Covenant
Asset Management, LLC

Fourth Quarter 2017 Investment Perspectives

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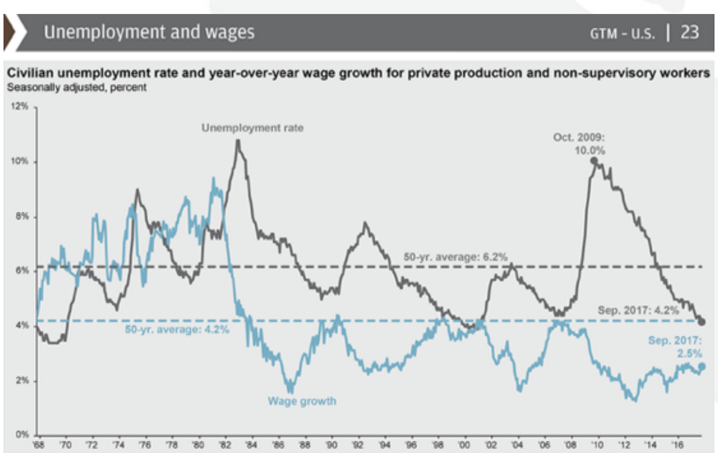
Economic and Financial Markets Review & Outlook

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

Investors have enjoyed one of the best investment environments in many years as all asset classes other than commodities have produced above average returns. A strengthening economy, accelerating corporate earnings and still low levels of inflation and interest rates have provided the backdrop for the positive results. In addition, steady investment gains have occurred in the midst of the broadest global economic growth since 2007 with no major world economy in recession. The spike in consumer and investor optimism following last year's U.S. elections have now begun to show up in hard economic data. U.S. GDP growth in the third quarter was surprisingly strong at 3.1% and labor markets have continued to improve.



Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2017.

