Covenant Asset Management, LLC

Fourth Quarter 2016 Investment Perspectives

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Financial Markets Review And Outlook

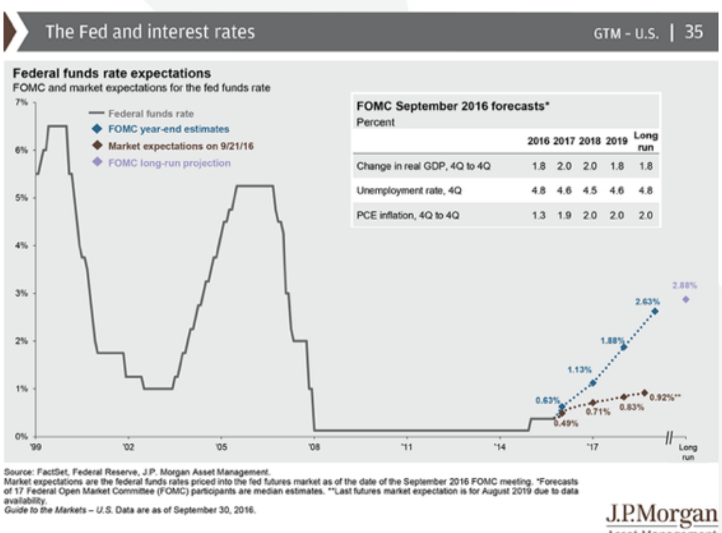
Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review third quarter results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

KEY THEMES

1. Monetary Policy uncertainty brings volatility to markets
2. Recent economic data mixed
3. Third quarter corporate earnings will provide insight into the health and durability of the economy
4. Potential for election results to cause market volatility

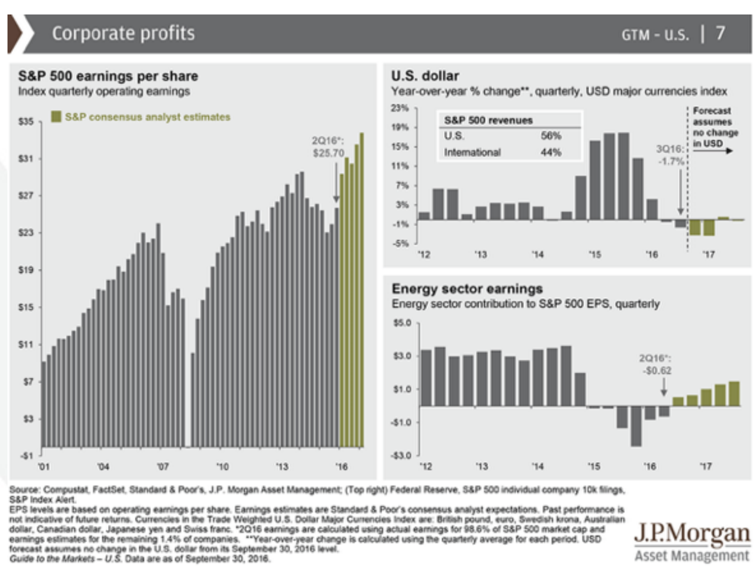
Following the Brexit-related sell-off and subsequent rebound, financial markets experienced an unusually calm summer. However, growing divisiveness among members of the Federal Reserve's Open Market Committee has generated confusion and concern about the direction of monetary policy and renewed volatility across markets. Additional monetary policy uncertainty from foreign central banks has arisen as well. Recent comments suggest that the Bank of Japan and the European Central Bank are beginning to question the benefits and sustainability of policies that led to negative interest rates on much of sovereign debt.

