Covenant Asset Management, LLC

Fourth Quarter 2019 Investment Perspectives

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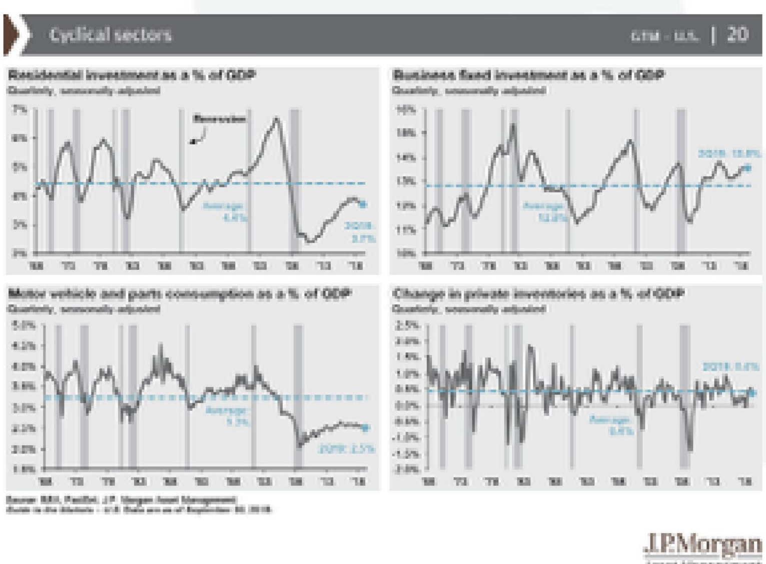
Economic and Financial Markets Review & Outlook

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.

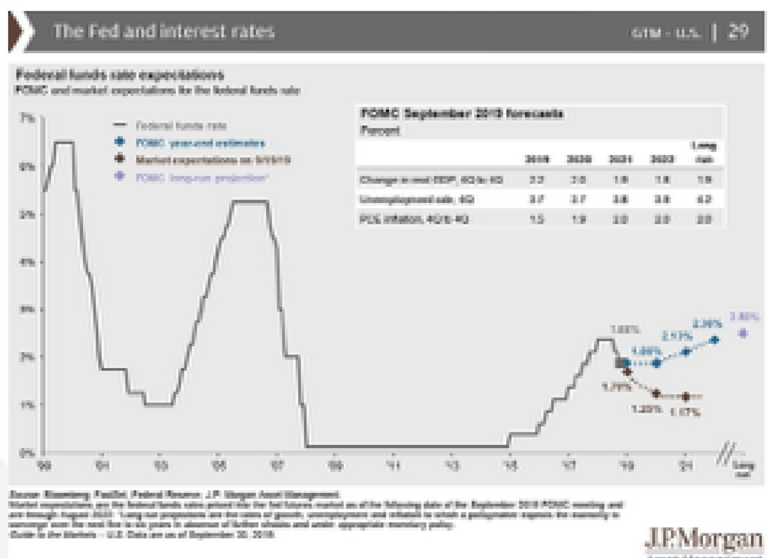
After a strong first half rebound following a harsh year-end 2018 sell-off, the third quarter brought renewed volatility amid concerns over weakening economic conditions. It is now clear that trade tensions and escalating tariffs with China have had a serious effect on industrial orders and production. Cyclical economic sectors such as Energy, Materials and Industrials representing approximately 20% of the U.S. economy are now legitimately in recession. However, the domestic, consumer-oriented parts of the economy representing nearly 70% of GDP continues to benefit from lower tax rates and deregulation implemented over the past two years.

Unemployment now stands at 3.5%, a fifty year low and wage inflation, growing at nearly 3% over the



KEY THEMES

1. Recession fears are growing on weakening economic data.
2. The Fed finally got the message that monetary policy has been too tight and has begun a cycle of lowering short-term interest rates.
3. Divisive politics in the U.S. and U.K. may exacerbate economic weakness.
4. U.S. stock indices have held near all-time highs, but volatility has risen and a violent and rapid rotation out of growth/momentum leaders and into value and defensive sectors occurred during the third quarter.

