Covenant Asset Management, LLC

Third 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 half results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

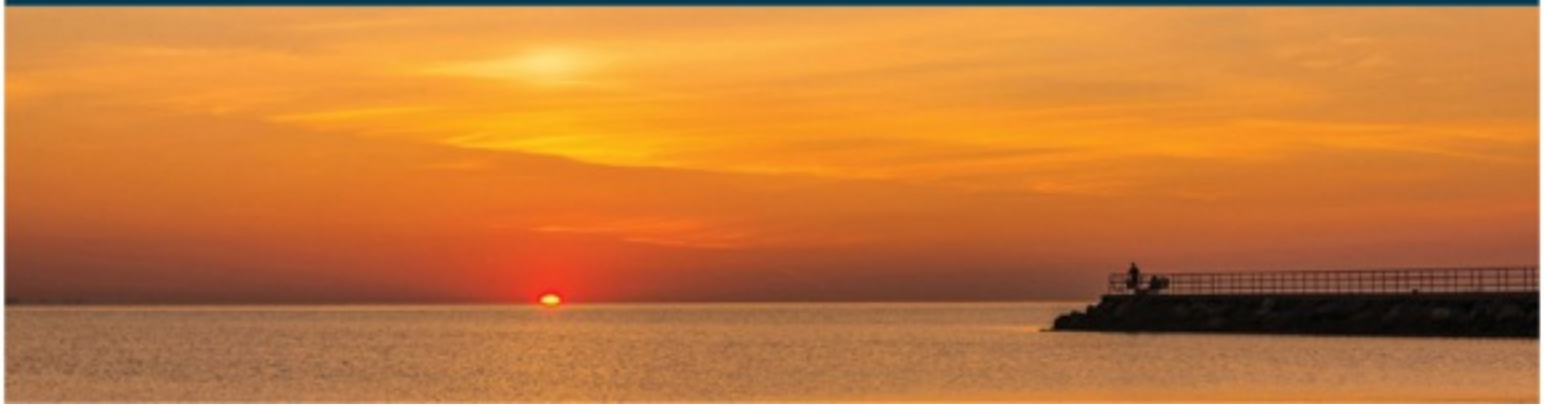
KEY THEMES

1. Despite political uncertainties, financial markets have continued to climb steadily higher.
2. The U.S. economy continues to expand at a moderate pace with subdued inflation. Global economic growth has improved and foreign stock markets have surged, largely as a result of U.S. dollar weakness.
3. Bond yields have ticked higher during the second quarter and some commodity prices have recovered but there are few signs that inflation will pick up anytime soon.

Global stock markets had their best first-half results since 2013 with the Nasdaq Composite surging 14% and the Dow Jones Industrial Average and S&P 500 rising about 8% each. Emerging and developed markets equity benchmarks both rose by mid-teens percentages as investors became more confident that economic recoveries around the world are gaining strength. The broad rally in stocks has been supported by strength in corporate earnings, continued monetary support from central banks and positive consumer and business sentiment. Measures of volatility in the U.S., Europe and Asia during the first half remained at or near multi-decade lows. Meanwhile, the U.S. dollar suffered its worst period of weakness in six years declining 5.6% in the first half of 2017. Prices of precious metals and some commodities advanced; however, oil prices fell 13% as a result of oversupply. Near the end of the second quarter, central bankers from the European Union, the U.K. and Canada offered mixed messages on their intentions to tighten monetary policies. Consequently, global interest rates edged higher, as bond investors considered the growing chances of less need for monetary support of expanding economies.

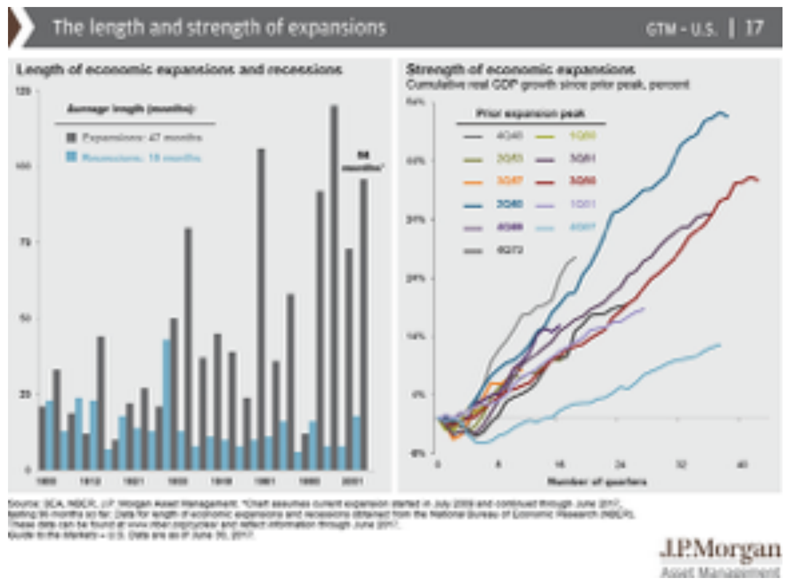
There are two schools of thought regarding the low levels of volatility in global financial markets, in spite of obvious uncertainty about geo-political risks and changes to less supportive monetary policies. Perhaps in reaction to the uncertainties, a rise in volatility has just been delayed until the second half of the year. Alternatively, the fundamentals supporting the bull market - strong corporate earnings and low inflation and interest rates - might continue and outweigh the effects the political turmoil and rising rates. Notably, after six months in office, President Trump and the Republican-controlled Congress have failed to pass much of the pro-growth policies on which they campaigned.