While investors have been fretting about the concept of less accommodation by monetary authorities, global

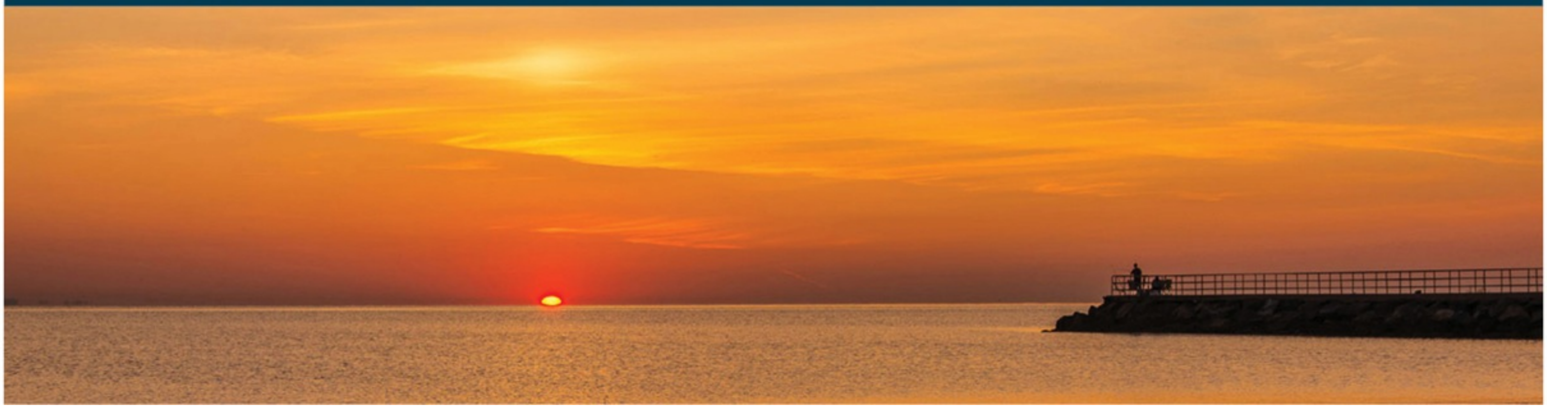


economic data has been mixed. China's economy appears to have stabilized this year after several years of decelerating growth. This has allowed commodity prices, including oil, to rebound from multi-year lows earlier this year. Resource-intensive economies in Australia and Central and South America have gotten a lift from the rebound in commodity prices and China's economic stabilization. In Europe, economic conditions have improved somewhat from modest contraction to modest expansion. Yet Japan seems unable to escape the economic malaise they have been stuck in for more than two decades, even after unprecedented levels of monetary stimulus. In the U.S., GDP growth of little more than 1% in the first half was below expectations once again. Hopes for a second half rebound in growth have moderated somewhat but expectations still call for a near doubling of GDP growth to about 2.5%. Employment growth this year has also slowed to 180,000 average monthly net new hires vs. 209,000 last year.

As third quarter earnings reports get underway, there is hope that this quarter would represent trough earnings after the downturn in oil prices and the spike in the U.S. dollar over the



Economic and Financial Market Challenges



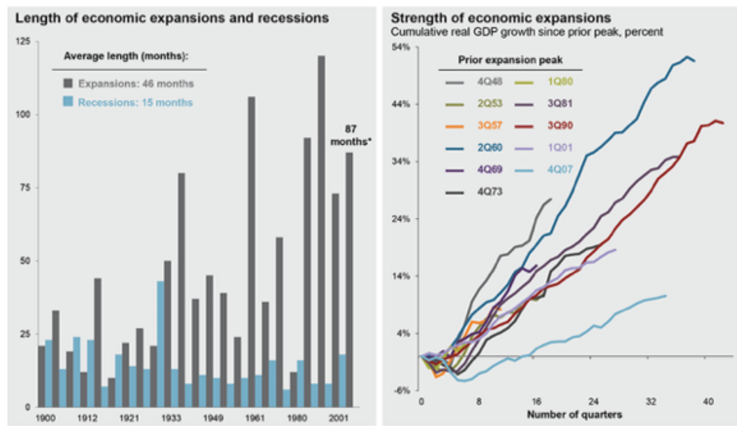
past two years. However, disappointing earnings from a number of companies across various economic sectors have called into question the vibrancy of the corporate sector and health of the global economy. This may be worrisome in the context of a Fed which seems to be determined to raise interest rates soon.