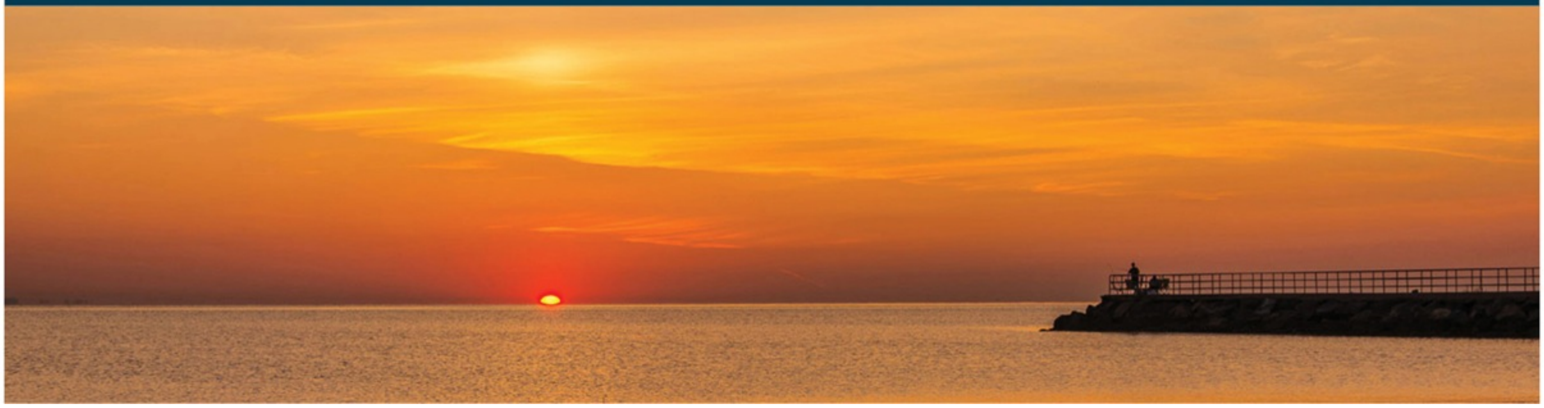
J.P.Morgan
Asset Management

KEY THEMES

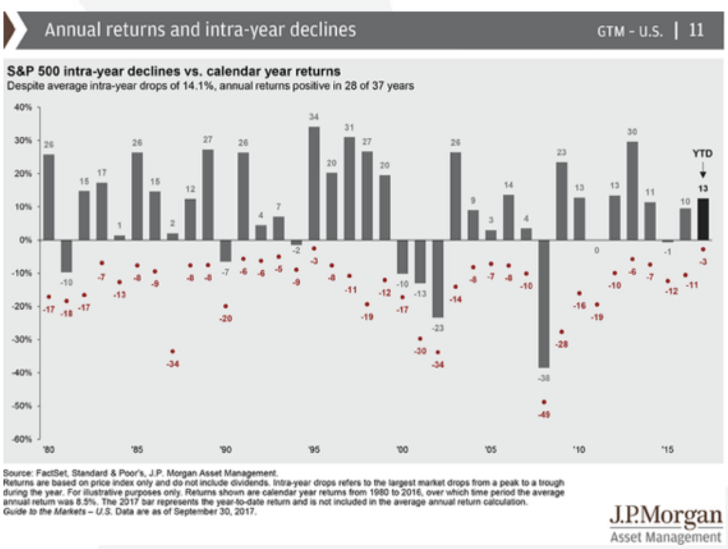
1. Since last November's election, investors have experienced one of the best periods in many years.
2. Recent economic strength might be masked by the impact from a series of hurricanes, but the underlying trend remains positive.
3. Historically low stock market volatility has continued as we enter the fourth quarter.
4. The Federal Reserve Bank continues its measured pace in normalizing interest rates.

Even though labor force participation remains low, the unemployment rate has dropped to 4.2% and wage inflation has been ticking higher in recent months. U.S. leading economic indicators have climbed more than expected recently and the ISM Manufacturing and Service Sector surveys have risen to multi-year highs on strength in new orders and production. The overall Purchasing Managers Index as of September sits at a 13-year high. All of this strength has occurred without the benefit of any stimulative economic legislation promised by the Trump Administration and GOP-controlled Congress. After failing to reform healthcare, Republicans have now turned their attention to tax reform. While Republicans maintain a narrow majority in the U.S. Senate, lack of unity leaves the odds of passing significant tax reform at no better than 50/50. If tax reform does get enacted next year, it could add meaningfully to an already strengthening economy. However, until we see final details it is hard to be more precise on the potential economic impact.

Economic and Financial Markets Challenges

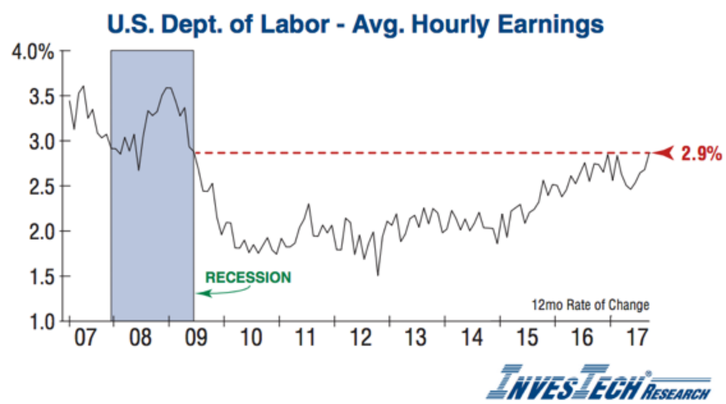


Historically low levels of stock market volatility have continued in 2017. So far this year, only 5% of trading days have produced a move of greater than +/- 1% in the S&P 500. This is the lowest number by far since the early 1980s when intra-day trading records began to be recorded. In addition, there have been no trading days this year in which the S&P was up or down greater than 2% and the year-to-date maximum pullback has been the lowest in the history of the S&P 500.

