Covenant
Asset Management, LLC

Third Quarter 2021
Investment Perspectives

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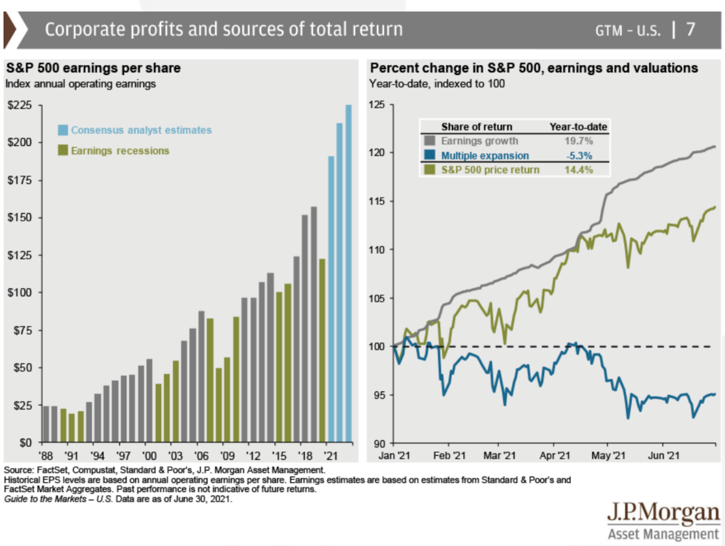
Economic and Financial Markets Review & Outlook

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

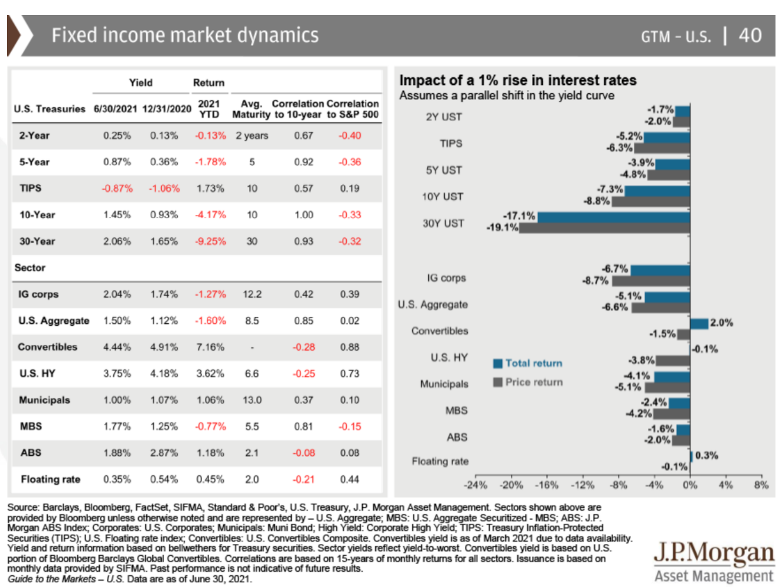
Key Themes

1. The U.S. economy and financial markets continued their strong recovery in the first half of 2021.
2. Interest rates jumped as the economic recovery gained momentum and then pulled back as investors heeded the Fed's forecast that recent high inflation is transitory and will subside in coming quarters.
3. Large style shifts occurred in the year's first half, as investors initially rotated away from growth and into value stocks and then swung back toward growth in the past six weeks.
4. Investors will closely watch for fiscal and monetary policy changes as we head toward the fall to determine the likely impact on inflation, interest rates and the economy.

Economic activity surged in the first half as much of the U.S. economy has fully re-opened. Demand is soaring as the pandemic recedes, while supply constraints linger, creating inflation concerns. After rising 6.4% in the first quarter, GDP growth expectations for Q2 exceed 10%. Easy comparisons to when the economy was shut down a year ago, combined with massive monetary and federal government aid, contributed to the robust results.



Anticipating a strong economic rebound, market-based interest rates continued to rise in the first quarter. The ten-year U.S. Treasury Note yield began the year at 0.90% and rose steadily to the end of March where it peaked at 1.74%. During the second quarter, as investors debated the potential for higher inflation, the 10-year yield declined and ended the quarter below 1.50%. All major U.S. stock indexes rose by double-digits in the first half, with the S&P 500 leading the way, up 15.25%, while the DJIA



