Covenant Asset Management, LLC

Second Quarter 2017 Investment Perspectives

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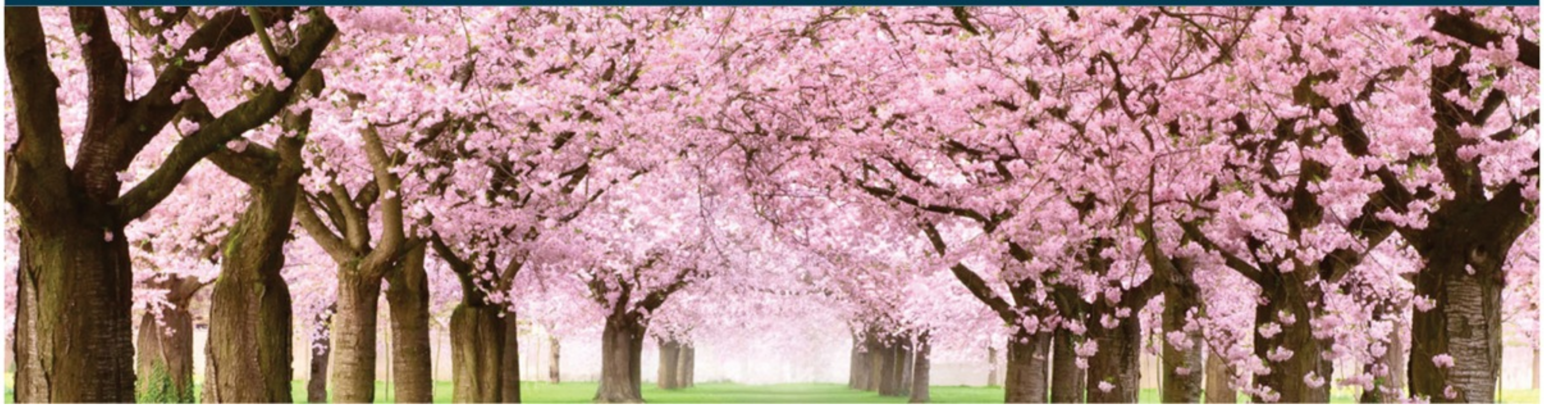
Economic and Financial Markets Review & Outlook



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

Post-election market momentum continued into the first quarter as investors focused on the possibilities of more business-friendly policies and economic stimulus from the new administration and Congress. Even when the administration seemed to stumble with political issues, the market remained resilient as investors concentrated on the likelihood of deregulation and pro-growth tax reform and economic stimulus through infrastructure legislation. Only when it became apparent that the first attempt at healthcare reform had failed in the U.S. House of Representatives did the market suffer a minor correction. This failure highlighted the realities of the U.S. legislative process and led to concerns that "soft" economic data (sentiment indicators and surveys) had gotten overly optimistic about the pace of improvement in economic activity. The realization that legislative initiatives may take longer than expected seemed to wake up investors to the reality that improvements in "soft" data don't normally translate immediately into improvements in "hard" data such as retail sales, capital spending and industrial production. It is this hard data that lead to better economic growth and corporate profits. The accompanying charts do show that hard data is improving, but not as quickly as soft data. Historically, when wide spreads develop in these indicators, the gap will eventually narrow as hard data improves and soft data levels off or pulls back.

