

Covenant

Asset Management, LLC



Fourth Quarter 2017 Investment Perspectives



Economic and Financial Markets Review & Outlook



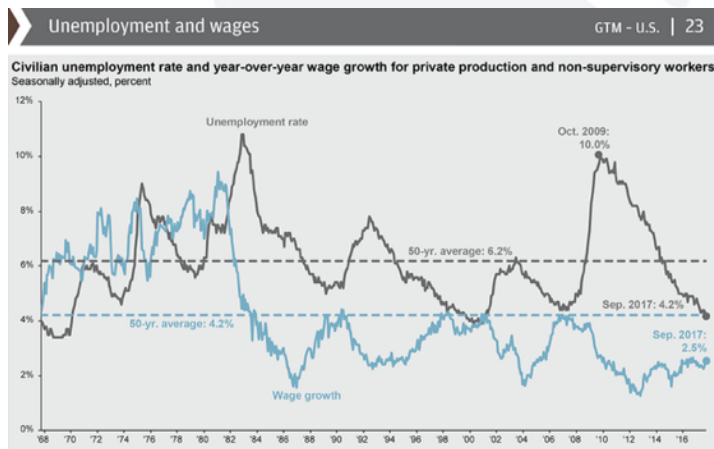
Covenant Asset Management is pleased to offer our latest investment perspectives. In this publication we review third quarter results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

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.

KEY THEMES

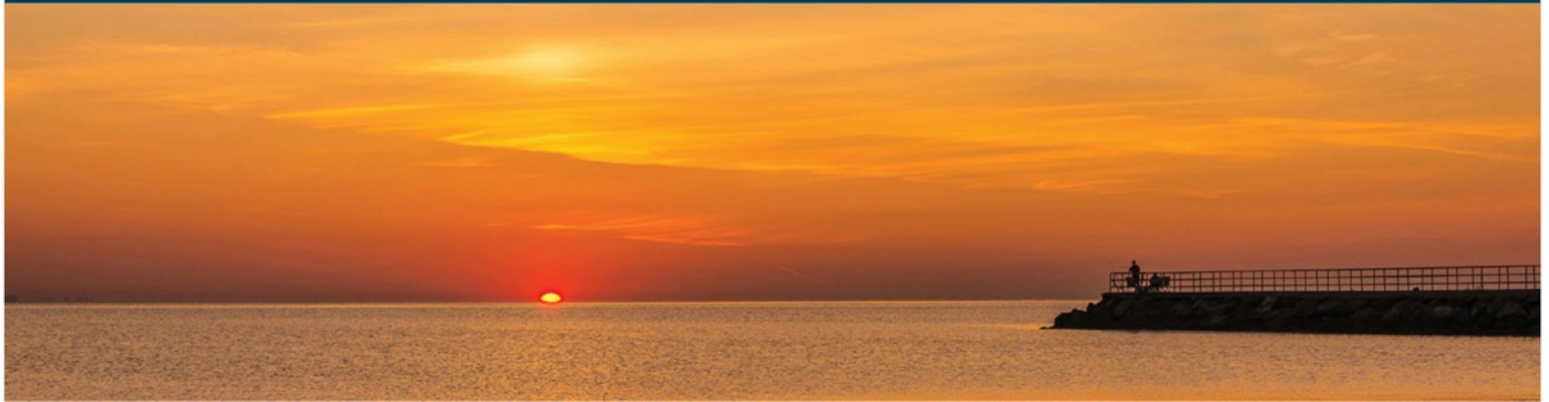
1. Since last November's election, investors have experienced one of the best periods in many years.
2. Recent economic strength might be masked by the impact from a series of hurricanes, but the underlying trend remains positive.
3. Historically low stock market volatility has continued as we enter 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.