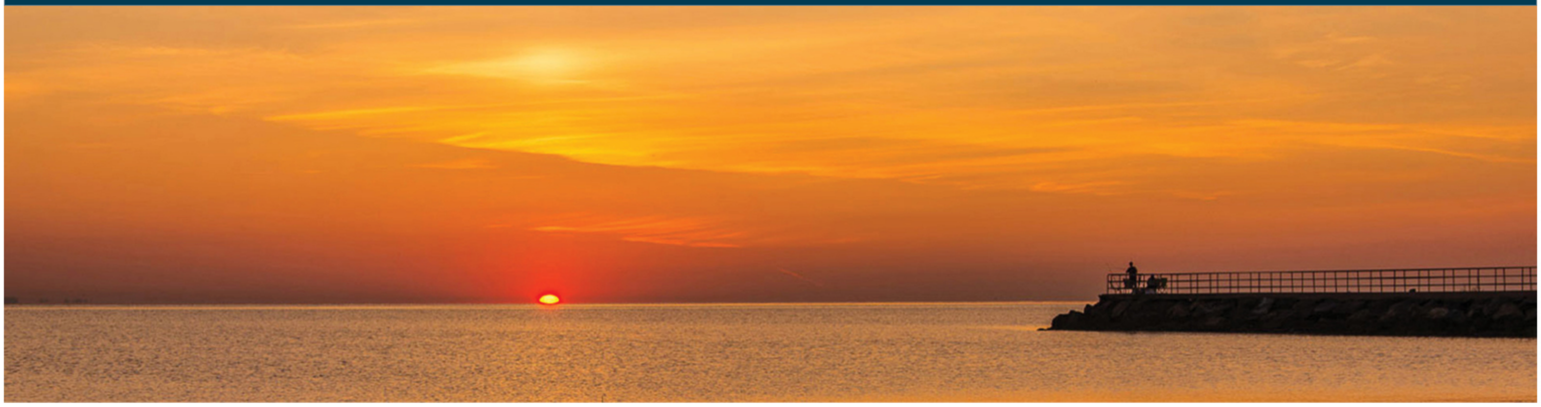
Fixed income market dynamics

GTM - U.S. | 40

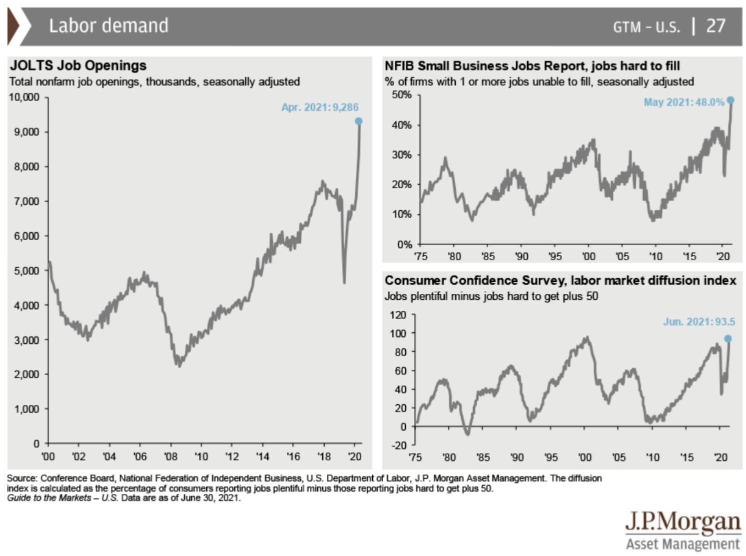
U.S. Treasuries	Yield 6/30/2021	Yield 12/31/2020	Return 2021 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	0.25%	0.13%	-0.13%	2 years	0.67	-0.40
5-Year	0.87%	0.36%	-1.78%	5	0.92	-0.36
TIPS	-0.87%	-1.06%	1.73%	10	0.57	0.19
10-Year	1.45%	0.93%	-4.17%	10	1.00	-0.33
30-Year	2.06%	1.65%	-9.25%	30	0.93	-0.32
Sector						
IG corps	2.04%	1.74%	-1.27%	12.2	0.42	0.39
U.S. Aggregate	1.50%	1.12%	-1.60%	8.5	0.85	0.02
Convertibles	4.44%	4.91%	7.16%	-	-0.28	0.88
U.S. HY	3.75%	4.18%	3.62%	6.6	-0.25	0.73
Municipals	1.00%	1.07%	1.06%	13.0	0.37	0.10
MBS	1.77%	1.25%	-0.77%	5.5	0.81	-0.15
ABS	1.88%	2.87%	1.18%	2.1	-0.08	0.08
Floating rate	0.35%	0.54%	0.45%	2.0	-0.21	0.44

Source: Barclays, Bloomberg, FactSet, SIFMA, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of March 2021 due to data availability. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Barclays Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Issuance is based on monthly data provided by SIFMA. Past performance is not indicative of future results.
Guide to the Markets – U.S. Data are as of June 30, 2021.

