Covenant
Asset Management, LLC

Second Quarter 2023
Investment Perspectives

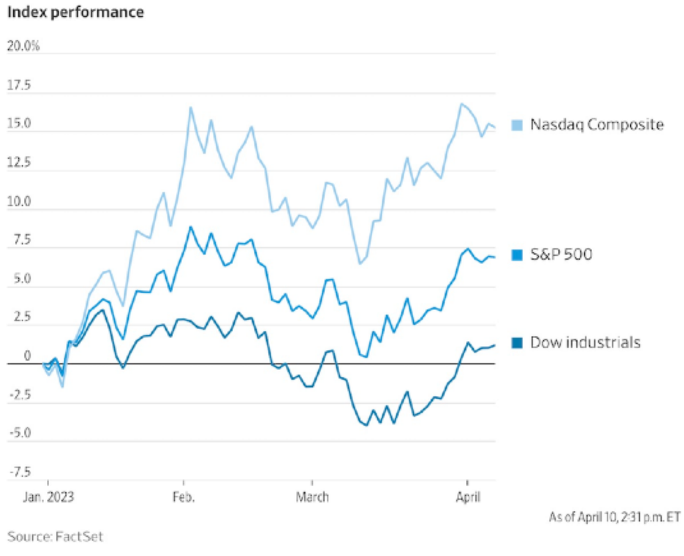
Economic and Financial Markets Review & Outlook

Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review first 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. Financial markets remained turbulent in the first quarter but did prove to be resilient, bouncing higher after last year's declines.
2. The Federal Reserve Bank continued to raise short-term interest rates in an effort to combat inflation.
3. The sharp rise in interest rates over the past year triggered some panic in the banking industry and contributed to some high profile bank failures in March.
4. Fallout from the banking crisis and recent weaker-than-expected economic data may allow the Fed to end monetary tightening soon.

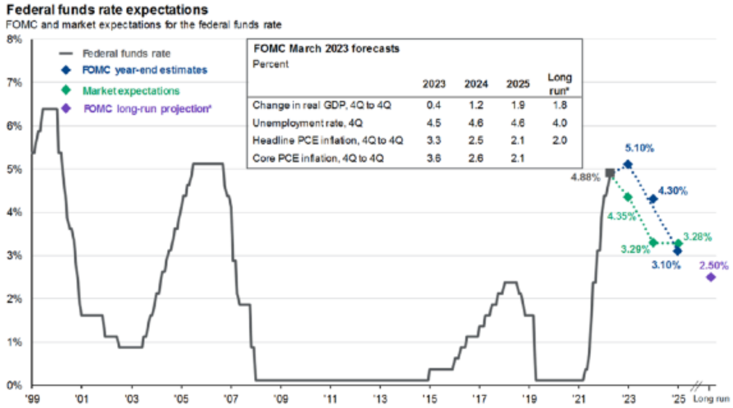
Markets began the year with strong early gains. At first, inflation appeared to be abating and the economy was expected to slow, allowing the Federal Reserve Bank to switch from raising interest rates to cutting them later this year. Then employment and inflation data came in hotter than expected in February. Stocks and bonds slid on fears the Fed would need to raise rates higher for longer. In March, the unexpected collapse of Silicon Valley Bank and Signature Bank and the forced sale of Credit Suisse to rival UBS rattled financial markets. Stock prices tumbled, while Treasury yields sank as investors sought a safe haven. By the end of the first quarter, the crisis in the banking sector was looking relatively contained, allowing stocks to recover some lost ground. The S&P 500 rose 7% in the quarter, while the DJIA added 0.4% and Nasdaq rebounded 17%. Bonds gained about 3.0% on average with the ten-year U.S. Treasury Note yield falling to 3.5% from 3.8% at the end of last year.



Heightened expectations that inflation and interest rates might have peaked triggered a reversal of fortunes for last year's winners and losers. Tech stocks, last year's big losers, rose 20%, with Nvidia soaring 90% and Tesla climbing 68%. Bitcoin also surged, jumping 71% after last year's drubbing. Meanwhile, many of last year's big winners fell in the first quarter with energy stocks and oil noteworthy losers.

Federal Reserve officials project the Fed Funds rate to rise to a range of 5%-5.25% by mid-year from its current range of 4.75%-5%. This suggests the Fed could raise rates by another 25 basis points in the months ahead and then hold rates steady for the remainder of the year. On Wall Street, derivatives markets show traders expect the Fed Funds rate to have peaked at or slightly above current levels and then fall to about 4.4% at year-end. The disconnect between market expectations and what the Fed is projecting is likely related to fallout from the banking crisis. Investors also tend to be more forward looking when making decisions, whereas Fed officials rely more on lagging and concurrent economic indicators.

