Covenant
Asset Management, LLC

Fourth Quarter 2021
Investment Perspectives

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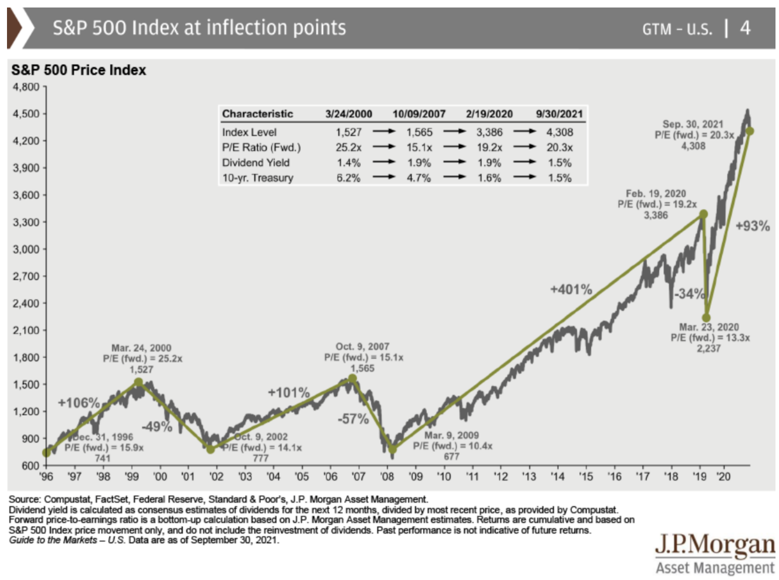
Economic and Financial Markets Review & Outlook

Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review third 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. An anticipated shift in Federal Reserve Bank policy and reductions in new Covid-19 cases have triggered a rise in bond yields.
2. A legislative stalemate in Washington and other concerns have weighed on stock prices, causing markets to pull back from their early September all-time highs.
3. Slowing GDP and corporate earnings growth, along with a change in monetary policy and inflation concerns, will drive financial markets performance in the months ahead.
4. Fiscal policy changes, especially as it relates to tax rates, will be closely watched and evaluated for any impact on economic activity.

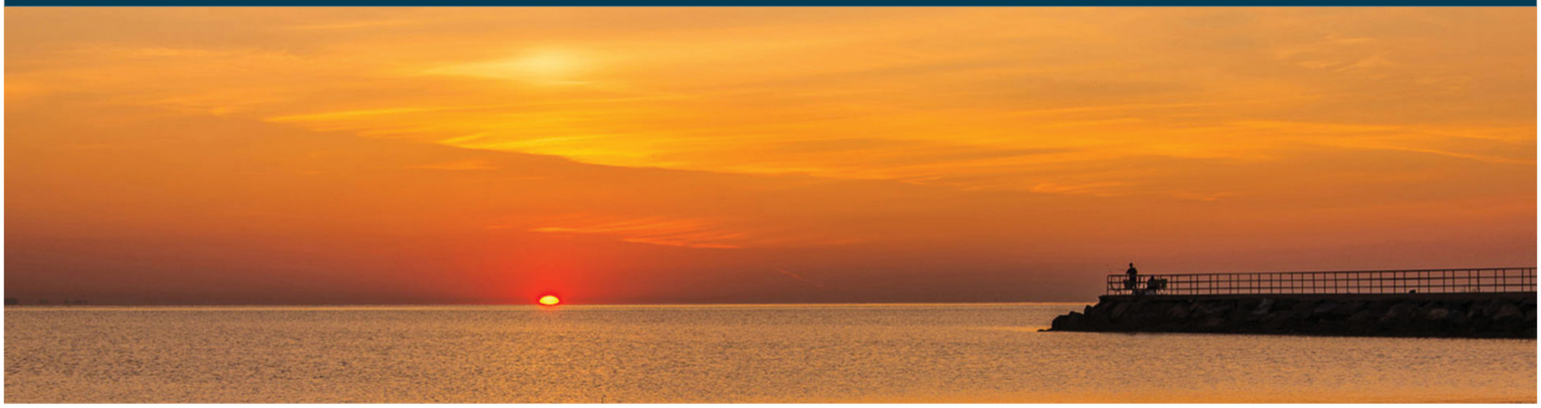
After an amazing bull run from the March 2020 lows, stock market benchmarks began a long overdue correction in early September. At their September peak, the DJIA was up 16.4%, the S&P 500 rose 21.0% and Nasdaq gained 19.5% for the year. The recent correction has lopped between 5.5% and 8% from those lofty highs, with many high-flying stocks correcting 10-15% in the past month. New Covid-19 cases have been on the decline and the Federal Reserve Bank has signaled the beginning of a tapering program intended to end asset purchases by the end of summer 2022. The combined effects of these factors has translated into expectations for further economic recovery and higher bond yields. U.S. Ten-Year Treasury Note yields have risen from below 1.3% in



