Covenant Asset Management, LLC

Third 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 second 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 enjoyed a powerful rally in the first half with momentum and breadth both improving in June.
2. The Federal Reserve Bank paused its interest rate hikes in June but indicated additional hikes are likely in an effort to combat still high inflation.
3. Economic data is mixed with consumer pending and labor markets strong but manufacturing and interest-rate sensitive sectors weak.
4. Second-half economic and investment performance will be strongly influenced by how well corporate earnings hold up to continuing efforts by the Fed to reign in inflation and diminished fiscal stimulus.

After a brutal year for investors in 2022, financial markets were on edge as 2023 began. Concerns about persistently high inflation, increasingly tight monetary policy, weakening corporate profits and potential turbulence surrounding debt ceiling negotiations weighed on investor sentiment. In the face of these fears, the stock market ascended the proverbial wall of worry in a mighty way in the first half of the year. The Nasdaq composite followed last year's 32.5% decline with a 32.3% rebound in the first six months of 2023. The S&P 500 rose 16.9% and the Dow Jones Industrials generated a 4.9% return. The bond market was volatile, but managed to produce low single-digit total returns, depending on the sector, credit quality and duration, with the Bloomberg Aggregate Bond Index up 2% for the year-to-date. Energy prices slumped along with many commodities prices in the first half, with oil prices down by 13%. In many ways, the first half of 2023 was the opposite of what investors experienced in 2022. Growth stocks and riskier investments like bitcoin were hard hit in 2022 and recovered the most so far this year. Value stocks and other safe havens held up better last year, but they have been notable laggards in 2023. The only knock on performance in the first half in the stock market is that the rally has been very narrow with a small number of large-cap growth stocks responsible for most of the gains. The market did begin to broaden in June, as the S&P 500 equal-weighted index outperformed the standard market-cap-weighted S&P 500 Index by 1.1 percentage points. Small-cap stocks outperformed as well.

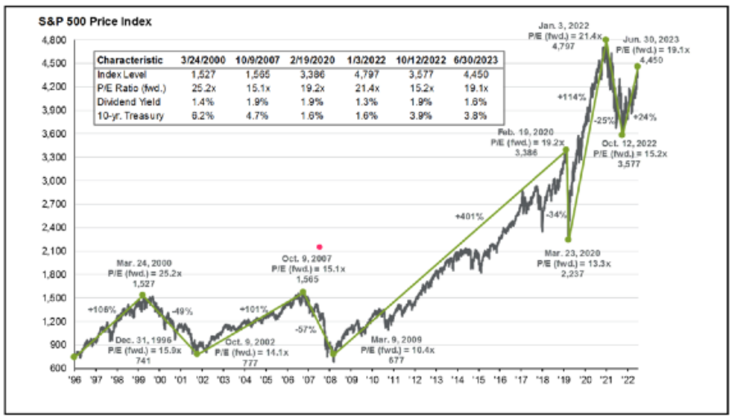

Chart sourced from JP Morgan Guide to Markets

The Federal Reserve Bank continued its policy of raising the fed funds rate in an effort to combat higher than desired inflation. In the first half, the Fed tempered its aggressive monetary tightening initiatives by raising the fed funds rate in three 25-basis-point increments. The rate was last raised in May to 5.00-5.25%. At the June meeting, the Fed decided not to change the rate for the first time since March 2022. In that timeframe, the Fed Funds rate was increased by 5 percentage points, one of the most aggressive tightening cycles in the history of the Federal Reserve Bank. The Fed and other central banks appear to be disappointed at the pace at which price inflation is subsiding. The Fed has been clear that, even at the risk of

