Covenant Asset Management, LLC

First Quarter 2018 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 2017 results and highlight key economic, financial and political themes which we expect will drive markets and investment performance in the coming months.

Two thousand seventeen proved to be quite a year for global financial markets. For the first time in history, the S&P 500 produced positive returns every month. It was also one of the least volatile years in history, one in which no major U.S. stock market benchmark realized more than a 3% correction at any point during the year. What made the results even more remarkable is that they defied many of the post-election predictions by market forecasters, concerned about the volatile leadership style of the newly-elected President. Some feared Mr. Trump would destabilize the world order and global financial markets. Instead, investors around the globe responded to rising economic optimism as opposed to American or geo-political concerns. Politics do sometimes matter to financial markets, but it is only one of many factors and it proved inconsequential in 2017.

In early 2017, investors poured money into the "Trump trade," composed of economic sectors and securities expected to benefit from fiscal stimulus Trump and Republicans promised during the campaign. In March when it became increasingly apparent that the Republican-controlled Congress was having trouble unifying around a plan to repeal and replace the Affordable Care (healthcare) Act, investors began to doubt the ability of the new Congress to pass any of its promised fiscal stimulus. After a modest and short-lived market pullback, investors

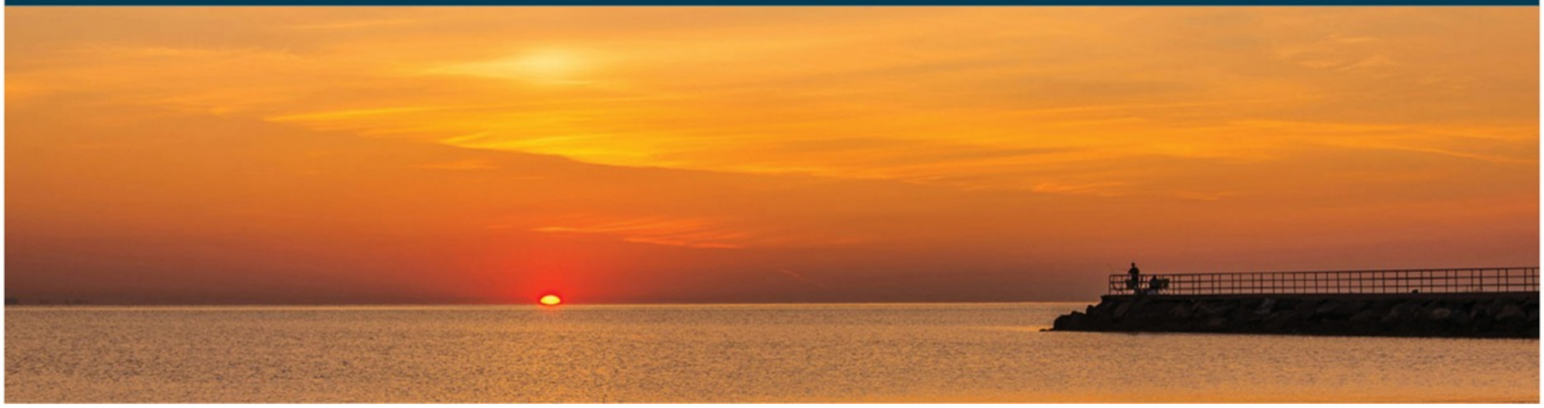
KEY THEMES

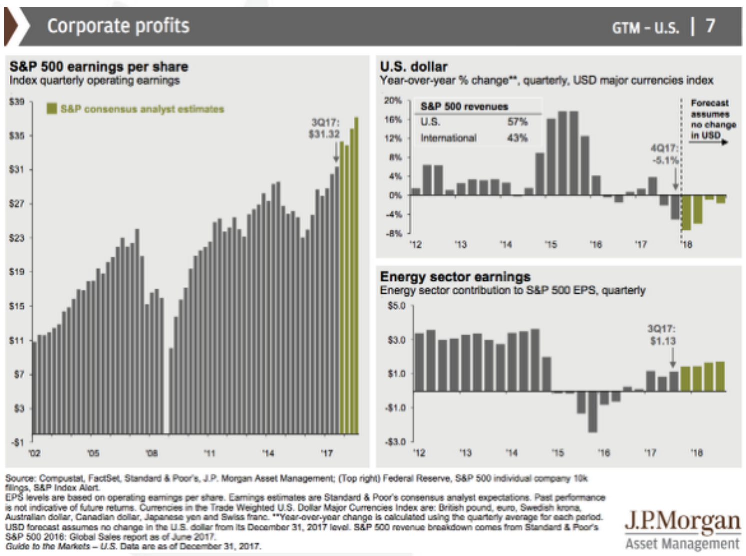
1. Global markets confounded many initial post-election predictions for 2017, rising steadily and without interruption.
2. U.S. economic growth is clearly improving with small business optimism rising to the highest level in more than 30 years.
3. Pressures are emerging in housing prices, employment shortages, and, potentially, inflation.
4. The market is likely to extend its gains in 2018 but as valuation and inflation risks begin to rise, vigilance and caution is warranted.