early September to approximately 1.6% at this writing. A rapid rise in bond yields oftentimes puts disproportionate pressure on growth stocks, as valuation levels adjust to the anticipation of higher interest rates. In stock price valuation models, the present value of future earnings are worth less when higher interest rates are applied. For example, when bond yields rose rapidly earlier this year, growth stock indices under-performed value indices by more than 10 percentage points before reversing course as bond yields fell during the summer. A similar experience may occur over the next several quarters, depending on how quickly and how much rates rise.

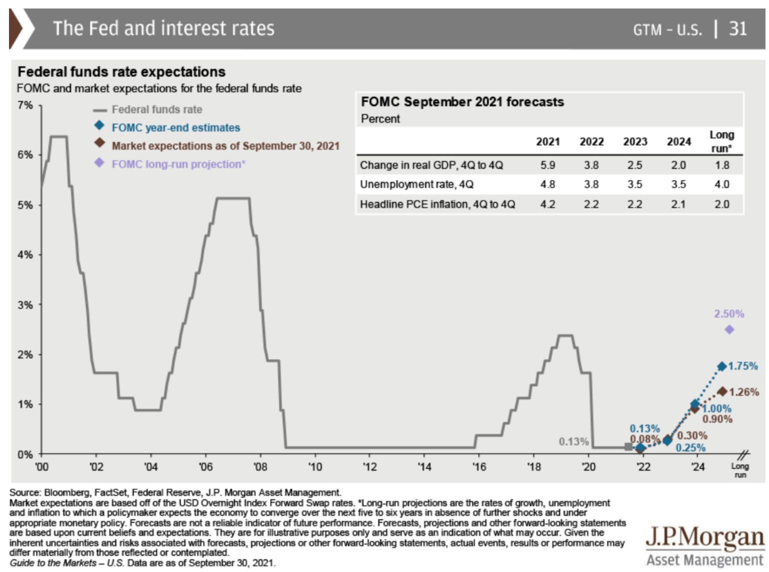
Until recently, investors have largely ignored potential fiscal policy changes. Democrats currently control all branches of government. Through a congressional rule known as budget reconciliation, only a simple

Economic and Financial Markets Review



majority is required in both houses of congress and the President can sign the budget legislation into law. The President and Democrat congressional leaders have proposed an aggressive plan to spend an additional $1.2 trillion on infrastructure and another $3.5 trillion on additional programs that include hundreds of billions of dollars to transition our economy to renewable energy, add dental and vision care to Medicare, establish free community college, free pre-K childcare and mandatory maternity/paternity leave, amongst other spending. There is bi-partisan support for the $1.2 trillion infrastructure spending, but no Republicans have signed onto the $3.5 trillion of additional spending. At least 2 senate Democrats are balking at the price-tag for this additional entitlement spending. Negotiations are ongoing and there remains the possibility that a scaled-back version of the bill might be passed. The big concern is that the advertised cost of the entitlement programs understates their long-term costs. In order to fit within budget reconciliation rules, the new spending must be paid for by cutting other budget items or by increased revenue, AKA increased taxes, or by borrowing. The current language within the legislation calls for increasing taxes for the next ten years, but ending some of the new programs after only five years. Since new entitlement programs are almost never rescinded, the cost of extending the programs could be trillions of dollars more in the future.

