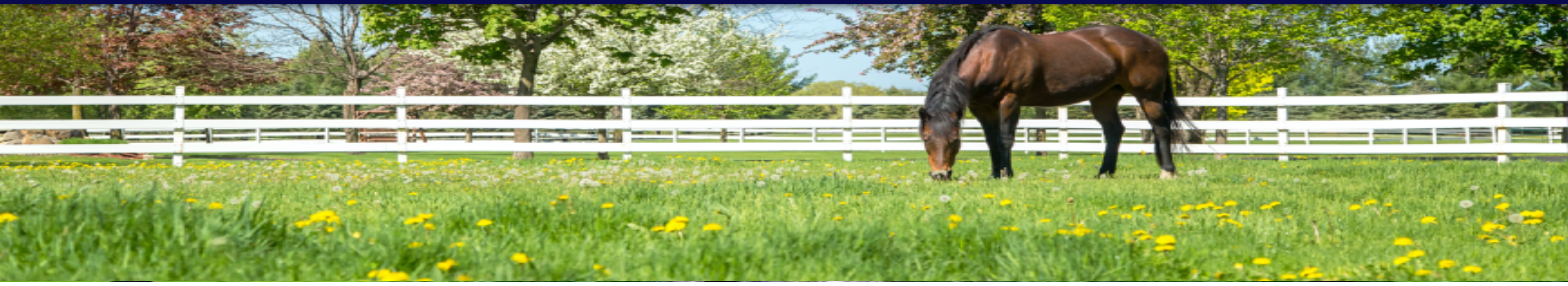
Production	2019	2020	2021	2022*	2023*	Growth since '19
U.S.	19.5	18.6	18.9	20.4	21.6	10.8%
OPEC	34.7	30.8	31.7	34.4	34.7	-0.1%
Russia	11.5	10.5	10.8	10.8	10.8	-5.8%
Global	100.3	93.9	95.6	101.0	103.0	2.6%
Consumption						
U.S.	20.5	18.2	19.8	20.7	20.8	1.5%
China	14.0	14.4	15.3	15.7	16.2	15.8%
Global	100.7	92.0	97.5	100.6	102.6	1.9%
Inventory Change	-0.3	1.9	-1.9	0.4	0.4	



Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	$300	$1,074	$0	$1,403
QE2	11/3/2010	6/29/2012	19	$829	-$196	$0	$568
QE3	9/13/2012	10/29/2014	25	$822	$874	$0	$1,674
QE4	3/23/2020	3/15/2022	24	$3,285	$1,367	$62	$4,804

Economic and Financial Markets Charts



Asset class returns

																2007 - 2021	
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Ann.	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%	Comdty. 25.5%	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%	Cash 0.0%	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%	Asset Alloc. -3.9%	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%	Large Cap -4.6%	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. 13.5%	REITs -5.3%	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%	High Yield -5.7%	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 -5.8%	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 -5.9%	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%	EM Equity -6.9%	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%	Small Cap -7.5%	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 results.
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