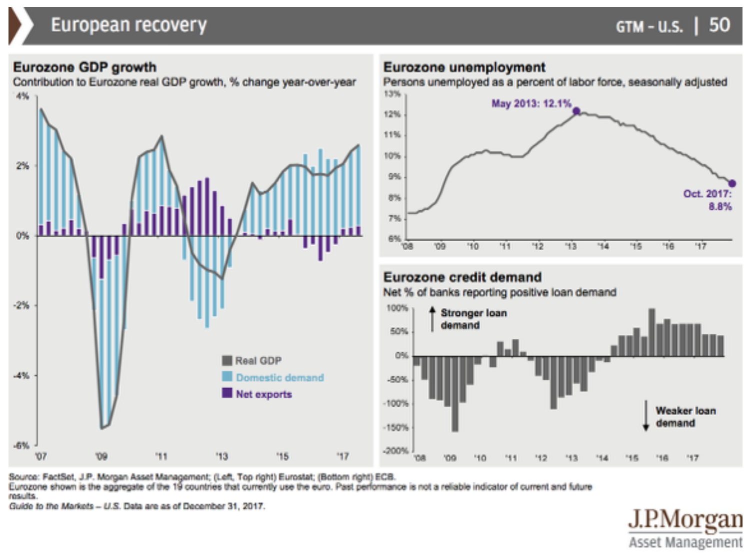
rotated into other sectors less dependent on stronger economic growth. The primary beneficiaries were internet leaders, semiconductor companies and other technology stocks. By the second quarter, industrial stocks benefitted from a suddenly improving economy and surging corporate earnings. It wasn't until late in the year, when signs emerged that Republicans were likely to pass tax-reform, that the market began to rotate back to "Trump trade" beneficiaries such as the financial services, basic materials and retail sectors.

There is now unequivocal evidence of accelerating U.S and foreign economic activity. In the U.S., GDP growth has jumped above 3% for the past two quarters, and the fourth quarter of 2017 is expected to continue the strong trend. In addition, forecasts for 2018 GDP growth have been revised to upwards of 3%. Consumer confidence is running near a 17- year high and business optimism hasn't been this high since the Reagan-era tax cuts over 30 years ago. Nearly every sector of the economy is showing strength with ISM manufacturing and services services surveys reflecting robust levels and consumer spending, labor markets, housing and

Economic and Financial Markets Review







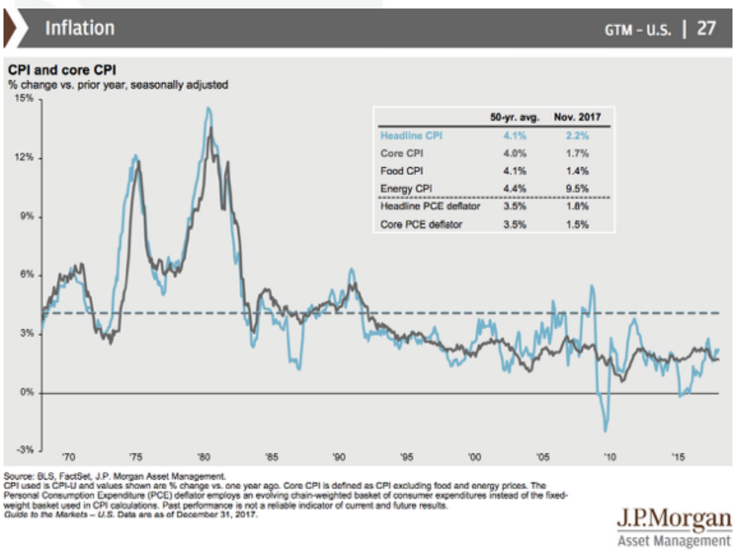
autos also improving. Deregulation and hopes for tax reform have had a significant influence on sentiment. Now that tax reform has become law, expectations have risen for acceleration in economic growth. Even the Federal Reserve Bank has upgraded its expectations for economic growth in 2018 due to the tax law changes. Additionally, consumers should be pleasantly surprised because surveys have shown less than 30% of individuals expect to receive a tax cut, while tax consultants estimate that upwards of 80% of tax-payers will actually pay less in taxes in 2018.

