Covenant Asset Management, LLC

Second Quarter 2024 Investment Perspectives

CELEBRATING 25 YEARS OF EXCELLENCE

Economic and Financial Markets Review & Outlook

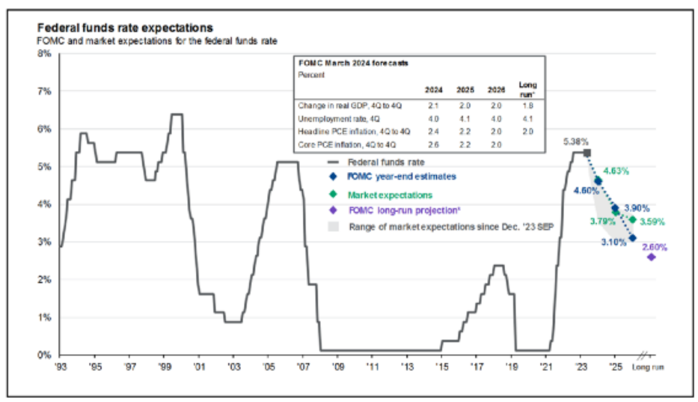
Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review first quarter results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

Key Themes

1. The stock market rally that began in October 2023 continued and broadened in the first quarter with the S&P gaining 10%.
2. Coming into 2024, investors expected the Fed to cut the Fed Funds rate six times. That proved overly optimistic as stronger than expected economic data and higher than expected inflation shifted projections to three rate cuts beginning in June.
3. Accelerating corporate profits and enthusiasm surrounding artificial intelligence propelled stock market gains.
4. Further upside is likely as historically, when the S&P 500 gains 8% or more in the first quarter, it tacks on an average of 9.7% over the next three quarters.

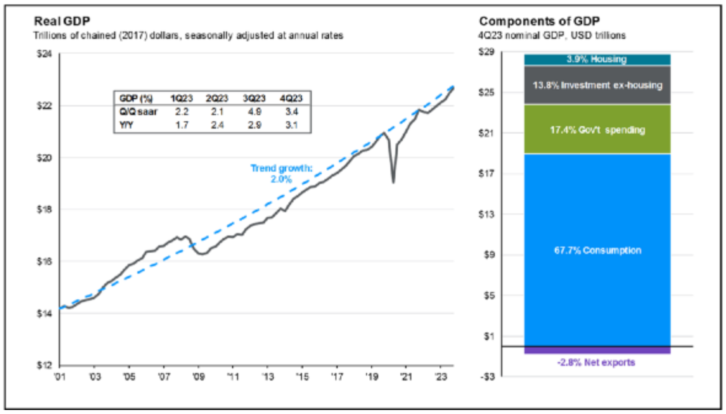
After a furious rally in the final two months of 2023, financial markets came into the new year with lots of momentum and investors with much optimism. That optimism appears to have been well-founded, as many risk assets surged to record highs. Everything, from major stock indexes, bitcoin and even gold climbed to all-time highs during the first quarter. The S&P 500 gained 10.1%, the Nasdaq 9.3% and the Dow Jones Industrials 6.1%. Since the October 2023 low, the S&P 500 is up 28%, the Nasdaq 31% and the Dow Industrials 23%. Last years' gains were led by a small group of mega-cap tech stocks tagged as the magnificent seven. Of this group, Nvidia (+82%), Meta (+37%), Amazon (+18.7%) and Microsoft (+12%) have continued to outperform, while Tesla (-29%), Apple (-10.8%) and Alphabet (+8%) have stumbled in varying degrees. The divergence in performance amongst this group proves that fundamentals matter. An encouraging sign within the stock market is the broadening of the rally. Energy, financials, utilities and industrials have begun to outperform in the past month of March.

In early January, expectations called for the Federal Reserve to cut the Fed Funds rate six times in 2024 and end the year at a 4%, down from 5.5%. While that sentiment proved to be overly optimistic, investors are expecting three 25-basis-point rate cuts this year. Bond yields have climbed, with the 10-year U.S. Treasury yield rising to 4.21%, up from 3.86% at the beginning of the year. The 2-year U.S. Treasury yield jumped to 4.63%, up from 4.26%.