A further concern for investors has been the vile U.S. Presidential campaign that our public has been experiencing. This election shares no similarities to any we have witnessed in our lifetimes. Allegations of personal misconduct and the historic unfavorability of the candidates have crowded out serious discussions concerning the differences between candidate positions on issues that affect business and the economy. It is also more difficult to gauge the outcome of down-ballot races and the post-election balance of power. The common wisdom and historical evidence suggest that the economy and stock market tend to perform better during periods of divided government. While it appears likely that some form of divided government will exist after November 8, it is still unknowable what additional twists and turns may be ahead in the coming weeks, leaving a level of uncertainty in place. That leaves open the possibility of market volatility in general and within certain industry sectors in particular. As an example, recent polling data suggested an increasing possibility that Democrats could win the presidency and take control of both houses of congress. This information caused biotech stocks to suffer harsh losses for several days on fears that price controls could be enacted in the new congress, hurting profitability.

Markets are left with the potential for an election outcome surprise similar to what happened after the Brexit vote in June. And because the candidates' policy positions and priorities are vastly different, depending on the balance of power in the government, it is hard to predict what type of knee-jerk reaction might occur in the days following the election.

With regard to financial markets, our view is one of caution. It is important to acknowledge that the economic expansion and bull market that have been in place since 2009 are both long by historical standards and showing signs of maturity. Longevity alone is not reason enough to be concerned. Sluggish global economic growth, coupled with the potential unwinding of unprecedented levels of monetary expansion and experimentation, add to our uneasiness. If the Fed pushes ahead with its expected Fed Funds rate increase in December, while U.S. economic growth remains suspect, it may cause investors to renew their fear that the Fed will be

The length and strength of expansions GTM - U.S. | 19



Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through September 2016, lasting 87 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 September 2016.
Guide to the Markets – U.S. Data are as of September 30, 2016.

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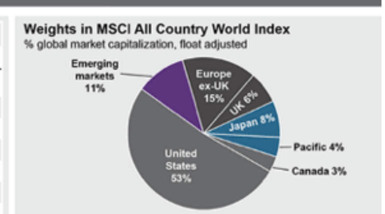
making a monetary policy mistake. This was one of the reasons markets sold off so harshly at the beginning of this year. In addition, the thought of a potential rate hike has caused the bond market to wobble recently and high yield alternatives such as REITs and high yield bonds and stocks to pull back from their mid-year highs.

Growth stocks have performed relatively better in the second-half, but still lag value and equity-income-oriented

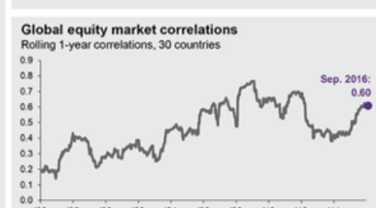
Global equity markets GTM - U.S. | 45

	2016 YTD		2015	
Country / Region	Local	USD	Local	USD
Regions / Broad Indexes				
All Country World	5.2	7.1	1.8	-1.8
U.S. (S&P 500)	-	7.8	-	1.4
EAFE	-1.1	2.2	5.8	-0.4
Europe ex-UK	-2.6	0.5	9.1	0.1
Pacific ex-Japan	7.1	11.0	-0.8	-8.4
Emerging Markets	11.6	16.4	-5.4	-14.6
MSCI: Selected Countries				
United Kingdom	14.4	0.9	-2.2	-7.5
France	-0.5	2.9	12.3	0.8
Germany	-1.4	2.0	10.0	-1.3
Japan	-13.4	2.9	10.3	9.9
China	8.9	8.8	-7.7	-7.6
India	7.8	7.1	-1.6	-6.1
Brazil	34.0	63.2	-12.5	-41.2
Russia	16.7	31.3	22.9	5.0

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Global equity market correlations
Rolling 1-year correlations, 30 countries



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
All return values are MSCI Gross Index (official) data. Chart is for illustrative purposes only. Past performance is not indicative of future results. Please see disclosure page for index definitions. Countries included in global correlations include Argentina, South Africa, Japan, UK, Canada, France, Germany, Italy, Australia, Austria, Brazil, China, Colombia, Denmark, Finland, Hong Kong, India, Malaysia, Mexico, Netherlands, New Zealand, Peru, Philippines, Portugal, Korea, Spain, Taiwan, Thailand, Turkey, United States.
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equity strategies on a year-to-date basis. And many foreign equity markets are out-performing U.S. benchmarks in 2016, a reversal of fortunes for the first time since 2012.

