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6 Meridian LLC 1635 N Waterfront Pkwy, Ste. 250, Wichita, KS 67206
P: 316.776.4601 www.6meridian.com



6 MERIDIAN

- 2017 Review
- Economic Data
- Interest Rates / Inflation / Federal Reserve
- Earnings
- Market Outlook

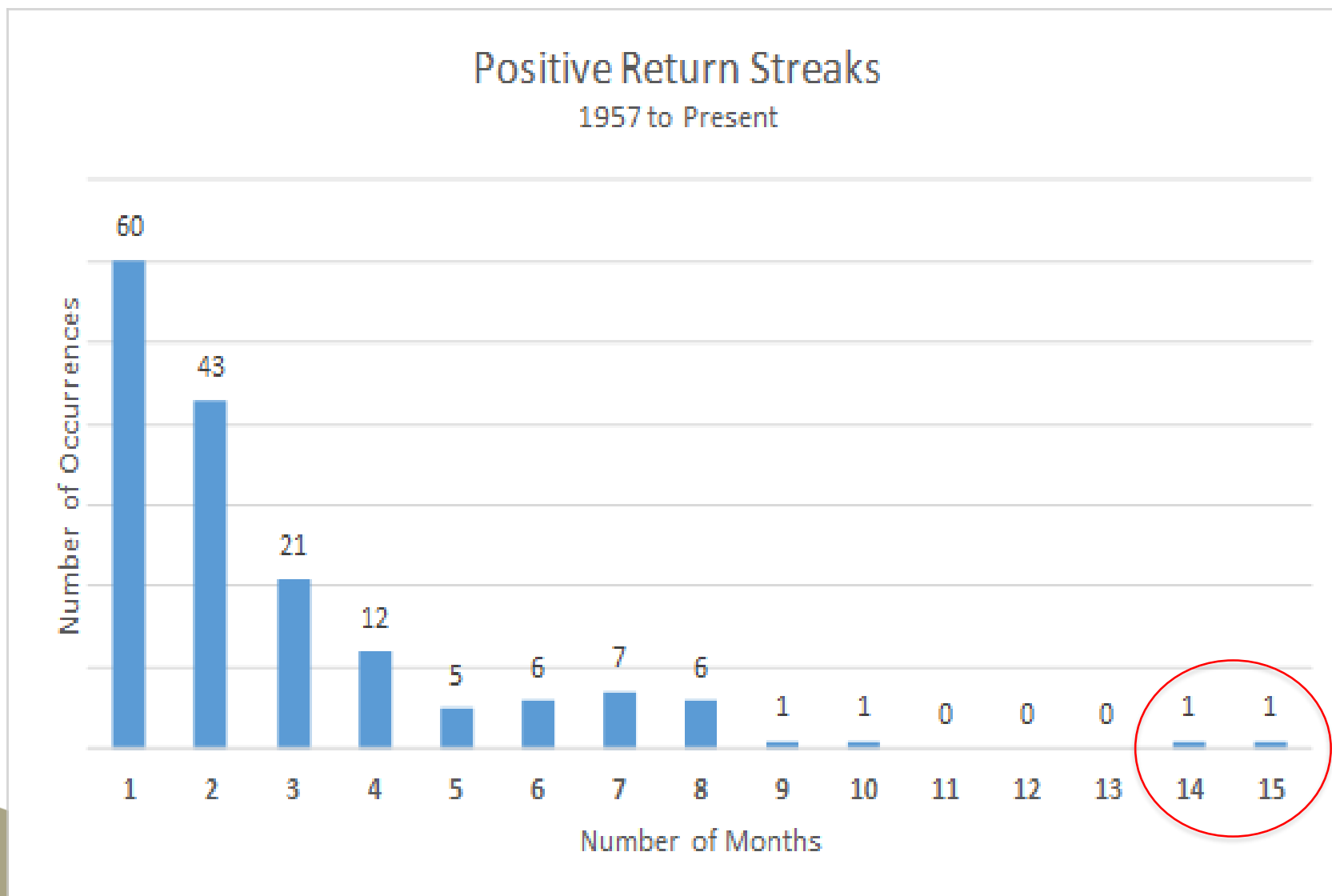
2017 Review

Market performance

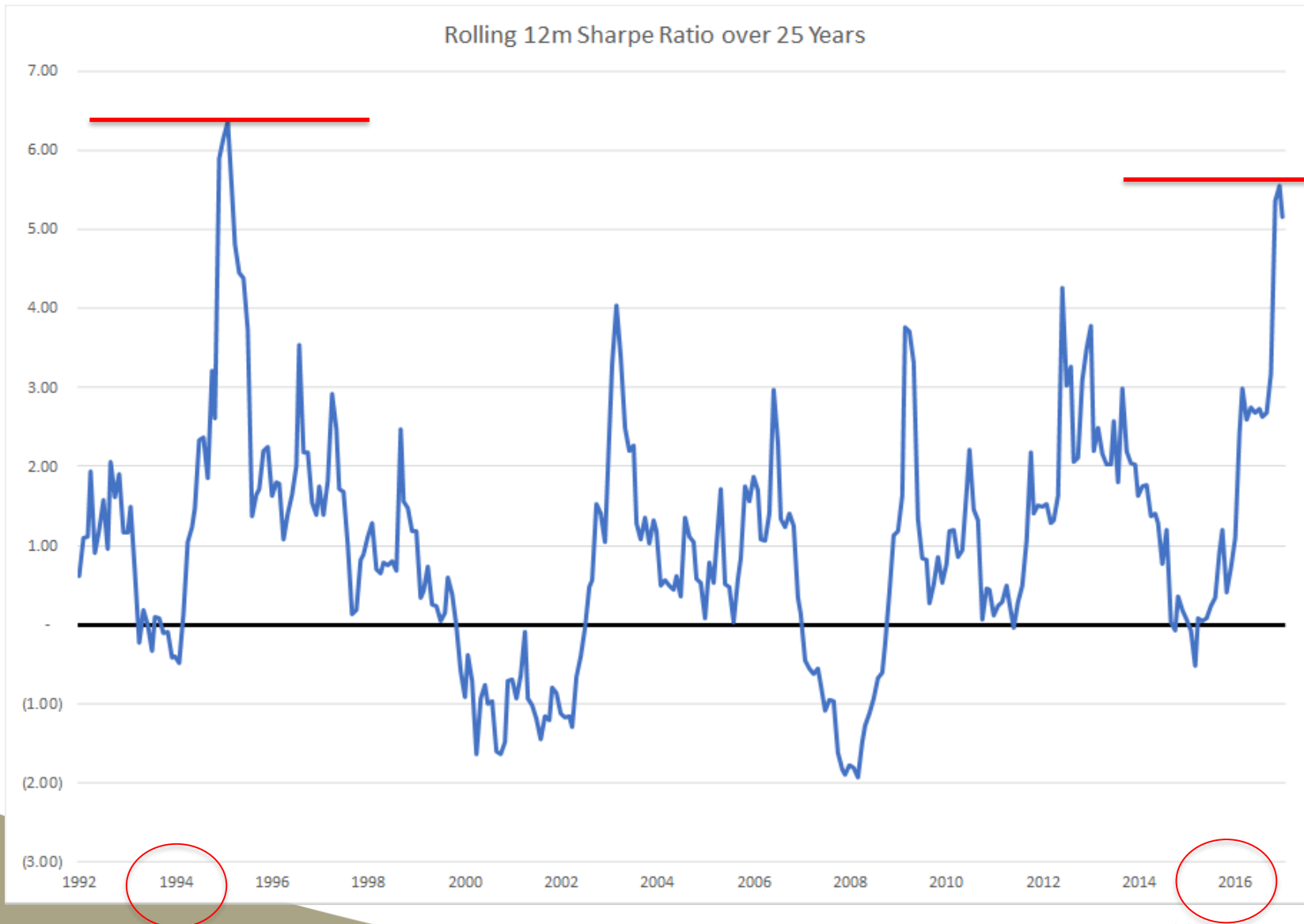
Source: FactSet

		2017	2016	Benchmark
<i>Stocks</i>	United States	21.8%	12.0%	S&P 500
	Intl Developed	25.6%	1.5%	MSCI EAFE
	Emerging Markets	37.8%	11.6%	MSCI Emerging Markets
<i>Bonds</i>	US Investment Grade	3.5%	2.6%	Barclays US Aggregate
	Intl Investment Grade	10.5%	1.5%	Barclays Global Aggregate xUSD
	Global High Yield	10.4%	14.3%	Barclays Global High Yield
	Emerging Markets \$	8.2%	9.9%	Barclays Emerging Markets USD Aggregate
<i>Other</i>	Commodities	1.7%	11.8%	Bloomberg Commodity
	Gold	13.2%	8.5%	Gold New York Spot (\$/oz)
	Oil	12.3%	44.8%	Crude Oil WTI / Global Spot NYMEX