Economic and Financial Markets Challenges



FOMC March 2023 forecasts
Percent

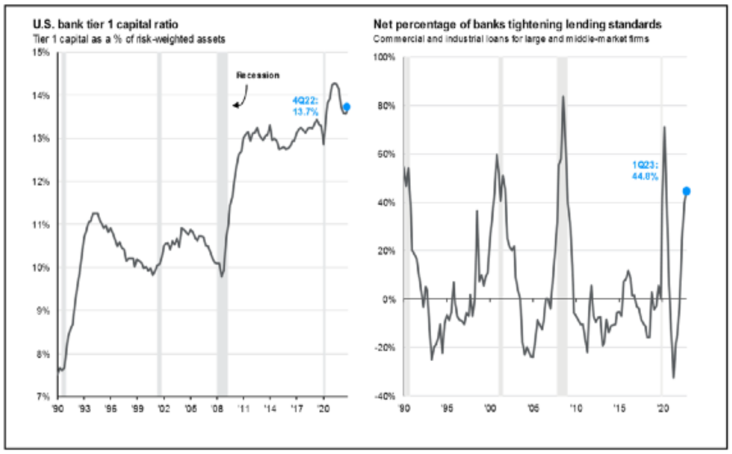
	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.4	1.2	1.9	1.8
Unemployment rate, 4Q	4.5	4.6	4.6	4.0
Headline PCE inflation, 4Q to 4Q	3.3	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.6	2.6	2.1	

Chart sourced from JP Morgan Guide to Markets

With interest rates having risen so sharply in the past year, it was predictable that there would be some implications for financial institutions which took wrong bets or were positioned improperly. Unlike 2008, the concern was not so much about credit risk, but duration risk. Lenders that believed interest rates would stay low for many years and invested too much of their balance sheets in long-dated securities, even high-grade Treasuries and mortgage-backed bonds, which were vulnerable when interest rates rose drastically. For a more in-depth understanding of the backdrop and implications of this issue, please follow the link to our recent blog, A Twenty first Century Bank Run. While markets seem to have settled down after the initial panic, bank balance sheets and the composition of their deposit base will be scrutinized more carefully, when first quarter earnings are reported in coming weeks. With the Fed so transparent last year about their intentions to raise Fed Funds rates sharply, it is difficult to understand how bank managers and regulators were apparently caught by surprise with the asset/liability mismatch on some bank balance sheets. Both will need to improve their stress tests to better incorporate duration and deposit risk.

After a surprisingly strong first quarter, there are plenty of risks confronting investors in the months ahead. Subsequent to the recent deposit outflows from small-to-mid-size banks, tightening credit conditions appear to be occurring. Data released since the recent bank failures indicate that bank lending has experienced a level of declines not seen in decades. This is a sign that credit conditions are tightening, making it more difficult for individuals and small businesses to borrow. If the Fed insists on raising the Fed Funds rate further in the midst of an economic slowdown and stress in the banking sector, it could exacerbate and hasten the risk of recession. Another looming concern in coming months is a government shutdown, if Congress fails to raise the debt ceiling. Lastly, first quarter corporate earnings and guidance will be examined, with special attention paid to signs of economic softening.

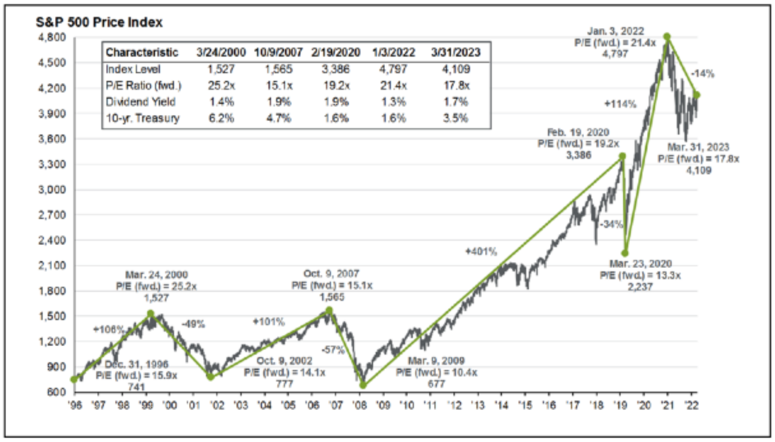
Chart sourced from JP Morgan Guide to Markets