The U.S. economy appears to have dodged the recession fears that were prevalent for much of 2022 and well into 2023. Corporate profits are poised to recover from the sluggish pace of 2023, with S&P 500 earnings projected to grow 11% in 2024. Resilient consumer spending has driven economic activity the past two years. Robust fiscal and monetary financial support during the pandemic has lasted longer than anticipated, driving spending and employment gains. Inflation remains on a downward trend despite several recent hotter-than-expected reports.

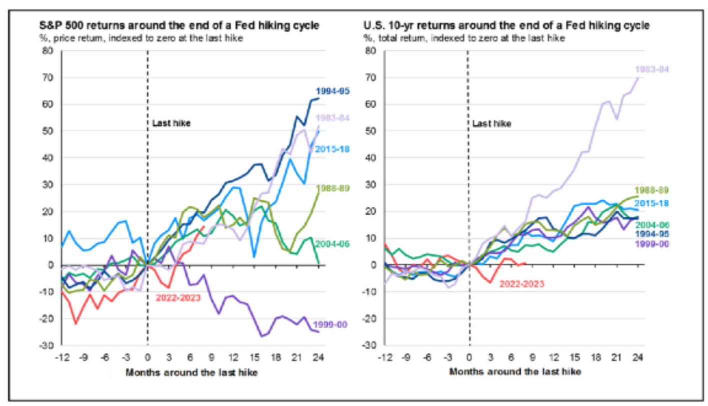
Economic and Financial Markets Challenges



At the moment, investors perceive that the U.S. economy is enjoying a Goldilocks period. Consumer spending has begun to moderate, the slump in industrial production and housing seem to be turning around and the labor market appears to be cooling. Temperate economic growth, inflation gages slowly heading toward the Fed's 2% target, corporate profits rebounding and Fed Funds rate cuts likely to begin by mid-year have all led to steady gains in stock prices. While the momentum in the stock market continues to be strong, investors need to be watchful that the narrative on profits, inflation expectations and interest rate declines holds. Material changes to any of these variables could compromise the rally in stocks. It is also probable that the biggest stock market winners over the last five months may be in store for a pause or pullback, as many of their prices look extended on a short-term basis. A healthy rotation into lagging market sectors already appears to be occurring and could extend overall market gains.

Risks to the rosy market outlook include elevated sentiment and low volatility levels. When investors become overly bullish, even small disappointments relative to expectations could trigger a pullback or correction. With wars in Ukraine and Gaza, Iran instigating conflict in the Middle East and China focused on building its military weaponry, geo-political risks cannot be ignored.

As we look ahead to the second quarter and the balance of the year, our view is there is likely more upside to stock prices. But, after an impressive rally in stocks over the past five months, a pullback or correction can't be ruled out in the upcoming quarters. Any correction is likely to be short and shallow, as there remains an abundance of cash sitting in short-term money market instruments to take advantage of lower securities prices. When the Fed begins cutting the Fed Funds Rate and short-term interest rates fall, some investors will look for better returns in stocks or look to lock in higher yields in longer dated bonds. This is the main reason we do not expect bond yields to rise much further in the current market cycle.

