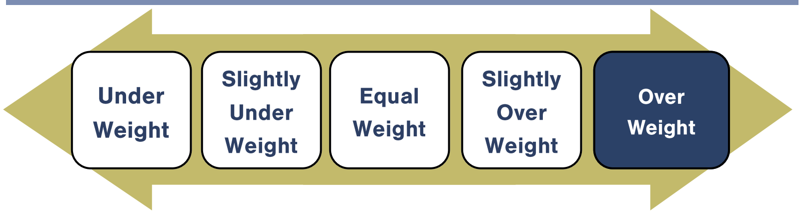
WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - SEPTEMBER 2018

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

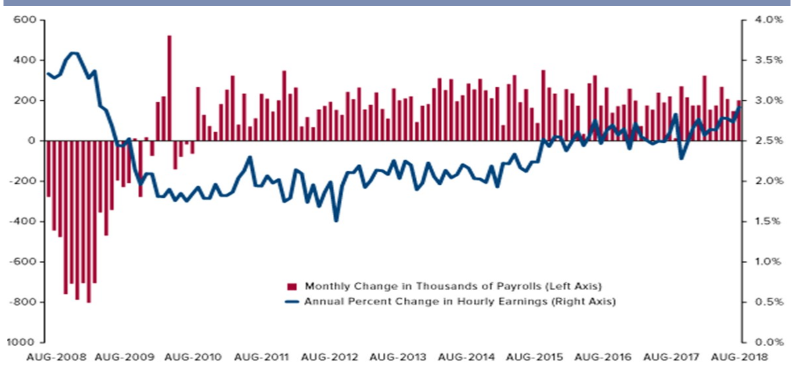
ECONOMIC NEWS

- Economic growth in Japan hit the fastest rate since 2016, at an annualized 3%, driven by an improving labor market and capital expenditures amid the US-China trade war.
- U.S. applied new tariffs on $200 billion in Chinese goods, but at a 10% rate, versus the expected 25%. This means however, that more than half of all goods coming from China have some sort of tariff applied.
- Canada & the U.S. are still wrestling on some issues for a revised North American Free Trade Agreement, after the U.S. made a deal with Mexico last month.

MARKET NEWS

- U.S. 10-year treasury rates have shifted higher, now around the 7-year high of 3.11%. Some stability in Emerging Markets and strong U.S. economic data have helped boost foreign and domestic yields.
- Oil prices jumped to the highest levels in four years after Saudi Arabia and Russia decided against further increases in production.
- European stocks saw mild gains in September after some upbeat comments on the economy from the European Central Bank.

WAGE INCREASES HIGHEST SINCE 2008 CRISIS



Source: Bureau of Labor Statistics, U.S. Global Investors

Wages in the U.S. rose by more than expected in August to 2.9% compared to a year earlier. This is the largest gain since the financial crisis. Higher wages have been a missing piece in the economy, however strong labor market conditions and business confidence may now begin to manifest themselves into more pay increases for workers.

MIDTERM ELECTION PERIOD RETURNS

Source: GSAM.

Looking back, markets are typically flat or negative leading up to midterms, while volatility rises surrounding outcome uncertainty. Historically, markets have rallied post-election, but the rally actually begins in October, before the election, as outcomes may become more certain. That said, there doesn't seem to be a statistical significance between these moves and which party wins.

CURRENT THOUGHTS

U.S. markets pressed higher in September, bringing the year-to-date return on the S&P 500 to 10.60% as we approach the end of the 3rd quarter. Leading Economic Indicators in the U.S. still point to a strong economy for the 2nd half of the year, continuing to provide a positive backdrop for U.S. companies. Economic growth in the U.S. has translated into higher earnings for U.S. companies. This has resulted in U.S. stocks being the best performing major asset class globally. Inflation in the U.S. has emerged, but the interest rate increases by the Federal Reserve should keep inflation from accelerating unexpectedly. Although investors and the Federal Reserve have been optimistic about the outlook for U.S. companies, analysts have been moderating their earnings guidance and estimates. This is because even with strong domestic growth, lackluster fundamentals of developed international and emerging economies will eventually take a bigger toll on U.S. companies. Weak foreign economies lead to weaker currencies and weaker demand for U.S. products and services. Trade deals continue to be made, the most recent being the free-trade agreement between the U.S. and South Korea. While trade with China remains the elephant in the room, the agreement with South Korea provides some hope that a resolution will be reached even though negotiations with China at the moment have broken down. Overall, no new major risks have presented themselves that point to a recession and the bull market can still run through year-end, historically a positive period for stocks during midterm election years.

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