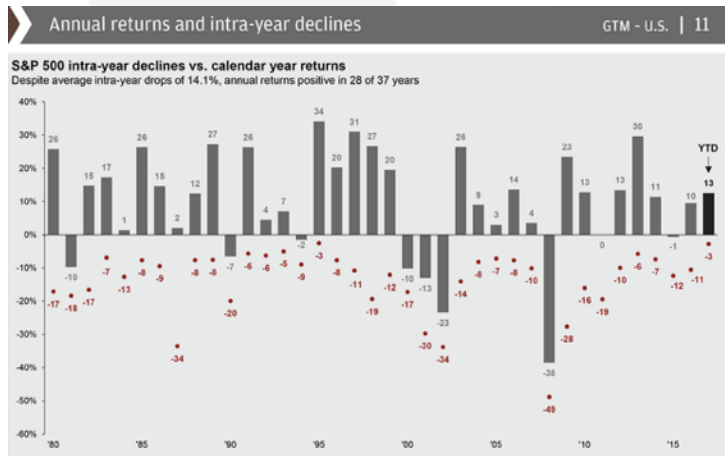


Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets - U.S. Data are as of September 30, 2017.

Economic and Financial Markets Challenges



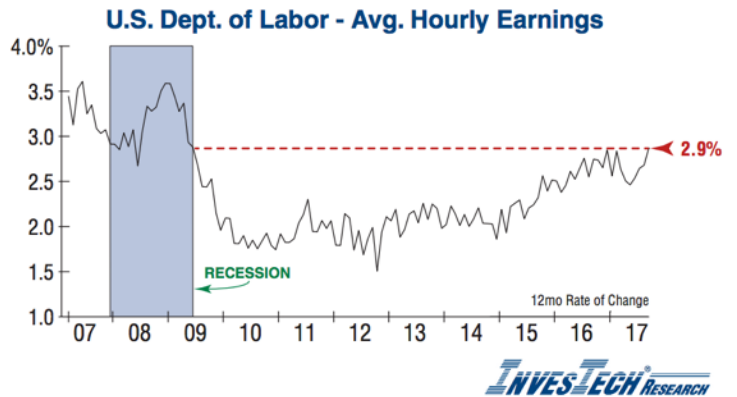
Historically low levels of stock market volatility have continued in 2017. So far this year, only 5% of trading days have produced a move of greater than +/- 1% in the S&P 500. This is the lowest number by far since the early 1980s when intra-day trading records began to be recorded. In addition, there 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.



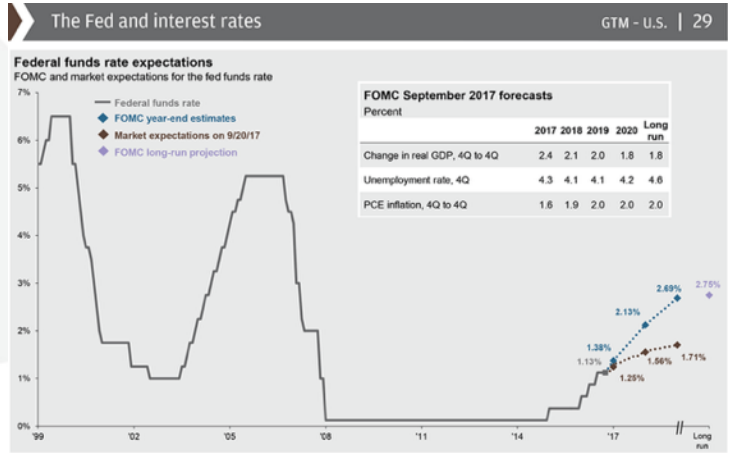
Interestingly, while the DJIA, the S&P 500 and the Nasdaq have been setting new all-time highs nearly every week (45 record new-highs on last count), the Russell 2000 index of small cap stocks has only begun to hit record high levels within the last few weeks. The action in small cap stocks and recent 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



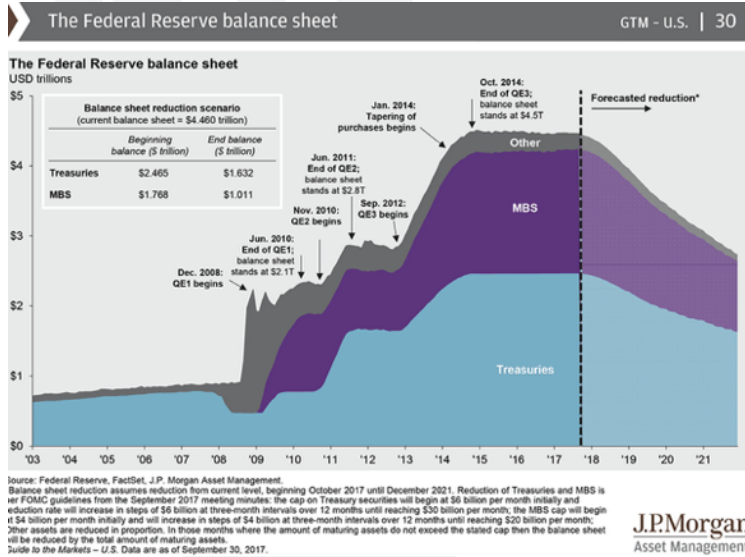
Investment Strategy



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

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.