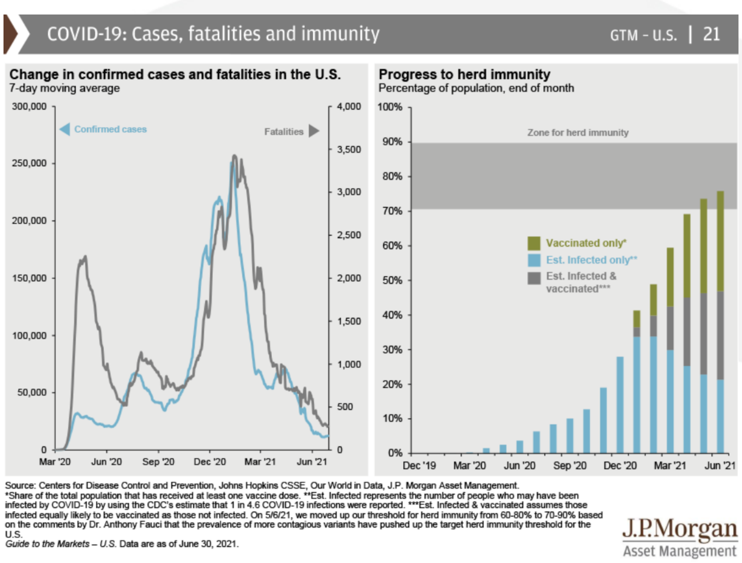
Economic and Financial Markets Review



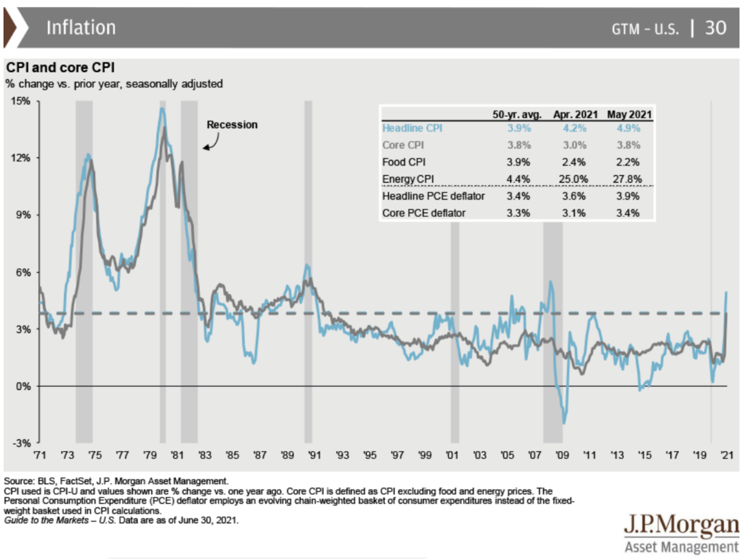
and Nasdaq were up 13.8% and 12.9%, respectively. After lagging significantly in 2020, value stocks led the way through much of the first half, although a six-week rotation back to growth stocks narrowed the gap by the end of June.



New Covid-19 cases in the U.S. have plummeted by 95% since their peak in January 2021. It is estimated that between 75-85% of the adult population in the U.S. has been immunized from Covid-19 through vaccination or natural immunity. Many businesses are experiencing a surge in pent-up demand as consumers and businesses return to normal activities. It appears that many businesses were unprepared for demand to return as quickly as it has leading to production constraints and supply chain bottlenecks. The economic consequence of rising demand and short supply is a rise in prices, also known as inflation. Many of us can see the rise in prices when we shop for groceries and fill up our cars at the gas station. On the positive side, we enjoy the jump in prices when it comes to our stock portfolios and the rise in value of our homes. But perhaps the most troubling concern currently is that price inflation is outpacing wage growth. There still exists a shortfall of 8 million pre-pandemic jobs, yet job openings in the U.S. exceed 9 million. The standard explanation for this mismatch is a reluctance to return to work while Covid continues, childcare demands with many public schools closed and generous federally enhanced unemployment benefits. The Federal Reserve Bank has been insisting that rising inflation rates are transitory and will subside as these issues resolve themselves in coming months. Our view is that much of the rise in inflation will prove to be transitory, but there is a risk that inflation could remain higher than it has been in the past decade. If the Biden Administration's spending levels spur demand and its tax and regulatory policies constrict supply, inflation may remain elevated. Presently, investors appear to be aligned with the Fed's forecast, as evidenced by the U.S. ten-year Treasury Note yield hovering near 1.5% during the past several weeks.