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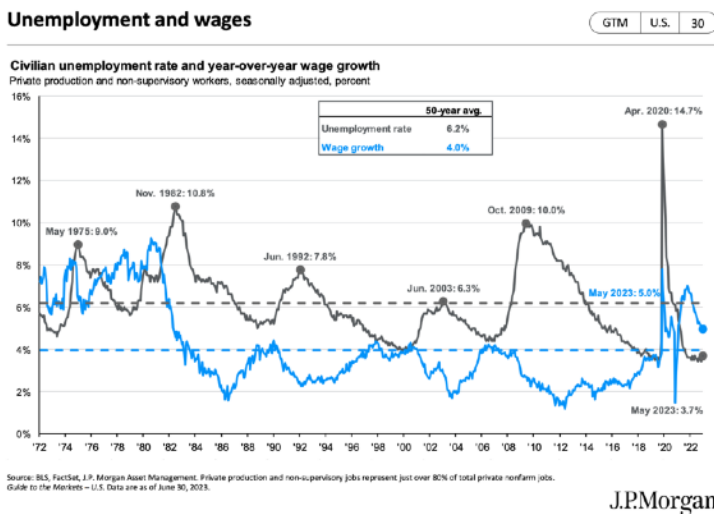
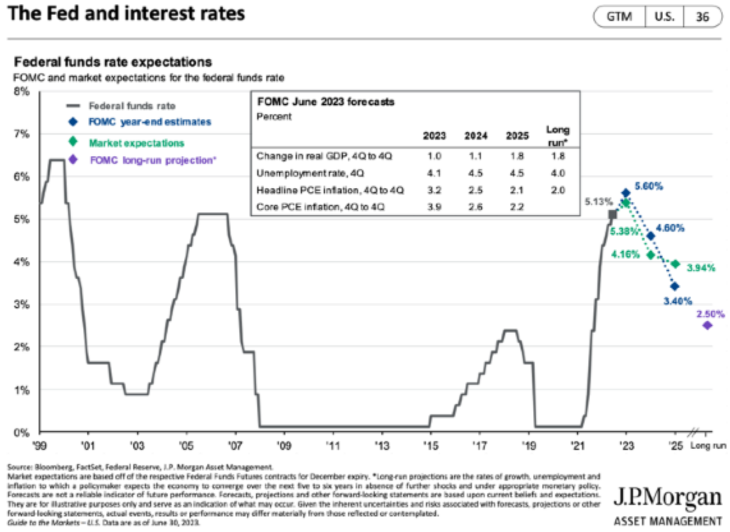
recession, they intend to engineer a return to a 2% targeted inflation rate. Fed officials have indicated recently they believe the Fed Funds rate may need to be raised further and kept at higher levels longer than originally anticipated. At present, investors expect rates to rise another 25 to 50 basis points in coming months. The question is, will the economy be able to endure further rate hikes without tumbling into recession?



Overall, the economy has held up better than expected during the monetary tightening period. Manufacturing, energy and interest rate sensitive sectors like housing have suffered. Consumer-related sectors, especially travel and dining, have prospered, as pandemic-related savings and pent-up demand bolstered spending. The labor market has held up, but cracks are beginning to emerge. Hiring has slowed, unemployment claims have risen and the unemployment rate, while still low, has increased from 3.4% to 3.7% in recent months. Excess pandemic savings are expected to be depleted before year-end and fiscal stimulus has wound down. The federal government debt ceiling agreement is intended to restrict discretionary spending in the next two years and will further inhibit economic activity. Can the economy continue to grow in the face of slower fiscal spending and monetary tightening? Investors seem to be betting that the economy will slow or perhaps slip into a mild recession, but any fallout will be contained and may help reign in inflation. Time will tell.



	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

Investment performance in 2023's first half was driven by an economy that has held up better than expected and by slow, but steady progress on the inflation front. Corporate earnings have been resilient and the crisis in the regional banking sector appears to be contained presently. Tech stocks received a boost, as the potential for artificial intelligence (AI) spending and investment was recognized. Nvidia is the biggest beneficiary because they make the best computer chips for AI processing. Microsoft and Adobe also received boosts from the potential for AI profits. Investors then began imagining the future spending boost industry-wide for semiconductor and software stocks in an AI world. Understanding first-half performance becomes clearer in hindsight when we think about an environment marked by disinflation and optimism about future technology spending. This puts into better perspective the decline in stock market volatility measures, such as the VIX, to the lowest levels since before the pandemic.