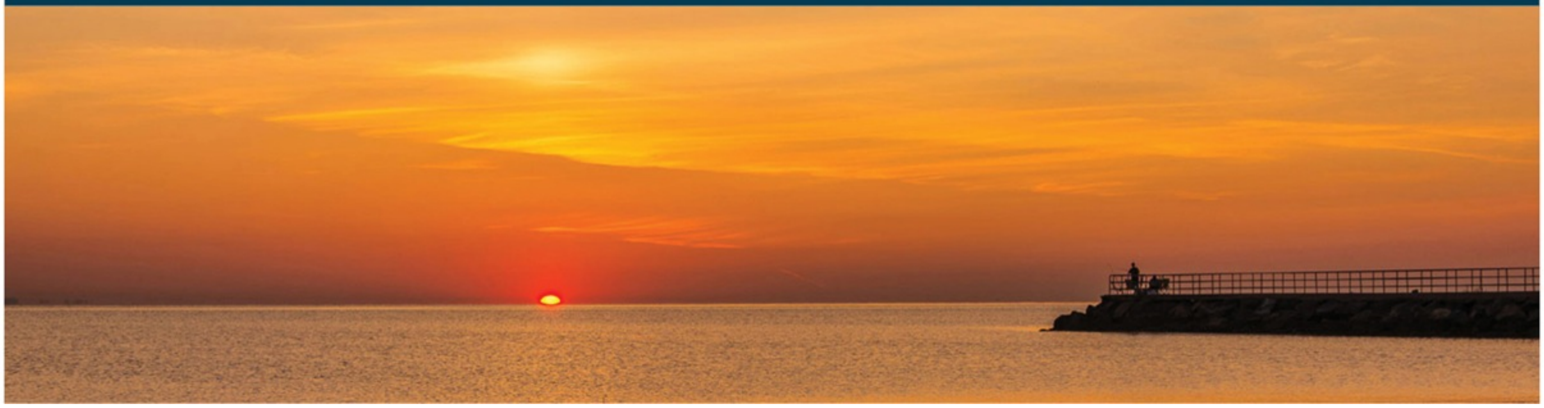
KEY THEMES

1. Post-election stock market rally continued in the first quarter despite political setbacks and rancor
2. Failure of the first attempt at healthcare reform focused investors on U.S. political realities and led to a modest pullback in stocks and interest rates
3. Economic data has improved as consumers and business leaders confidence surged

Source: FactSet, Conference Board. As of Mar. 28, 2017.

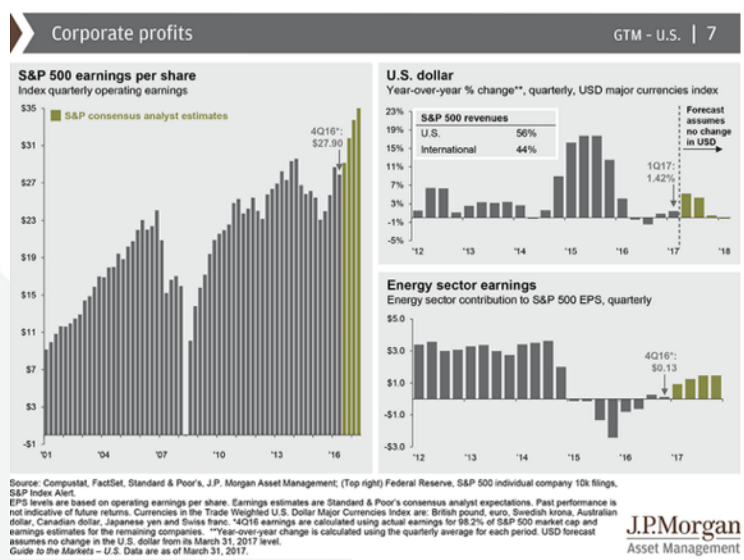
Source: FactSet, Natl. Federation of Independent Business. As of Mar. 27, 2017.