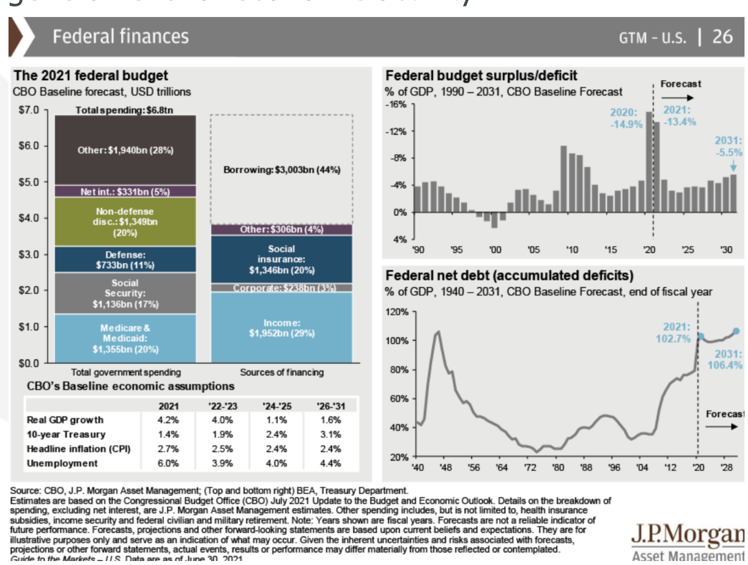


Economic and Financial Markets Challenges

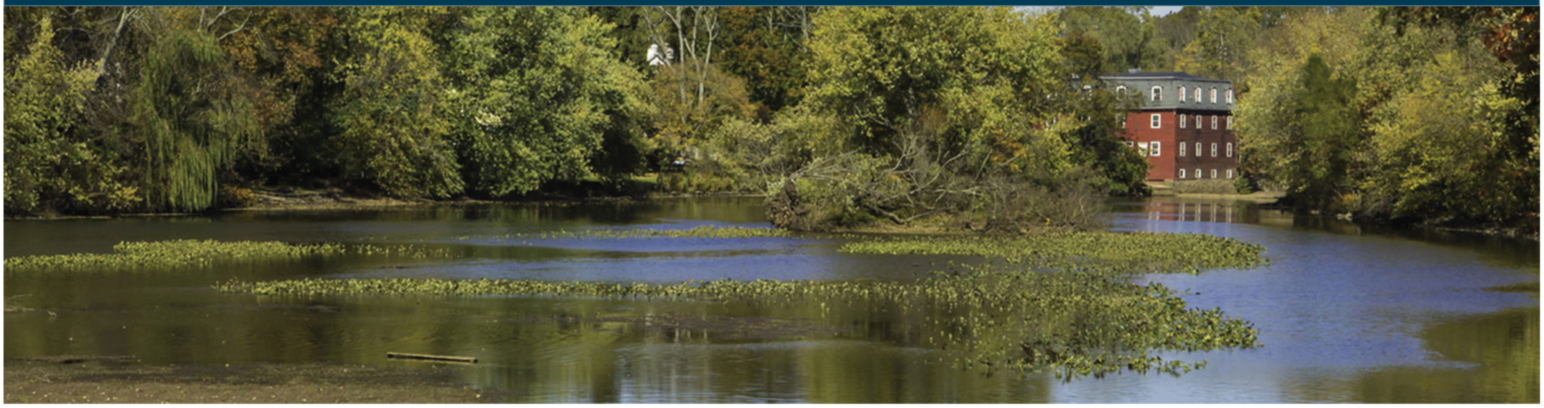


Both fiscal and monetary policy continue to be highly supportive of the economy and financial markets. Currently, the Fed is purchasing a cumulative total of $120 billion of U.S. Treasury, government agency and mortgage-backed securities each month. In addition, the Fed has committed to keeping short-term interest rates, measured by the fed funds rate, at zero until late 2022. And the Fed has only just begun the process of talking about reducing its massive bond-buying program. This backdrop alone is enough to have investors highly enthused. But Congress and the Biden Administration are attempting to spend trillions more dollars above the baseline federal government budget in coming years on infrastructure and additional entitlement programs. If approved, short-term economic growth should receive another boost. The initial reaction by investors is expected to be positive, especially for sectors that are more dependent on strong economic activity. It should be noted that some economists question the wisdom of continued monetary and fiscal stimulus at this point in the economic recovery. The suggestion is that the Fed's asset purchase program and zero interest rate policy is making it easier for Congress to overspend, adding trillions of dollars to the U.S. debt without a material effect on the current annual budget deficit. But each 1% rise in interest rates in the future will add hundreds of billions of dollars of additional deficits per year from interest on the debt. Investors are not now focused on this issue, but it is a longer-term concern.

Should some or all of the new federal spending plans become law, we are likely to see a blip higher for inflation expectations and interest rates, which is likely to trigger a rotation back to value-oriented stocks. Ultimately, we expect the Biden Administration's policies to have similar effects on economic activity as the Obama policies did. After the initial stimulative effects from all the monetary and fiscal spending, growth is likely to slow to sub-par levels of 2% or less. When investors perceive the eventual slowdown in economic growth, a rotation back to growth stocks should occur as most growth companies are less sensitive to the general level of economic activity.