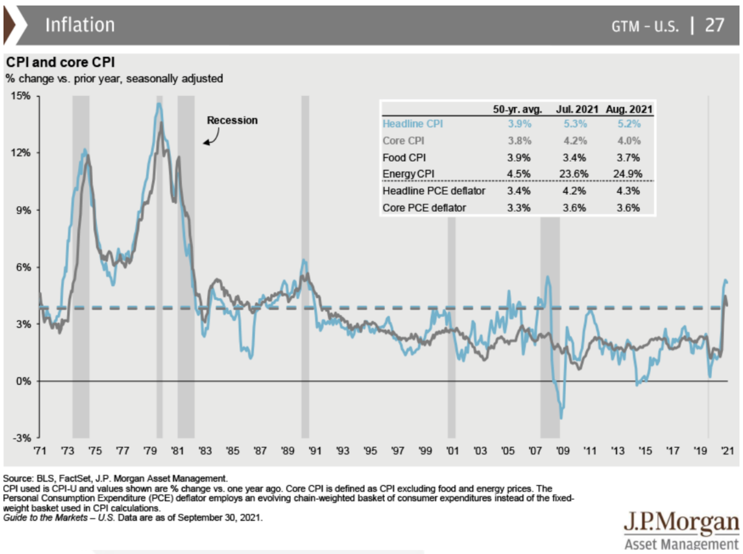
The reason this matters to investors is the cost of these new programs will be paid for through higher taxes on corporations, individuals and capital, as well as additional federal borrowing. Higher tax rates have historically resulted in slower economic activity. Additional debt may not seem too



worrisome when the average current interest rate paid on the federal debt is just 1.6%, but as the debt load approaches $30 trillion, each 1% rise in rates equates to $300 billion of additional annual interest. Another concern that appears to have been temporarily resolved is funding the federal government. The debt limit needed to be raised and a budget to fund the government passed to keep the government fully operational. At this writing, congress has agreed to raise the debt limit and continue to fund government operations through December 3 of this year. Hopefully, the stalemate in congress will be resolved before then and investors will settle down.

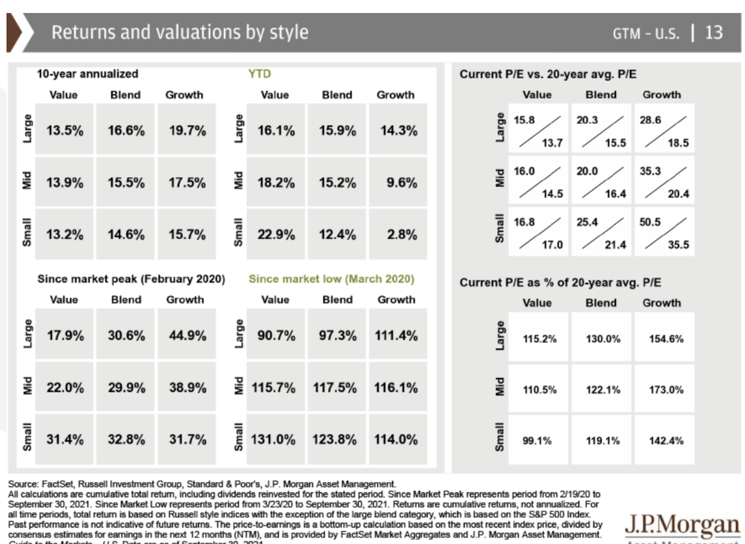
With inflation already running higher than normal, and at the highest level in more than a decade, there are concerns that additional fiscal stimulus at this time may serve to exacerbate and perpetuate inflation. In addition, with monetary policy shifting to one of less accommodation, future increases in the fed funds rate might need to begin sooner

Economic and Financial Markets Challenges



and rise faster to dampen inflation. Rising inflation and interest rates are detrimental to strong economic activity, corporate earnings growth and valuation levels on stocks. GDP and corporate earnings growth are expected to rise at above average rates in 2022 as the economy continues to recover from the effects of the global pandemic. Supply chain disruptions are headwinds to growth and add to inflation. Labor demand continues to be robust and employment appears to be improving modestly, as schools have re-opened and federal supplemental unemployment benefits have ended. However, supply constraints for raw materials and many product components, including semi-conductors, are expected to continue well into next year. Other factors contributing to inflation are energy prices, which have risen sharply this year as supply remains constricted and demand returns to pre-pandemic levels.

Financial markets have come a long way from the pandemic-created lows of March 2020. Driven by massive federal fiscal and monetary aid, stocks and bonds and most other asset classes have risen to all-time high levels. Although it is still early in the economic recovery, it would not be surprising to see the rise in asset prices pause, as investors ponder the shift in monetary policy and analyze the effects of any future fiscal policy changes. Rising interest rates may tempt some investors to reallocate funds from growth stocks to value stocks. Looking further into the future, as economic and earnings growth slow to normal levels, we should expect growth stocks to attract renewed investor interest. As stocks approach their recent highs, it may be sensible to raise enough cash to fund any portfolio cash distribution needs in the months or quarters ahead. We are cautiously investing new cash, looking opportunistically to invest money when prices correct, rather than chasing prices higher. With respect to investing in fixed-income instruments, we prefer shorter-dated maturities, which may perform relatively better in a period of rising interest rates. For tax-payers in the highest tax brackets and highest taxed states, tax-exempt bonds may be attractive, particularly if individual tax rates rise.