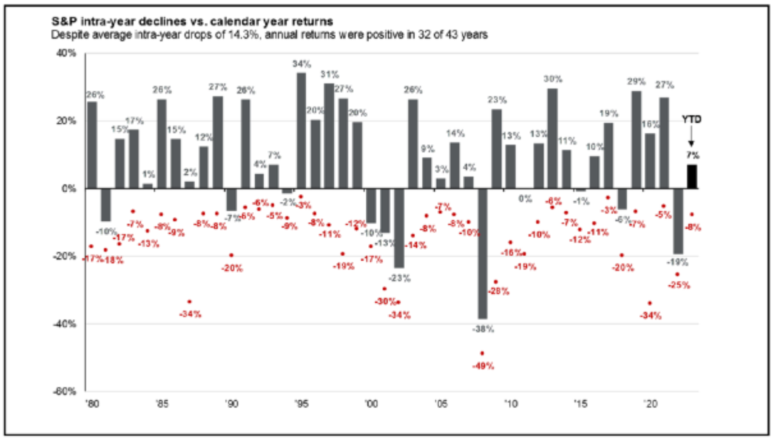


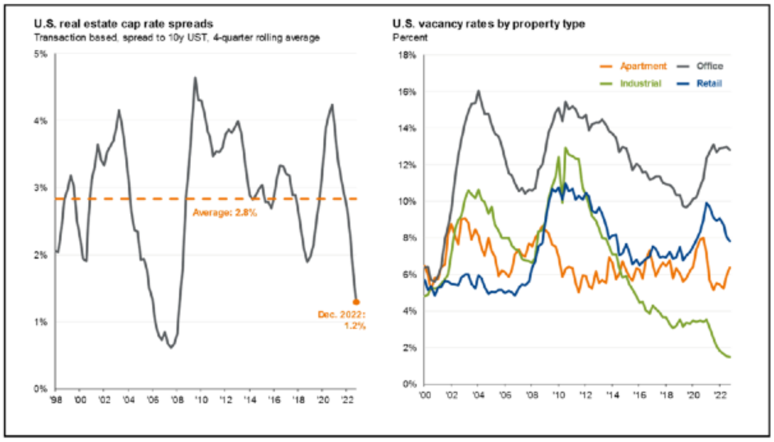
Economic and Financial Markets Challenges

From a strategy standpoint, higher bond yields have allowed investors to reduce risk by investing some assets in high-grade bonds. In our view, reallocating assets from bond mutual funds or bond exchange-traded funds (ETFs) into individual high-grade bonds provides the ability to lock in higher bond yields while having the peace of mind of an actual maturity date. Higher interest rates also allow for more attractive characteristics when investing in structured notes and CDs. Disinflation, defined as a reduction in the rate of inflation, is generally a good environment for growth stocks. The perception that we are in a disinflationary period likely helped growth stocks to outperform in the first quarter. Should the consensus view that the U.S. economy will endure a mild recession this year come to pass, growth stocks should continue to perform well on a relative basis, especially if the inflation rate declines toward the Fed's 2% target rate. Some economists believe it will take several years for inflation to return to 2%, which would limit the Fed's flexibility in reducing the Fed Funds rate too aggressively. We continue to believe that financial markets will remain turbulent until there is broader consensus on inflation, interest rates and economic expectations. Proper asset allocation aligned with investor objectives is vital in this environment. We look forward to working with you to achieve your financial goals and wish you all the best during the spring season.