Long Winning Streak

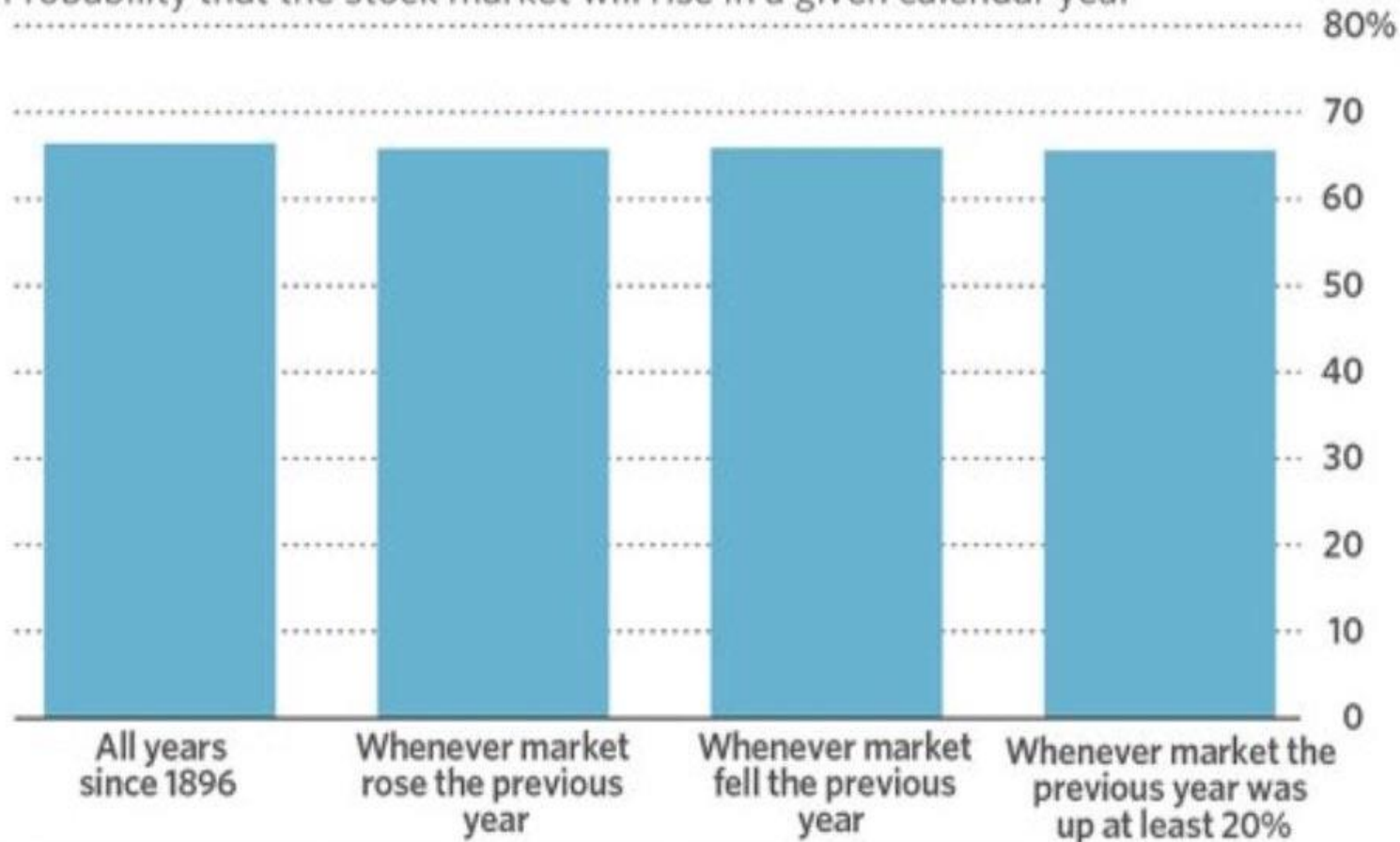


Sharpe Ratio



Past is not prologue

Probability that the stock market will rise in a given calendar year



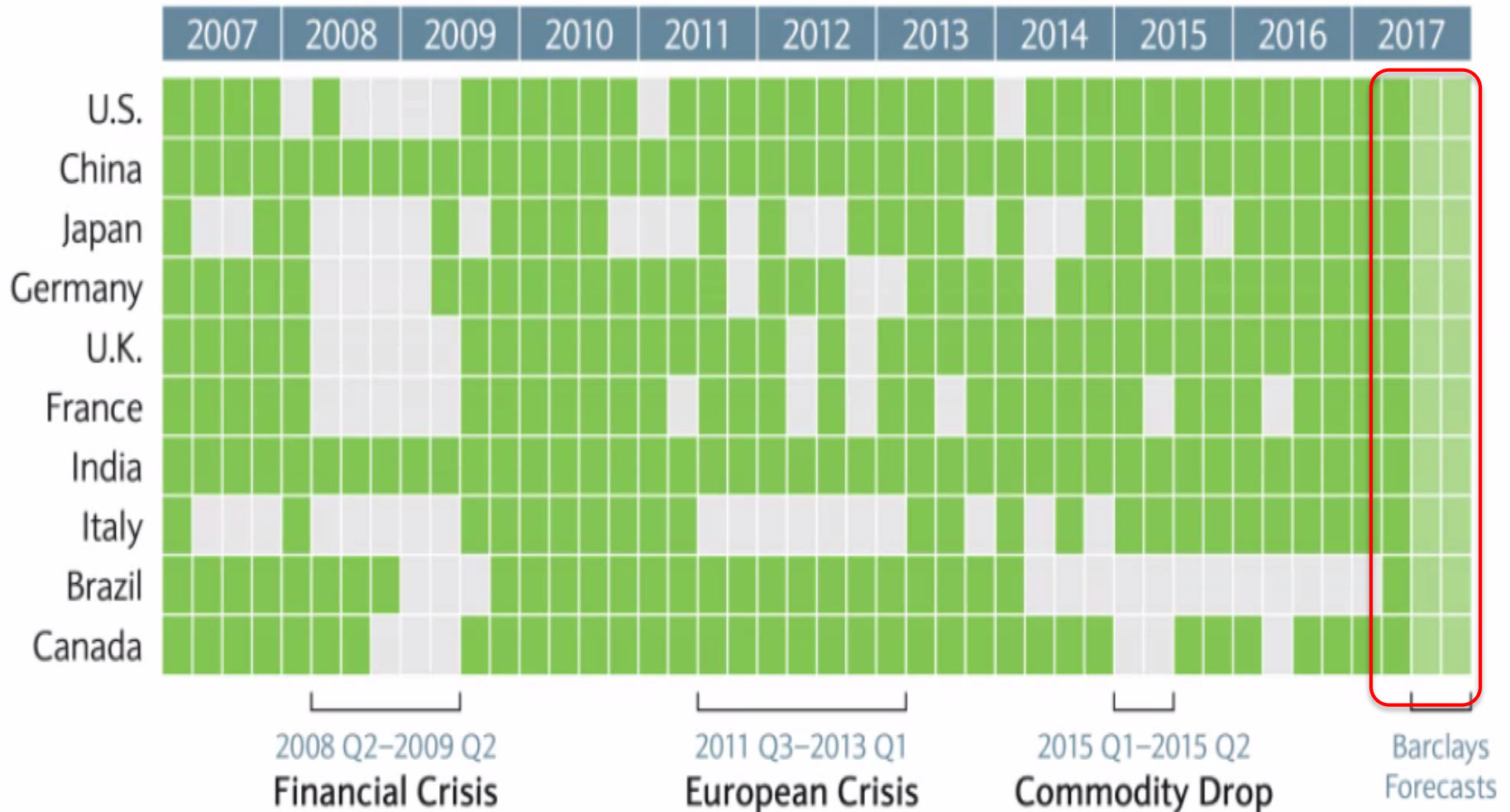
Data: Reflects Dow Industrials' calendar-year performance since 1897