International economies and financial markets also improved in 2017. Global economic growth likely rose to the highest level since 2011 and foreign stock market indexes surged by 25-30%. With continued monetary stimulus provided by the European Central Bank (ECB), the Bank of Japan and the Bank of China, foreign interest rates remain near historically low levels. U.S. short-term interest rates are the main exception, as the Fed raised the Fed Funds rate three times in 2017 by a total of 3/4 of 1%. Commodity prices participated in the rise of asset values in 2017, with oil prices up 23% to the highest level in 2 1/2 years. Agricultural commodity prices rose by nearly 5% and gold prices increased by roughly 13%. The U.S. Dollar Index, which measures the U.S. currency against a basket of 16 others, dropped by 7.5% in 2017. This decline was the largest since 2007 and snapped a five-year streak in which the U.S. dollar rose against other currencies. The main reason for the reversal can be attributed to faster-than- expected economic growth in Europe. Currency traders speculated that European monetary policy might be tightened sooner and faster than previously expected. The ECB has been tapering its asset-buying program from 80 billion euros/month in April to 60 billion presently. In January 2018 asset purchases are scheduled to be further reduced to 30 billion euros per month and the program is expected to terminate in September.

As demonstrated, leading macroeconomic indicators are strong and technical market gauges point to higher stock prices ahead. With this in

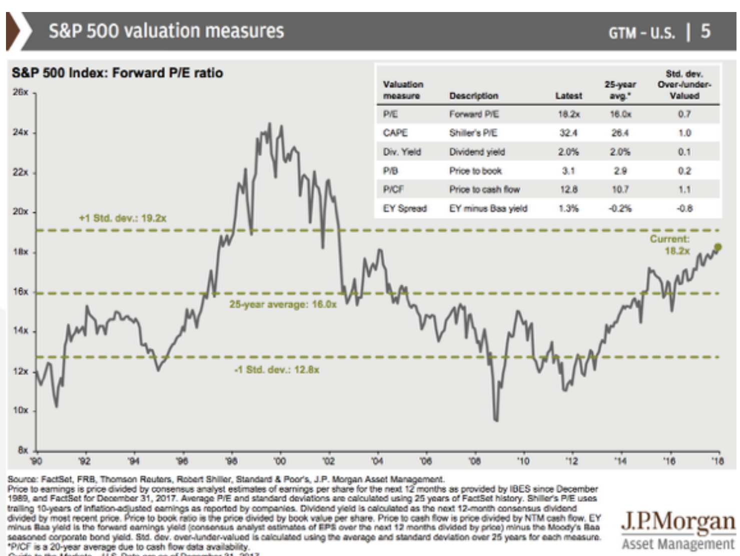
Economic and Financial Markets Challenges

mind, what factors might disrupt financial markets in 2018? Later in January, a federal budget deal needs to be negotiated and the debt-ceiling raised by March. While it is unlikely Congress would allow a government shutdown, there has not been much bi-partisanship evident in many years, so we need to be watchful. Tensions with North Korea have been ongoing and concerns may escalate with the Olympics upcoming in South Korea in February.