Economic and Financial Markets Charts

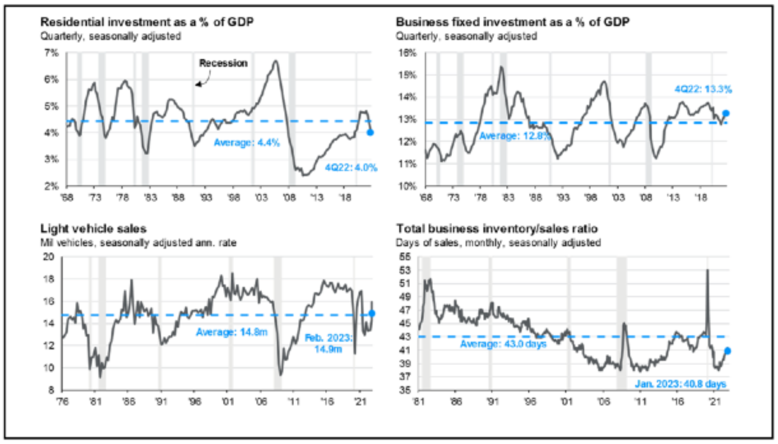


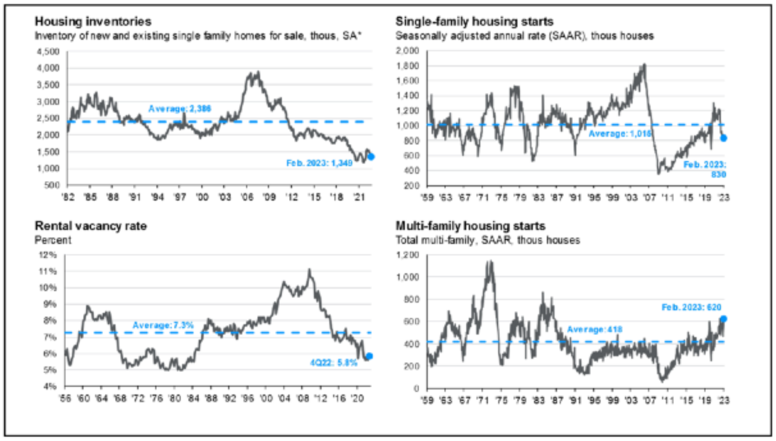


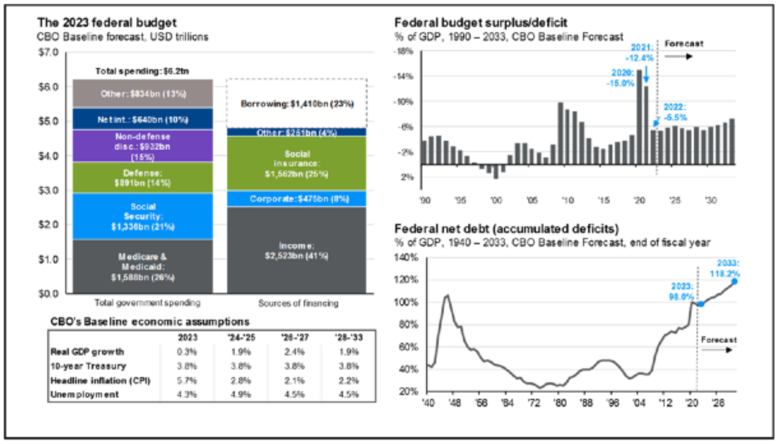


Charts sourced from JP Morgan Guide to Markets

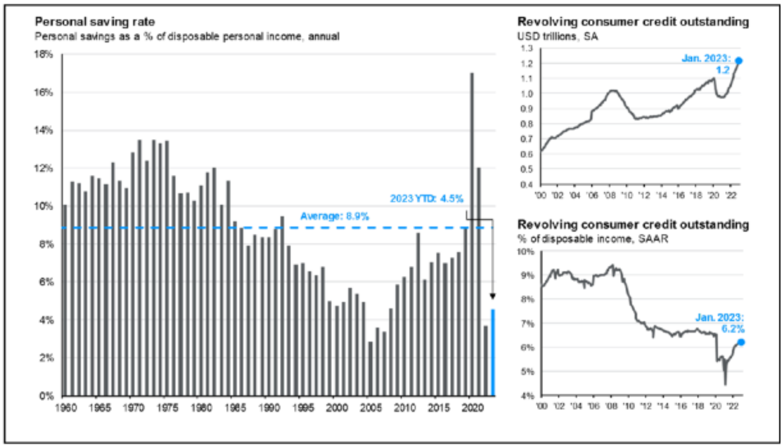
Economic and Financial Markets Charts





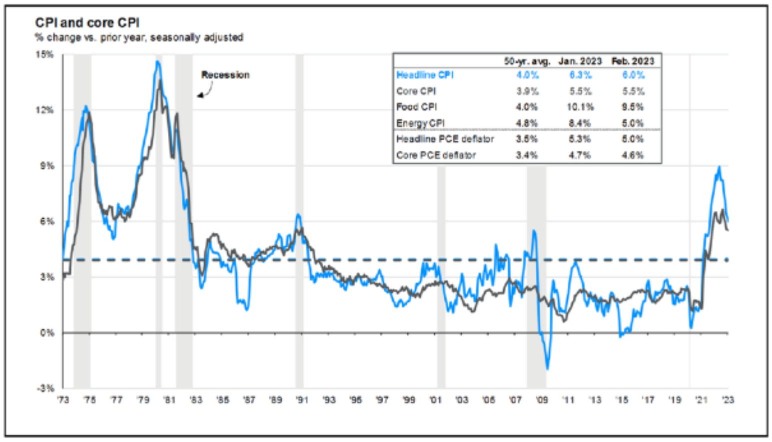