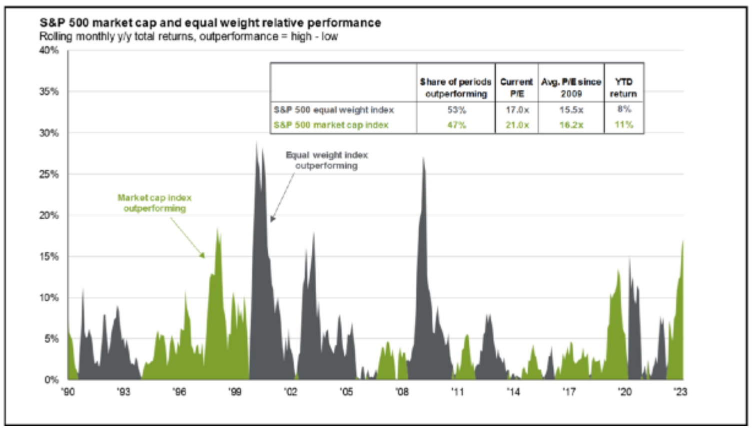


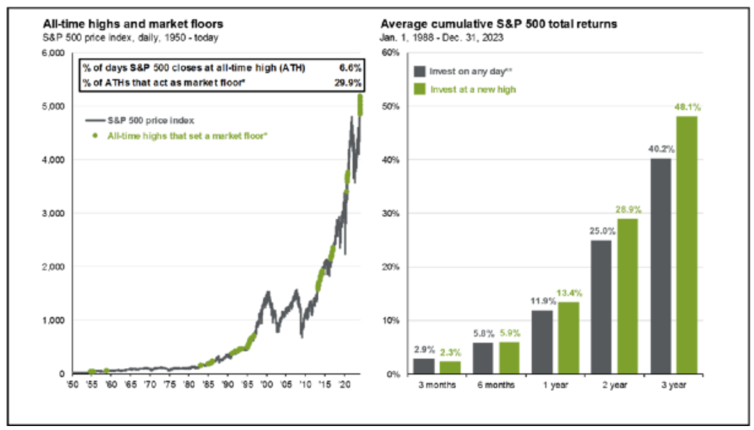
Experience has taught us that the most successful investors focus on carefully defining financial objectives and selecting an asset allocation that has a high probability of meeting or exceeding those goals over time. Careful and prudent security selection within each asset class and the discipline to stick to the plan during market corrections are vital to achieving objectives.

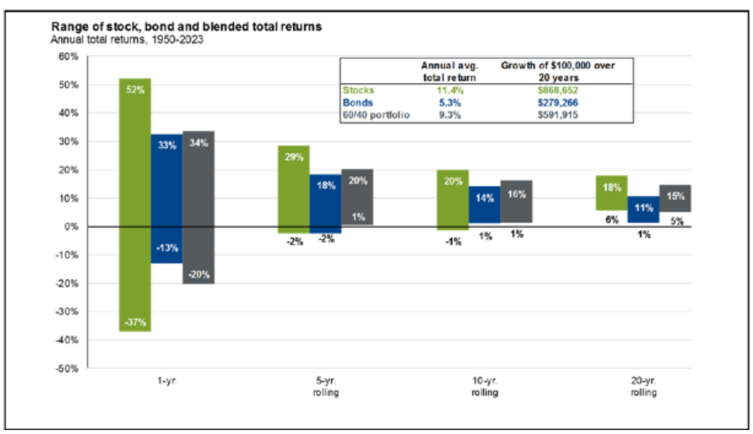
We look forward to meeting or speaking with you soon and wish all of our clients and friends a Happy Spring!

Economic and Financial Markets Charts

All charts below are sourced from JP Morgan Guide to Markets 3/31/2024







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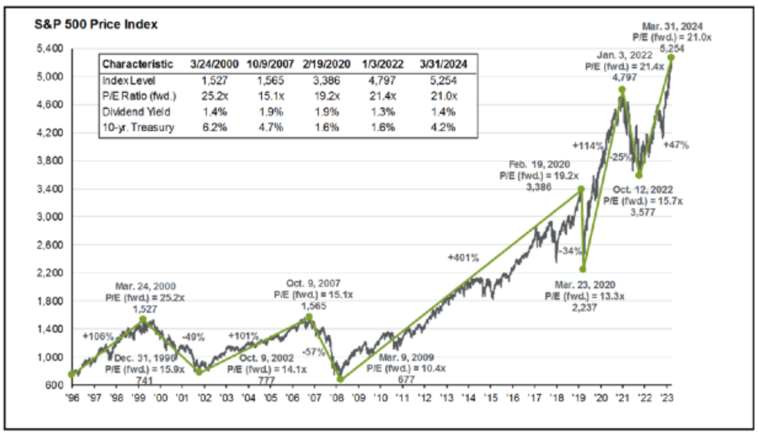