Source: www.HulbertRatings.com

Economy

Global Economic Growth

Green means positive q/q growth

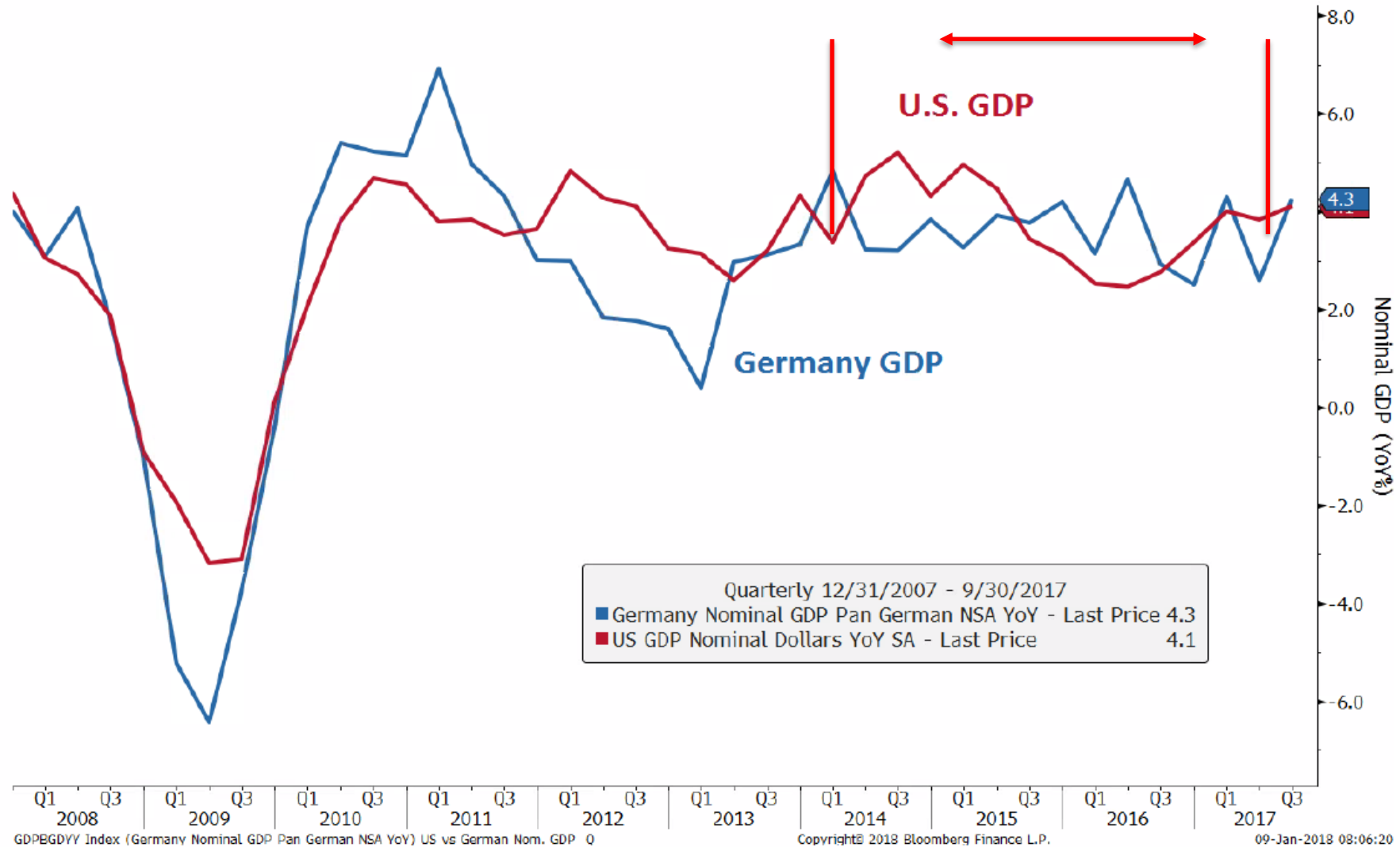


Low Recession Risks

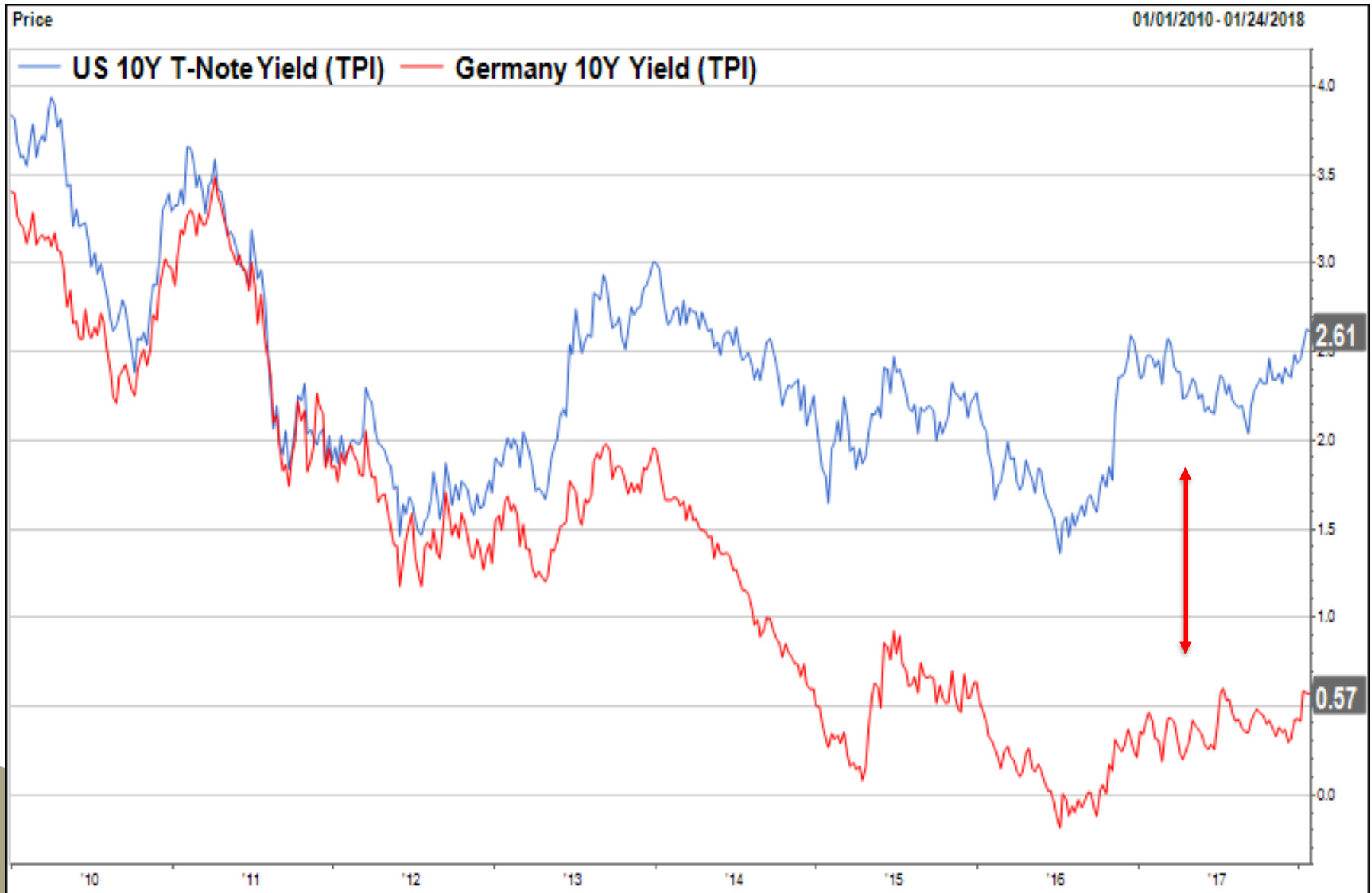
Recession Probabilities									
	1Q		4Q		8Q		12Q		
	Current	Average	Current	Average	Current	Average	Current	Average	
US	<2.5	14	5	22	19	31	34	40	
Japan	4	30	21	44	38	56	52	66	
Euro Area*	<2.5	28	<2.5	36	7	45	12	52	
Germany	<2.5	24	<2.5	33	4	44	12	55	
France	<2.5	24	9	34	21	49	32	60	
Italy	<2.5	28	<2.5	36	7	45	12	52	
Spain	<2.5	32	<2.5	38	5	44	10	51	
UK	4	19	12	24	23	30	32	37	
Sweden	<2.5	20	4	25	15	31	26	38	
Norway	<2.5	13	16	31	28	45	37	55	
Switzerland	10	28	23	38	33	51	41	61	
Canada	5	14	17	21	30	28	40	35	
Australia	<2.5	7	7	11	12	17	15	22	
New Zealand	7	28	20	40	32	51	42	60	
Developed Markets*	<2.5	11	<2.5	20	12	29	27	36	

*We define DM and Euro Area recessions as when 50% or more of the constituent countries (PPP weighted) are in recession.

