Covenant
Asset Management, LLC

Fourth Quarter 2015
Investment Perspectives

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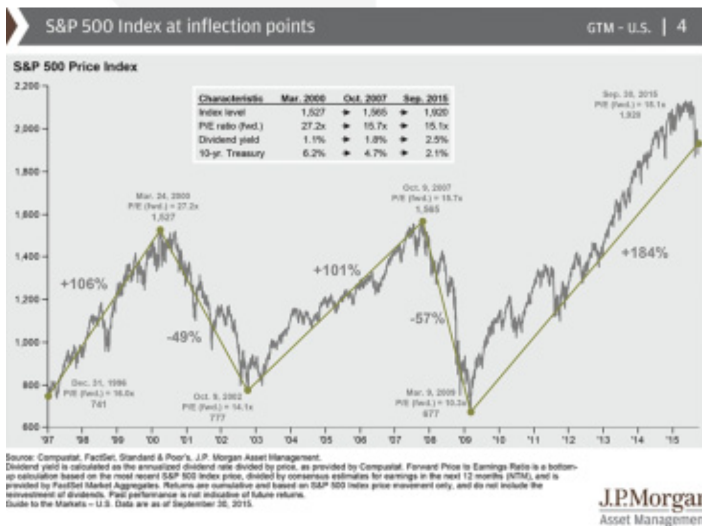
Financial Markets Review

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

Uncertainty surrounding U.S. monetary policy and China economic growth led to a wild ride for global financial markets in the third quarter. It was a quarter that produced the first stock market correction in four years and the largest percentage declines for U.S. stock indexes amid the most volatility since 2011. Specifically, the S&P 500 lost 6.9%, the Dow industrials fell 7.6%, and the Nasdaq



Composite Index declined 7.4%. In fact, the Dow has declined for three straight quarters, which hasn't happened since the financial crisis in 2007-2009. Industry group rotation was noticeable, resulting in long-time leaders like biotech being pressured by profit-taking.

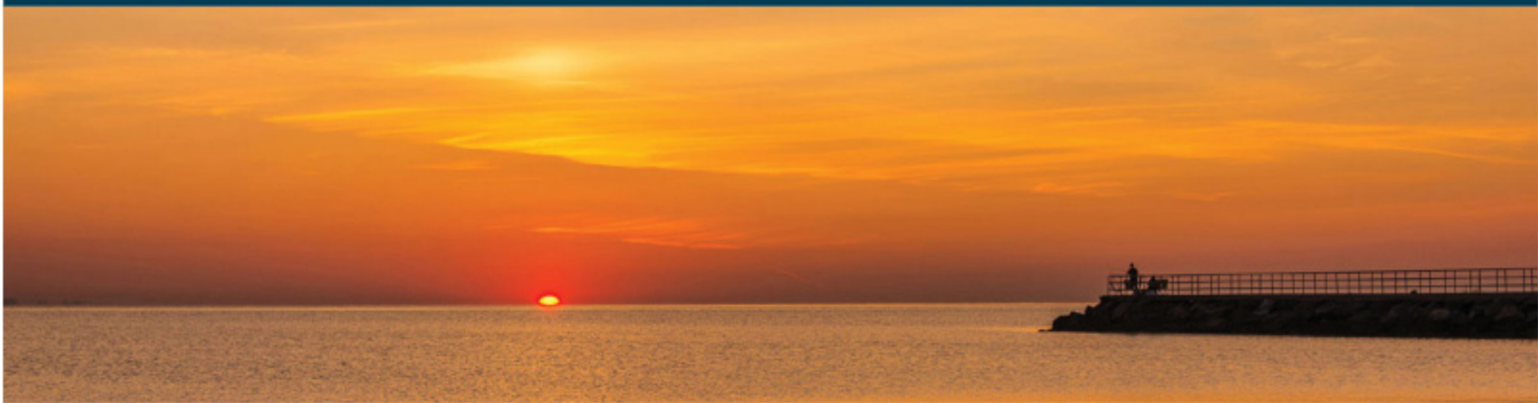
KEY THEMES

1. To date, 2015 has been disappointing for investors but a typical year-end rally could prove rewarding
2. Confusion over U.S. monetary policy and China growth has led to increased volatility in financial markets
3. Q4 focus will be third quarter earnings & DC politics

Volatility hit other asset classes as well. Emerging market equities plunged 17%, foreign developed market equities, measured by the EAFE Index, were down 9.7%, commodities as indicated by the PowerShares DB Commodities Index, declined 15.8% and junk bonds saw price declines of 7.2%, as indicated by the SPDR Barclays High Yield Bond ETF. By contrast, REITs and most high grade bonds

generated positive returns, as investors sought refuge from riskier assets.