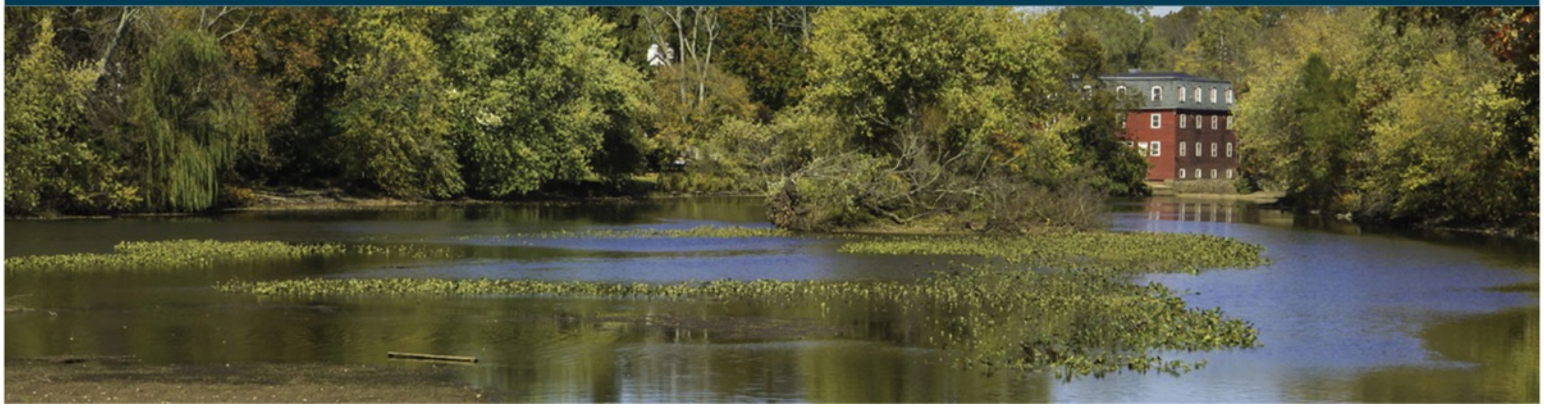
As the year progresses, investors may worry about Congress changing hands in the mid-term elections in November and the implications for such a change. Perhaps the biggest concern could be the potential for an uptick in inflation and the Fed's reaction. No one expects inflation to suddenly surge dramatically higher, but, after a long economic expansion and accelerating GDP growth, inflation pressures may begin to build. Labor markets have tightened,especially in certain sectors, which could lead to wage inflation. In addition, tax reform provides an additional level of stimulus missing from the recent economic backdrop. There is also the uncertainty of a new Fed Chairman, Jerome Powell. Investors are convinced that Mr. Powell will continue to be a steady hand as Fed chief, but he is untested. Should inflation begin to rise above the Fed's 2% target, market participants might become concerned that the Fed would move more rapidly in raising short-term interest rates. While this scenario may not be likely, it is worth watching.

Another factor to consider is rising asset valuations. Price earnings ratios are a bit elevated versus historical norms, but considered reasonable in a low inflation, low interest rate environment. If inflation and interest rates begin to rise faster or sooner than expected, this could pressure stock prices. Other valuation measures such as price to



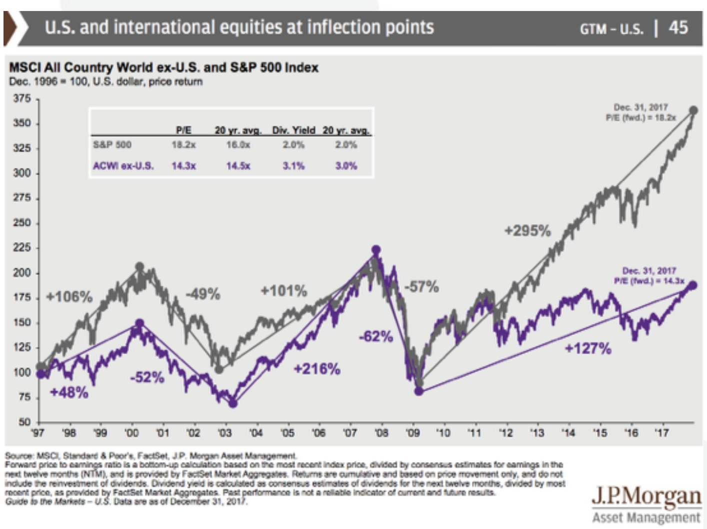
sales and total stock market value to nominal GDP are approaching historically high levels. While these valuation metrics are not useful as timing tools, they do indicate there may be an elevated level of danger in a maturing economic expansion

Investment Strategy



and long bull market.