Returns and valuations by style

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10-year annualized	Value	Blend	Growth
Large	13.5%	16.6%	19.7%
Mid	13.9%	15.5%	17.5%
Small	13.2%	14.6%	15.7%

YTD	Value	Blend	Growth
Large	16.1%	15.9%	14.3%
Mid	18.2%	15.2%	9.6%
Small	22.9%	12.4%	2.8%

Since market peak (February 2020)	Value	Blend	Growth
Large	17.9%	30.6%	44.9%
Mid	22.0%	29.9%	38.9%
Small	31.4%	32.8%	31.7%

Since market low (March 2020)	Value	Blend	Growth
Large	90.7%	97.3%	111.4%
Mid	115.7%	117.5%	116.1%
Small	131.0%	123.8%	114.0%

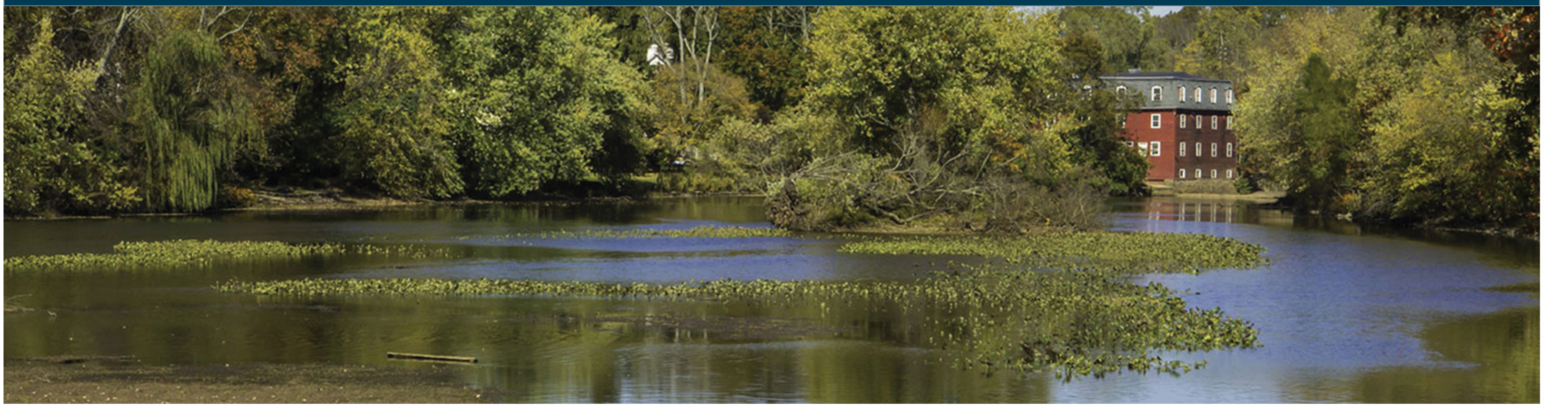
Current P/E vs. 20-year avg. P/E	Value	Blend	Growth
Large	15.8 / 13.7	20.3 / 15.5	28.6 / 18.5
Mid	16.0 / 14.5	20.0 / 16.4	35.3 / 20.4
Small	16.8 / 17.0	25.4 / 21.4	50.5 / 35.5

Current P/E as % of 20-year avg. P/E	Value	Blend	Growth
Large	115.2%	130.0%	154.6%
Mid	110.5%	122.1%	173.0%
Small	99.1%	119.1%	142.4%

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 September 30, 2021. Since Market Low represents period from 3/23/20 to September 30, 2021. 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 September 30, 2021.