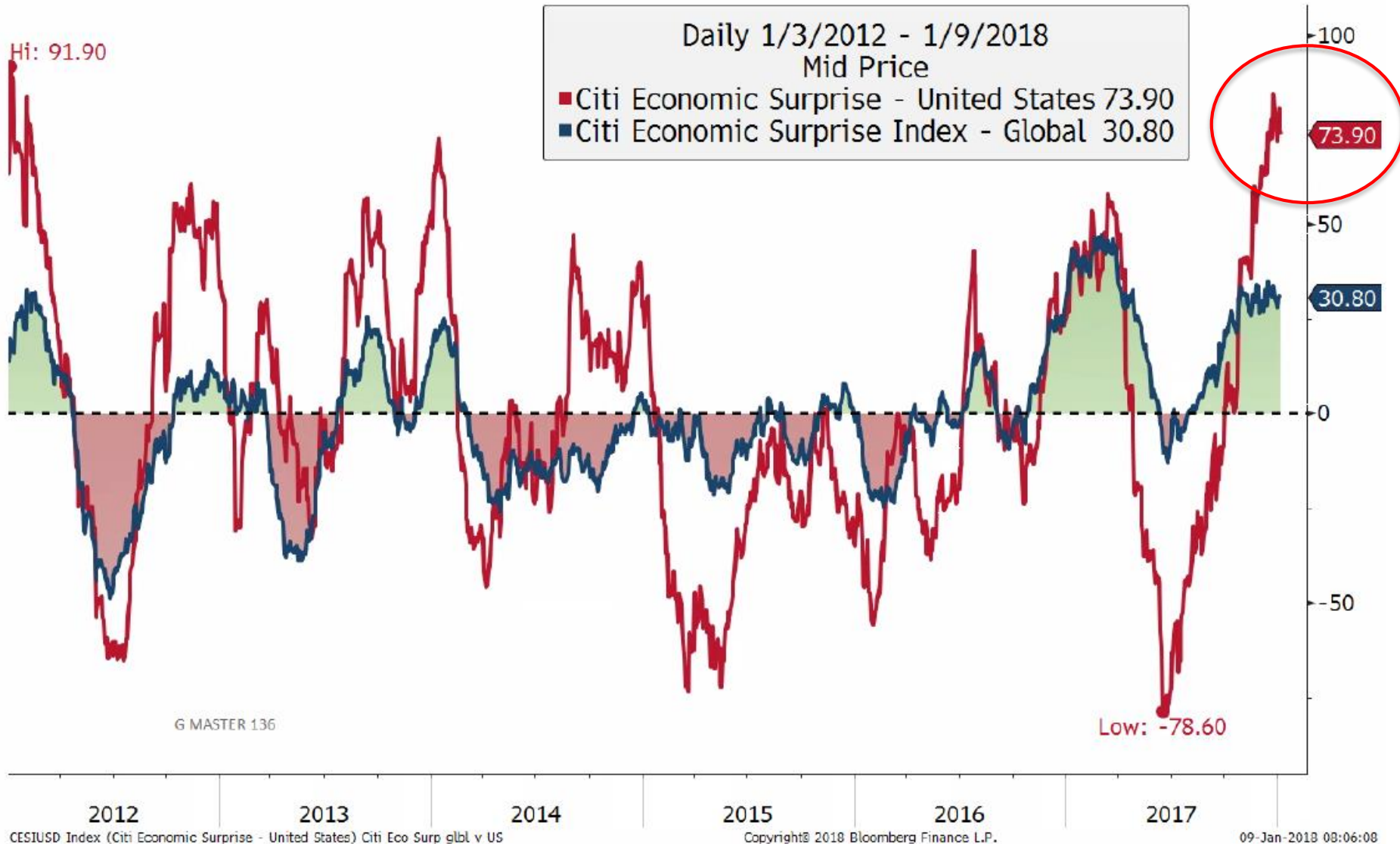
Coming train wreck



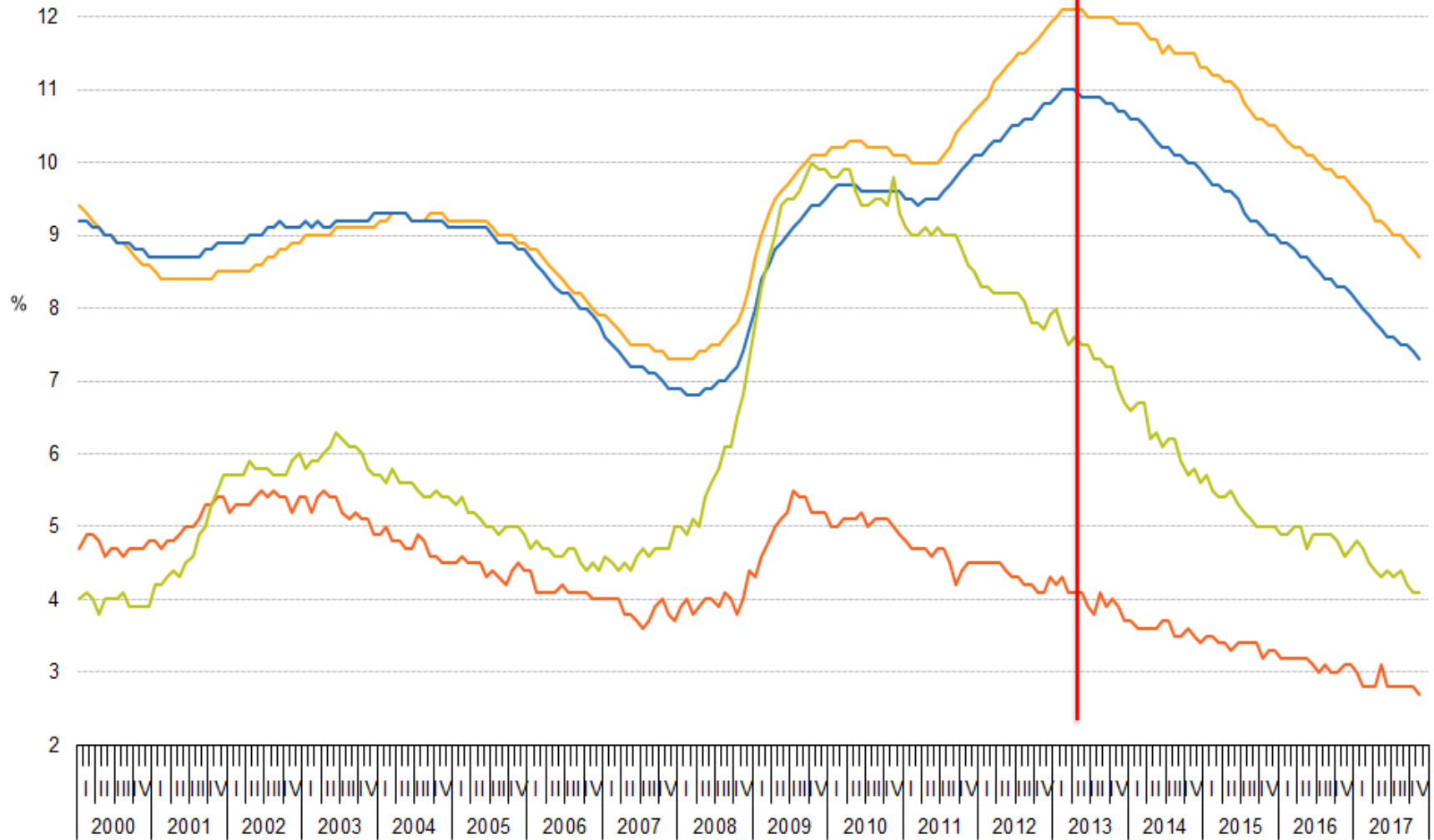
Coming train wreck



Economy Surprising to Upside



Unemployment



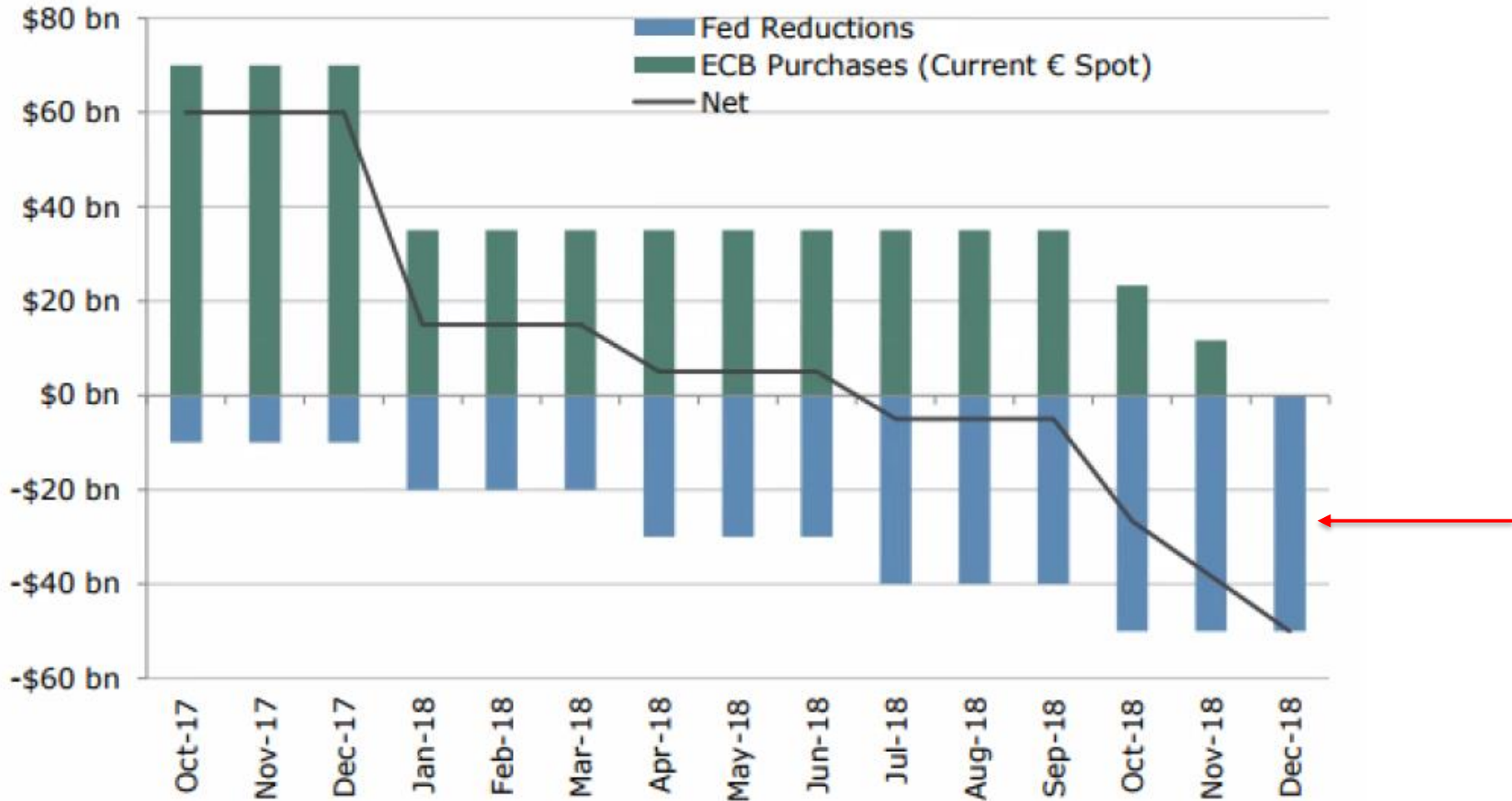
Source: EuroStat

EA-19 EU-28 Japan US

Rates / Inflation / Fed

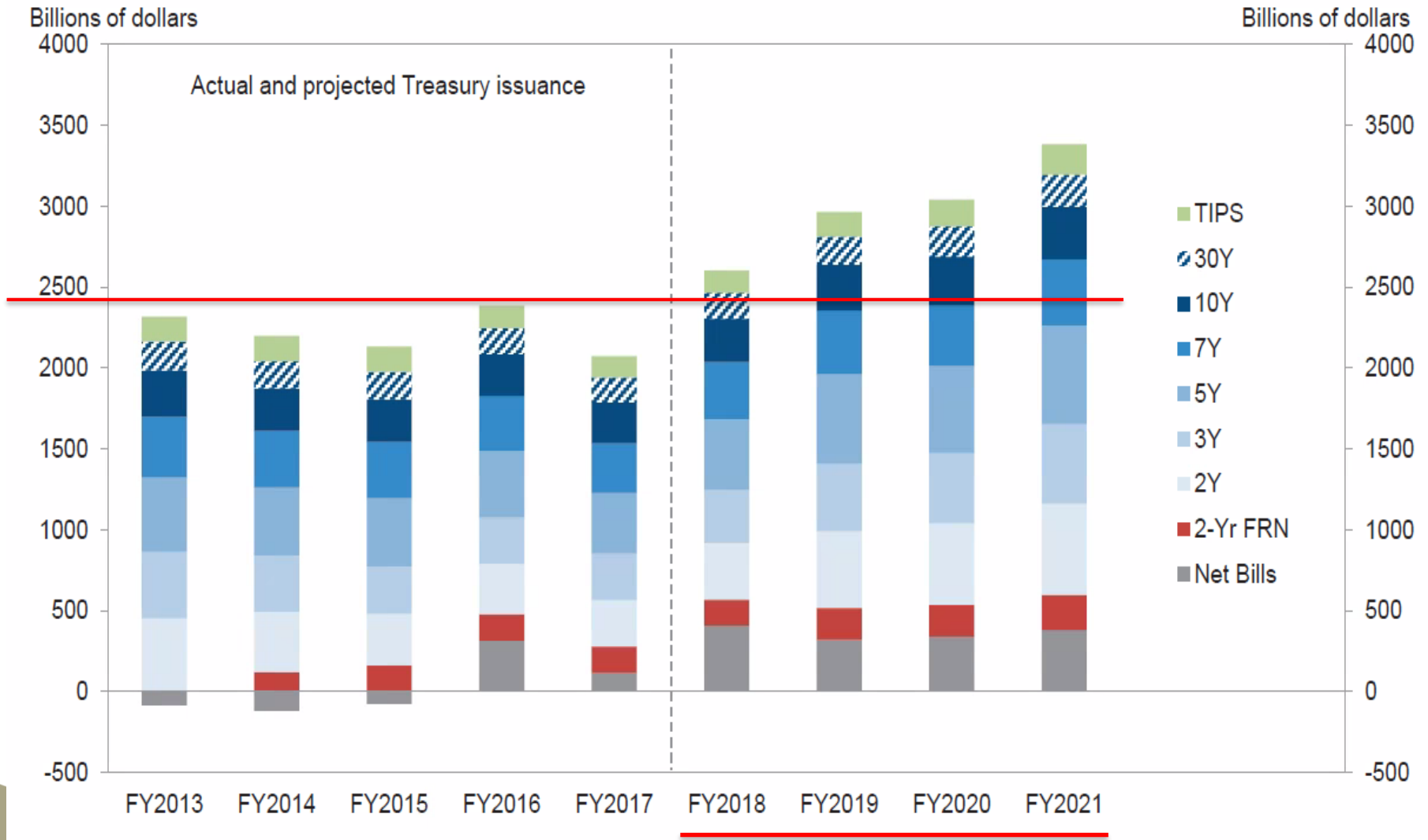
Central Bank Tailwinds Fading

Fed + ECB Net Purchases Turns Negative in H2

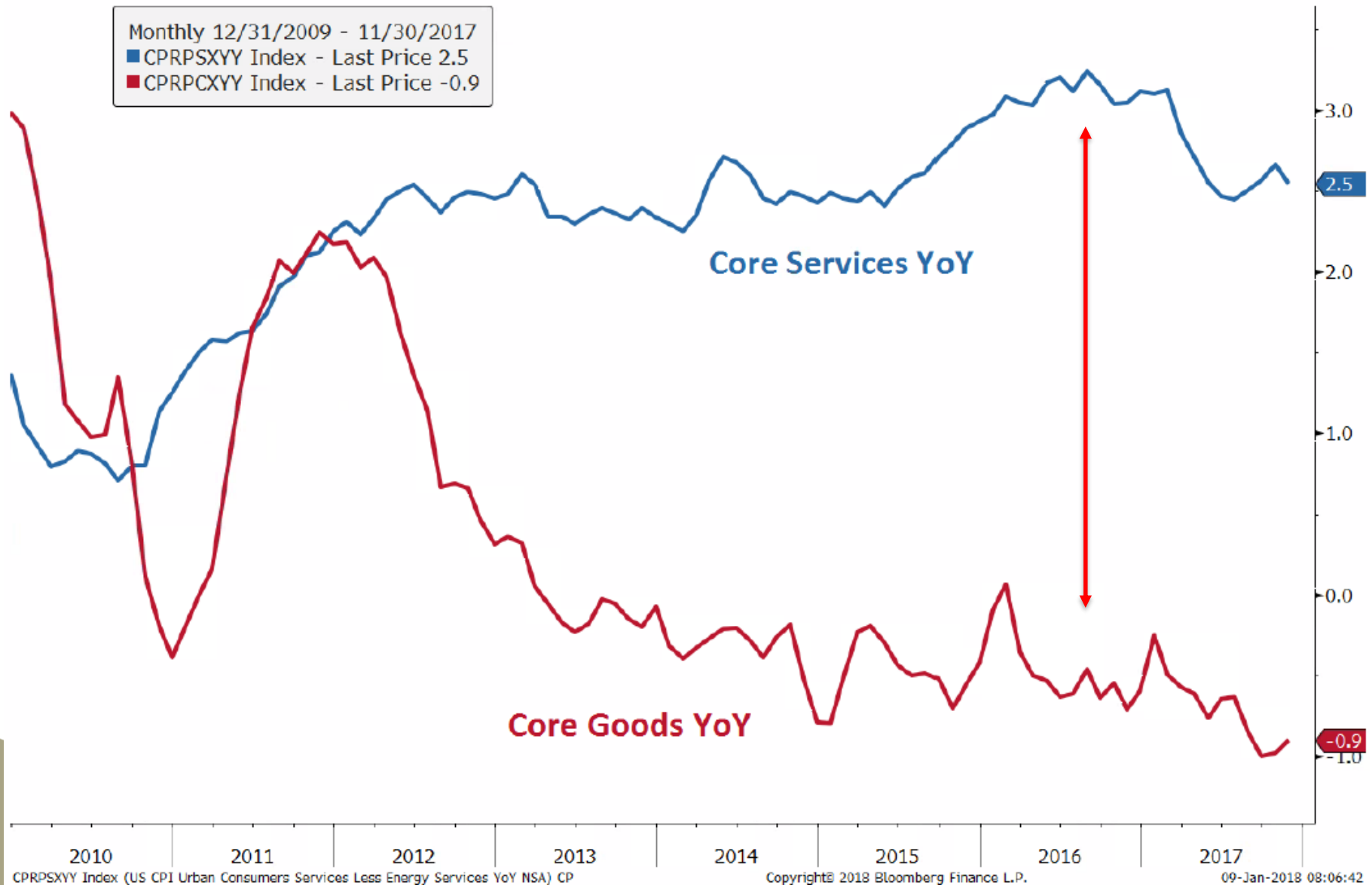


Source: Wells Fargo Securities, Bloomberg L.P.

