



FINANCIAL & ECONOMIC REVIEW

The economic forecast for Q3 2017 remains mostly unchanged with only minor tweaks to the broader outlook. While balance sheets of the world's largest global economies have almost quadrupled since the start of the market rally eight years ago, liquidity is now poised to tighten encouraged by steady inflation. U.S. markets continue to anticipate two additional Fed rate hikes through the end of 2018. The less accommodative Fed policy should constrain growth in the near term, providing a much tougher environment to find worthy new investment opportunities. With that said, late stages in the market cycle have historically had the most mixed results of all phases in the business cycle. As business cycles mature, the yield curve flattens and eventually inverts, as seen prior to the past seven U.S. recessions. Turning to energy, OPEC instituted a nine month oil production cut in May and U.S. Shale producers began coming back online. Oversupply could once again take a firm to end 2017 and potentially well into 2018, keeping gasoline prices much lower for longer. The consequences may become apparent, as many energy related companies could face stiff headwinds. Lastly and most notably for the quarter, the "Amazon Effect" had a profound impact on traditional retailers, department stores and grocers, as the company announced plans to purchase Whole Foods. The carnage could be seen across the consumer cyclical sector in Q2, with many traditional brick and mortars falling sharply following the announcement. Significant changes to the consumer landscape are shaping up, with the market dictating eventual winners and losers.

With broader markets continuing to rally, Healthcare, Technology and Industrials were the best performing sectors in Q2, returning 6.9%, 6.0% and 4.0%. The worst performing equity sector returns were once again in Equity Energy dropping -11.8%, followed by Natural Resources returning -7.1% respectively. In fixed income, the U.S. Aggregate Bond index rose 1.4%, while the 10-year Treasury bond yield ended the quarter at 2.3%. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index returned an impressive 3.1%, 3.9% and 4.1% in the second quarter respectively. The most overvalued sector remained Basic Materials, at approximately 1.24 price/fair value of Morningstar's coverage universe followed by Technology at 1.13. Equity Energy also remained the most undervalued at 0.96 followed by Real Estate at 0.98 respectively. The overall price/fair value of covered stocks in Morningstar universe was 1.01¹. Continued patience is a virtue as we navigate fully valued markets looking for investment opportunities to present themselves.

We appreciate the trust you have instilled in us and look forward to earning your business, growing and protecting your investment and retirement assets and earning your referrals throughout the second half of the year.

Jack A. Kennedy
Chief Investment Officer



¹ Results referenced from Morningstar.com

OBJECTIVE | RELIABLE | COMMITTED

1009 East Ave. • Clermont, FL 34711 • Toll Free 877.398.0051 • Fax 877.398.0050 • www.jbmeridian.com

JB MERIDIAN ADVISORS, LLC IS A REGISTERED INVESTMENT ADVISOR IN THE STATE OF FLORIDA, LOUISIANA & TEXAS