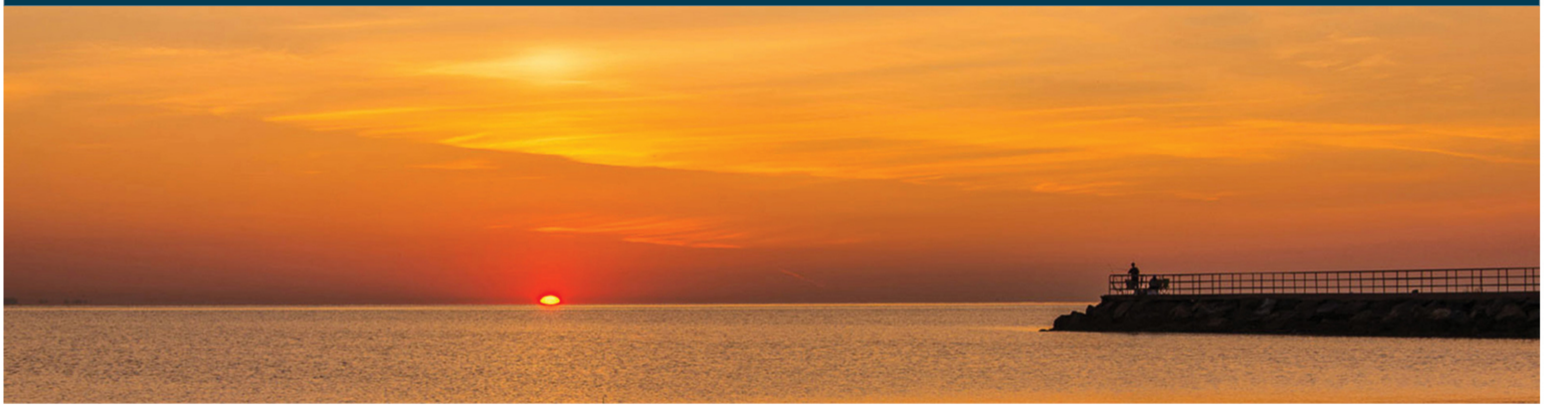


Economics and Financial Market Challenges



Financial markets have come a long way since the pandemic triggered bottom in March 2020. Valuation levels in most asset classes are higher than normal, but understandably so given the low level of interest rates and continued government monetary and fiscal aid. Some level of pullback could occur during the summer months as traders take time off, reducing trading volumes and liquidity and potentially increasing volatility. However, we expect prices to be higher at year-end than they are presently and view any pullback as an opportunity to invest at more attractive prices. Our advice for investors is to focus on setting proper objectives and to create an asset allocation that has the best potential to achieve those objectives. As has been proven often, attempting to guess the highs and lows of the market, rotate amongst styles or themes or any form of market timing is a fool's game. The most successful investors that build real wealth are the ones that take emotion out of investing and rely upon disciplined saving and proven investment techniques. We look forward to continued progress as we work with you to achieve your financial goals. Best wishes for a pleasant summer.

Economic and Financial Markets Charts



Rather than write extensively about equity valuations, economic statistics and investing principles, we offer the following charts organized by topic and courtesy of J.P. Morgan Asset Management:

Unemployment and wages

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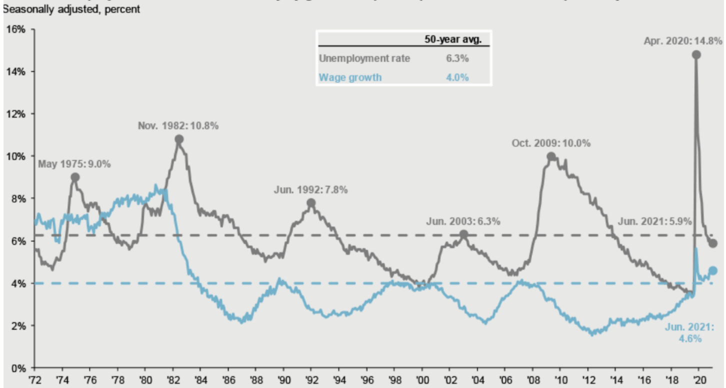
Civilian unemployment rate and annualized y/2y growth for private production and non-supervisory workers
Seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2021.

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Long-run inflation expectations

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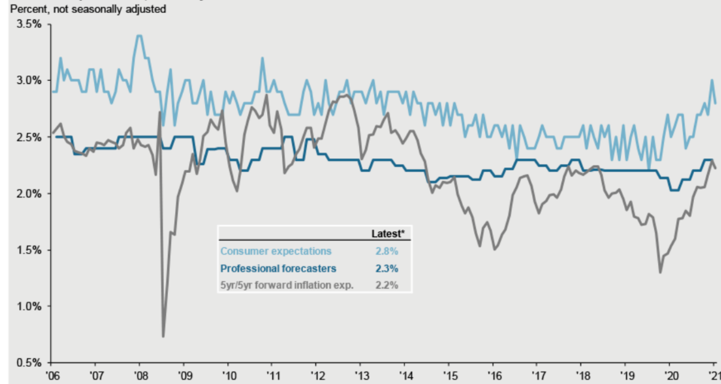
Inflation expectations, next 10 years
Percent, not seasonally adjusted



Source: FactSet, Federal Reserve Bank of Philadelphia, Federal Reserve Bank of St. Louis, University of Michigan, J.P. Morgan Asset Management.
*Data show the latest flash or final reading from the University of Michigan Survey of Consumers, latest daily 5yr/5yr forward inflation expectation rate, and the latest quarterly Survey of Professional Forecasters on a 1-month lag. The University of Michigan Survey of Consumer asks consumers, "By about what percent per year do you expect prices to go (up/down) on the average, during the next 5 to 10 years?". The Survey of Professional Forecasters is conducted by the Federal Reserve Bank of Philadelphia and reflects the median estimate by professional forecasters of average CPI inflation over the next 10 years. The 5-year, 5-year forward inflation expectation rate measures the expected inflation rate (on average) over the five-year period that begins five years from today.
Guide to the Markets – U.S. Data are as of June 30, 2021.