Treasury Issuance

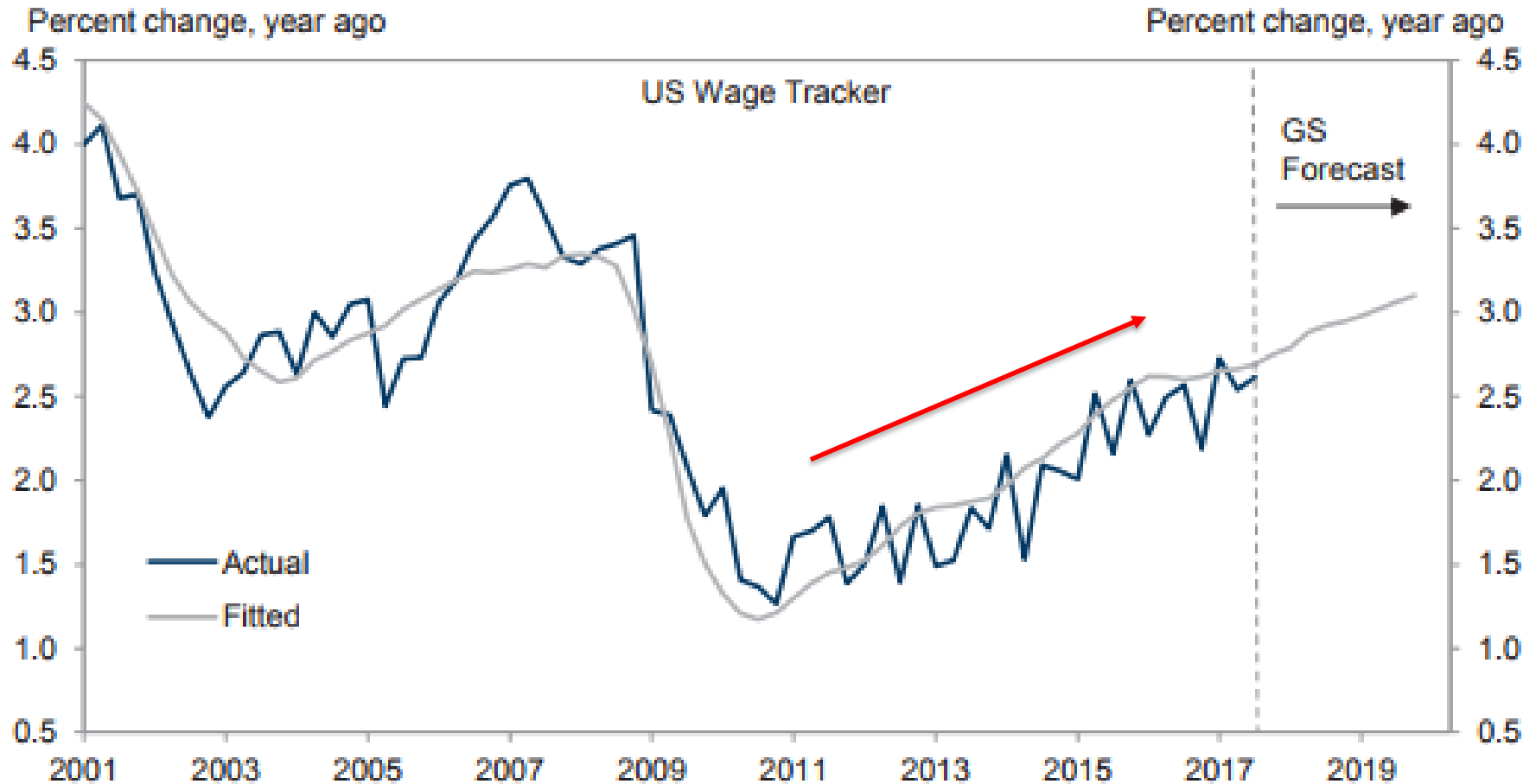


Inflation Divergence



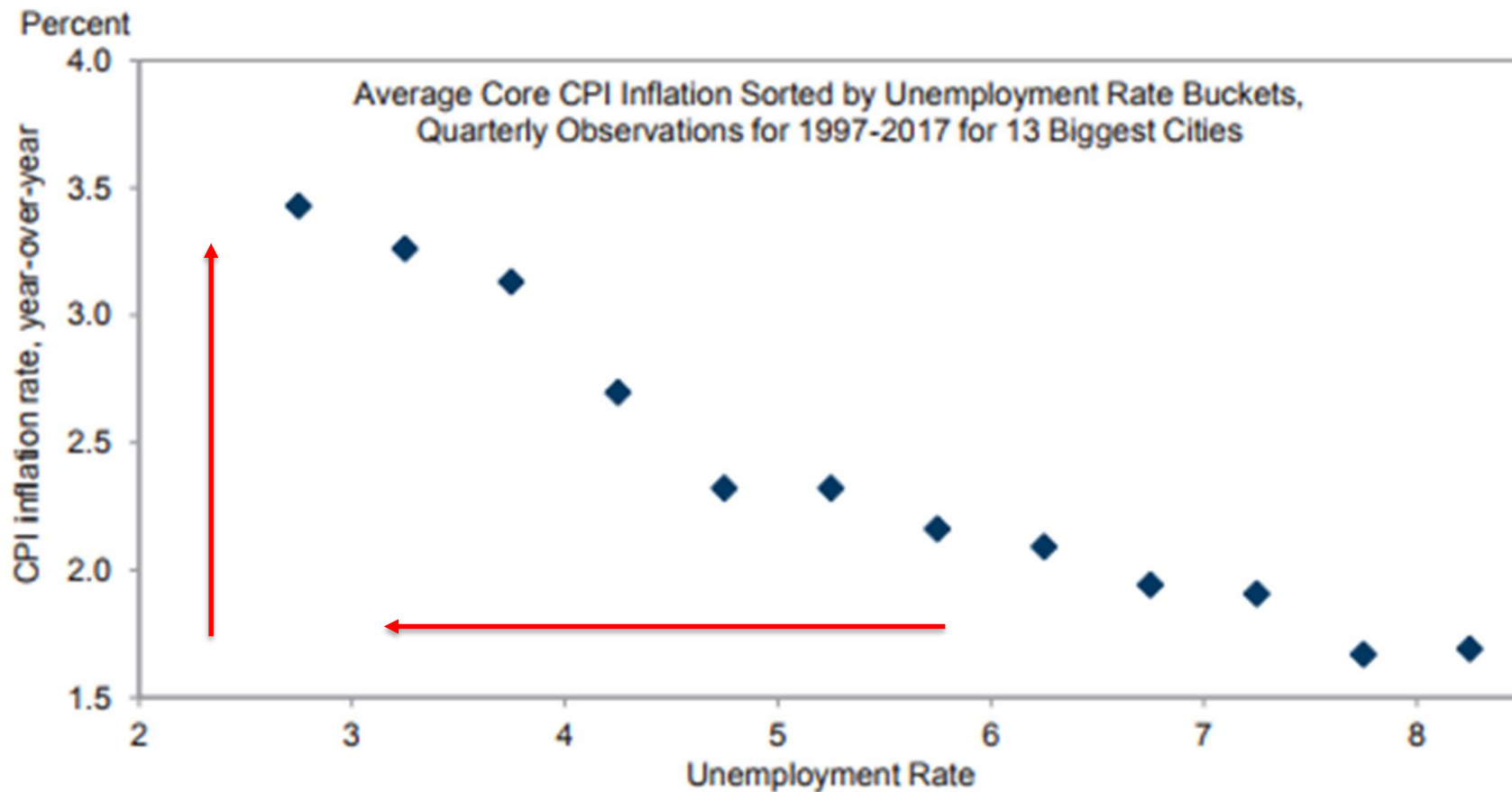
US Wage Inflation

Exhibit 6: Wage Growth Acceleration Should Resume



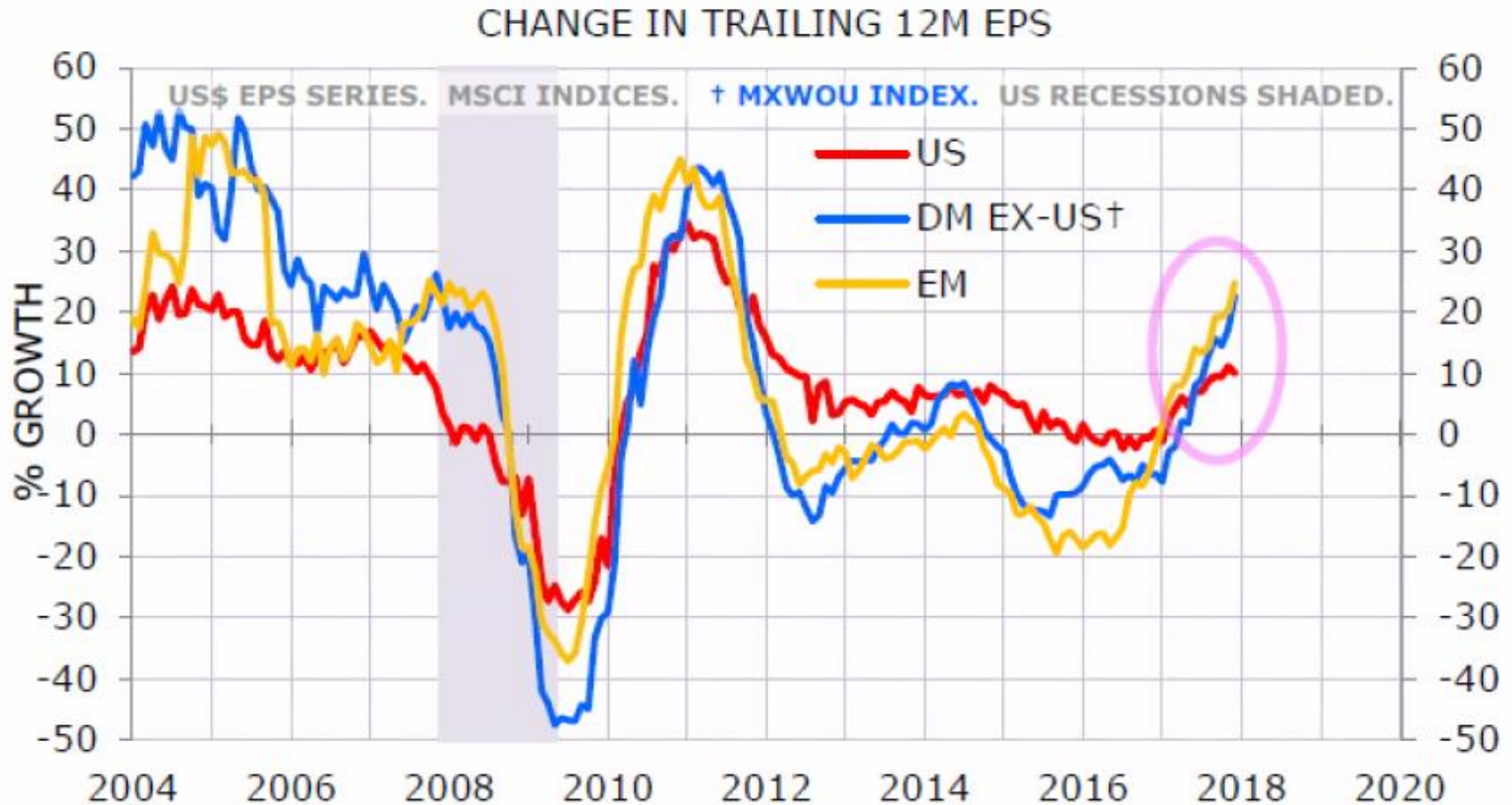
US Wage Inflation

Exhibit 7: Price Phillips Curve May Steepen



Earnings

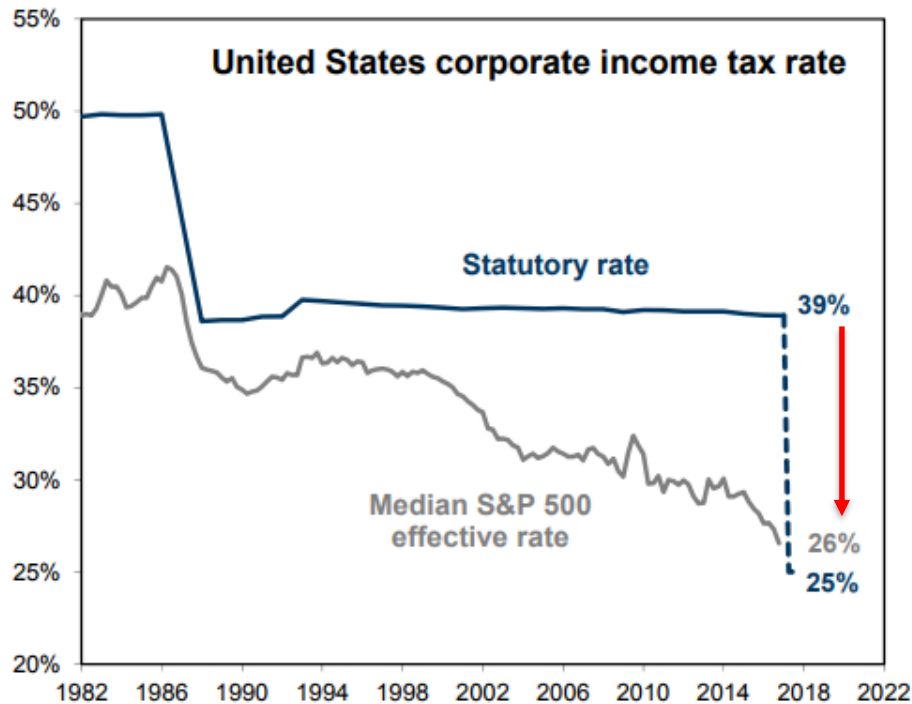
US EPS Now Lagging Rest Of The World



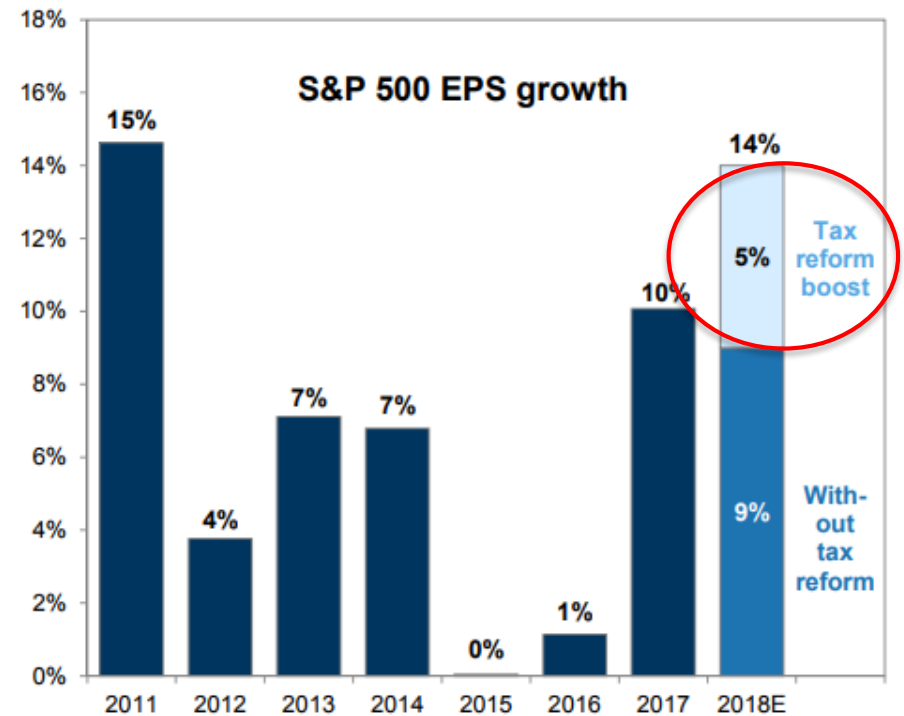
Source: IBES/DataStream, MSCI, NBER; Minack Advisors