J.P.Morgan Asset Management

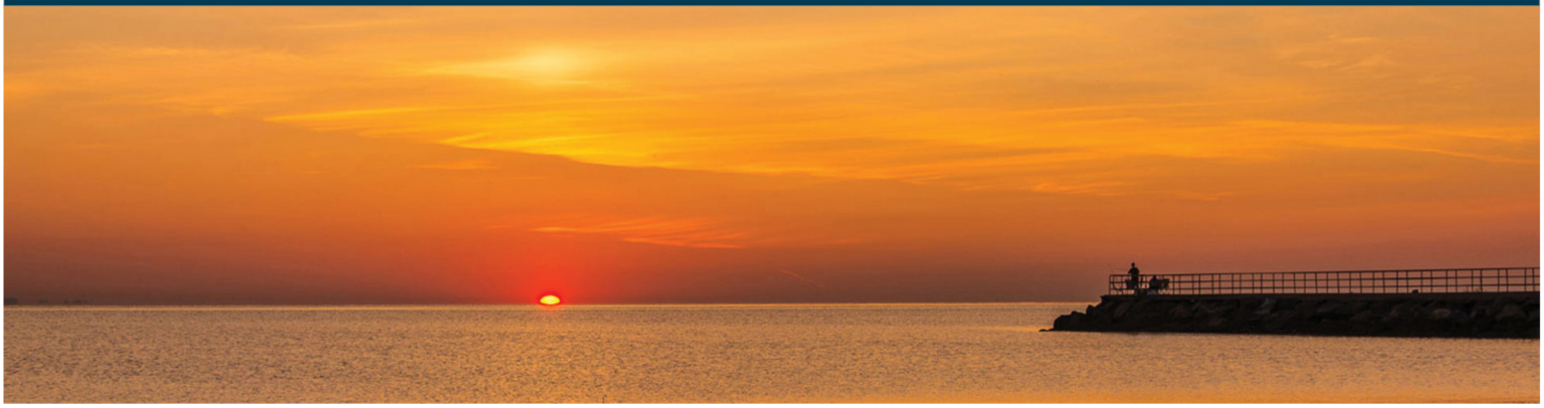
Economics and Financial Market Challenges



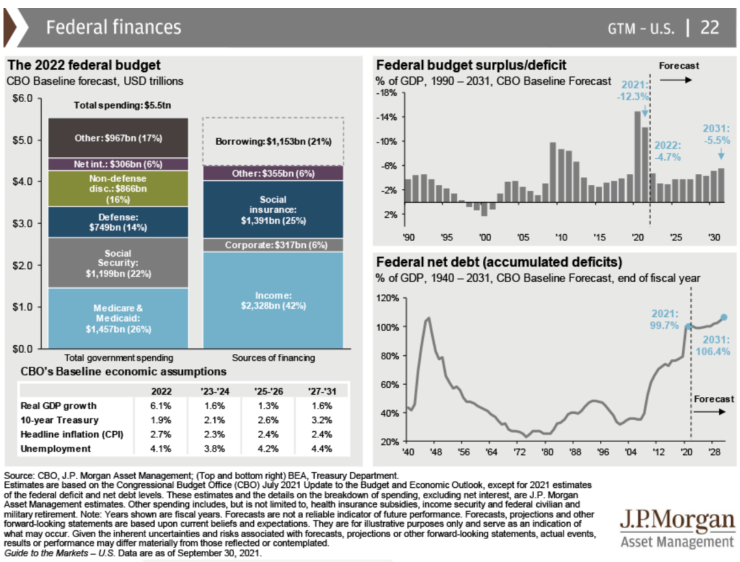
On a longer-term basis, we also prefer high yield bond funds, as they have a track record of performing better than high grade bonds during most market cycles. Some exposure to foreign stocks, real estate and energy pipelines through mutual funds or ETFs may also be warranted, depending on your individual objectives.

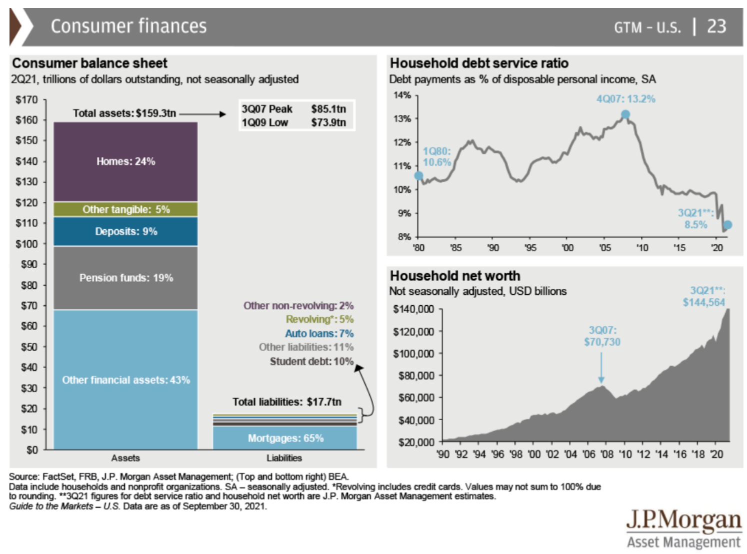
We always appreciate your comments, questions or concerns, and, especially, your trust. We look forward to meeting or speaking with you in the near future.

