



2ND QUARTER END 2016

FINANCIAL & ECONOMIC REVIEW

The second quarter of 2016 began with a continuation of the short-term recovery coming off the first quarter correction, but ended with an exogenous event that spurred further volatility amidst an arguably fully mature bull market. That event was the successful exit vote by the citizens of Great Britain from the European Union, or “Brexit,” as it has become known. The direct result was a single day drop in the major market averages of 5-7%. Almost as stunning was that within three days the steep losses were almost fully recovered. JB Meridian Advisors used this event to make client investment allocations in some of our favorite investment managers, as well as select individual stocks that had gone on sale.

The quarter ended with many similar themes from the start. Stock valuations are well above historic norms, with defensive sectors continuing to rally. Utilities, REITs and consumer staples stocks performed exceptionally well. In addition, bonds on the long end of the yield curve outperformed with long-term government and long-term corporate bonds each earning approximately 6% for the quarter, outperforming other fixed income asset classes. With the influx of safe haven bond purchasing, rates have again aimed for historic lows. The 10-year Treasury yield dropped from 1.78% to start the quarter to 1.49% at the end, an almost 17% decline. One positive result from the decrease was a corresponding drop in mortgage rates for new home buyers, as they locked in lower borrowing rates. Crude oil surged over 30% during the quarter, as the price of WTI crude rose from \$36.94 to \$48.27 respectively. With the prospect of continued and unprecedented central bank manipulation throughout the world, we now expect the trajectory of US interest rate increases to be slowed. Corporate earnings have been sluggish and inflation is below the Fed’s 2% target. US growth has been consistently positive, even though lackluster.

We expect continued volatility for the remainder of 2016 with the US Presidential election on the horizon. We’re advising clients to anticipate very modest broader market returns in the months ahead, as the major indexes are trading at multiples not seen since 2009. There does seem to be value remaining in select financial services, healthcare and consumer cyclical stocks. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index returned 2.5%, 2.1% and -0.2% for the second quarter of 2016 respectively. Telecom, Utilities and Consumer Staples were the best performing sectors in Q2, rising 16.6%, 15.6% and 5.6%. The worst performing sectors this quarter were Healthcare and Financial Services losing -5.5% and -5.1%¹.

We appreciate your business and look forward to helping you navigate the financial markets in the years ahead. Growing your investments and earning your trust and referrals remains our top priority.

Jack A. Kennedy
Chief Investment Officer



¹ Results referenced from Morningstar.com

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