Tax Reform is big deal

US corporate statutory vs. effective rate

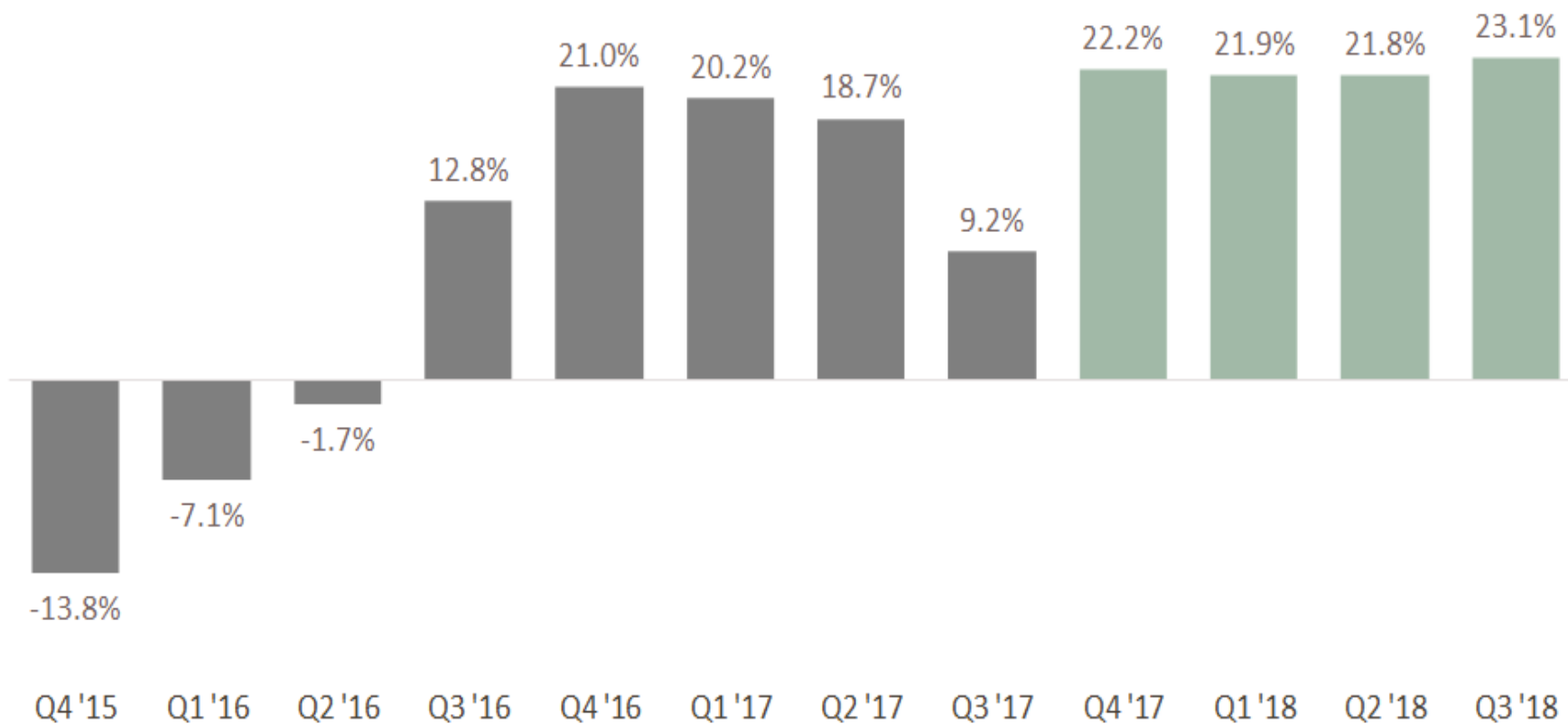


Tax reform will help EPS grow by 14% in 2018



Corporate earnings: high expectations

Year-over-Year Change in Operating EPS S&P 500



■ Actual YoY Change in EPS

■ Projected YoY Change in EPS

Earnings Optimism

S&P 500 profit estimates rising faster than ever

■ 2018 on 3/9/17 ■ 2017 on 3/4/16 ■ 2016 on 3/13/15 ■ 2015 on 3/4/16 ■ 2014 on 3/13/15