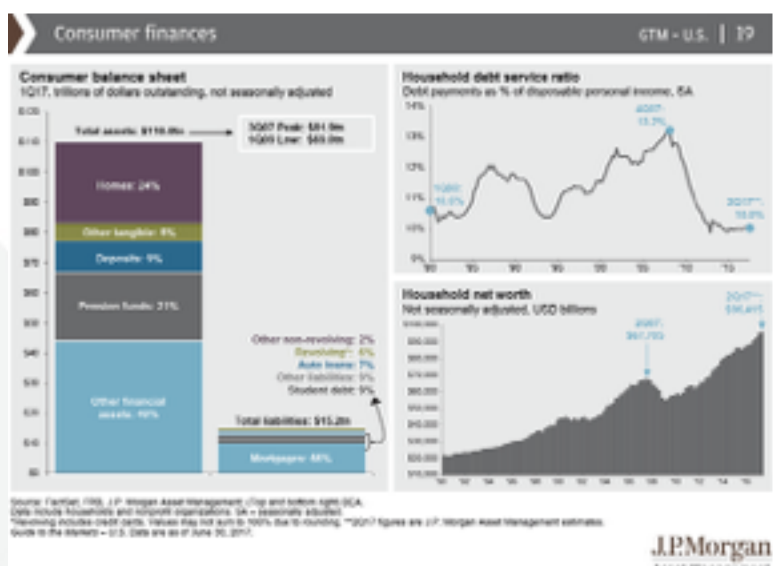
Economic and Financial Markets Challenges



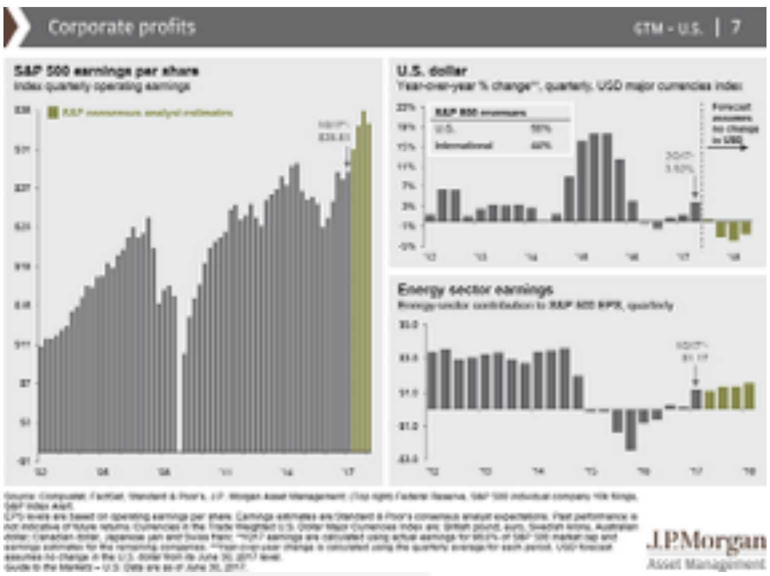
Thus far, the stock market has not been deterred. It may be that investors have not anticipated the President's policies to have much impact on economic activity this year. Nevertheless, the recent softening in consumer and business sentiment which surged after the election undoubtedly reflects some disappointment. Until there is more clarity about the timing and substance of pro-growth policies involving healthcare and tax reform and infrastructure spending, further weakening in business and consumer confidence might be reflected in actual economic performance.