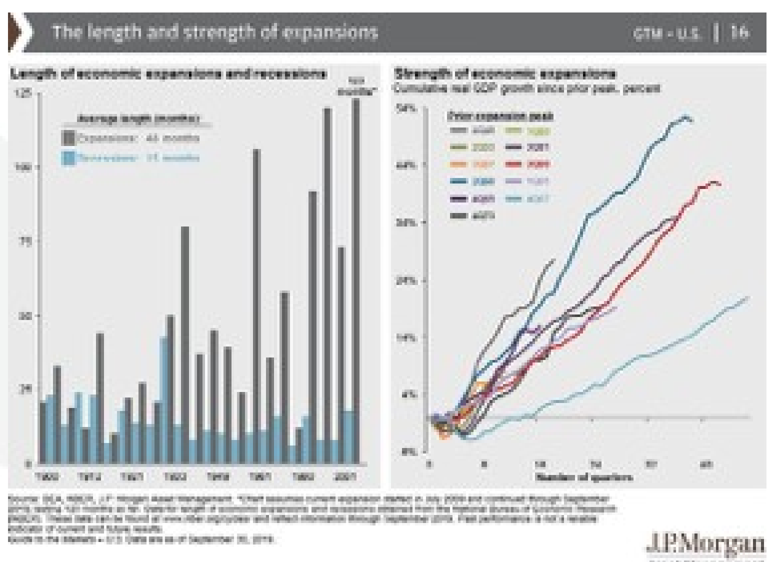


past twelve months, has provided a boost to consumer confidence and spending. To date, the divergent paths of economic sectors have caused overall economic growth to slow, but not tumble into recession. However, plummeting bond yields and an inversion of the yield curve that lasted several days (where the 2-year U.S. Treasury note yield was

higher than the 10-year U.S. Treasury note yield) spooked investors into believing that the odds of recession in the U.S. were rising. When the ISM manufacturing survey released in early October suggested the manufacturing sector was contracting for the first time since the financial crisis ended ten years ago, it evoked similar recession fears. A weaker than expected ISM Service sector survey was released a few days after the manufacturing survey, and the initial reaction by financial markets was a rally in bonds, which pushed yields lower, and furthered a sell-off in stocks. Cooler heads prevailed when investors concluded that, although weaker than expected, the service sector survey showed continued expansion, though the weakness would increase the odds of sooner and deeper Fed interest rate cuts. Subsequently, the September employment report revealed a healthy labor market and stock indexes continued to recover from deep early October losses.

In the past we have largely been guarded about the effect politics has on financial markets, especially more than a year prior to national elections in the U.S.. Typically, investors begin positioning sector allocations some months or quarters in advance of consequential elections, but the overall performance of markets has not displayed significant correlation to the ebb and flow of political campaigns until nominees are selected and each U.S. political party has held its national convention.

We are hesitant to suggest this time is different, but there are some caveats to consider as events unfold in coming weeks. If an impeachment inquiry initiated by House Democrats turns up any information that would suggest a real possibility the President could be removed from office, stocks are likely to respond in a decidedly negative fashion. Simply put, investors view the Trump administration's economic policies as business friendly and pro-growth. If the President is impeached and subsequently removed from office or the economy suffers a severe downturn prior to the election, there is a strong likelihood that stock prices would suffer a material correction. This is especially so if one of the more far-left candidates such as Elizabeth Warren or Bernie Sanders appears likely to win the Democratic nomination. Wall Street views these candidates' economic policy positions as anti-business, pro-big government and incrementally socialist. Presently, financial markets have reacted skeptically to the impeachment proceedings, viewing them as political in nature and unlikely to result in the removal of President Trump from office. However, the inter-relatedness of national politics, economic growth expectations and financial market performance appears to be elevated beyond normal at this time.