Momentum is strong for stocks, as we head into the second half, and more stocks appear to be joining the rally. The June run-up may also incorporate a degree of investor FOMO, (Fear Of

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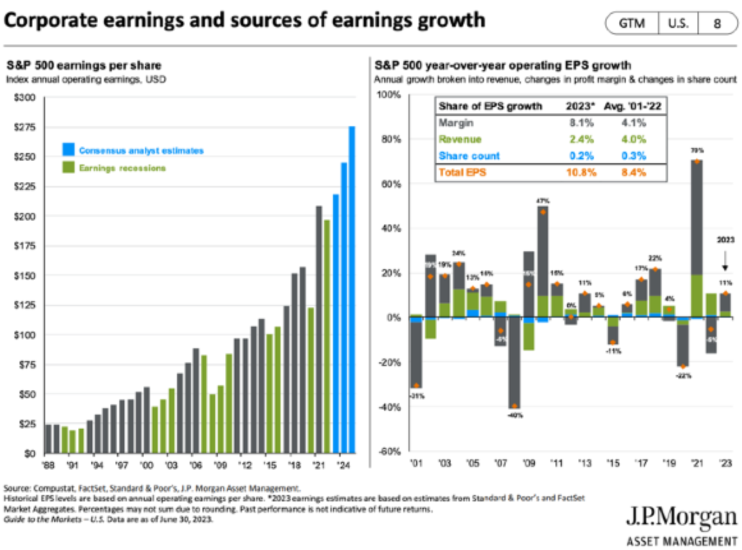
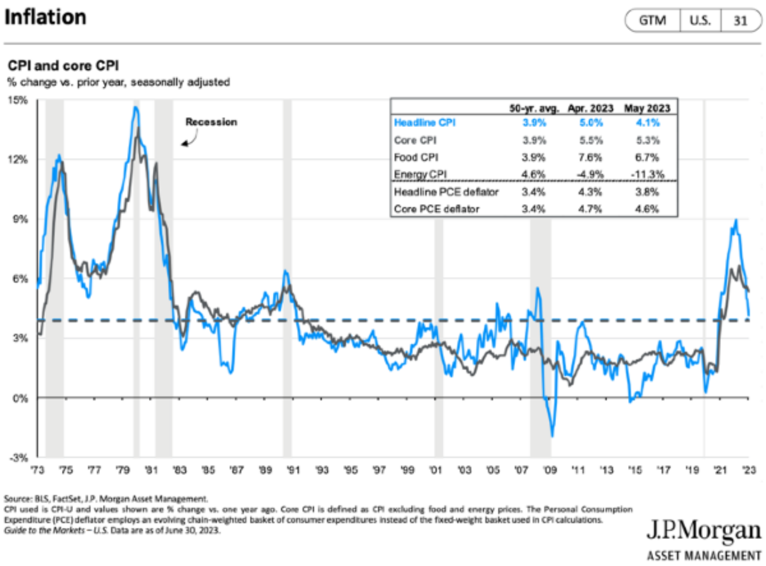


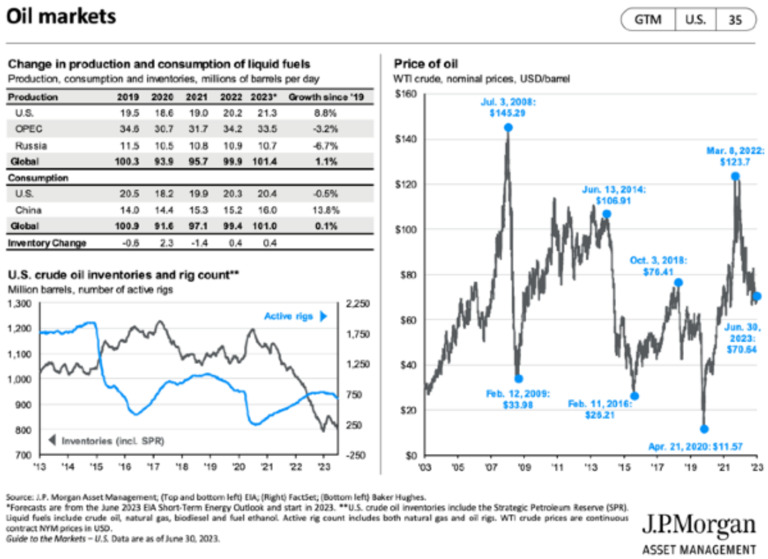
Missing Out). After the jump in stocks in the past month, the market may be extended in the short term. Market bond yields have been on the rise again, as investors embrace the idea that the economy is somewhat stronger than expected and the Fed is likely to continue to raise interest rates. Most of the time, when markets experience a strong first half, further gains are achieved during the rest of the year. The economy may continue to grow and it is possible that we realize the elusive soft landing. But odds continue to favor a recession at some point within the next twelve months, given the likelihood of continued interest rate hikes, restrictive monetary policy and slower federal spending.