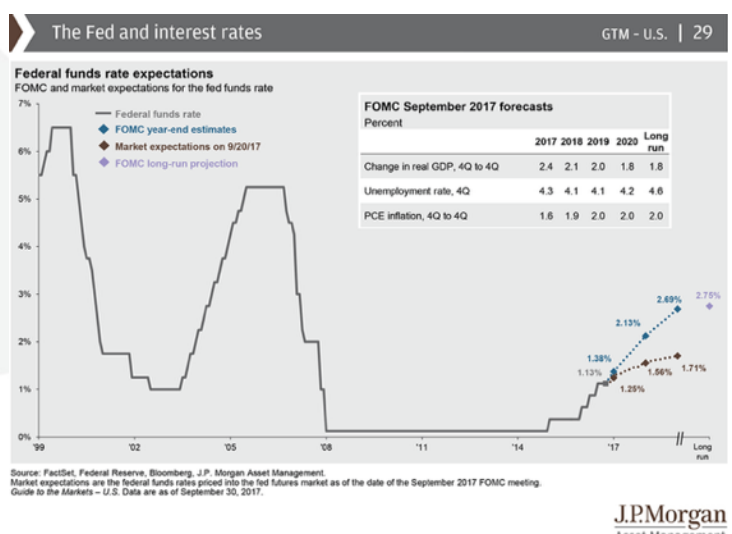


Interestingly, while the DJIA, the S&P 500 and the Nasdaq have been setting new all-time highs nearly every week (45 record new-highs on last count), the Russell 2000 index of small cap stocks has only begun to hit record high levels within the last few weeks. The action in small cap stocks and recent strength in cyclicals suggests the market strength is broadening, a sign that there are likely more gains ahead before the bull market ends. Of course, pullbacks are normal and can happen at any time, but the underlying trends driving global stocks higher remain intact.

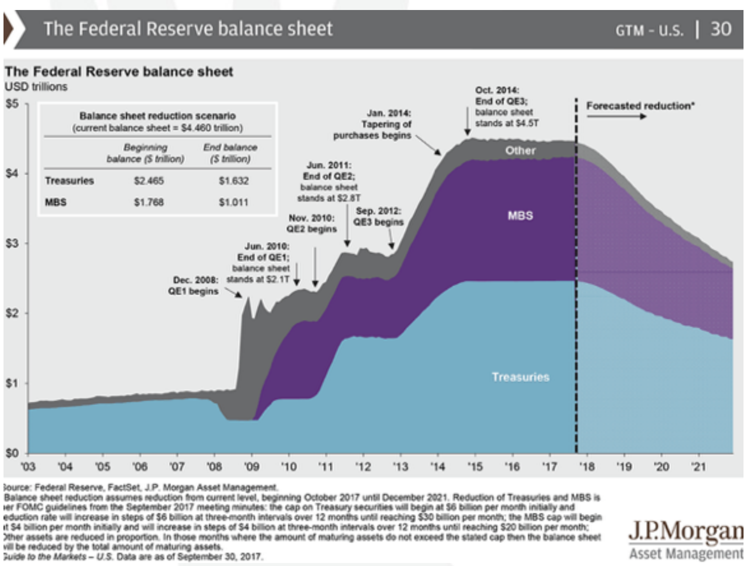
One potential obstacle for financial markets is the direction of monetary policy. While the Federal Reserve continues to lay out plans for a measured pace in its efforts to normalize interest rates, a couple of issues need to be monitored. In recent



months employee wage growth has risen to the highest level since the end of the recession in 2009. In addition, in September, the Fed



announced its intention to begin quantitative tightening (QT) which is an effort to begin shrinking its balance sheet of bonds purchased to help the

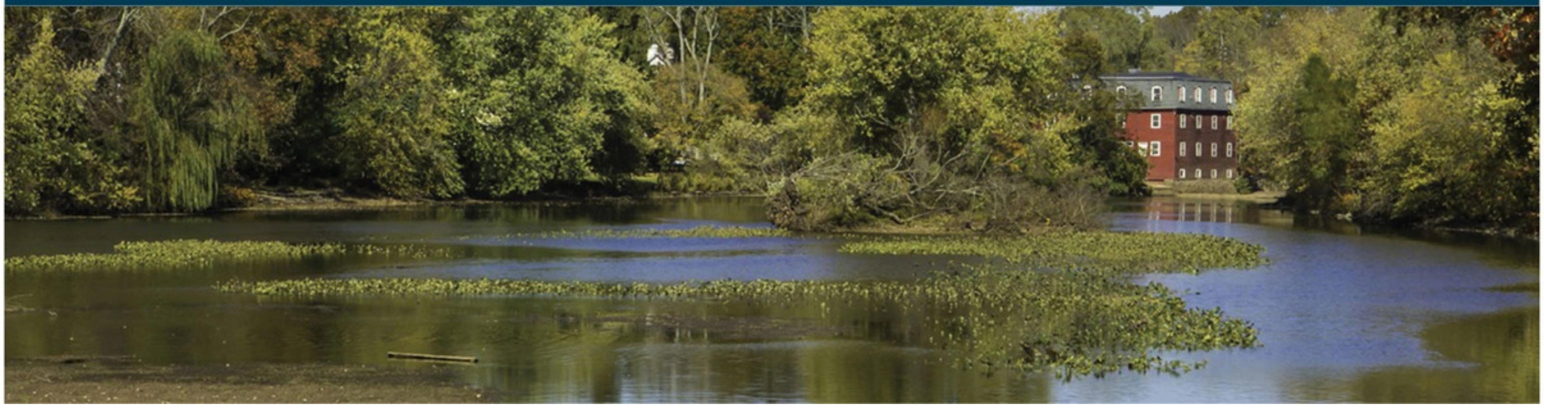


economy recover during the financial crisis.