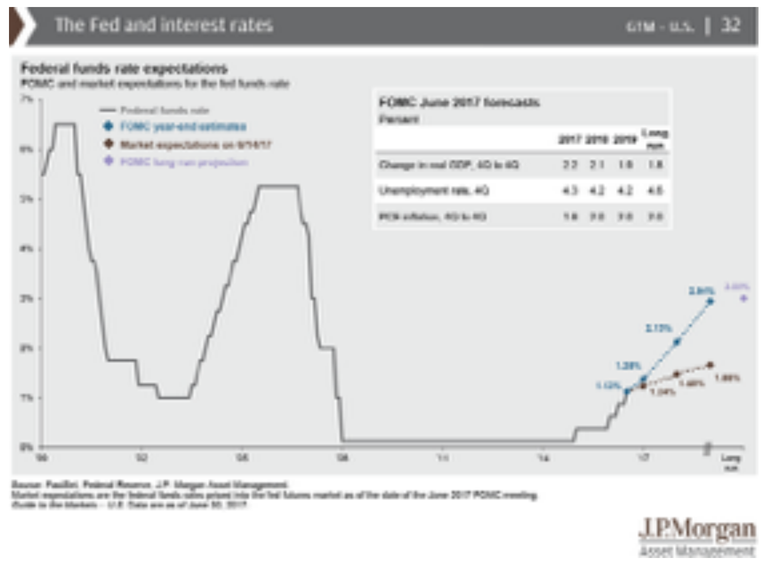
With respect to U.S. monetary policy, the Federal Reserve Bank, led by Janet Yellen, has been gradually raising short-term interest rates, which had been maintained near zero since the financial crisis in 2008-2009. In addition, the Fed recently revealed a plan to begin scaling back some of the roughly $4.5 trillion of assets currently sitting on its balance sheet. As part of its unprecedented effort to stabilize and then stimulate a fragile economy (through several rounds of a policy known as quantitative easing) the Fed purchased trillions of dollars of U.S. Treasury and mortgage-backed securities. Selling some of these assets or letting some bonds mature without replacing them is another method by which the Fed may allow interest rates to increase to help prevent the economy from overheating. The Fed's ultimate objective is to promote employment gains and keep inflation near a target level, currently 2%, without causing a recession.





Investment Strategy



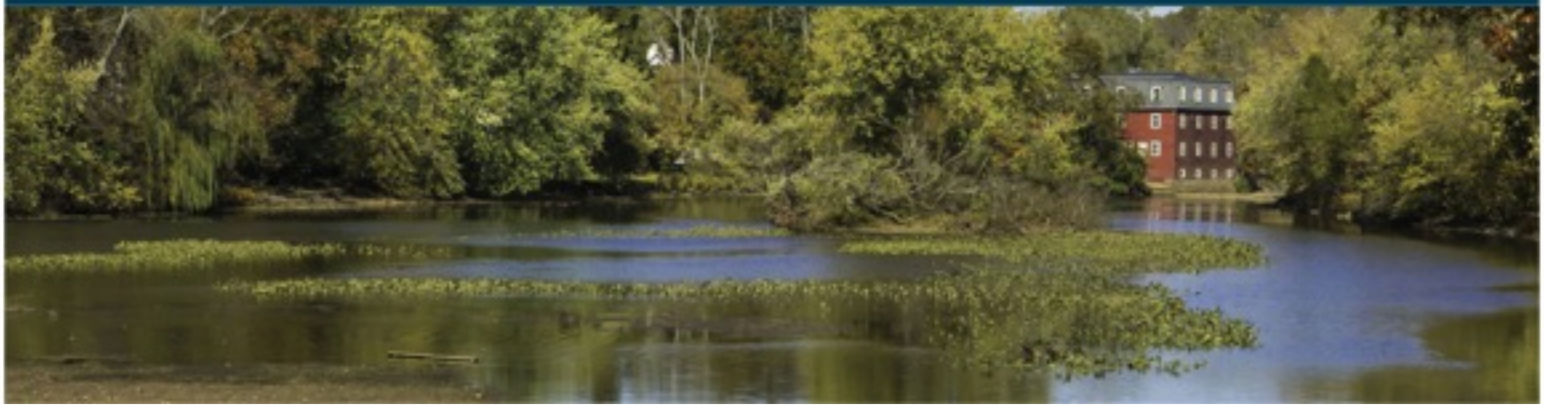


During the summer months stock and bond trading volumes are typically lighter. As a consequence, market volatility sometimes increases and a summer market correction could happen. Thus far, volatility has remained low while stock market averages have been setting new all-time highs nearly every week. Looking ahead toward Labor Day, investors are more likely to come back from vacation and refocus on the risks posed by critical deadlines for the federal budget and debt ceiling. The intensely partisan atmosphere in Washington is expected to make negotiations bitterly difficult and unpredictable as deadlines approach. How much longer the bull stock market lasts is in good part dependent on the ability of Congress to make good on promises to enact President Trump's pro-growth policies. For the time being, the outlook for the economy and equity market remains positive. Stock investors should, however, expect market sector rotations to occur based on legislative, and political events and economic data emanating from Washington.