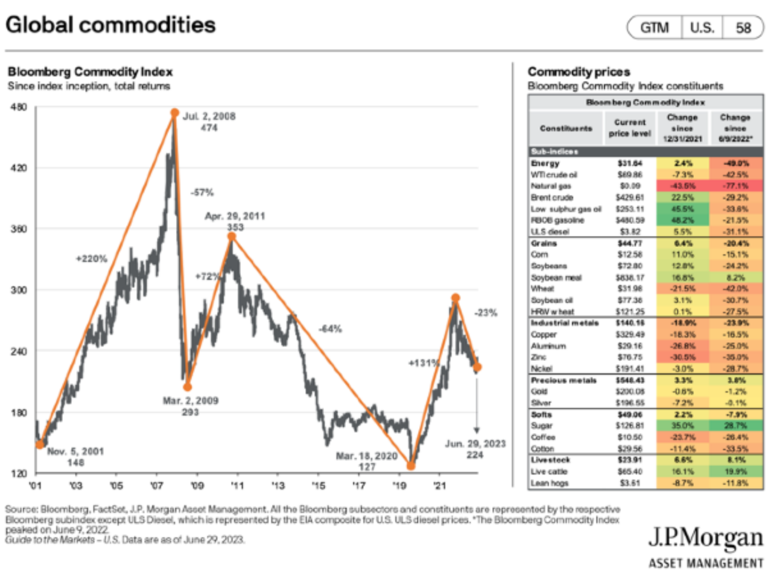
The experience of the past eighteen months has proven once again that it is nearly impossible to predict the short-term direction of financial markets and that aiming to time the market is a fool's game. Attempting to predict which investment styles or sectors will perform best in the short term is similarly difficult. Selecting investments and securities in a proven disciplined manner is the best chance for long term success. Equally important is selecting an asset mix that best fits investor objectives. This approach has served our clients well and we look forward to continuing working with you to achieve your financial goals.

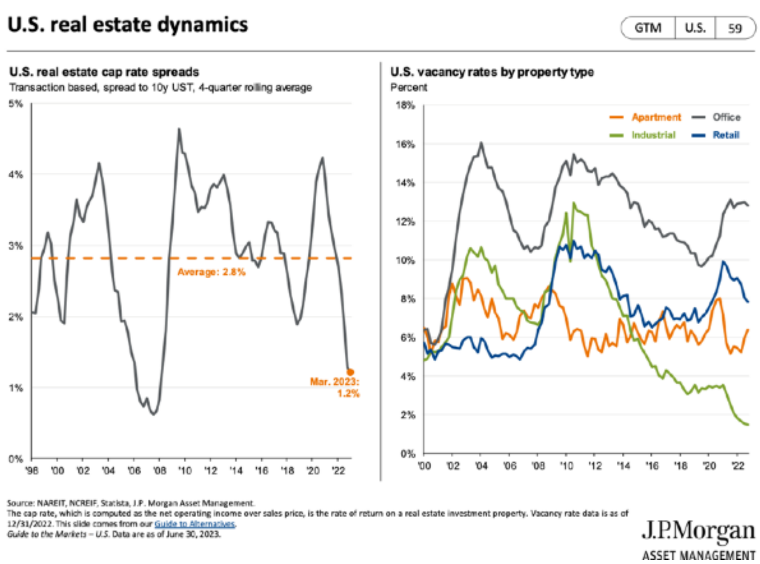
Please accept our best wishes for an enjoyable summer.

Economic and Financial Markets Charts









Charts sourced from JP Morgan Guide to Markets

Economic and Financial Markets Charts

Interest rates and inflation

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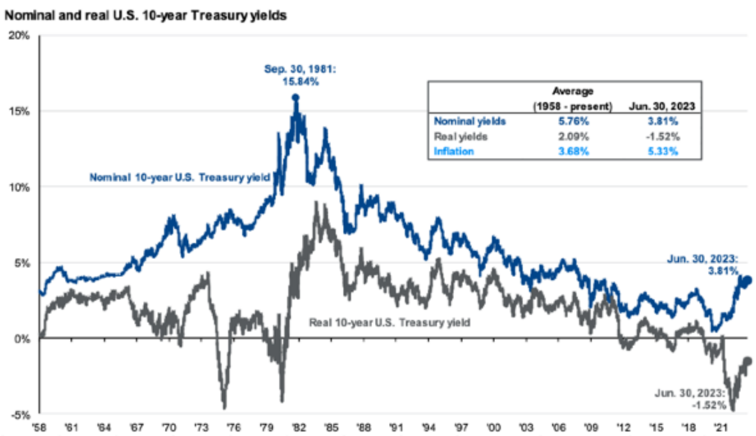

Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.
Guide to the Markets – U.S. Data are as of June 30, 2023.