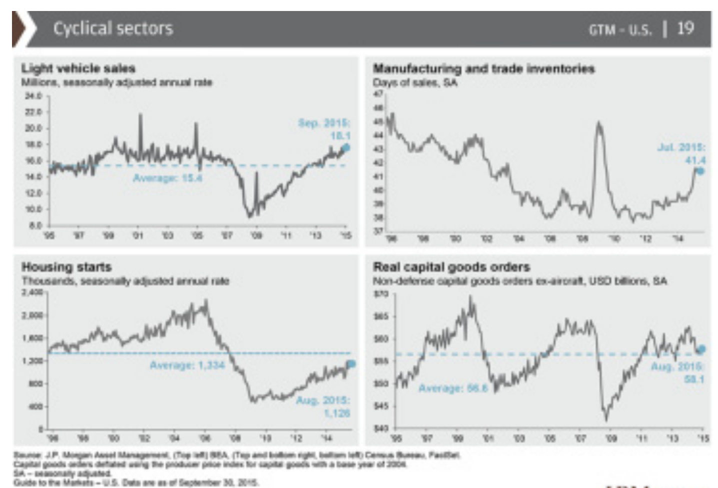
Economic Review and Outlook

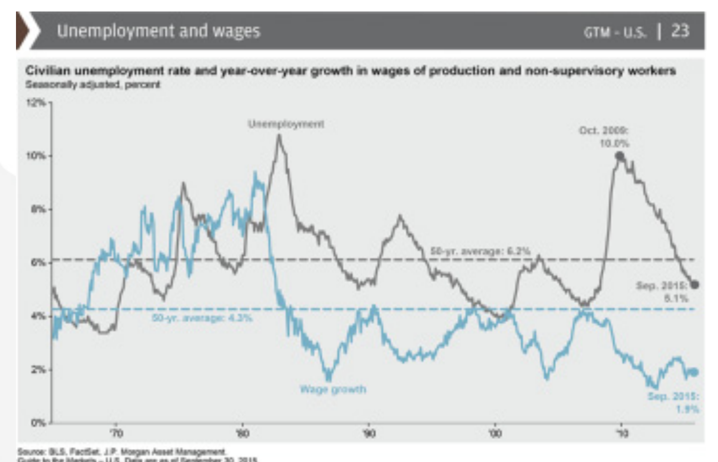


A number of significant economic events affected the financial markets in the third quarter. China devalued its currency, triggering renewed concerns about global growth, especially in developing countries. Oversupply and weaker demand caused oil prices to plummet. Prices of other commodities also fell, adding to increased volatility among global risk assets. On the domestic front slower Chinese economic growth along with the effects of a stronger U.S. dollar contributed to weaker U.S. manufacturing activity and economic output. The American consumer was affected as well, as the labor market produced a disappointing number of new jobs, averaging only 167,000 per month during the third quarter compared to 260,000 per month for all of 2014. The weaker-than-expected economy fostered lower U.S. Treasury bond yields, while credit spreads on riskier corporate debt widened to their highest level in four years.

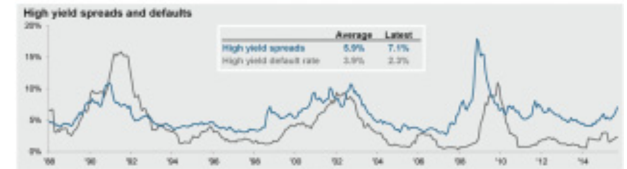
Despite these economic disappointments and market turmoil, U.S. GDP forecasts for the remainder of 2015 and the year 2016 are little changed for several reasons. The effects of a stronger dollar and lower oil prices largely offset each other in terms of economic growth and both produce lower inflation. Although labor markets and manufacturing have weakened, the service sector and U.S consumer appear to be in reasonable shape, supporting GDP forecasts for about 2.5% growth for the second half of 2015 and calendar 2016.

In setting U.S. monetary policy, the Federal Reserve has taken into account weaker-than-expected job growth and inflation by deciding not to raise interest rates in September. As of this writing, there seems to be less of a chance of an interest rate hike in December, as consensus forecasts suggest a rate increase is more likely in 2016.