In terms of strategy, we remain focused on constructing portfolios comprised of a number of asset classes including U.S. growth stocks, U.S. dividend appreciation equities, fixed income, REITs and alternatives such as MLPs and commodities. Within each asset class, we conduct our own research to identify securities which possess attractive long-term risk/reward characteristics and the potential for above-average investment returns. In the current uncertain environment, we will make a concerted effort to ensure that your objectives are well-defined and your asset allocation and investment strategy align with those objectives. We appreciate your business and look forward to a continued close relationship.

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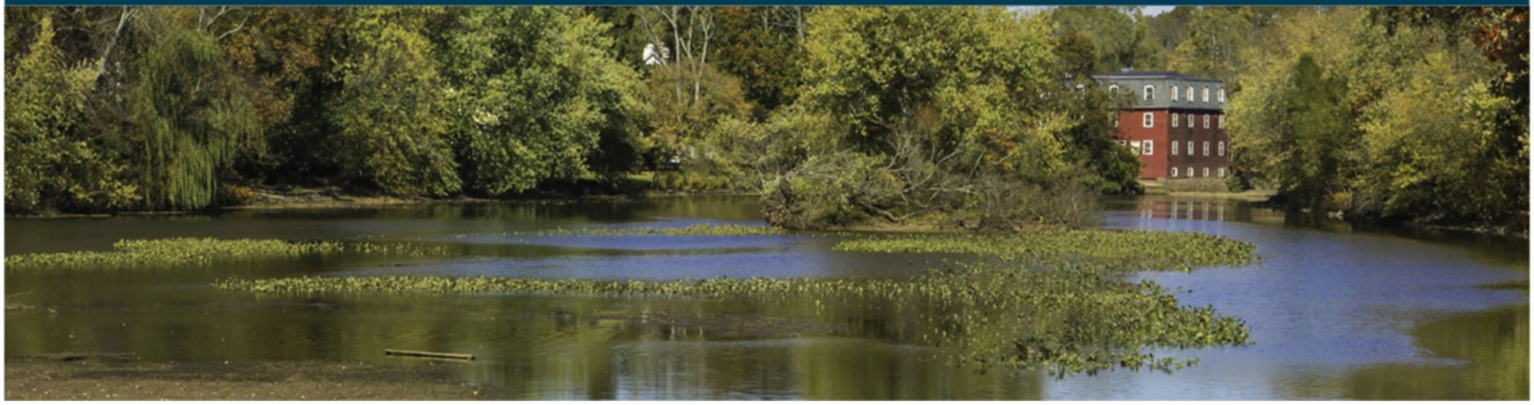
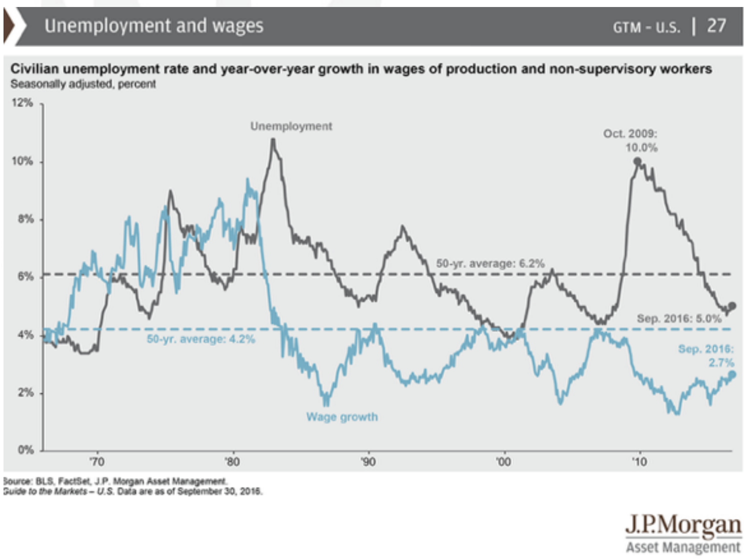
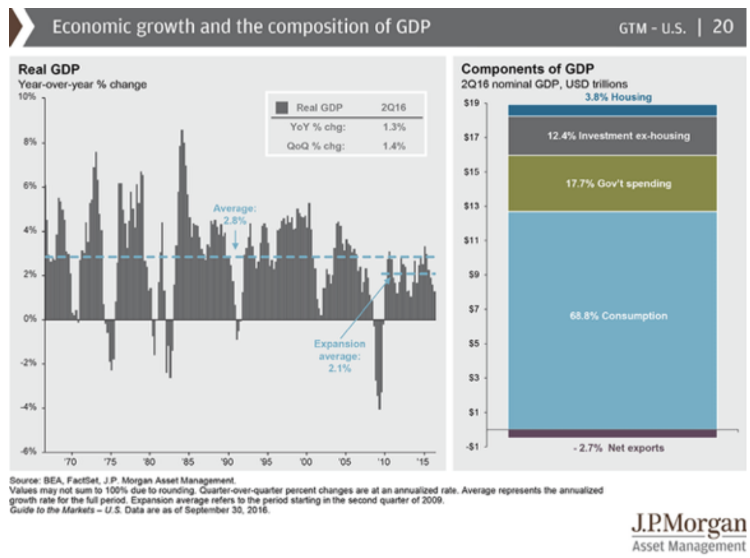
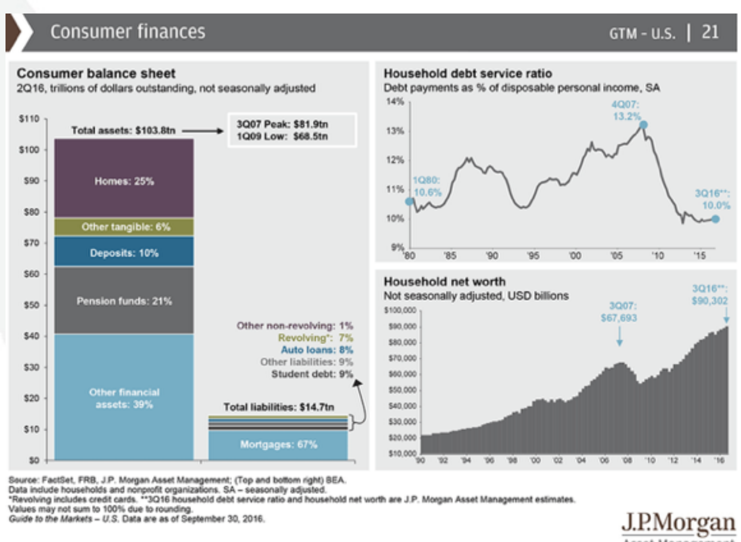
Economic Charts



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

S&P 500 Index at inflection points

GTM - U.S. | 4

Characteristic	Mar. 2000		Oct. 2007		Sep. 2016
Index level	1,527	→	1,565	→	2,168
P/E ratio (fwd.)	27.2x	→	15.7x	→	16.8x
Dividend yield	1.1%	→	1.8%	→	2.2%
10-yr. Treasury	6.2%	→	4.7%	→	1.6%