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

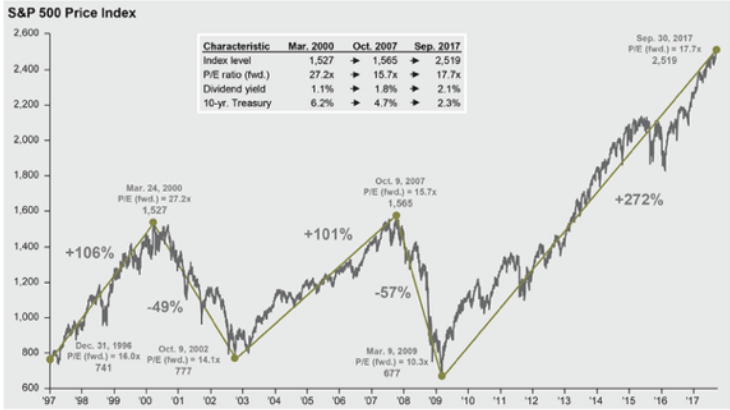
Economic Charts



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:

S&P 500 Index at inflection points

GTM - U.S. | 4

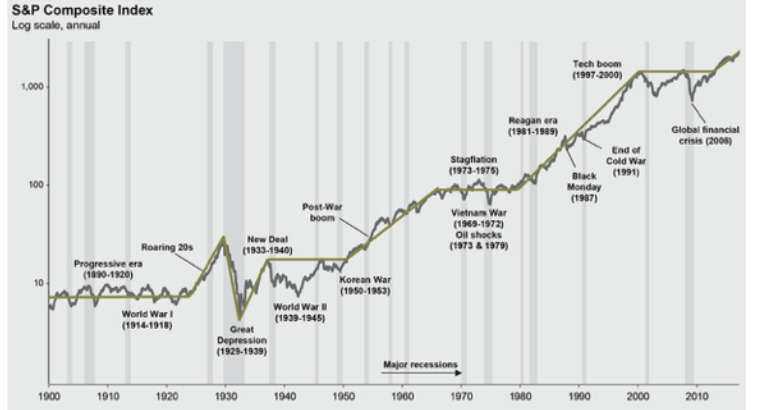


Source: Compustat, FactSet, Thomson Reuters, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up 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. Guide to the Markets - U.S. Data as of September 30, 2017.

J.P. Morgan
Asset Management

Stock market since 1900

GTM - U.S. | 15



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. Guide to the Markets - U.S. Data as of September 30, 2017.

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Asset Management

Interest rates and inflation

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Source: BLS, Federal Reserve, FactSet, J.P. Morgan Asset Management. Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for September 2017, where real yields are calculated by subtracting out August 2017 year-over-year core inflation. Guide to the Markets - U.S. Data as of September 30, 2017.

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Asset class returns

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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Ann.	Vol.
Comdty	25.8%	18.3%	31.6%	34.5%	35.1%	39.8%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
Fixed Income	47.3%	26.3%	21.4%	32.4%	32.4%	16.2%	1.8%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%
High Yield	4.7%	37.2%	25.7%	14.9%	28.8%	15.5%	25.4%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%	32.5%
REITs	3.8%	37.1%	18.2%	12.2%	18.4%	11.1%	-26.9%	28.0%	16.8%	2.1%	17.9%	14.9%	5.2%	0.6%	11.8%	10.9%	8.5%	10.2%
Cash	1.7%	32.4%	13.2%	15.8%	15.8%	7.0%	-23.8%	17.2%	15.1%	9.1%	16.3%	17.3%	4.9%	0.4%	11.6%	10.6%	8.9%	10.0%
Asset Alloc.	22.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%	28.8%
DM Equity	-8.2%	24.3%	18.9%	13.7%	4.8%	-37.0%	25.9%	13.3%	-13.2%	12.2%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
EM Equity	19.7%	23.9%	9.1%	5.4%	4.8%	3.2%	-37.7%	18.9%	8.2%	-11.7%	4.2%	-12.6%	-1.8%	-14.4%	2.6%	1.5%	4.6%	11.6%
Small Cap	-29.3%	4.7%	4.3%	4.3%	4.3%	-43.1%	5.3%	8.5%	-10.2%	8.0%	0.0%	-4.5%	-14.6%	1.5%	0.8%	1.5%	3.3%	11.6%
Large Cap	-22.1%	14.9%	12%	2.0%	-10.7%	-33.2%	2.0%	5.0%	-10.2%	-1.8%	-9.5%	-17.6%	-24.7%	0.2%	-2.9%	1.2%	0.8%	0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays Global HY Index, Fixed Income: Barclays US Aggregate, REITs: NAREIT Equity REIT Index. The 'Asset Allocation' portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 25% in the Barclays US Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 0% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/01 - 12/31/16. Please see disclosure page at end for index definitions. All data represents total return for stated period. Past performance is not indicative of future returns. Guide to the Markets - U.S. Data as of September 30, 2017.

