# SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

## ECONOMIC AND MARKET UPDATE - JUNE 2019 (as of 6/27/19)

## SFMG MARKET RISK SIGNAL—STOCK ALLOCATION

Under Weight | Slightly Under Weight | Equal Weight | **Slightly Over Weight** | Over Weight

## CURRENT ASSET CLASS ALLOCATIONS

The U.S. stock markets remain in a long-term uptrend. We have maintained our stock exposure and are **Slightly Over Weight** to stocks. The allocation mix of bonds vs. stocks depends on our risk signals that shift our weightings accordingly.

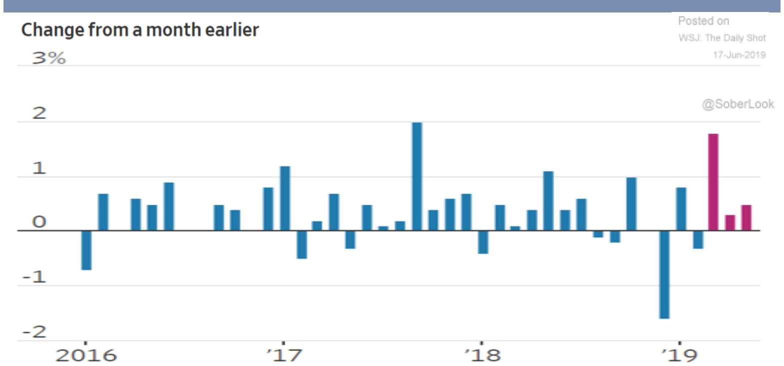
## ECONOMIC NEWS

- The Federal Reserve cited rising uncertainties in regard to the U.S. economy and that it would act appropriately to sustain the economic expansion, meaning interest rates could be lowered. A key factor in their case for lowering rates has been the ongoing lack of inflation pressures.
- The Small Business Optimism Index in the U.S. rebounded in May to near-record levels. The measure was driven by a positive outlook for capital spending, hiring, and profit trends.
- Durable good orders, which show demand for 'bigger ticket' longer lasting items have been declining. However, the headline number has been weighed down primarily by the volatile transportation component, specifically civilian aircraft, which includes the negative impact from issues at Boeing.

## MARKET NEWS

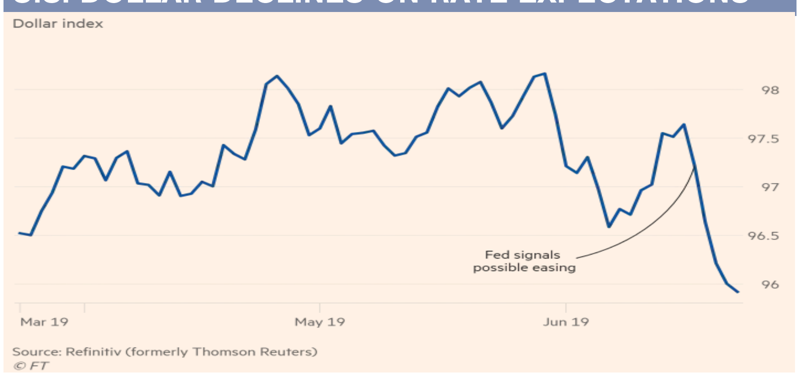
- S&P 500 rallied strongly in June, reaching a record high on 6/20/19. The move has been propelled primarily by increased expectations that the Federal Reserve will cut interest rates in July and optimism for at least a trade 'truce' between the U.S. and China at the upcoming G-20 summit meeting.
- The Russell 2000, an index of smaller company stocks and a proxy for investor risk appetite, has lagged significantly vs the performance of larger company stocks. Despite the broader market's rally, Russell 2000 weakness is a sign of caution.
- Gold prices peaked in 2011 and have since struggled to regain that ground. However, gold is viewed as a safe-haven, similar to bonds, & although it doesn't generate interest income, falling bond yields are making it relatively more valuable for investors.

## RETAIL SALES REBOUND CONTINUES




U.S. retail sales numbers in May strongly exceeded expectations, rising 0.7% vs. 0.5% expected compared to the previous month. May marks the 3rd month in a row of improving retail sales. The strength in consumer spending bodes well for economic growth, as it accounts for approximately 68% of overall U.S. Gross Domestic Product (GDP).

## U.S. DOLLAR DECLINES ON RATE EXPECTATIONS




As the Federal Reserve's outlook on the economy becomes more uncertain, they have opened the door for potentially lowering interest rates. Markets have begun pricing rate cuts in, which has devalued the U.S. Dollar. The value of the Dollar is tied to treasury rates, so lower yields on treasuries make the Dollar less attractive.

## CURRENT THOUGHTS

It's been difficult to find consensus within the economy and markets recently. Certain areas of the U.S. economy continue to show meaningful strength such as consumer spending and the service sector, while other areas such as industrials and manufacturing have weakened significantly. Similarly, more economically sensitive areas of the stock market such as small cap stocks and transportation stocks, e.g. shipping and rail companies, have shown divergence from the major indexes near all-time highs. The impact of the trade war between the U.S. and China continues to negatively impact the outlook for the economy and is fueling these divergences. President Trump and Chinese President Xi are slated to meet yet again at the upcoming G-20 summit meeting. A positive resolution should lead to a rebound in the aforementioned areas of the market that have lagged and provide some confirmation behind the current bull market. The actions of the Federal Reserve also still stand to dictate the direction of the markets. In their most recent meeting, the central bank's tone has become more accommodative. The markets have cheered this and interpreted their statements to mean rate cuts are coming soon and a very high probability of a rate cut in July has been priced in. However, this is not a foregone conclusion, and the more certain investors' expectations are, the more downside risk there may be. Regardless, bond yields and the value of the U.S. Dollar have fallen as a result. If we can move past the Fed and trade war drama, focus will shift back to corporate earnings. As 2nd quarter earnings are released, company guidance for the rest of the year will be important. A weaker dollar, which helps companies with overseas revenues, along with a potentially improved picture for global trade, would likely provide some upbeat sentiment for the remainder of the year.

Contact one of our Wealth Management professionals today at **972.960.6460** or visit us online at **www.SFMG.com**