Financial Markets Outlook



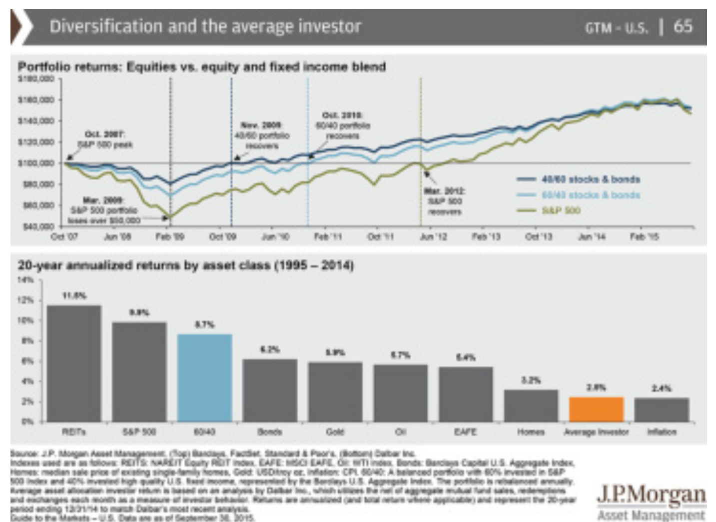
Since 1952, the period from August through October has been the weakest season of the year for stocks. In the months ahead, uncertainty over monetary policy is likely to continue to add to market volatility. Concern about slowing Chinese growth and a potential budget and debt ceiling fight in Congress should keep investors on edge. Nevertheless, third quarter corporate earnings reports should have a net positive effect on the equity market in light of lowered expectations borne in part from the negative impacts of lower oil prices on the energy sector and a stronger dollar on exports. More recently, the foreign exchange value of the dollar has fallen and oil prices have rallied on the heels of a bad September jobs report and the realization that the Fed is less inclined to hike interest rates soon. The stock market has responded favorably to these developments. In addition, reasonable stock valuations and traditional year-end capital flows into the financial markets should support further markets gains in the seasonally strong period between November and January. The bond market in general and the high yield sector in particular should show some strength as the Fed delays a rate hike.

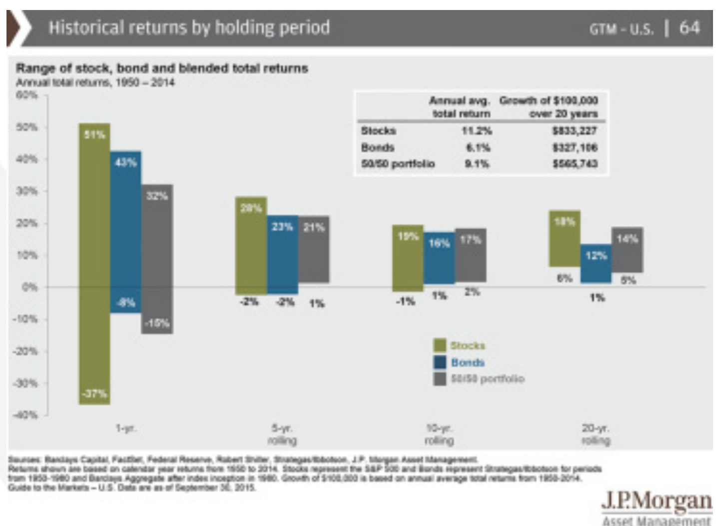
Turning to Europe, we note renewed deflation concerns should likely mean an extension and even increase in the European Central Bank's quantitative easing (QE) program. If history is any guide, additional QE should help lift inflation and support the Eurozone economy, as well as boost the prices of stocks, bonds and real estate.

Next year will likely present renewed challenges with economic and political uncertainties on the rise. We will address our concerns for 2016 more fully in next quarter's Investment Perspectives.

Investment Strategy

During market corrections, it is vitally important to stay focused on your investment objectives. The accompanying chart titled “Diversification and the average investor” makes it abundantly clear that the average investor dramatically underperforms most asset classes. The simple explanation for this sad fact is that underperforming investors allow their emotions to take over control of their investment decision-making. The memory of two bad corrections in the last 15 years causing equity portfolio losses of up to 50% may cause some investors to panic and sell at or near the bottom. Attempting to time the market in such a way has shown to be an unsuccessful approach that leads to severe portfolio underperformance over time and is often detrimental in reaching financial goals. That is why it is so important to consult with us whenever you feel worried about market conditions. Successful investors work hard at defining their objectives and risk tolerance, setting an asset allocation to meet those objectives, and maintaining a disciplined approach. Proper diversification combined with discipline is a proven strategy to manage risk. In addition, Covenant’s thematic growth style of equity investing has proven to be a successful strategy for generating attractive relative returns over time. Our approach to investing in other asset classes has also delivered consistently good relative returns over various market cycles. In conclusion, we encourage you to share any concerns with us so that together we can stay disciplined, properly invested and focused on your objectives.