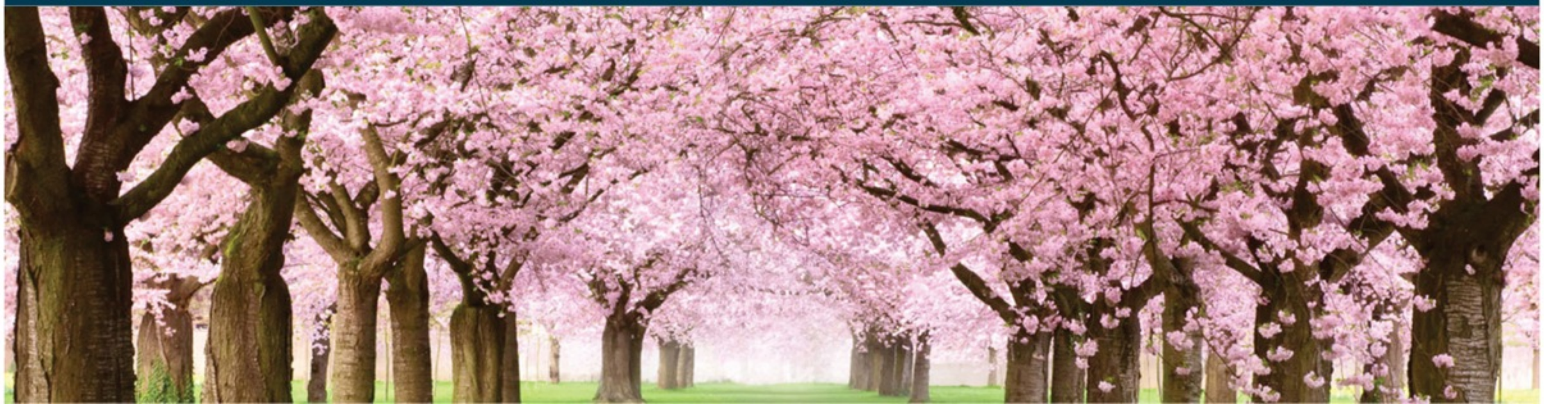
Our current investment strategy remains unchanged as economic and market conditions suggest additional gains are likely for equity markets. Given the likelihood of stronger economic and corporate earnings growth in the coming quarters, we intend to stay a bit longer with some of the stocks with more cyclical growth characteristics purchased during the past year. In addition, given improving global conditions and cheaper valuations, it is possible that foreign equity markets extend their positive relative performance versus U.S. equity benchmarks into



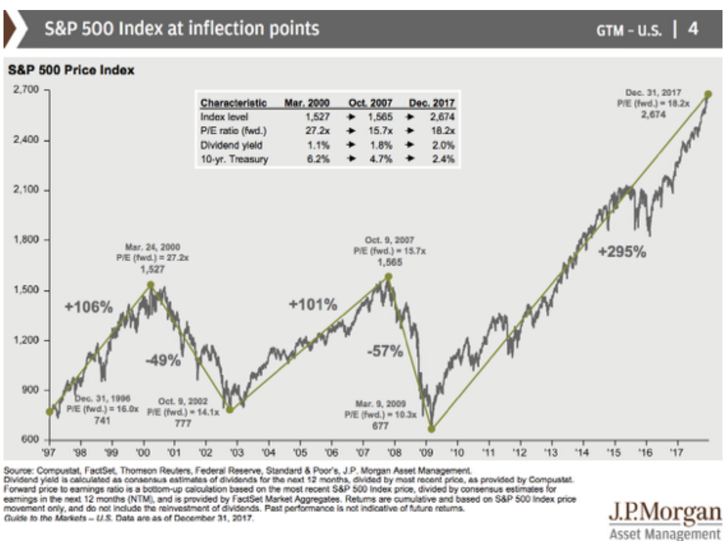
2018. We remain cautious with regard to fixed income and still believe it is advisable to maintain a higher exposure to shorter duration securities and lower grade funds, as opposed to higher grade or longer duration fixed-income securities. Fiscal policy should become the driver of economic growth in 2018, reversing the monetary policy dominance in place since the financial crisis nearly early a decade ago. The market winners and losers of this policy shift will likely change. We will be alert to these changes and look ahead for the eventual peak to the bull market that began in March 2009. In the meanwhile, we intend to focus on keeping client portfolios invested in a way which closely aligns to their investment objectives.