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Yield curve

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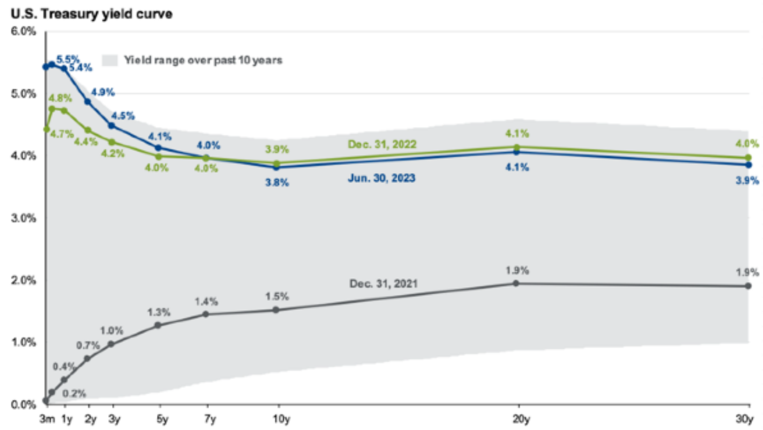

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2023.

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Consumer saving and borrowing

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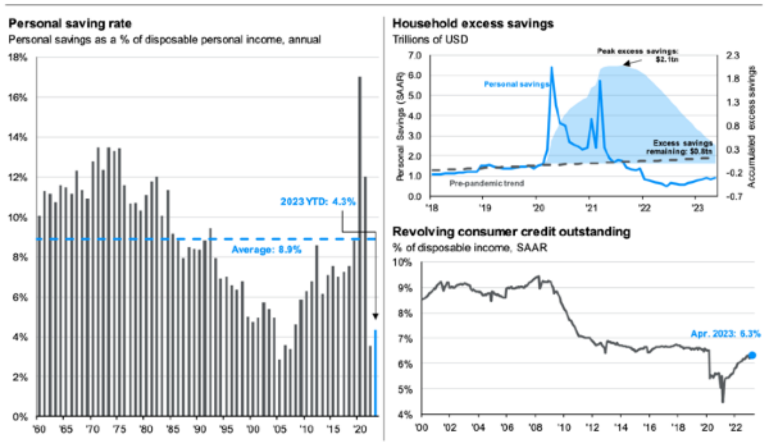

Source: BEA, Federal Reserve, J.P. Morgan Asset Management. From March 2020 to August 2021, consumers amassed a peak $2.1 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation.
Guide to the Markets – U.S. Data are as of June 30, 2023.

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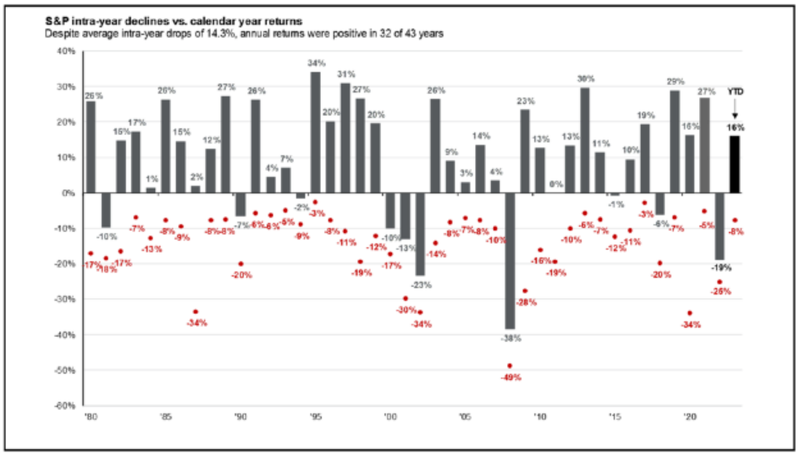

Charts sourced from JP Morgan Guide to Markets

*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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