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The Fed and interest rates

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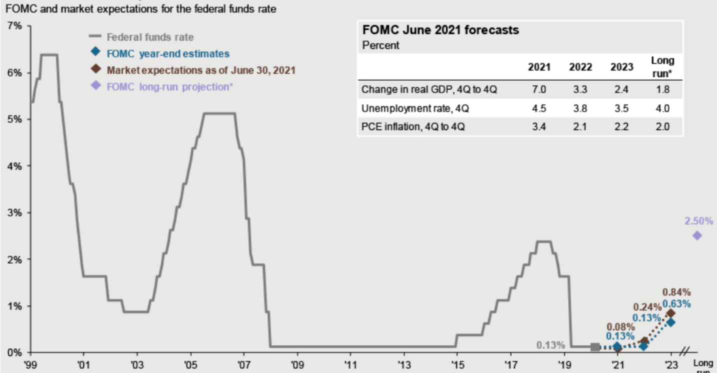
Federal funds rate expectations
FOMC and market expectations for the federal funds rate



FOMC June 2021 forecasts
Percent

	2021	2022	2023	Long run*
Change in real GDP, 4Q to 4Q	7.0	3.3	2.4	1.8
Unemployment rate, 4Q	4.5	3.8	3.5	4.0
PCE inflation, 4Q to 4Q	3.4	2.1	2.2	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the USD Overnight Index Forward Swap rates. *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.
Guide to the Markets – U.S. Data are as of June 30, 2021.

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Taxes and the stock market

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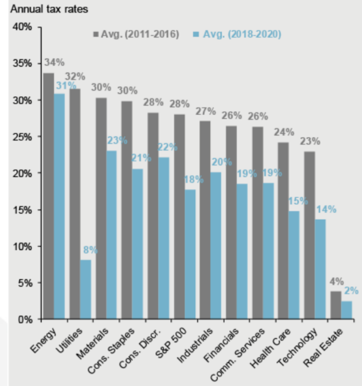
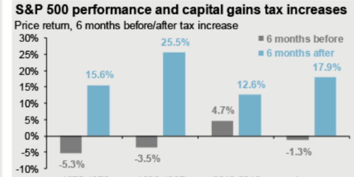
S&P 500 effective sector tax rates*
Annual tax rates



Capital gains and dividend tax rates**
1954-2021

S&P 500 performance and capital gains tax increases
Price return, 6 months before/after tax increase



Source: CBO, Compustat, FactSet, Standard & Poor's, Tax Policy Center, Treasury Department, Wolters Kluwer, J.P. Morgan Asset Management.
*Effective federal, state, and foreign taxes. **Highest marginal federal tax rates. Includes Medicare tax of 3.8% from 2013-present.
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Economic and Financial Markets Charts

Taxes and the stock market

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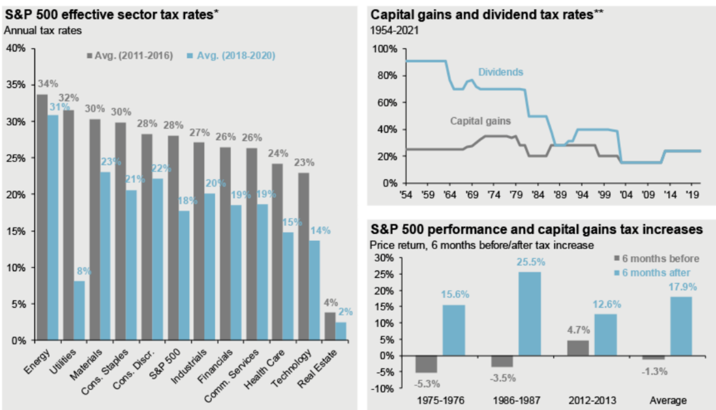

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*Effective federal, state, and foreign taxes. **Highest marginal federal tax rates. Includes Medicare tax of 3.8% from 2013-present.
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The Federal Reserve balance sheet

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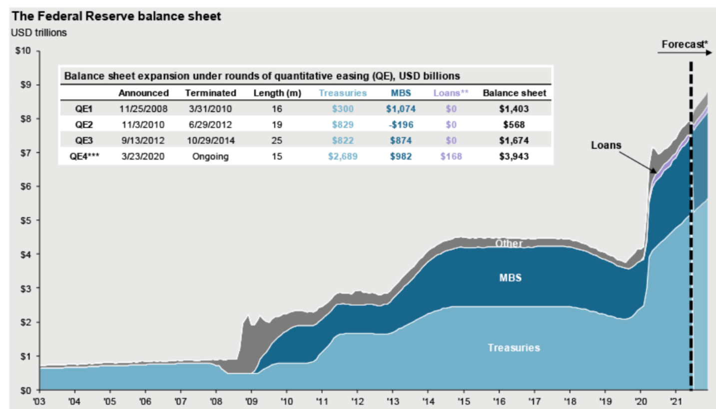

Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	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	Ongoing	15	$2,689	$982	$168	$3,943

Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management.
Currently, the balance sheet contains $5.2tn in Treasuries and $2.4tn in MBS. *The end balance sheet forecast assumes the Federal Reserve maintains its current pace of purchases of Treasuries and MBS through December 2021 as suggested in the June 2021 FOMC meeting. **Loans include liquidity and credit extended through corporate credit facilities established in March 2020. Other includes primary, secondary and seasonal loans, repurchase agreements, foreign currency reserves and maiden lane securities.
***QE4 is ongoing and the expansion figures are as of the most recent Wednesday close as reported by the Federal Reserve. 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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Returns and valuations by style

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10-year annualized

	Value	Blend	Growth
Large	11.6%	14.8%	17.9%
Mid	11.7%	13.2%	15.1%
Small	10.8%	12.3%	13.5%

YTD

	Value	Blend	Growth
Large	17.0%	15.3%	13.0%
Mid	19.5%	16.2%	10.4%
Small	26.7%	17.5%	9.0%

Since market peak (February 2020)

	Value	Blend	Growth
Large	18.9%	29.9%	43.2%
Mid	23.2%	31.1%	40.0%
Small	35.4%	38.8%	39.6%

Since market low (March 2020)

	Value	Blend	Growth
Large	92.2%	96.1%	109.0%
Mid	117.9%	119.5%	117.7%
Small	138.1%	134.0%	126.9%

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

	Value	Blend	Growth
Large	17.0 / 13.7	21.5 / 15.8	30.5 / 18.5
Mid	17.5 / 14.4	22.0 / 16.4	39.0 / 20.3
Small	19.3 / 16.9	29.5 / 21.3	59.4 / 35.2

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

	Value	Blend	Growth
Large	123.8%	136.5%	165.3%
Mid	121.4%	134.3%	192.0%
Small	114.3%	138.7%	168.8%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from 2/19/20 to 6/30/21. Since Market Low represents period from 3/23/20 to 6/30/21. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2021.

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Annual returns and intra-year declines

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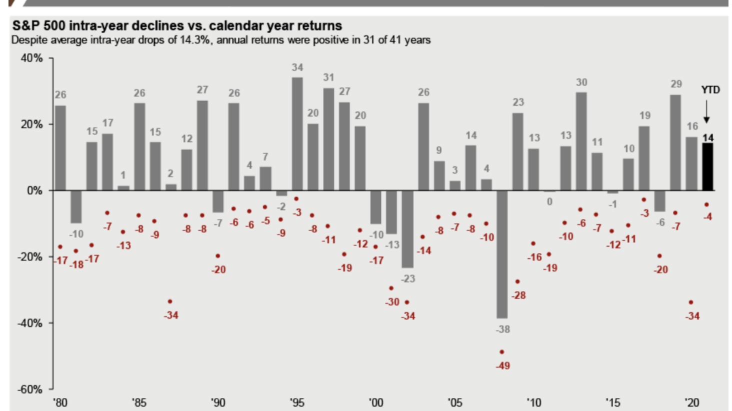

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%.
Guide to the Markets – U.S. Data are as of June 30, 2021.