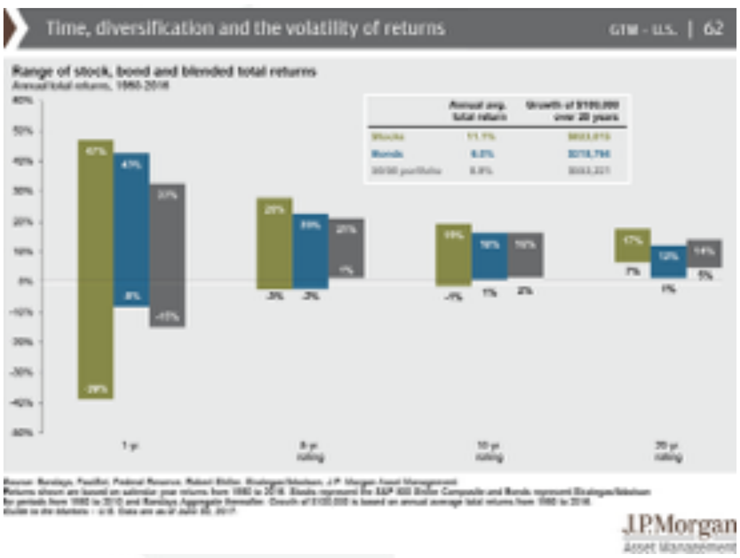
In light of the aforementioned risks and uncertainties, we urge clients to ignore the political noise and remain focused on their long-term investment goals. A suitable mix of U.S. and foreign equities, investment grade and high-yield bonds, and alternatives assets like REITs and MLPs is the best way to achieve your objectives over your long-term investment horizon.

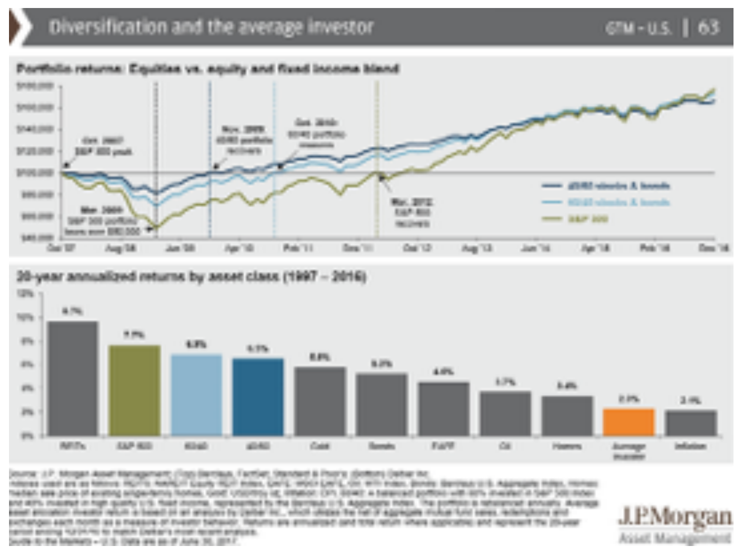
Please accept our best wishes for a relaxing and enjoyable summer.

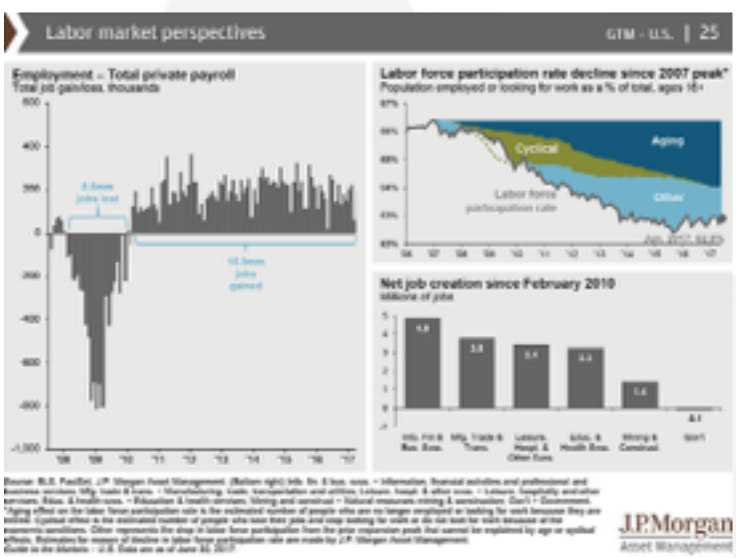
Economic Charts



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:







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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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