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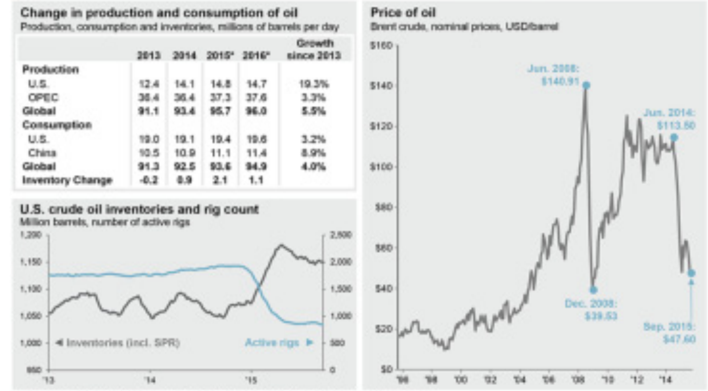

Returns and valuations by sector

GTM – U.S. | 9

		Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials	S&P 500 Index
Weight	S&P Weight	16.6%	19.7%	14.2%	10.4%	8.4%	12.1%	9.8%	2.3%	3.2%	3.2%	100.0%
	Russell Growth Weight	5.4%	27.7%	16.8%	11.1%	0.7%	21.5%	11.2%	2.1%	0.0%	3.5%	100.0%
	Russell Value Weight	30.3%	11.3%	11.6%	10.0%	12.9%	5.4%	7.0%	2.5%	6.4%	2.7%	100.0%
Return (%)	3Q	-6.7	-3.7	-10.7	-6.9	-17.4	-2.6	-0.2	-6.8	5.4	-16.9	-6.4
	YTD	-7.1	-3.0	-2.1	-9.8	-21.3	4.1	-1.0	-3.9	-5.9	-16.5	-5.3
	Since Market Peak (October 2007)	-25.3	73.3	114.0	37.5	-8.0	124.6	110.2	17.7	44.9	11.5	45.9
	Since Market Low (March 2009)	307.7	263.1	245.1	278.0	68.6	419.8	194.8	124.8	153.7	165.5	226.0
β	Beta to S&P 500	1.44	1.10	0.72	1.19	0.99	1.11	0.59	0.63	0.49	1.26	1.00
ρ	Correl. to Treas. Yields	0.49	0.29	0.02	0.33	0.37	0.29	0.04	0.27	-0.56	0.38	0.32
P/E	Forward P/E Ratio	11.8x	14.4x	14.7x	14.0x	23.6x	17.2x	18.3x	11.6x	15.2x	13.1x	15.1x
	15-yr avg.	12.6x	19.7x	16.7x	16.6x	13.9x	18.2x	18.3x	16.2x	14.1x	16.1x	15.7x
	Trailing P/E Ratio	14.4x	17.9x	20.8x	18.0x	14.7x	19.2x	21.8x	23.8x	16.7x	16.6x	17.8x
	20-yr avg.	16.9x	26.0x	24.1x	20.4x	16.7x	19.4x	21.4x	20.3x	15.2x	19.3x	19.6x
Div	Dividend Yield	1.9%	1.7%	1.8%	2.5%	3.8%	1.6%	2.8%	5.4%	3.9%	2.5%	2.5%
	20-yr avg.	2.1%	0.7%	1.3%	1.7%	1.8%	0.9%	2.1%	4.2%	4.2%	2.0%	1.6%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, not annualized, including dividends for the stated period. Since Market Peak represents period 10/9/07 – 9/30/15. Since Market Low represents period 3/9/09 – 9/30/15. Correlation to Treasury yields are trailing 2-year monthly correlations between S&P 500 sector price returns and 10-year Treasury yield movements. Forward P/E Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Trailing P/E ratios are bottom-up values defined as month-end price divided by the last 12 months of available reported earnings. Historical data can change as new information becomes available. Note that P/E ratios for the S&P 500 may differ from estimates elsewhere in this book due to the use of a bottom-up calculation of constituent earnings (as described) rather than a top-down calculation. This methodology is used to allow proper comparison of sector level data to broad index level data. Dividend yields are bottom-up values defined as the annualized value of the most recent cash dividend as a percent of month-end price. Beta calculations are based on 10 years of monthly price returns for the S&P 500 and its sub-indices. Betas are calculated on a monthly frequency over the past 10 years. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2015.

J.P.Morgan
Asset Management