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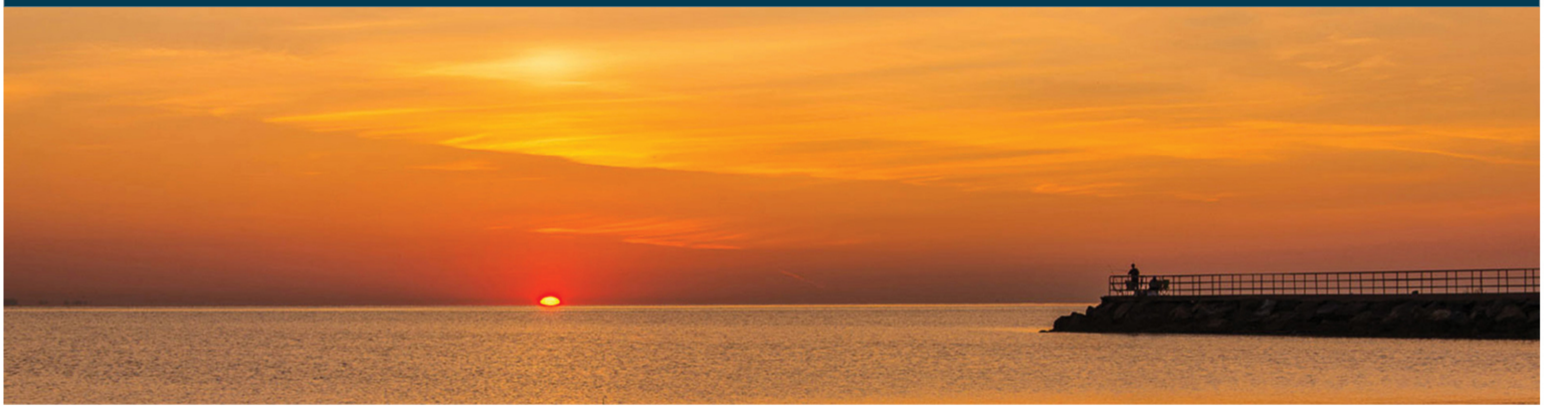
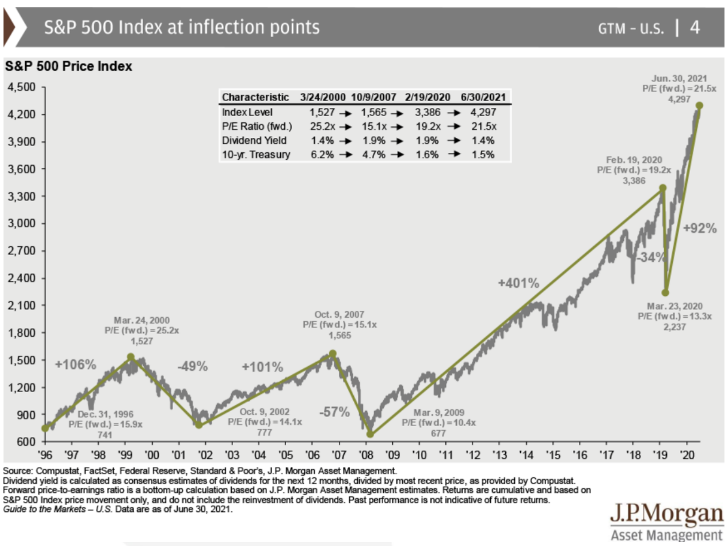
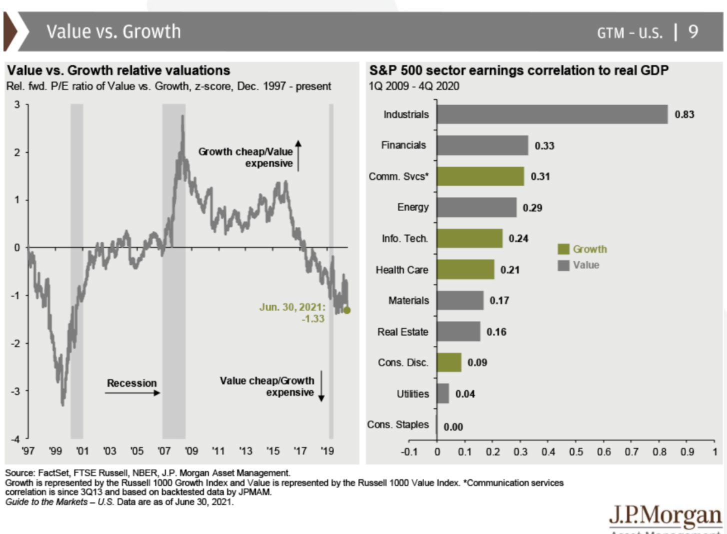
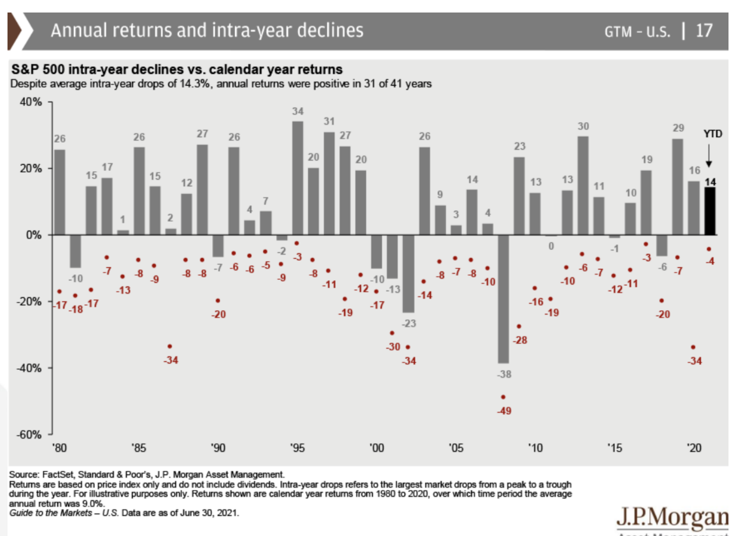
Economic and Financial Markets Charts









Economic and Financial Markets Charts

Asset class returns

																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
REITs 35.1%	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 21.3%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	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%	Comdty. 21.1%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	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%	Small Cap 17.5%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	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%	Large Cap 15.3%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	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%	DM Equity 9.2%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.[illegible]%	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%	Asset Alloc. 9.2%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	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%	EM Equity 7.6%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	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%	High Yield 2.1%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	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%	Cash 0.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	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%	Fixed Income -1.6%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, 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 Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 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 Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays 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 12/31/05 to 12/31/20. 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.
Guide to the Markets – U.S. Data are as of June 30, 2021.

J.P.Morgan Asset Management

*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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