	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.3%	1.9%	2.4%	1.9%
10-year Treasury	3.8%	3.8%	3.8%	3.8%
Headline inflation (CPI)	5.7%	2.8%	2.1%	2.2%
Unemployment	4.3%	4.9%	4.5%	4.5%

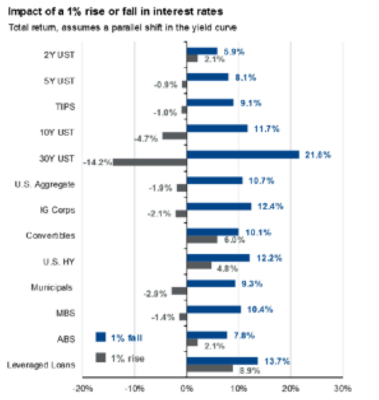


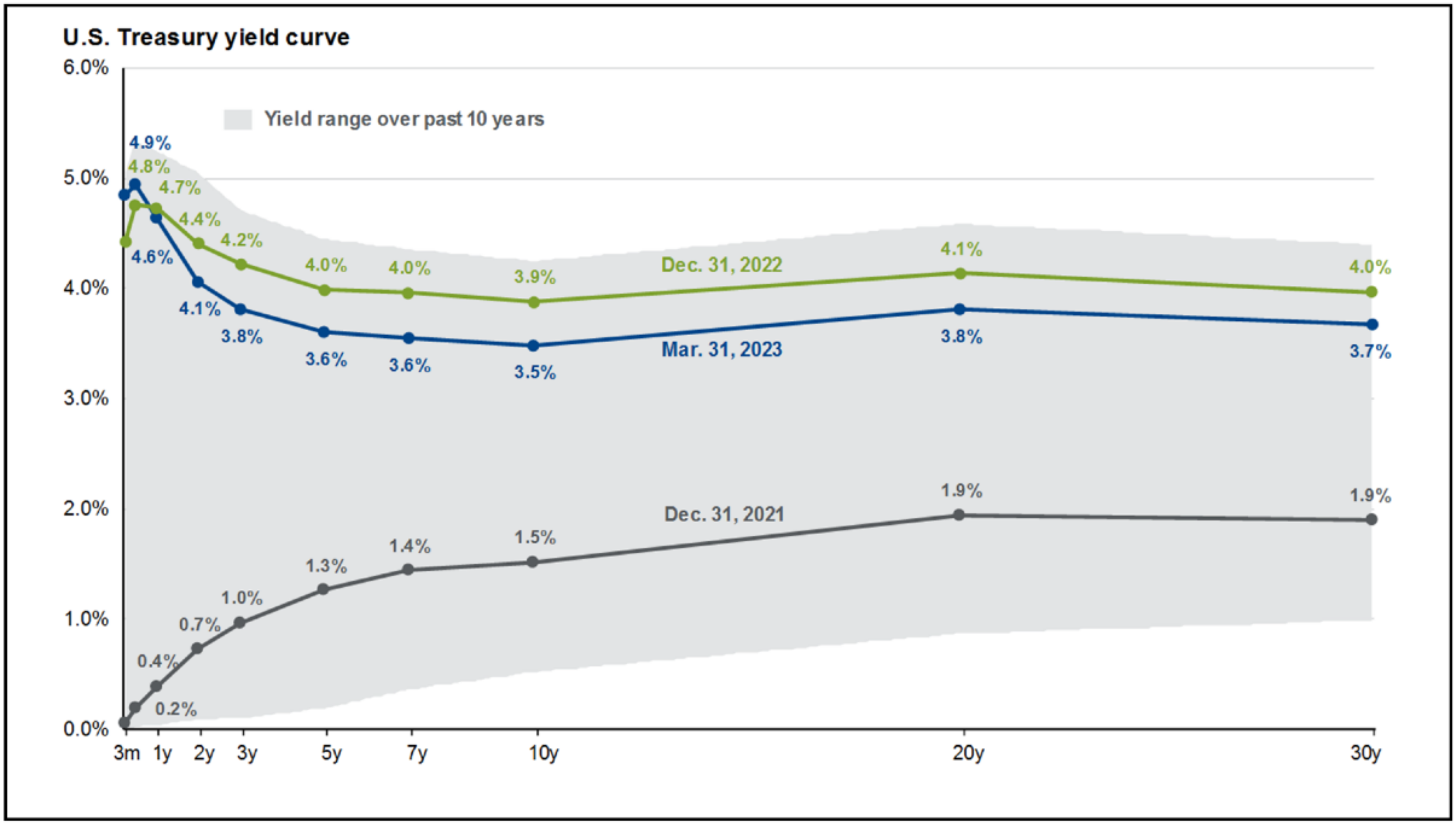
Charts sourced from JP Morgan Guide to Markets