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings 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. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
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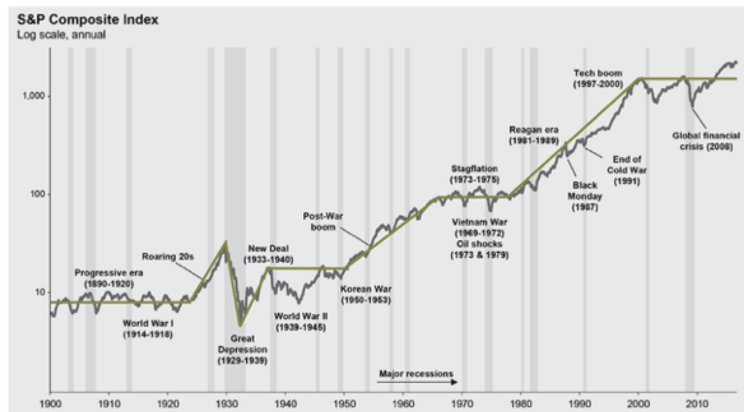
Stock market since 1900

GTM - U.S. | 18



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns.
Past performance is not indicative of future returns. Chart is for illustrative purposes only.
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S&P 500 valuation measures

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Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-valued
P/E	Forward P/E	16.8x	15.9x	0.3
CAPE	Shiller's P/E	26.6	25.9	0.1
Div. Yield	Dividend yield	2.2%	2.0%	-0.4
P/B	Price to book	2.6	2.9	-0.3
P/CF	Price to cash flow	11.7	11.4	0.1
EY Spread	EY minus Baa yield	1.7%	-0.4%	-1.1

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow data availability.
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Returns and valuations by sector

GTM - U.S. | 10

		Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials	S&P 500 Index
Weight	S&P weight	12.8%	21.2%	14.7%	9.7%	7.3%	12.5%	9.9%	2.6%	3.3%	3.1%	2.9%	100.0%
	Russell Growth weight	2.7%	31.5%	16.8%	10.4%	0.6%	20.6%	9.6%	1.2%	0.1%	2.8%	3.6%	100.0%
	Russell Value weight	23.4%	10.0%	11.5%	9.5%	13.5%	4.9%	8.9%	3.9%	6.5%	5.1%	2.9%	100.0%
Return (%)	QTD	4.6	12.9	0.9	4.1	2.3	2.9	-2.6	-5.6	-5.9	-2.1	3.7	3.9
	YTD	1.4	12.5	1.4	10.9	18.7	3.6	7.6	17.9	16.1	8.2	11.4	7.8
	Since market peak (October 2007)	-19.8	112.8	137.0	64.7	9.5	146.2	143.4	49.2	70.1	58.0	36.3	68.4
	Since market low (March 2009)	338.1	346.0	282.0	352.6	100.5	469.9	241.3	185.1	197.7	485.7	224.6	276.3
β	Beta to S&P 500	1.42	1.10	0.73	1.19	0.98	1.11	0.58	0.61	0.47	1.32	1.28	1.00
ρ	Correl. to Treas. yields	0.59	0.36	0.19	0.30	0.34	0.36	-0.11	-0.08	-0.66	-0.41	0.40	0.37
P/E	Forward P/E ratio	12.2x	17.0x	15.1x	16.6x	55.5x	17.8x	19.9x	13.6x	17.2x	18.4x	16.7x	16.8x
	20-yr avg.	13.1x	22.4x	18.9x	17.5x	17.3x	19.4x	20.0x	17.9x	14.4x	18.5x	16.5x	17.2x
	Trailing P/E ratio	13.2x	21.4x	21.9x	19.0x	26.1x	20.2x	22.4x	15.0x	21.8x	31.2x	18.9x	19.5x
	20-yr avg.	15.9x	25.8x	24.1x	20.3x	16.6x	19.1x	21.2x	20.2x	15.6x	34.2x	19.2x	19.6x
Div	Dividend yield	2.2%	1.6%	1.8%	2.4%	2.7%	1.7%	2.8%	4.7%	3.7%	3.6%	2.3%	2.2%
	20-yr avg.	2.3%	1.0%	1.7%	2.1%	2.2%	1.3%	2.3%	3.8%	3.9%	3.6%	2.2%	1.9%

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 – 9/30/16. Since market low represents period 3/9/09 – 9/30/16. 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 yield is calculated as the next 12-month consensus dividend divided by most recent 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.
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