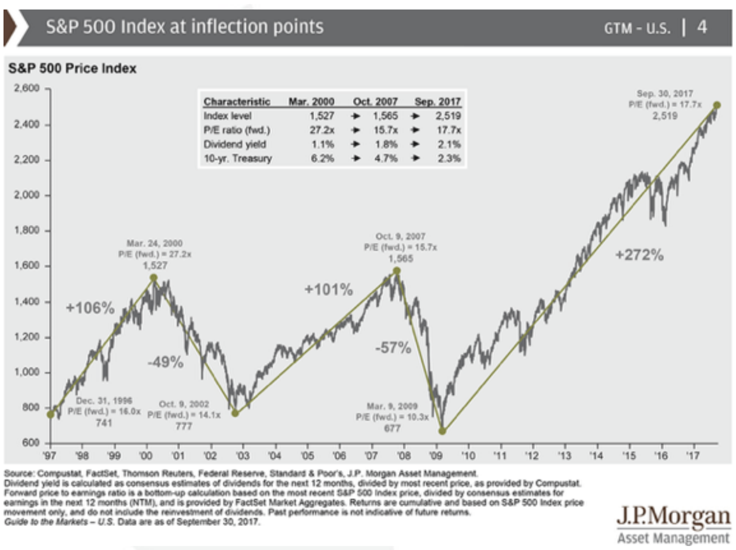
As a reminder, since the financial crisis in 2008-2009, the Fed engineered three rounds of quantitative easing (QE) which cumulatively resulted in a balance sheet valued at $4.5 trillion. The Fed's balance sheet is comprised of a combination of U.S. Treasury securities, U.S. government agency securities and mortgage-backed securities. Until last month the proceeds of all maturing securities have been reinvested in new securities. Now, very slowly, the Fed has announced they will begin to reduce the size of its massive balance sheet by not re-investing all of the proceeds from maturities. Initially, the plan announced by the Fed will be about $10 billion per month, split 60/40 between treasuries and mortgage-backed securities. After every quarter the plan is to increase the monthly run off by an additional $10 billion. In theory, a year from now the Fed will be allowing $50 billion per month to run off their balance sheet. While the announced program of quantitative tightening appears to be slow and measured, we will need to keep a watchful eye on potential unintended consequences. If wage growth trends continue to rise during this timeframe and economic growth continues to strengthen, a further rise in inflation and interest rates is not out of the question. Before we worry too much, it should be noted that even though the Fed has taken small steps toward normalizing its balance sheet and interest rates, other central banks around the world continue to inject substantial amounts of capital into their economies through quantitative easing.

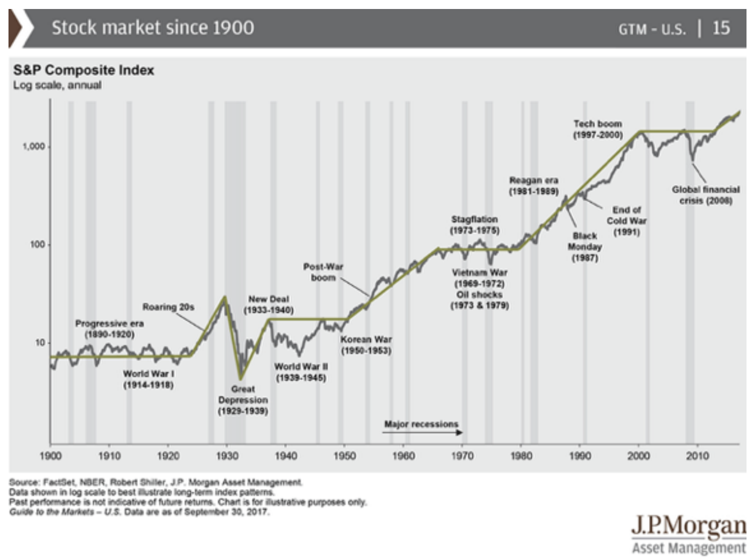
In summary, we remain cautiously optimistic for more gains in stocks before the bull market ends. The fourth quarter is often associated with bouts of volatility and/or market pullbacks but, unless corporate earnings prove weaker than expected, markets are likely to tack on more gains by year-end. There is always the possibility of a ratcheting up of tensions between the U.S. and North Korea or other geo-political events that are unpredictable at this time. Ultimately, we believe the next bear market will occur when investors begin to sense that a recession is on the horizon and/or the Fed is forced to tighten monetary policy faster than what is currently assumed. In the meanwhile, our advice is to remain disciplined and focused on allocating assets according to your long-term objectives.