We wish all of our clients and friends a happy, healthy and prosperous New Year and look forward to our discussions and meetings with you in 2018.

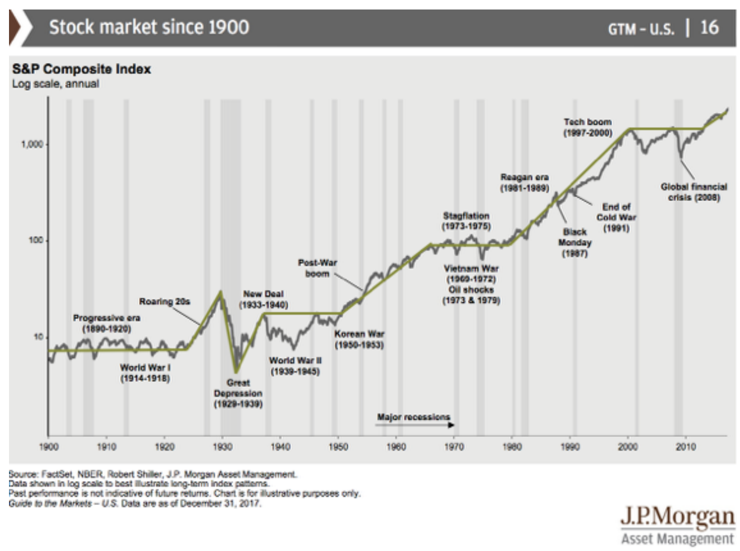
Equities Charts

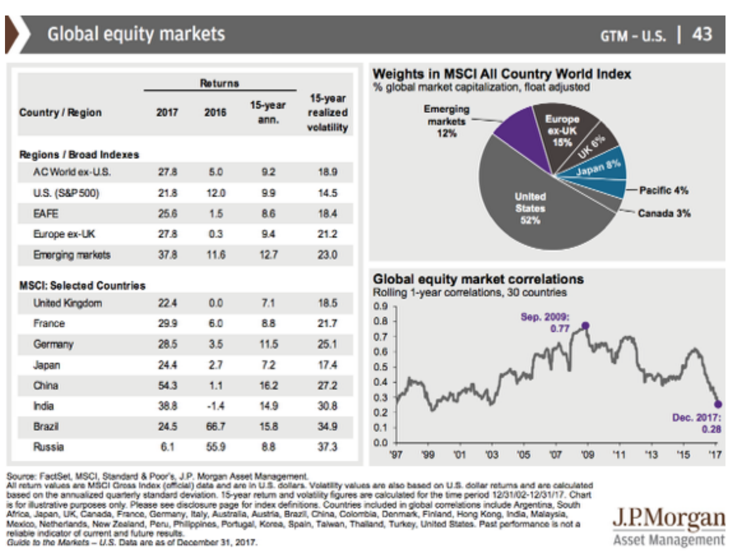


Rather than write extensively about equity valuations, economic statistics and investing principles, we offer the following charts organized by topic and courtesy of J.P. Morgan Asset Management:



Characteristic	Mar. 2000	Oct. 2007	Dec. 2017
Index level	1,527	1,565	2,674
P/E ratio (fwd.)	27.2x	15.7x	18.2x
Dividend yield	1.1%	1.8%	2.0%
10-yr. Treasury	6.2%	4.7%	2.4%