Economic and Financial Markets Challenges

In coming weeks, third quarter corporate earnings will be reported. As companies report and provide updated revenue and earnings guidance, individual stocks and sectors are sure to react to unexpected results or guidance. It is reasonable to expect that companies with high international revenues are the most likely to disappoint and companies that are more domestic and consumer-focused are the most likely to exceed expectations.

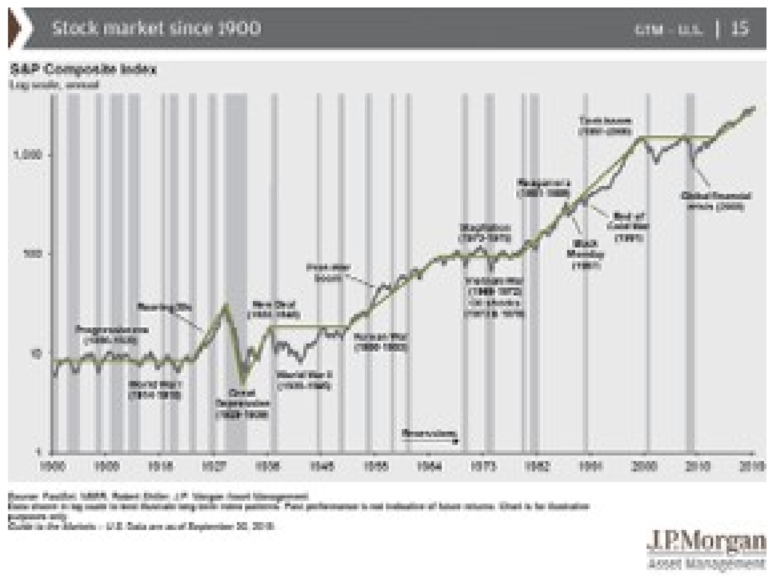
During the third quarter, a sudden and harsh reversal of fortunes occurred within the stock market. Long-time stock market leaders tumbled and laggards, largely value stocks that had underperformed growth stocks by double-digit percentage rates since the start of 2018, surged. While the valuation and performance gap had become stretched, the timing of this rotation seems unusual. Typically, slowing economic growth benefits companies and sectors that have more predictable and stronger growth rates.

We expect this style rotation to be rationalized by either a rebound in economic growth expectations which would favor cyclical and value stocks or by a reversal of the rotation back to growth/momentum stocks as investors realize that growth continues to slow and higher growth companies are more appealing, especially after harsh corrections.

We have been expressing our view for the past year that we are late in the current economic and stock market cycle and investors should ratchet back their risk exposure. Eliminating margin, confirming proper cash reserve levels and affirming that asset allocations conform with investment objectives are important steps in preparing for the next downturn. From a strategy standpoint, we believe the time to prepare for an eventual downturn is before it occurs in order to reduce the need to liquidate securities after they have tumbled in value or in the midst of a correction. We look forward to our ongoing communications with clients to assure you are well-positioned for changing economic and market environments. We welcome your questions or concerns and look forward to continuing to serve you.

Financial Markets 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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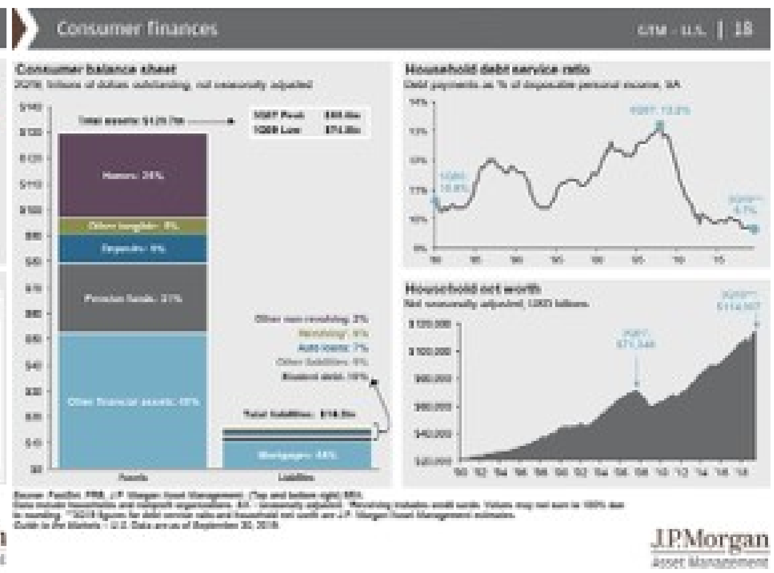