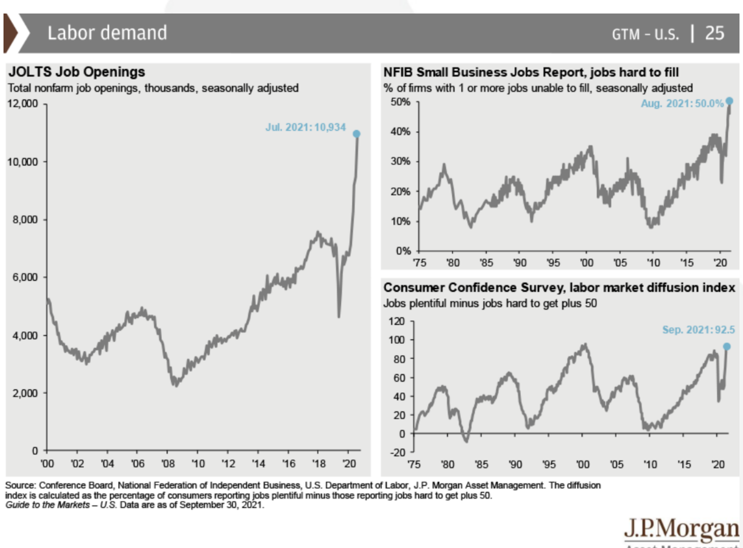
Economic and Financial Markets Charts

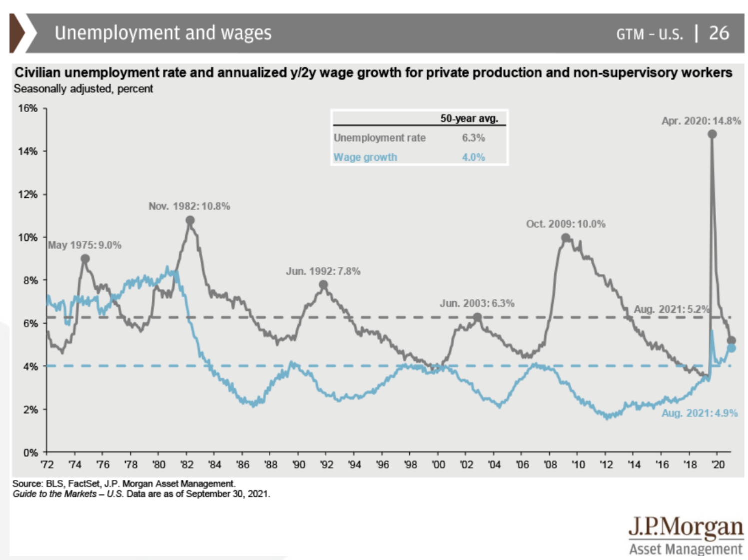


Rather than write extensively about equity valuations, economic statistics and investing principles, we offer the following charts organized by topic and courtesy of J.P. Morgan Asset Management:









Economic and Financial Markets Charts

Annual returns and intra-year declines

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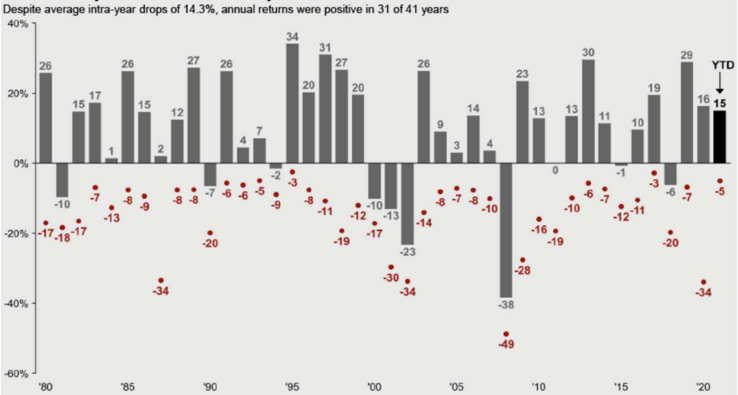
S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 31 of 41 years



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 September 30, 2021.