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Economic Charts



S&P 500 valuation measures

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S&P 500 Index: Forward P/E ratio



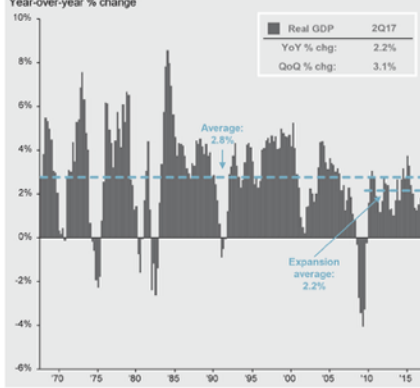
Source: FactSet, FRB, Thomson Reuters, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1989, and FactSet for September 30, 2017. Average P/E and standard deviations are calculated using 25 years of FactSet history. 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-undervalued 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. Guide to the Markets - U.S. Data as of September 30, 2017.

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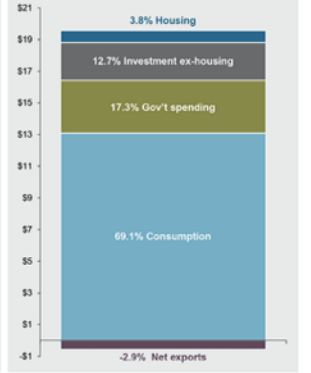
Economic growth and the composition of GDP

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Real GDP



Components of GDP



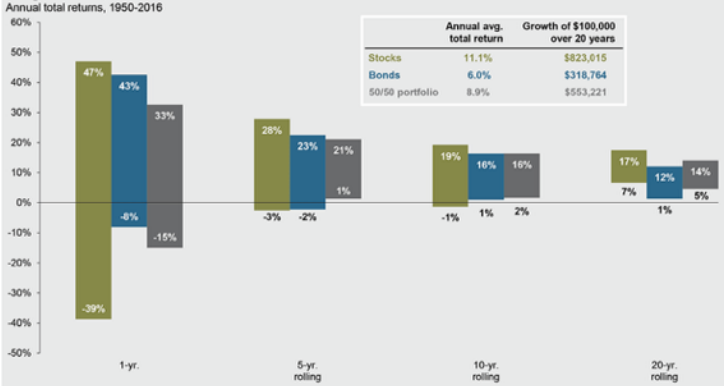
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Quarter-over-quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period. Expansion average refers to the period starting in the second quarter of 2009. Guide to the Markets - U.S. Data as of September 30, 2017.

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Time, diversification and the volatility of returns

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Range of stock, bond and blended total returns



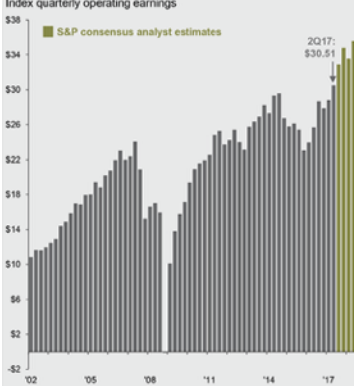
Source: Barclays, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2016. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Barclays Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2016. Guide to the Markets - U.S. Data as of September 30, 2017.