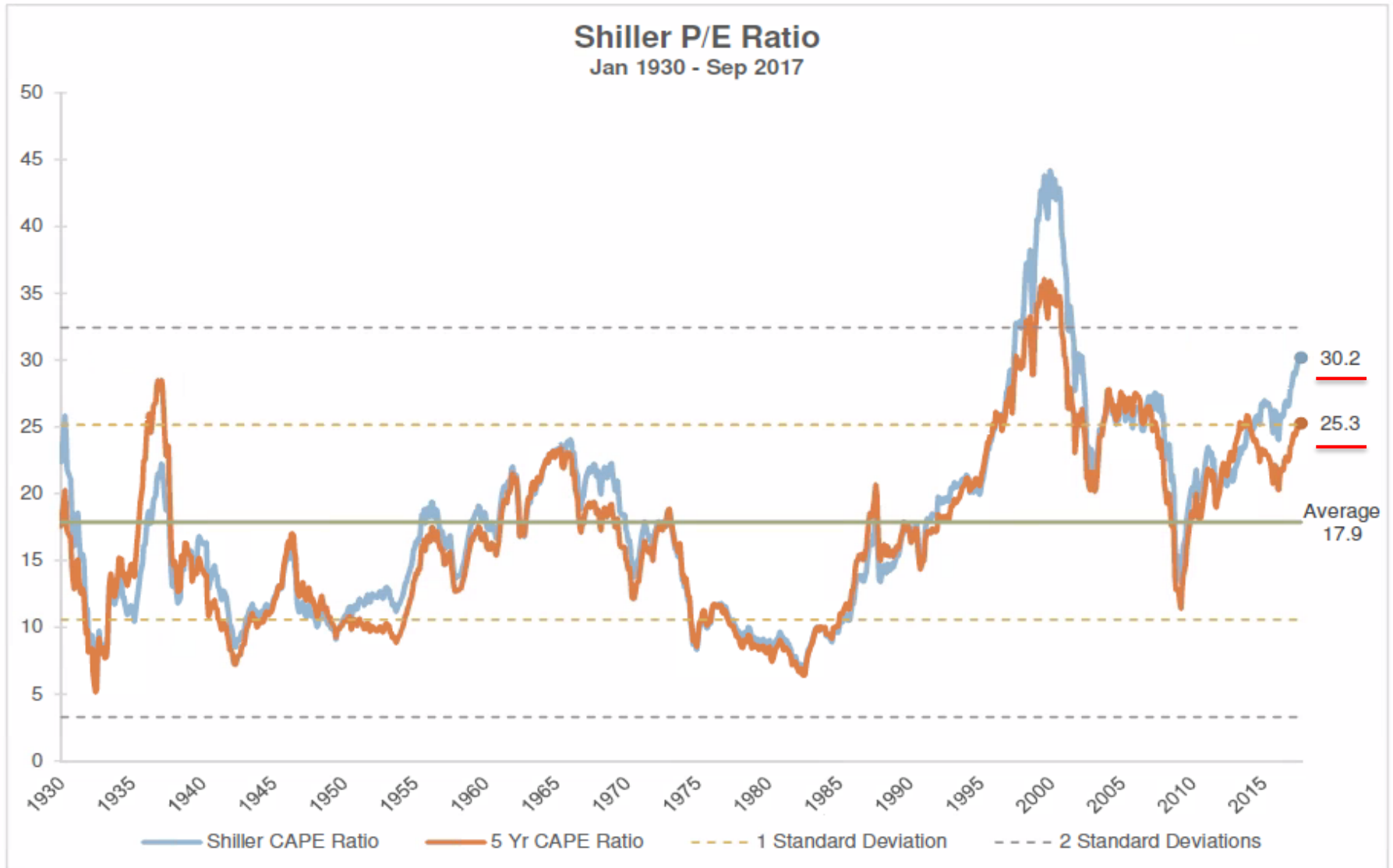


Source: Bloomberg

Bloomberg

Market Outlook

Valuation

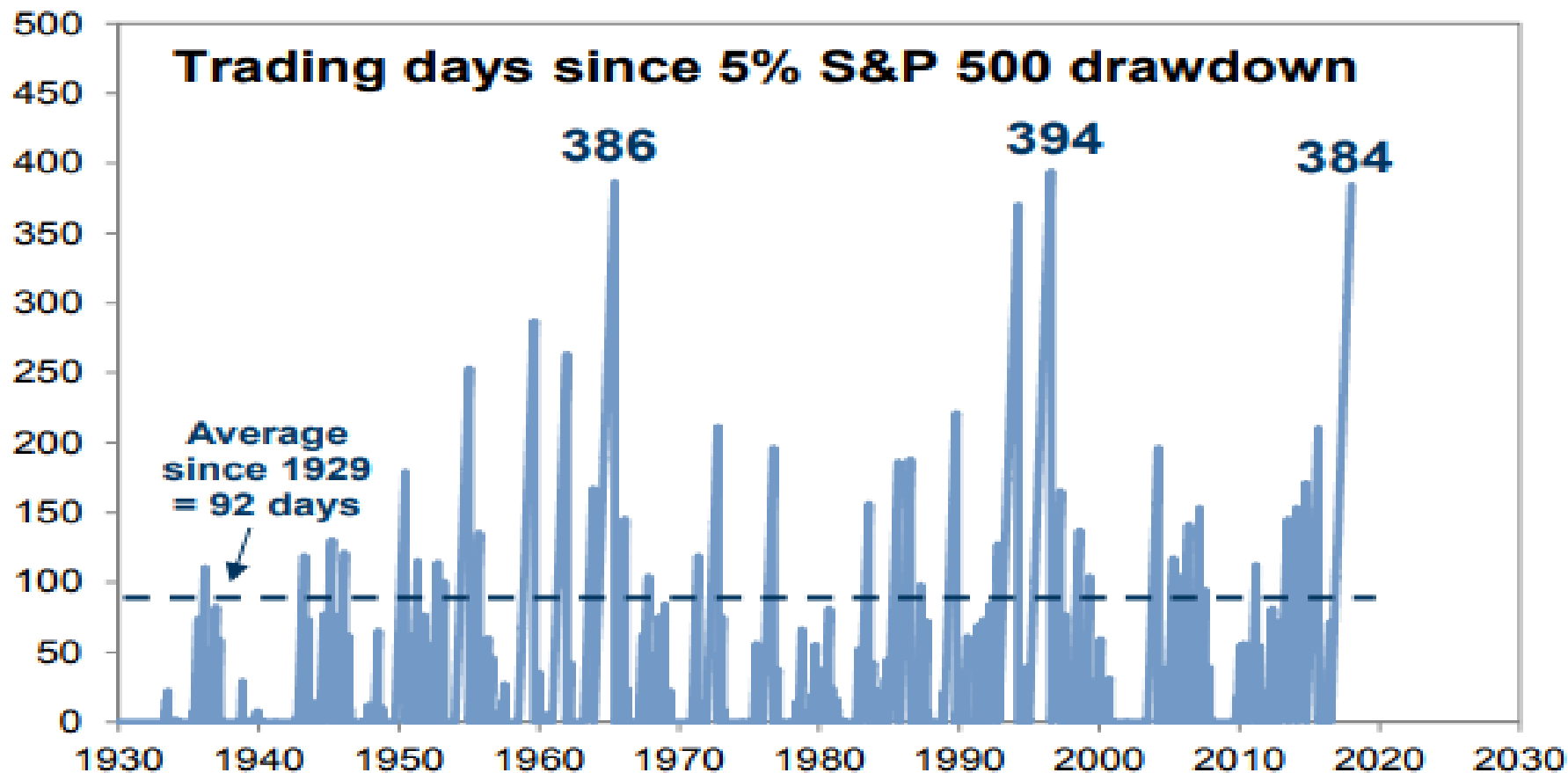


CAPE: Cyclically adjusted P/E. Calculated by dividing price by trailing 10-year average earnings.

Source: Robert Shiller - <http://aida.wss.yale.edu/~shiller/data.htm>

Rally is stretched

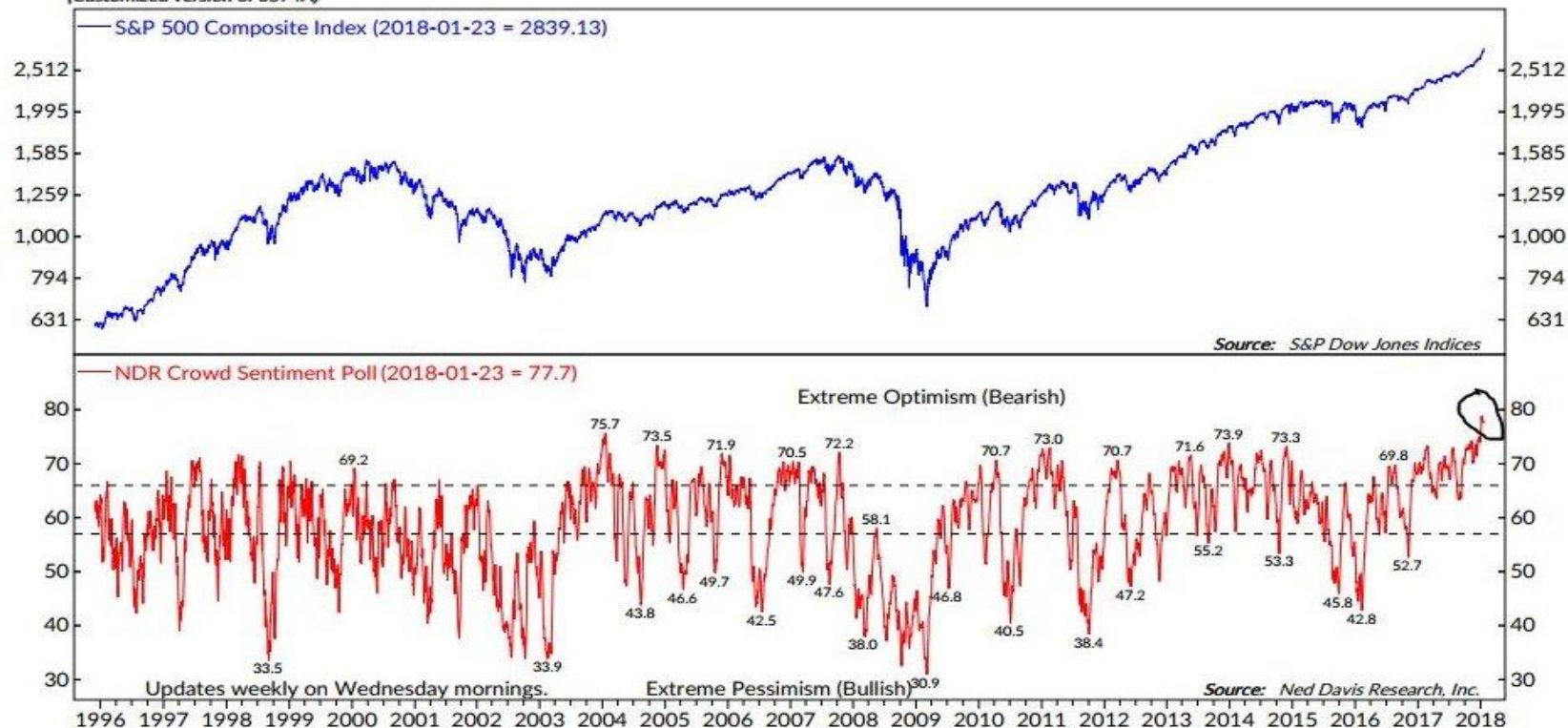
S&P 500 overdue for a pullback based on history



Most Bullish in 20 years

S&P 500 Index vs. NDR Crowd Sentiment Poll - Transitional Mode Basis
(Customized version of 5574A)

Daily Data 1995-12-01 to 2018-01-23

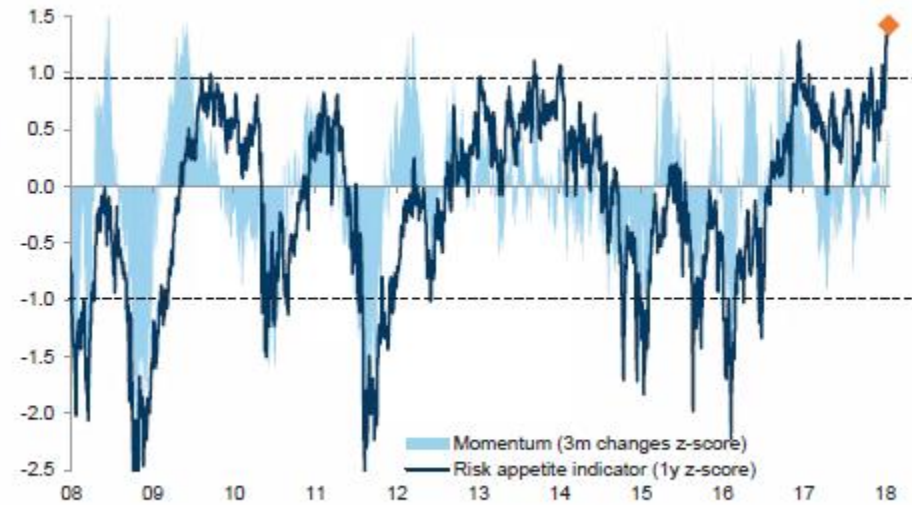


S&P 500 Index Performance		
Full History: 1995-12-01 to 2018-01-23		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	-2.31	24.60
57.0 - 66.0 From Above	1.66	17.83
57.0 - 66.0 From Below	21.08	18.85
Below 57.0	10.16	38.22
Buy/Hold = 7.21% Gain/Annum		

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High risk appetites

Exhibit 17: Risk appetite indicator level and momentum factors
See July 2016 GOAL for construction details