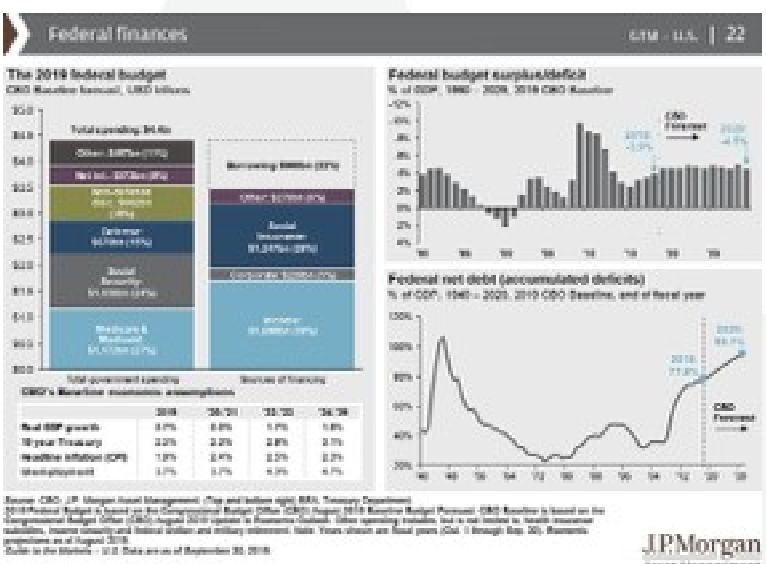

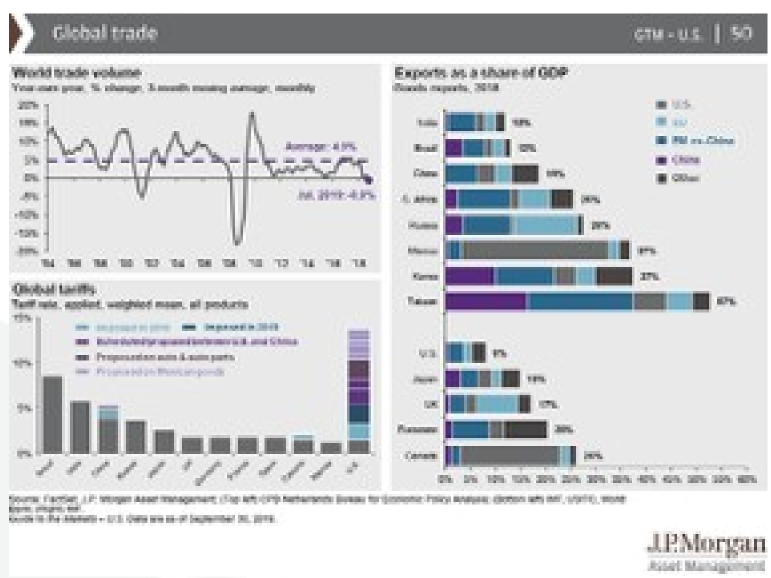

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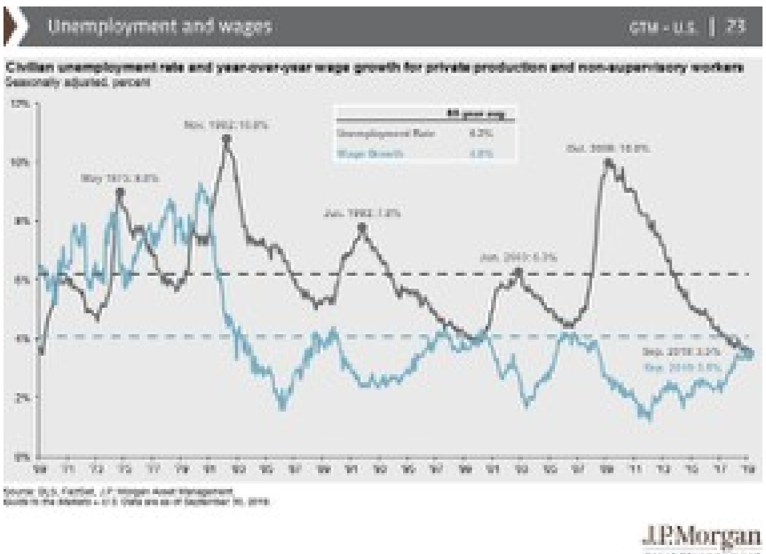

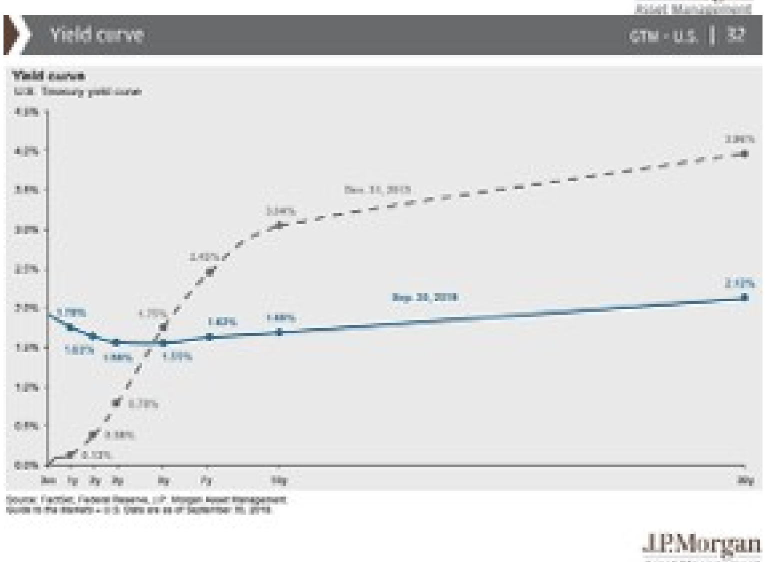

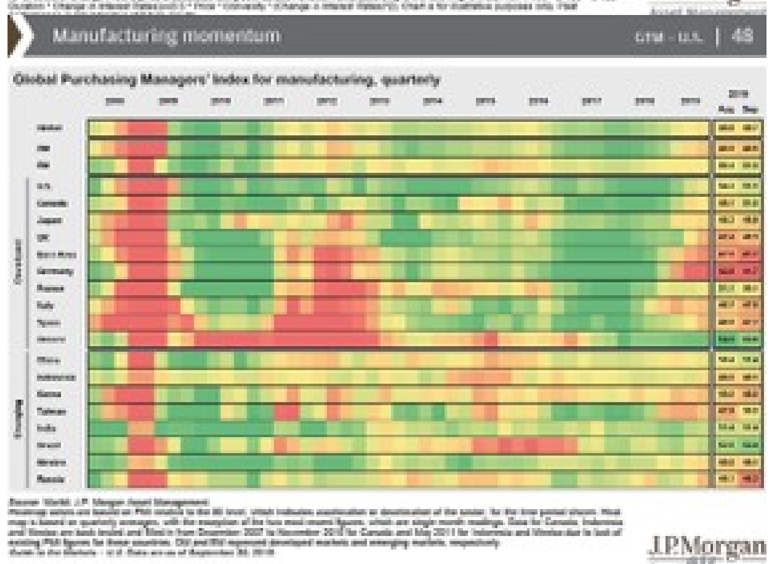

*Any performance-related data listed in this report may represent un-audited results compiled by Covenant Asset Management or others. It could be intended to reflect results that are indicative of Covenant's individual client's equity performance who religiously invest according to our model portfolios. 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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