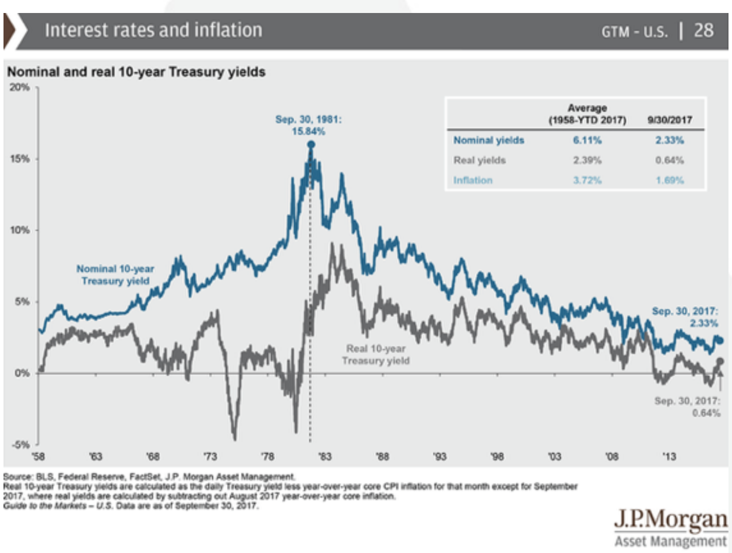
Economic Charts

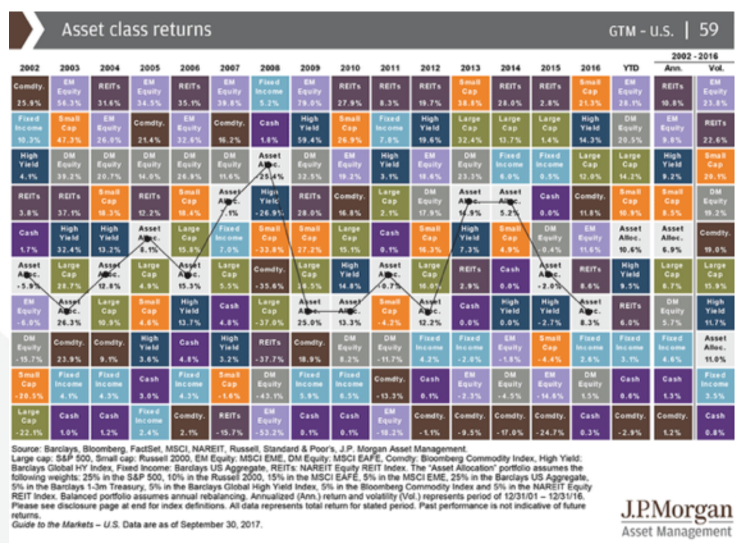


Rather than write extensively about equity valuations, economic statistics and investing principles, we offer the following charts organized by topic and courtesy of J.P. Morgan Asset Management:









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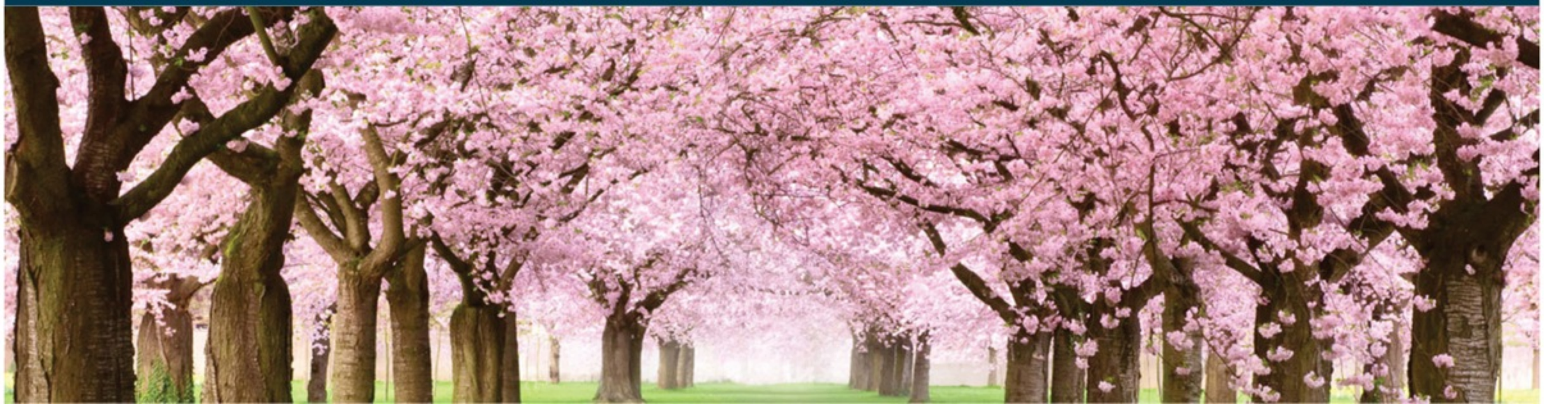