Economic and Financial Markets Challenges



While the recent market pullback has been mild, certain industries and individual stocks have experienced larger corrections. The sectors that performed the best on expectations of a positive change in economic policy were the ones that suffered the most significant pullback. Cyclical groups such as financials, industrials and materials were the biggest beneficiaries of renewed optimism and have been amongst the hardest hit sectors recently. In our view, this is a healthy pause as markets grapple with the realization that some of the expected stimulus may be delayed as opposed to eliminated. A similar phenomenon has occurred in the bond market. The benchmark ten-year U.S. Treasury note yield surged from 1.8% on election day to 2.6% on March 13, a date just prior to when concerns first arose that the healthcare bill was in trouble. Since March 13, the yield has dropped to a range between 2.3% and 2.4%. Commodities were the only asset class that produced a negative return during the first quarter, dropping 2.3%. Broad fixed income benchmarks were modestly positive, but REITs and High Yield Bonds were up 2.5% and 3.2%, respectively, in Q1. International equities generated the best returns with emerging markets up 11.5% and developed markets up 7.4%, both besting the S&P 500 Index return of 6.1% during the quarter. Our expectations are for a leveling off of the first quarter's exuberance in the months ahead. Legislative progress or failure could result in more distinct market movement in one direction or another. In addition, rising geo-political tensions in Syria and North Korea could also rattle markets if those conflicts escalate or patrons such as Russia, Iran and China become more involved.

Source: FactSet, U.S. Conference Board. As of Mar. 27, 2017.

