FINANCIAL & ECONOMIC REVIEW

After a tremendous first quarter in 2019, Q2 added modestly to the gains in equity markets leaving most sectors fully valued or overvalued heading into Q3. Fixed income and bond markets have begun to tell a slightly different story. The Federal Reserve left the Fed Funds rate at 2.25-2.50% and dropped its promise to be “patient” with rate adjustments, signaling a cut of up to 0.50% or 50 basis points. With history as our guide, the last three recessions have been preceded by just such a rate decrease leading many to believe a recession is possible in the next 12-18 months. The yield curve is telling a similar story, as sections of the curve remain inverted, indicating a rate cut is likely and upcoming recession possible. Given this backdrop, many economic indicators are holding up well and actually signaling that any recession would need to be caused by some exogenous events or external shock. A few such shocks could come in the form of consumers reigning in spending, US/Iran tensions escalating, or increased social discord in the United States.

Many sectors in the second quarter of 2019 ended on a positive note. Precious Metal Equities, Financials and Industrials performed best, rising 10.0%, 6.5% and 5.2%. Energy was the only equity sector posting a loss at -5.3% for the quarter. The next worst performers were Healthcare and Consumer Defensive, rising 0.7% and 1.6% respectively. In fixed income, the U.S. Aggregate Bond index increased 3.1%, continuing to benefit from the Feds dovish stance, while the 10-year Treasury yield ended the quarter at 2.00%, down another 17% from the end of Q1 and down 26% from the start of the year. Crude oil ended the quarter approximately where it began at $58.47 per barrel, but up almost 23% from January first. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Indexes rose 4.3%, 3.2% and 3.9% in the second quarter respectively. After the strong first half to 2019, there exist very few quality stocks that trade at a significant discount to fair value on our radar. The sectors trading at the largest discount of Morningstar’s coverage universe were once again Energy and Consumer Cyclical, at approximately 83% and 93% fair value[1]. Utilities and Consumer Defensive were the most overvalued sectors to end the quarter, trading at 12% and 18% above fair value. We currently view the equity market as a stock pickers market, choosing to select individual stock positions for new client money until the broader market pulls back and offers additional value. With interest rates remaining stubbornly low, we’re selectively finding quality investment grade debt opportunities to allocate a portion of client funds. In this challenging investment environment, we’re communicating with clients and prospects to remain patient, as we navigate better investment opportunities to come.

We wish to thank you for allowing us to manage your investment and retirement assets in 2019 and look forward to continually earning your trust and referrals.

Jack A. Kennedy
Chief Investment Officer

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[1] Results referenced from Morningstar.com

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