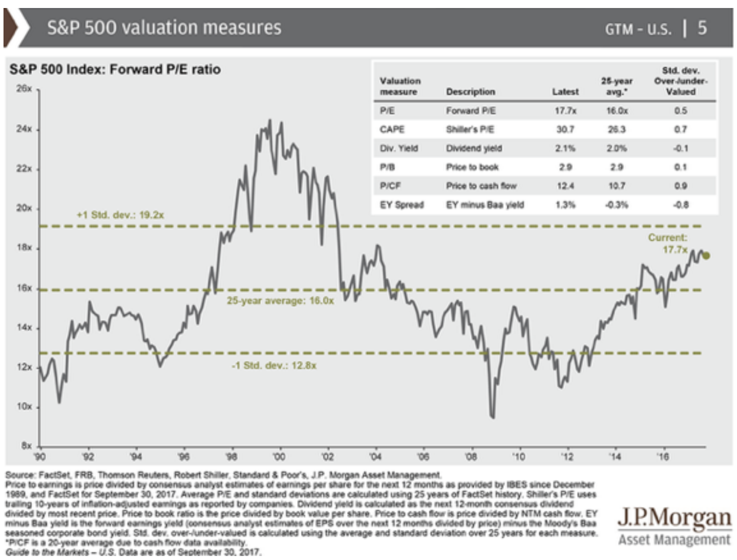

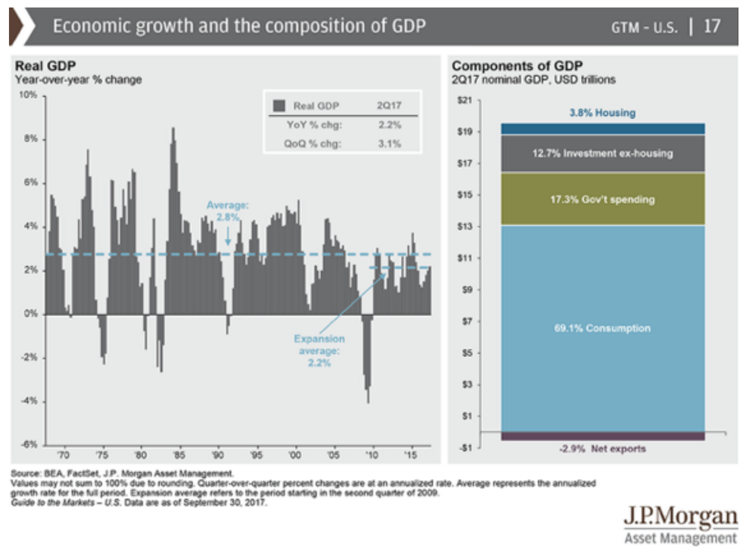

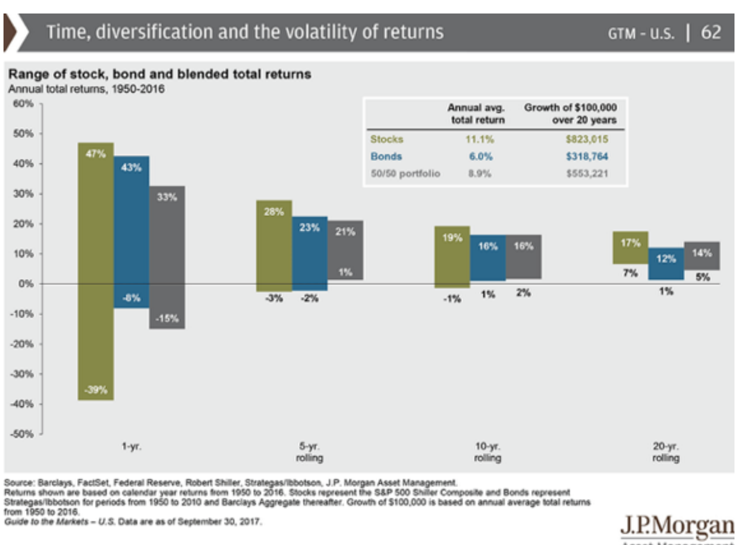

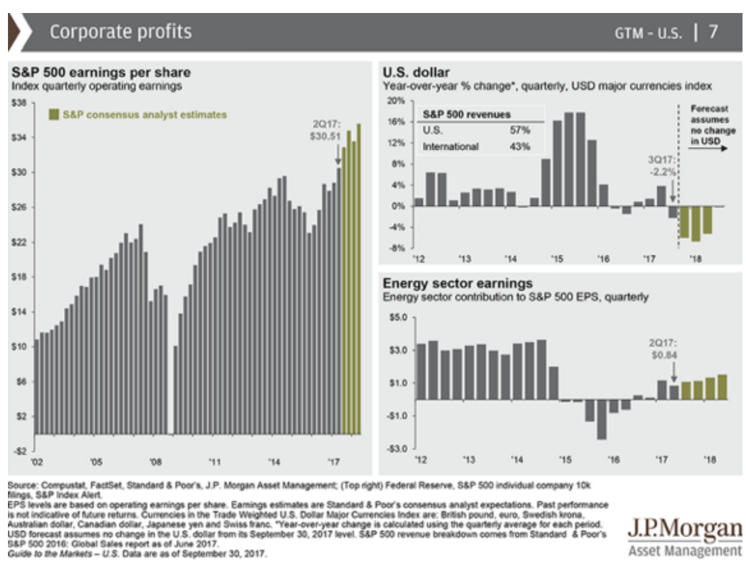

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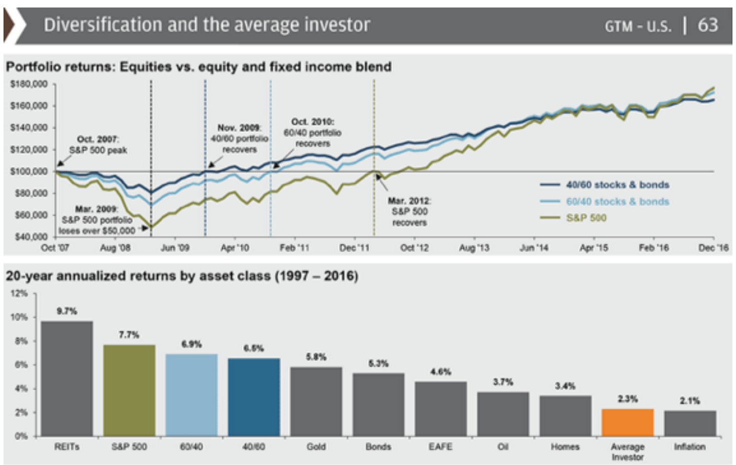
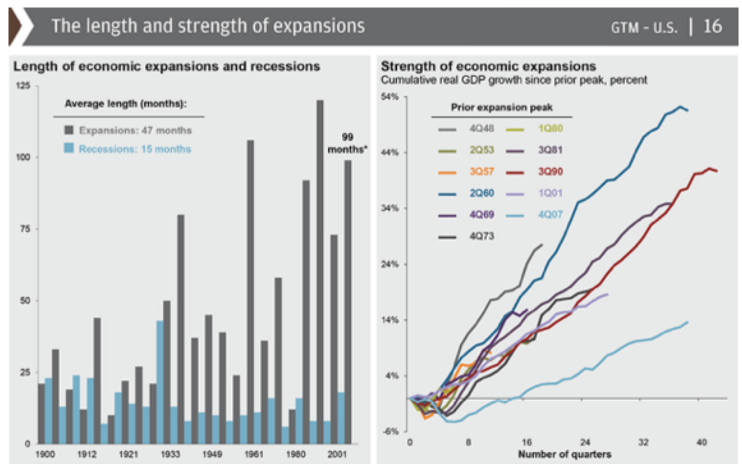


Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.
Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/16 to match Dalbar's most recent analysis.
Guide to the Markets – U.S. Data are as of September 30, 2017.



Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through September 2017, lasting 99 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 2017.
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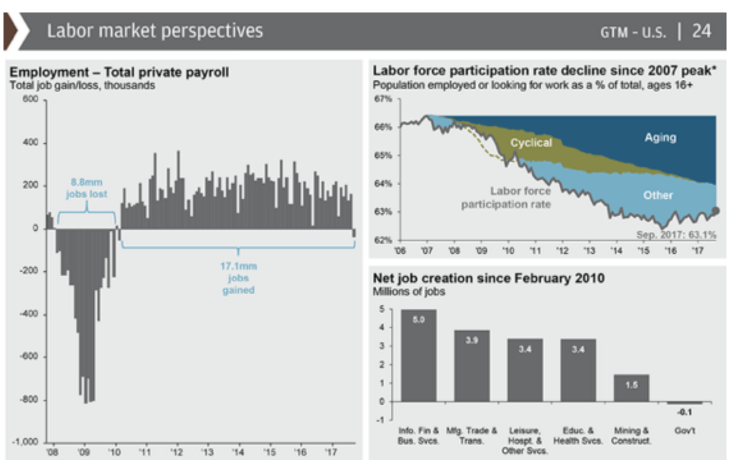

Source: BLS, FactSet, J.P. Morgan Asset Management. (Bottom right) Info. fin. & bus. svcs. = Information, financial activities and professional and business services; Mfg. trade & trans. = Manufacturing, trade, transportation and utilities; Leisure, hospt. & other svcs. = Leisure, hospitality and other services; Educ. & health svcs. = Education & health services; Mining and construct = Natural resources mining & construction; Gov't = Government.
*Aging effect on the labor force participation rate is the estimated number of people who are no longer employed or looking for work because they are retired. Cyclical effect is the estimated number of people who lose their jobs and stop looking for work or do not look for work because of the economic conditions. Other represents the drop in labor force participation from the prior expansion peak that cannot be explained by age or cyclical effects. Estmates for reason of decline in labor force participation rate are made by J.P. Morgan Asset Management.
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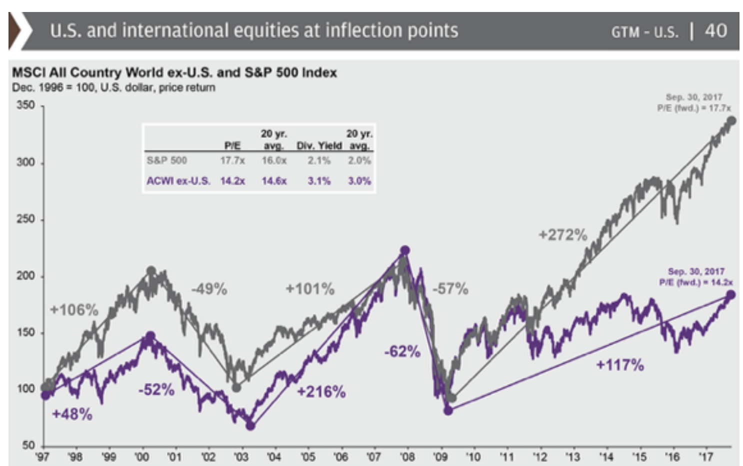

	P/E	20 yr. avg.	Div. Yield	20 yr. avg.
S&P 500	17.7x	16.0x	2.1%	2.0%
ACWI ex-U.S.	14.2x	14.6x	3.1%	3.0%

Source: MSCI, Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Dividend yield is calculated as consensus estimates of dividends for the next twelve months, divided by most recent price, as provided by FactSet Market Aggregates.
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