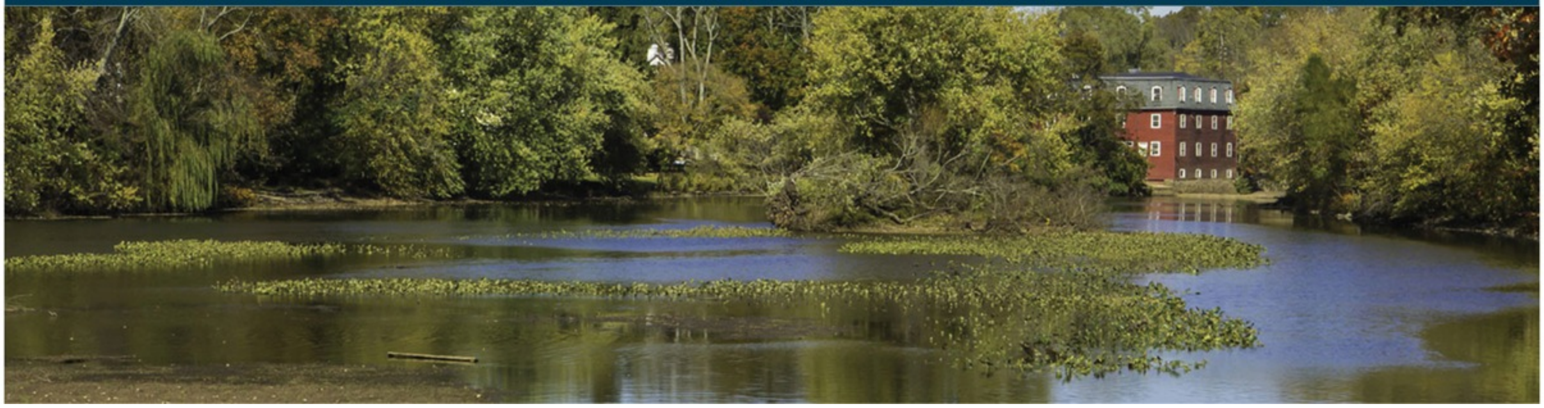


Investment Strategy

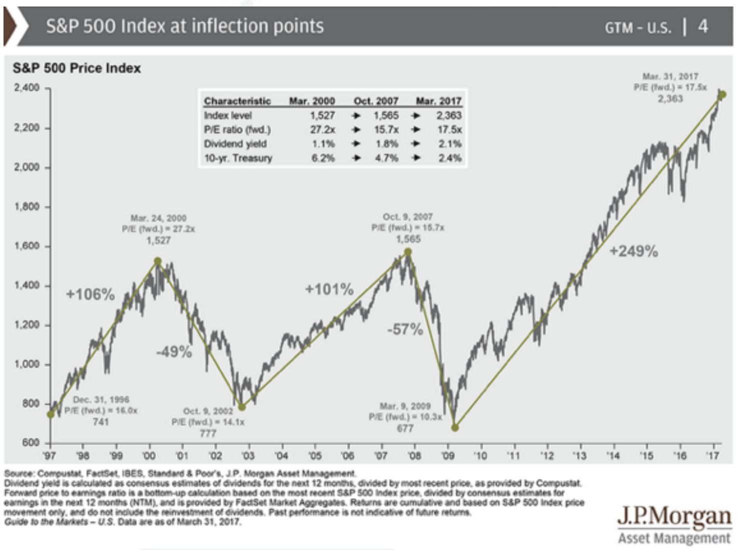
As discussed in our first quarter Investment Perspectives, after the election we embarked on a thorough reevaluation of the prospects for each asset class and implemented changes to our clients' portfolios to better position them for the fiscal and monetary changes we see ahead. The Federal Reserve Bank has also recognized improvements in the U.S. economy as reflected by Fed Funds rate increases in December 2016 and again last month. The Fed projects at least an additional two rate hikes in 2017 beyond the March increase. With this in mind, we continue to believe that equity investors will be well-served by tilting toward more cyclical sectors such as financials, industrials and materials. As growth investors, we also find attractive opportunities in the technology and healthcare sectors and somewhat more limited opportunities in the consumer sectors. For investors requiring current income, we maintain our view that high yield bond funds (lower-grade credit quality) are more appealing than high grade bonds and that alternatives such as energy master limited partnerships (MLPs), real estate investment trusts (REITs) and high yield stocks are useful to enhance yield above that available from high-grade bonds. We also wish to highlight the features of Covenant's Dividend Appreciation Equity Model for those investors seeking high current income coupled with dividend growth.

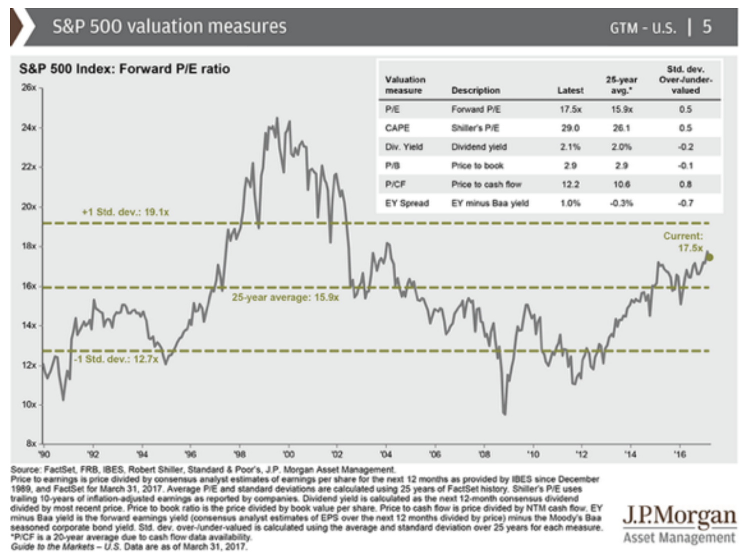
We look forward to discussing our views with you in the near future and always appreciate your comments, questions and feedback.