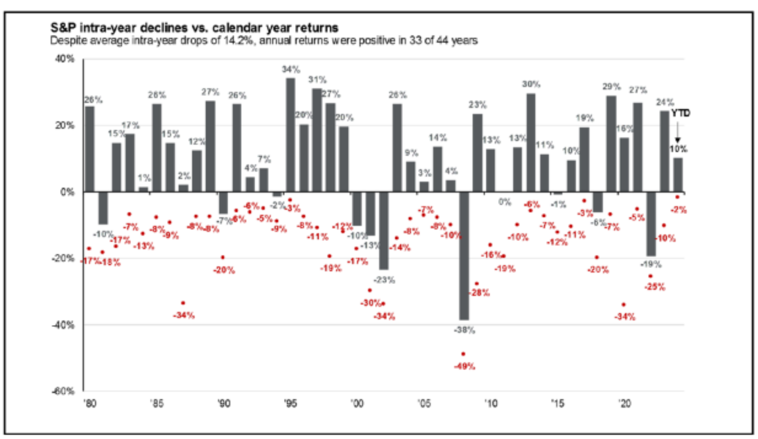

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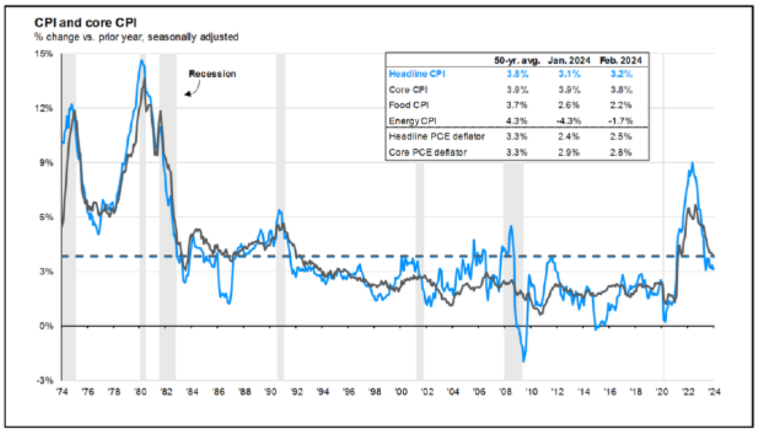

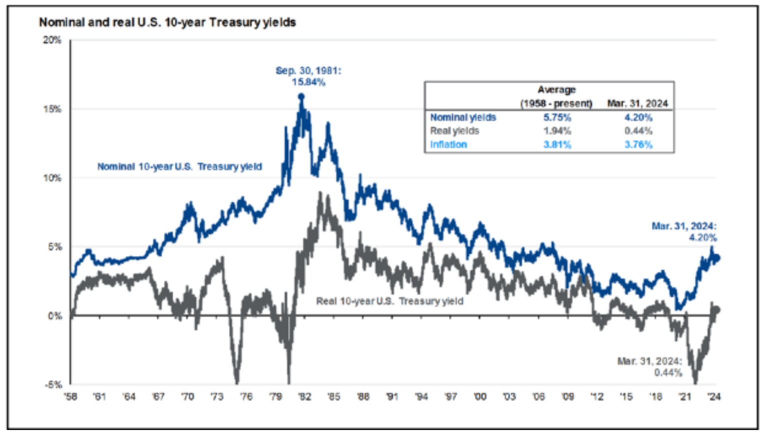

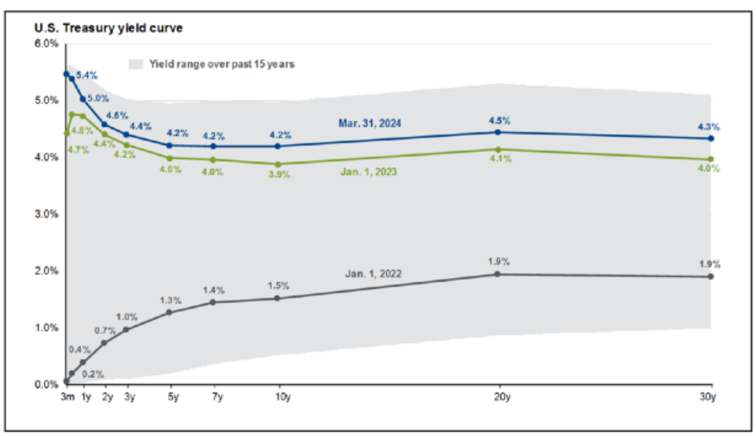

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2009-2023																	
Ann.	Vol.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap 14.0%	Small Cap 21.9%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 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%	Large Cap 10.6%
Small Cap 11.3%	REITs 21.2%	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%	DM Equity 5.8%
REITs 10.9%	EM Equity 20.3%	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%	Small Cap 5.2%
High Yield 8.6%	DM Equity 18.4%	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. 4.2%
Asset Alloc. 8.1%	Comdty. 16.6%	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%	Comdty. 2.2%
DM Equity 7.4%	Large Cap 16.1%	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 2.2%
EM Equity 6.9%	High Yield 11.5%	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%	High Yield 2.1%
Fixed Income 2.7%	Asset Alloc. 11.5%	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 1.3%
Cash 0.8%	Fixed Income 4.5%	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%	Fixed Income -0.8%
Comdty. -0.2%	Cash 0.7%	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%	REITs -1.3%

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