Source: Goldman Sachs Global Investment Research

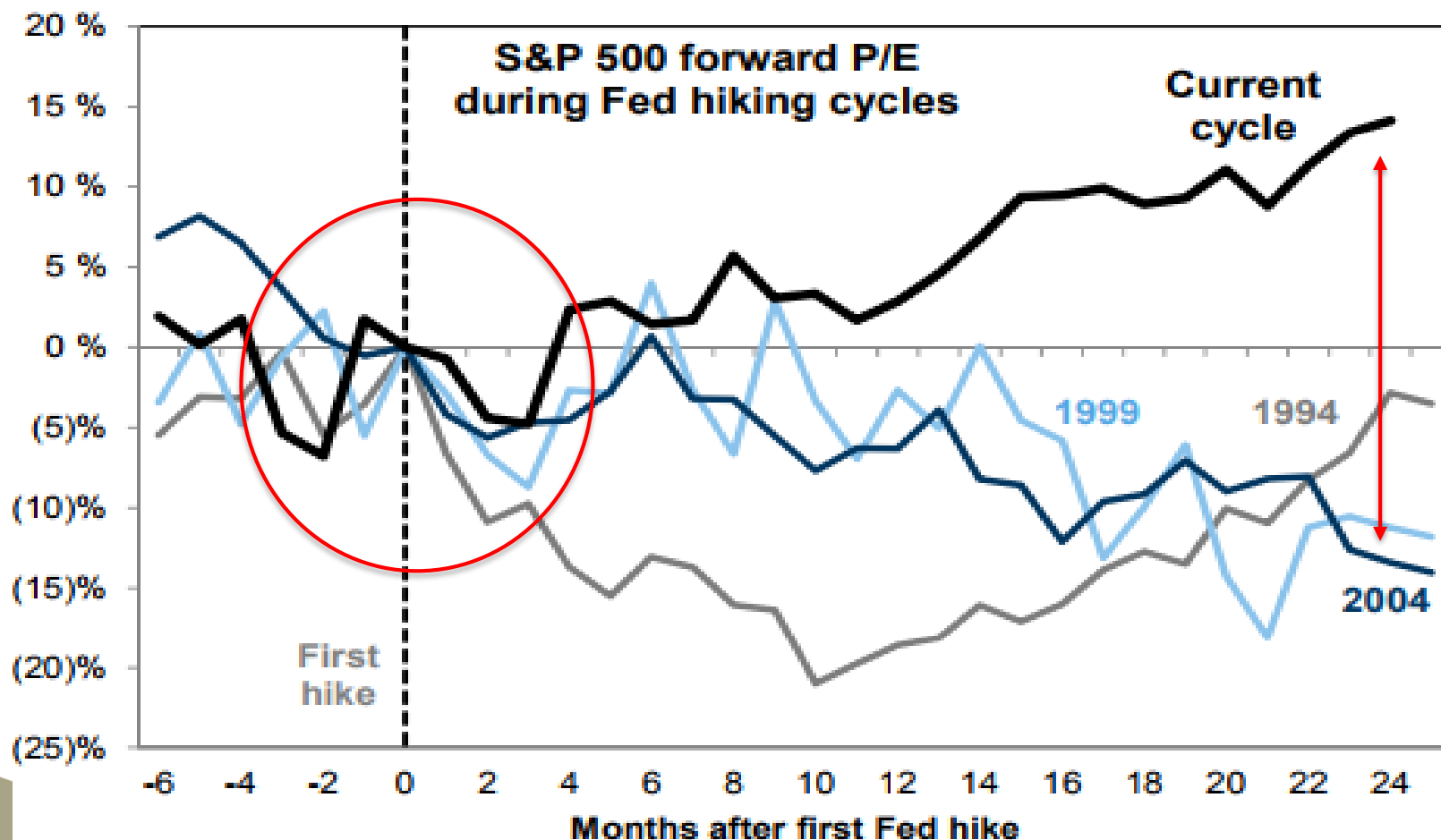
Chart 2: BofAML Bull & Bear Indicator (scale from 0 to 10)



Source: BofA Merrill Lynch Global Investment Strategy

Unusual PE Response to Hikes

P/E multiple has increased by 14% since first hike in Dec 2015



Valuations

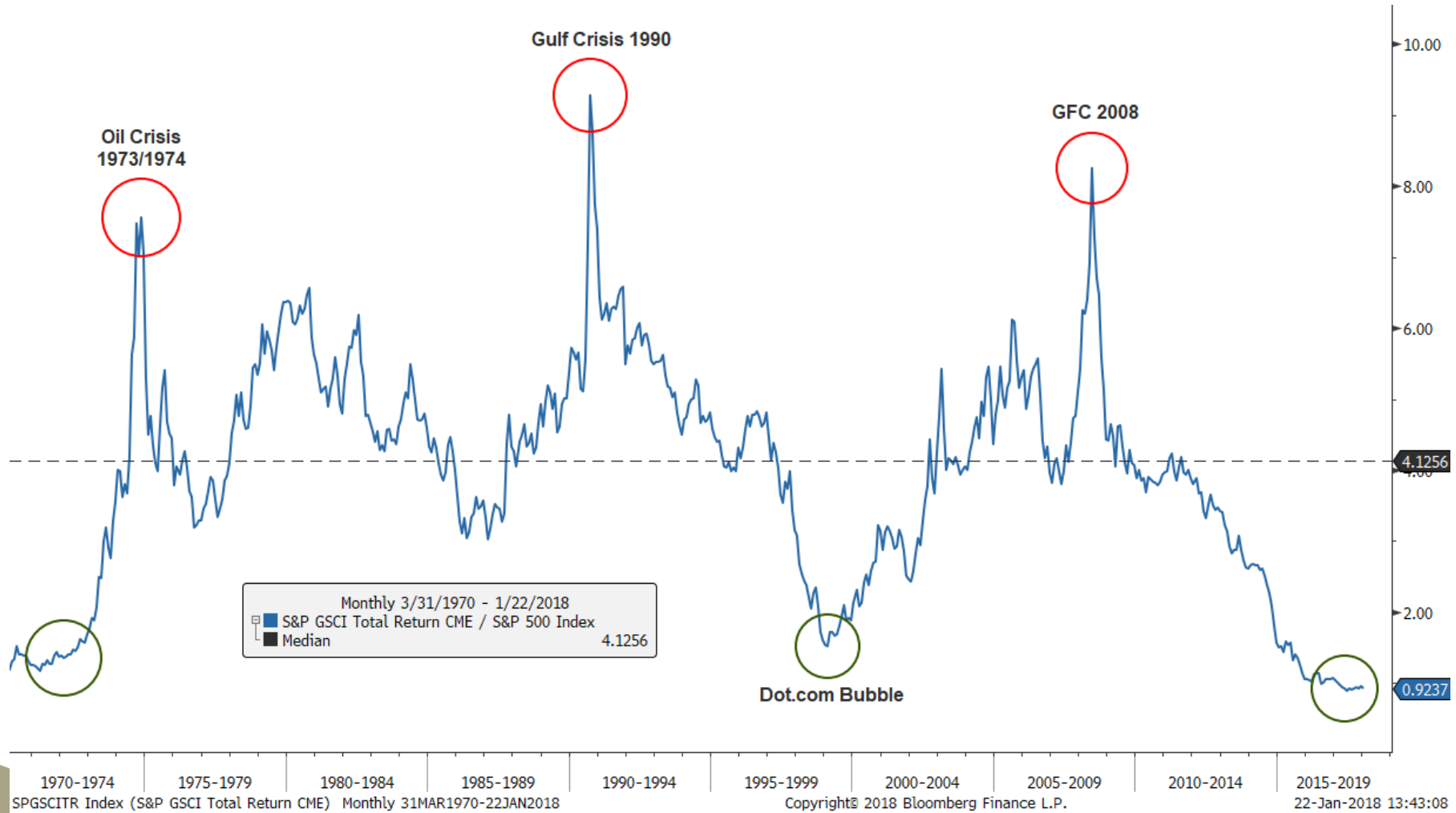
Emerging market stocks are 30% - 40% cheaper than US stocks

Valuation Metrics	Trailing 12M P/E	Forward 1Y P/E	Forward 2Y P/E	Price/Book Value	EV/Sales	EV/EBITDA
MSCI World Index	22.46	17.35	15.88	2.58	2.19	12.64
MSCI USA Index	23.81	18.83	17.02	3.47	2.73	14.30
MSCI EAFE Index	20.85	15.55	14.47	1.86	1.67	10.54
MSCI EM Index	16.95	13.34	11.97	1.92	1.97	10.34

Source: Bloomberg

Data as of 1/22/2018

Commodities vs. Equities

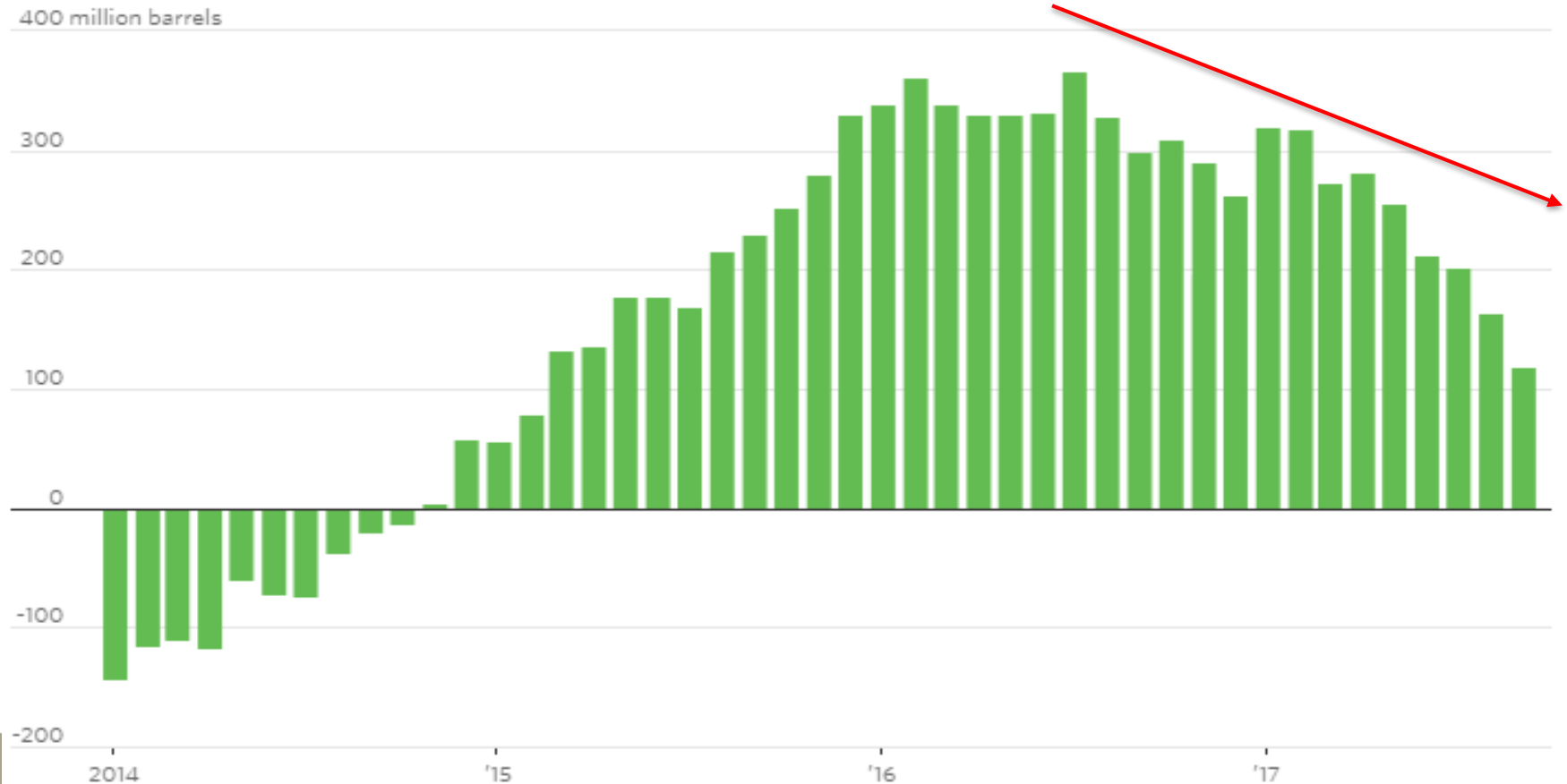


Oil Inventory

Rebalancing

After three years of market oversupply, oil stocks around the world have begun to normalize.

Total oil inventories in OECD countries compared with their five-year averages*



*Negative: below average, positive: above average

Source: International Energy Agency

- Synchronized global expansion = risk on
- Concern: Unexpected inflation pick = more aggressive central banks
- Valuations are high but earnings growth is excellent
- Sentiment indicators suggest correction in markets
- Most fixed income unattractive – select opportunities in illiquid fixed income
- Equities: Like EM best, non-US developed next and then US equities
- Commodities have been bad for so long may be turning

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*Thank you!
The 6 Meridian Team*