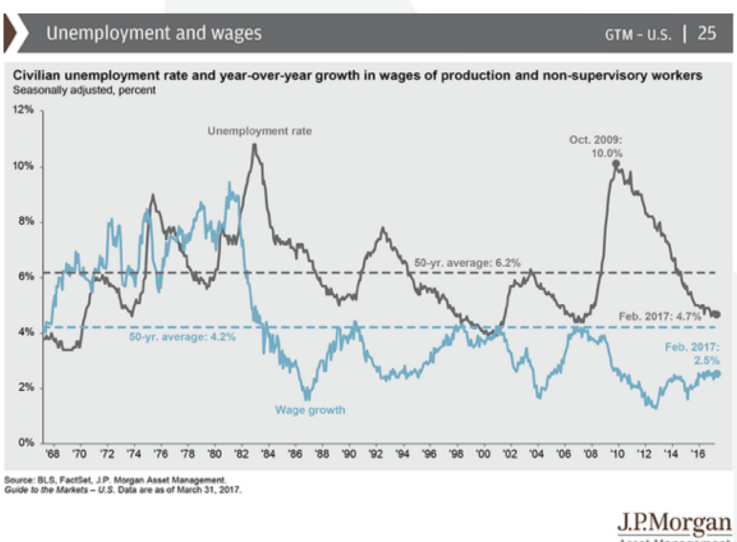
Economic Charts

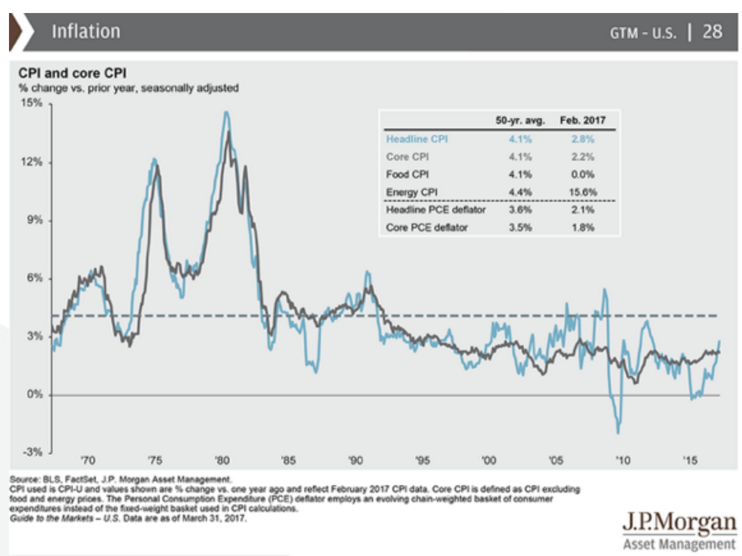


Rather than write extensively about equity valuations, economic statistics and investing principles, we offer the following charts organized by topic and courtesy of J.P. Morgan Asset Management:









Stock Market Charts

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Historical impact of Fed tightening

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Market reaction during previous rate hiking cycles

	May 1983 – July 1984	March 1988 – February 1989	February 1994 – February 1995	June 1999 – May 2000	June 2004 – June 2006	Average of past five rate hiking cycles	Cycle beginning December 2015
Yield change (bps)							
Federal funds rate	313	325	300	175	425	308	75
2-year Treasury	311	227	305	121	238	240	25
10-year Treasury	274	91	185	50	52	130	10
S&P 500 return	-9.6%	6.8%	-2.1%	8.5%	12.0%	3.1%	14.0%
U.S. dollar	10.4%	1.7%	-4.7%	3.4%	-5.8%	1.0%	-0.3%

Source: FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
S&P 500 returns are price returns and do not include reinvestment of dividends. Averages do not include the current cycle. *Between 1979 and 1982, the FOMC changed its approach to monetary policy, focusing on the money supply, rather than the federal funds rate. In the fall of 1982, however, the Federal Reserve shifted back to its approach of targeting the "price" rather than the "quantity" of money. Thus, because the federal funds rate was not the FOMC's key policy tool, we exclude increases in the federal funds rate between 1979 to 1982 in our analysis of rate hike cycles.
Guide to the Markets – U.S. Data are as of March 31, 2017.