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Corporate profits

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S&P 500 earnings per share



U.S. dollar



Energy sector earnings



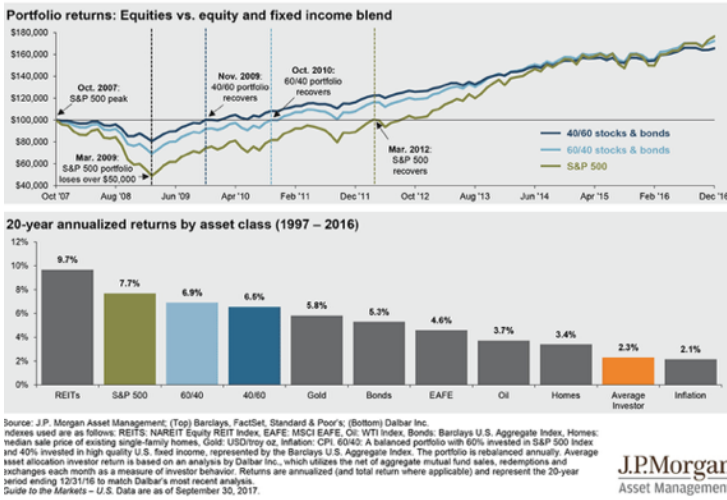
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Top right) Federal Reserve, S&P 500 individual company 10K filings, S&P Index Alert. EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is not indicative of future returns. Currencies in the Trade Weighted U.S. Dollar Major Currencies Index are: British pound, euro, Swedish krona, Australian dollar, Canadian dollar, Japanese yen and Swiss franc. *Year-over-year change is calculated using the quarterly average for each period. USD forecast assumes no change in the U.S. dollar from its September 30, 2017 level. S&P 500 revenue breakdown comes from Standard & Poor's S&P 500 2016: Global Sales report as of June 2017. Guide to the Markets - U.S. Data as of September 30, 2017.

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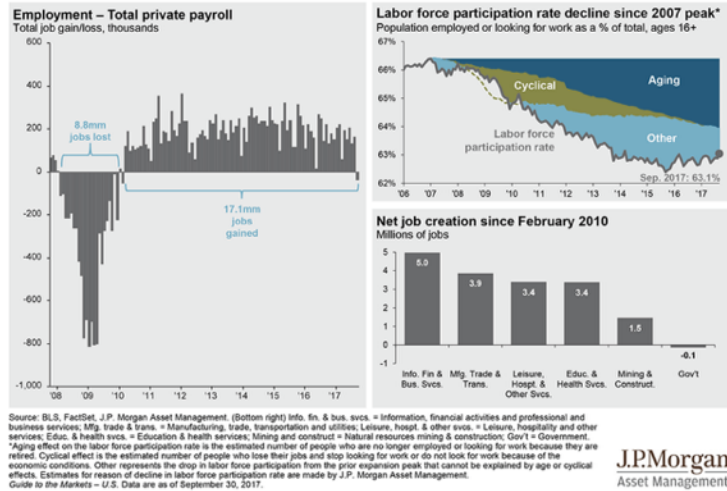
Economic Charts



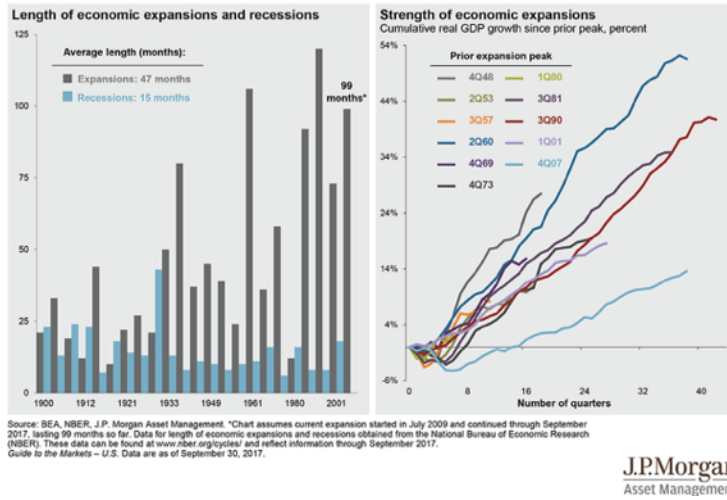
Diversification and the average investor GTM - U.S. | 63



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U.S. and international equities at inflection points GTM - U.S. | 40



*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.