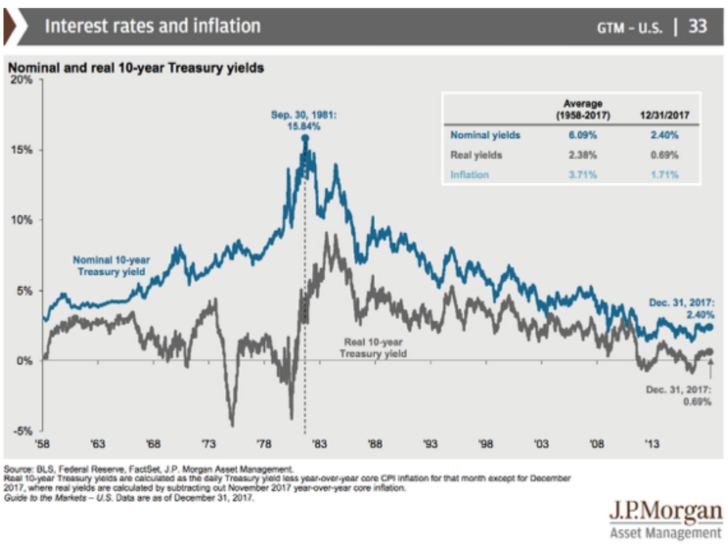


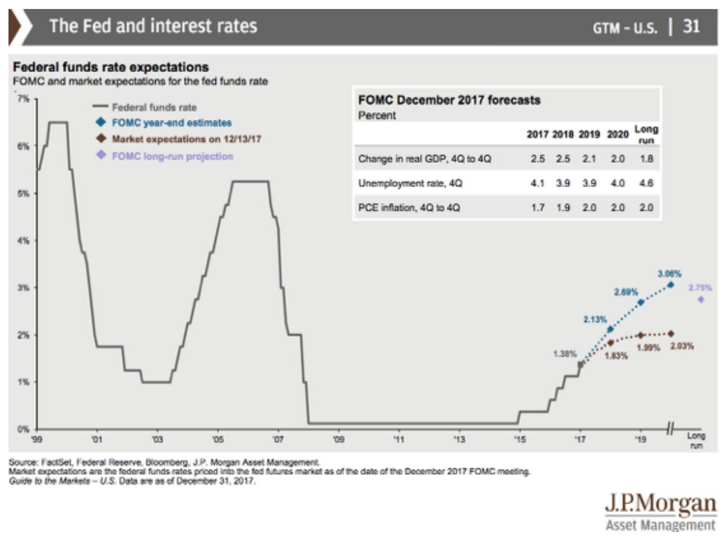


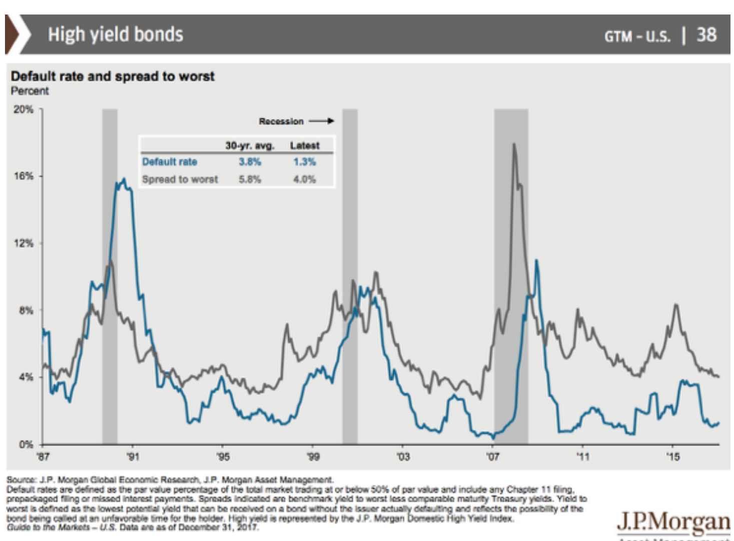
Country / Region	Returns 2017	2016	15-year ann.	15-year realized volatility
Regions / Broad Indexes				
AC World ex-U.S.	27.8	5.0	9.2	18.9
U.S. (S&P 500)	21.8	12.0	9.9	14.5
EAFE	25.6	1.5	8.6	18.4
Europe ex-UK	27.8	0.3	9.4	21.2
Emerging markets	37.8	11.6	12.7	23.0
MSCI: Selected Countries				
United Kingdom	22.4	0.0	7.1	18.5
France	29.9	6.0	8.8	21.7
Germany	28.5	3.5	11.5	25.1
Japan	24.4	2.7	7.2	17.4
China	54.3	1.1	16.2	27.2
India	38.8	-1.4	14.9	30.8
Brazil	24.5	66.7	15.8	34.9
Russia	6.1	55.9	8.8	37.3

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2017.