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Global supply chains and inflation

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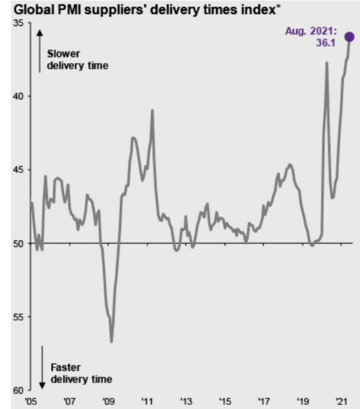
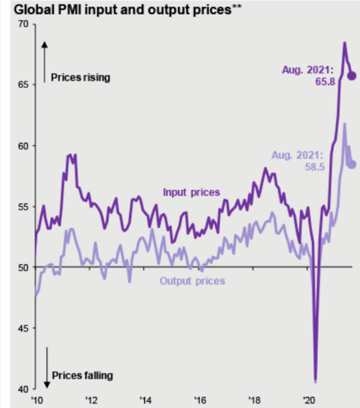
Global PMI suppliers' delivery times index*



Global PMI input and output prices**



Source: IHS Markit, J.P. Morgan Asset Management.
*Participants in IHS Markit's PMI business surveys, conducted in 44 countries, are asked: "Are your suppliers' delivery times slower, faster or unchanged on average than one month ago?". Index includes the manufacturing and construction sectors. A reading of 50 = no change, >50 = faster delivery time, <50 = slower delivery time.**Participants are asked: "Are input/output prices the same, higher or lower?". Values shown reflect the composite index which includes both manufacturing and services. A reading of 50 = no change, >50 = price increase, <50= price decrease.
Guide to the Markets – U.S. Data are as of September 30, 2021.

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Interest rates and inflation

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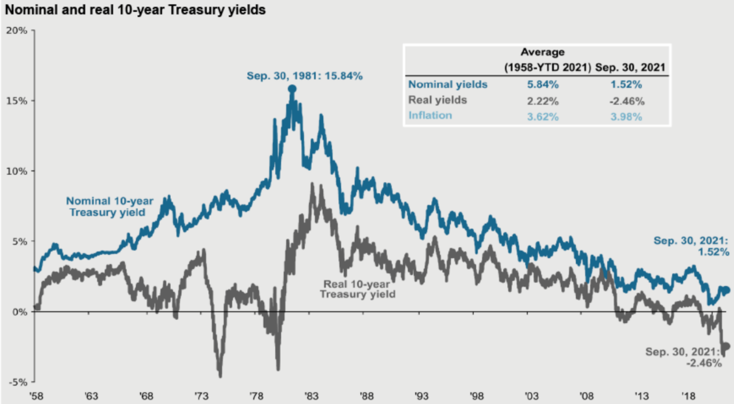
Nominal and real 10-year Treasury yields



	Average (1958-YTD 2021)	Sep. 30, 2021
Nominal yields	5.84%	1.52%
Real yields	2.22%	-2.46%
Inflation	3.62%	3.98%

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 except for September and August 2021 where real yields are calculated by subtracting out September 2021 year-over-year core inflation.
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Yield curve

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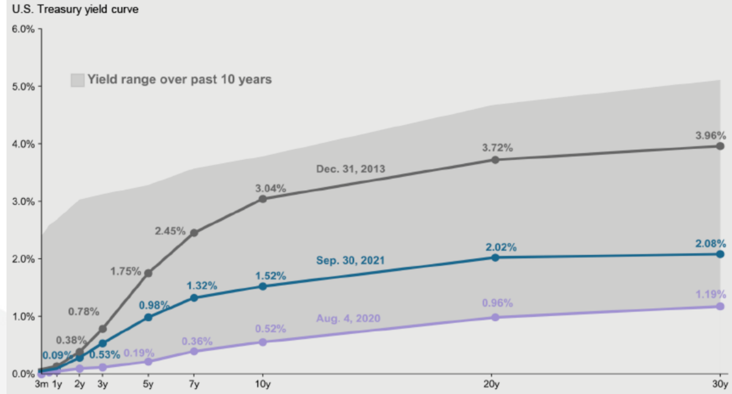
Yield curve