Economic and Financial Markets Charts



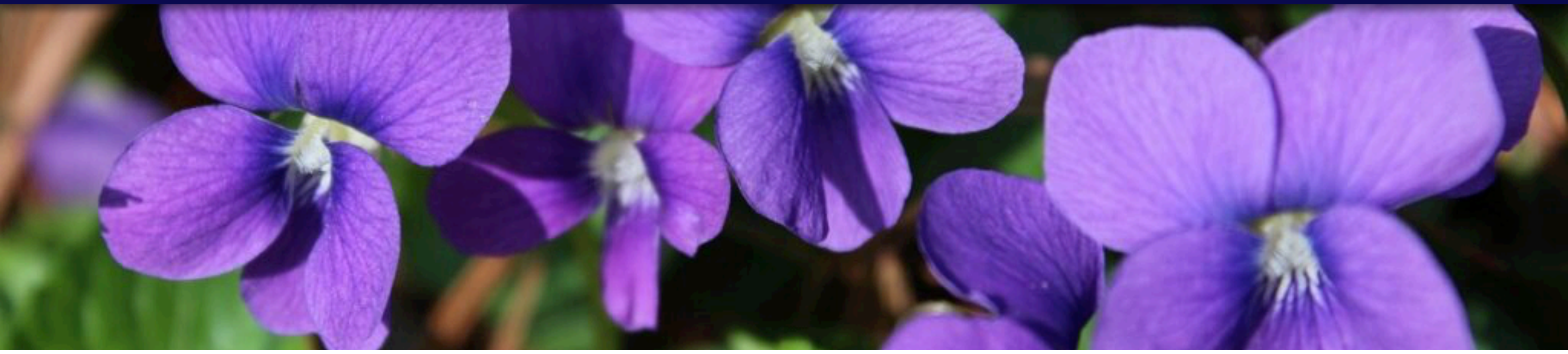
U.S. Treasuries	Yield 3/31/2023	Yield 12/31/2022	Return 2023 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	4.06%	4.41%	1.46%	2 years	0.74	-0.15
5-Year	3.60%	3.99%	2.39%	5	0.93	-0.13
TIPS	1.16%	1.58%	3.34%	10	0.61	0.37
10-Year	3.48%	3.88%	3.76%	10	1.00	-0.14
30-Year	3.67%	3.97%	5.99%	30	0.93	-0.17
Sector						
U.S. Aggregate	4.40%	4.68%	2.96%	8.5	0.86	0.22
IG Corps	5.17%	5.42%	3.50%	11.1	0.54	0.47
Convertibles	7.63%	7.58%	3.60%	-	-0.14	0.87
U.S. HY	8.52%	8.96%	3.57%	5.3	-0.10	0.74
Municipals	3.25%	3.55%	2.78%	13.0	0.53	0.22
MBS	4.51%	4.71%	2.53%	7.4	0.78	0.15
ABS	5.61%	5.89%	1.86%	3.5	0.21	-0.01
Leveraged Loans	11.31%	11.41%	3.26%	2.4	-0.34	0.59





Charts sourced from JP Morgan Guide to Markets

Economic and Financial Markets Charts



Asset Class Returns

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	2008 - 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%	DM Equity 8.6%	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%	Large Cap 7.5%	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%	Asset Alloc. 4.3%	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%	EM Equity 4.0%	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 3.1%	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 3.0%	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%	Small Cap 2.7%	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%	REITs 1.7%	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 1.1%	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. -8.0%	Comdty. -2.6%	Cash 0.4%

Chart sourced from JP Morgan Guide to Markets

Covenant Asset Management, LLC

125 Maple Avenue,
Chester, NJ 07930

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

www.covasset.com