Fixed Income Charts



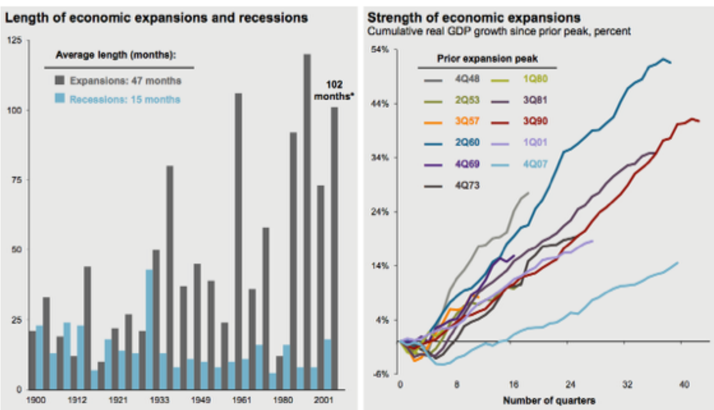




Economic Charts

The length and strength of expansions

GTM – U.S. | 17

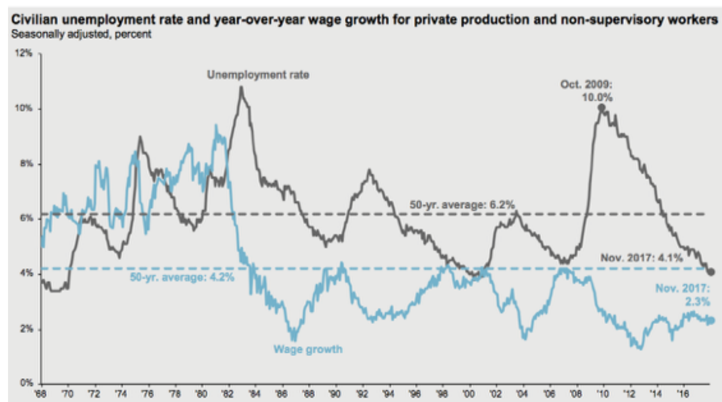


Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through December 2017, lasting 102 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through December 2017. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of December 31, 2017.

J.P.Morgan Asset Management

Unemployment and wages

GTM – U.S. | 24



Source: BLS, FactSet, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
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Currency and international equity returns

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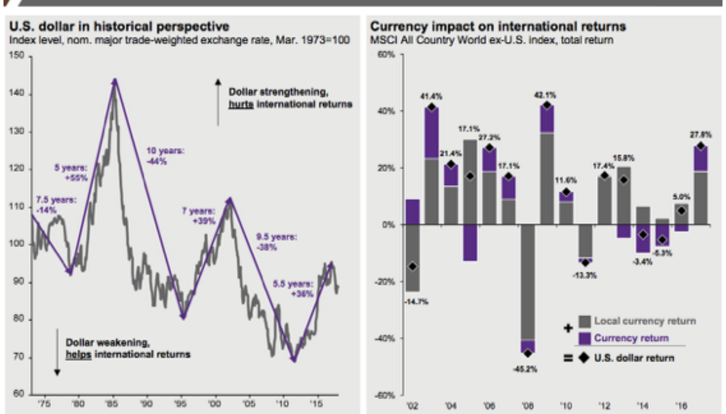

Source: FactSet, J.P. Morgan Asset Management; (Left) Federal Reserve; (Right) MSCI.
Currencies in the nominal major trade-weighted U.S. dollar index are: British pound, euro, Swedish krona, Australian dollar, Canadian dollar, Japanese yen and Swiss franc. Past performance is not a reliable indicator of current and future results.
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Diversification and the average investor

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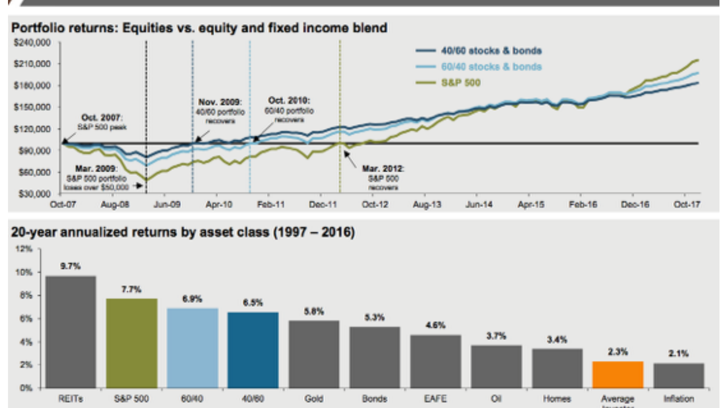

Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.
Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy 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.
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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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