U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. 12/31/2013 is the date the yield curve reached one of its steepest levels in reaction to the Fed announcing it would begin paring down its bond-buying program. 08/04/2020 is the date of a record low on the 10-year, driven by safe haven demand and pessimism around the U.S. pandemic recovery.
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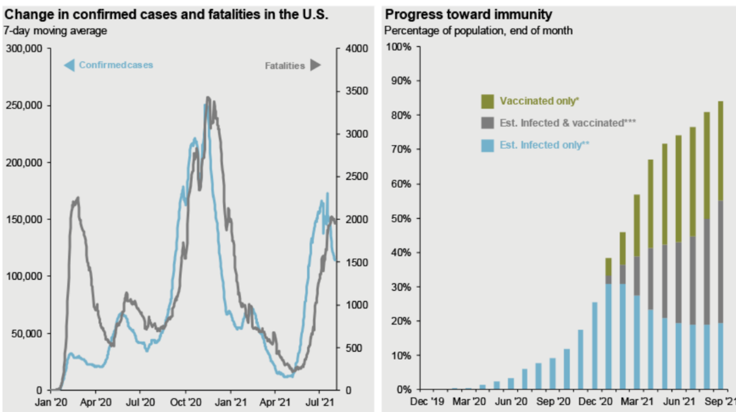
Economic and Financial Markets Charts

COVID-19: Cases, fatalities and immunity



Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management.
*Share of the total population that has received at least one vaccine dose. **Est. Infected represents the number of people who may have been infected by COVID-19 by using the CDC's estimate that 1 in 4.2 COVID-19 infections were reported. ***Est. Infected & vaccinated assumes those infected equally likely to be vaccinated as those not infected.
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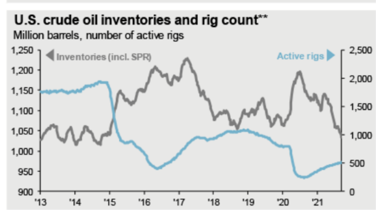
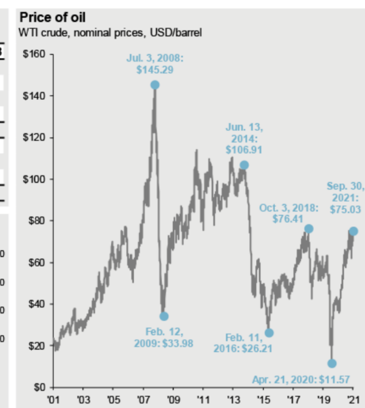
Oil markets

Change in production and consumption of liquid fuels
Production, consumption and inventories, millions of barrels per day

Production	2018	2019	2020	2021*	2022*	Growth since '18
U.S.	17.9	19.5	18.6	18.6	20.0	11.9%
OPEC	36.7	34.7	30.7	31.8	33.9	-7.8%
Russia	11.4	11.5	10.5	10.8	11.6	1.6%
Global	**100.7**	**100.7**	**94.2**	**96.1**	**101.5**	**0.7%**
Consumption						
U.S.	20.5	20.5	18.2	19.7	20.6	0.6%
China	13.9	14.8	14.4	15.2	15.9	14.2%
Global	**100.0**	**101.2**	**92.4**	**97.4**	**101.0**	**1.0%**
Inventory Change	0.7	-0.5	1.8	-1.2	0.4	





Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.
*Forecasts are from the September 2021 EIA Short-Term Energy Outlook and start in 2021. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Active rig count includes both natural gas and oil rigs. WTI crude prices are continuous contract NYM prices in USD.
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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%	Comdty. 29.1%	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%	REITs 21.6%	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%	Large Cap 15.9%	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%	Small Cap 12.4%	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 8.8%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.3%	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. 8.7%	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%	High Yield 1.7%	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%	Cash 0.0%	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%	EM Equity -1.0%	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 12/31/2005 to 12/31/2020. 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 September 30, 2021.

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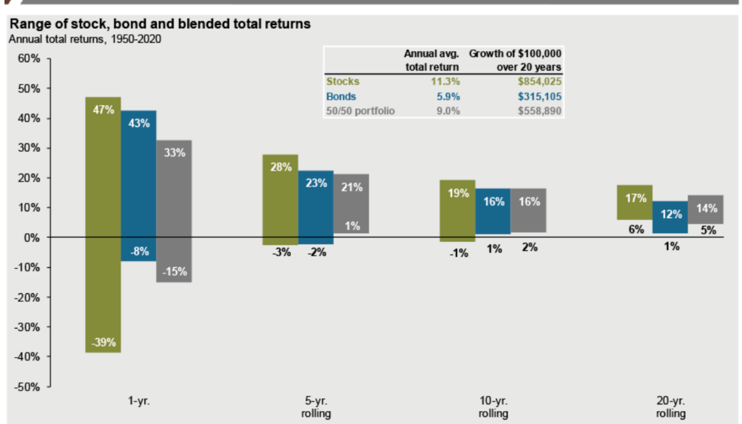
Time, diversification and the volatility of returns



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2020. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2020.
Guide to the Markets – U.S. Data are as of September 30, 2021.

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*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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