J.P.Morgan Asset Management

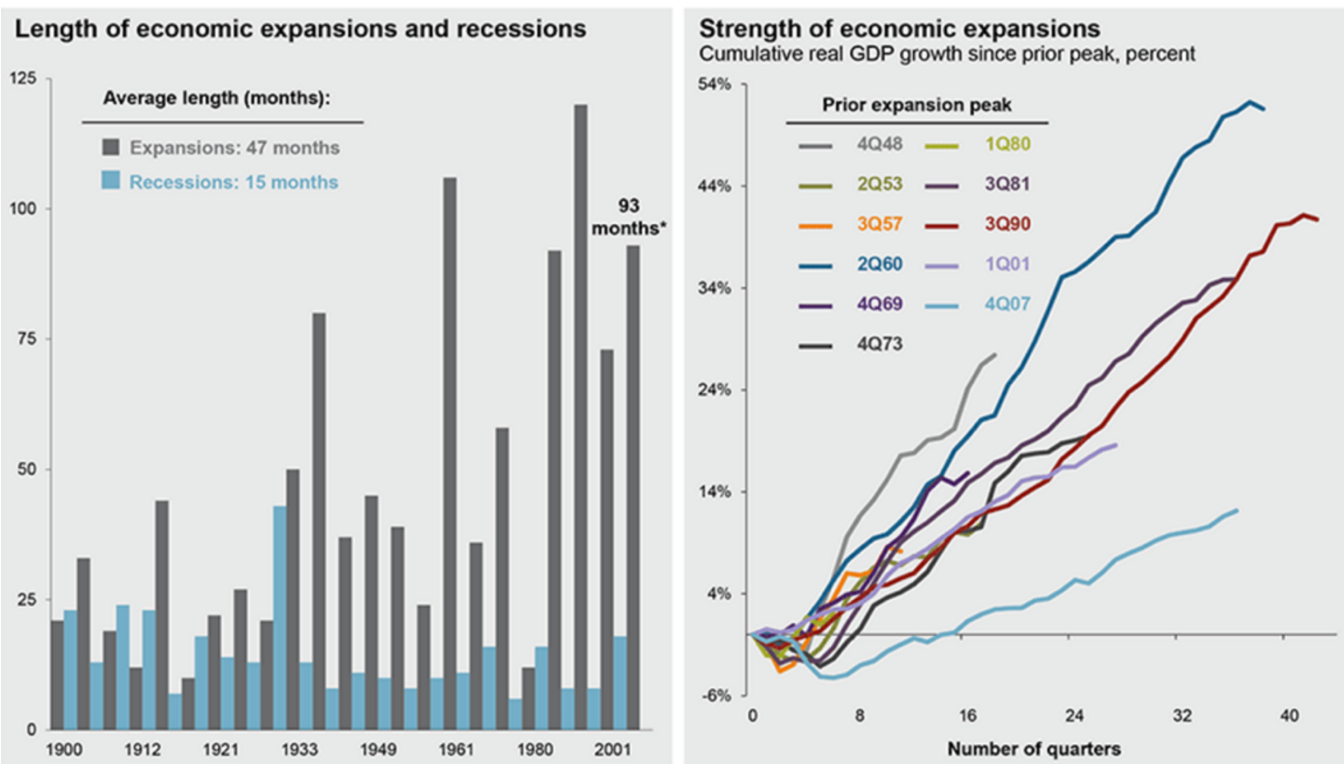
Historical impact of Fed tightening

This slide shows the historical impact of Federal Reserve rate hikes over the last five cycles. The top portion of the page shows the rate hike schedule over this extended period of time, while the bottom portion of the slide shows how markets have reacted (U.S. stocks, Treasury yields, and the dollar) during these periods. The purpose of this slide is to show how muted this current period of rate hikes is: two hikes over 14 months, compared to the five-cycle average of nine hikes over the same time period. Equally interesting is how, contrary to popular belief, in past rate hiking cycles as in the current, equities have delivered positive returns while dollar strengthening is relatively muted.

Stock Market Charts

The length and strength of expansions

GTM – U.S. | 18



Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through March 2017, lasting 93 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through March 2017.
Guide to the Markets – U.S. Data are as of March 31, 2017.

J.P.Morgan

The length and strength of expansions

This page compares the current expansion to previous ones. The left side of the page shows that while recessions do happen every so often, they typically do not last long. Expansions, on the other hand, last much longer. This current expansion is no exception. However, despite lasting much longer than the average, this expansion is the weakest in terms of GDP growth in the post-World War II period. This is shown on the right side of the page.