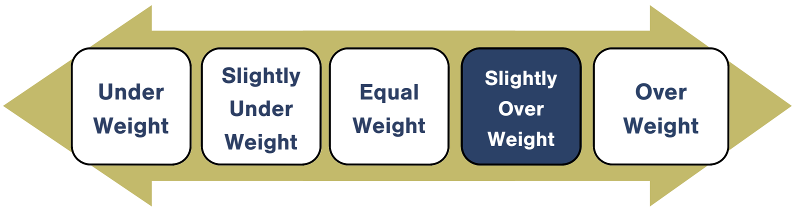
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - FEBRUARY 2017

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

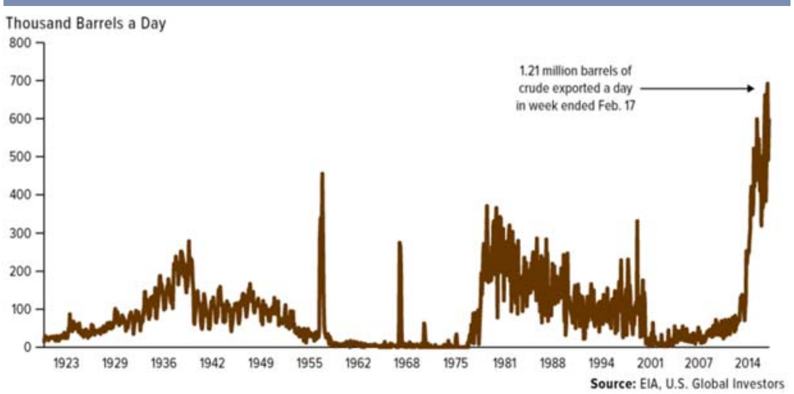
ECONOMIC NEWS

- Existing home owners have been reluctant to sell their homes recently given low mortgage rates that have been locked in and increasing new home prices, which has driven housing inventory to its lowest level ever.
- Philadelphia Fed's manufacturing index rose to a 33-year high with significant increases in new orders, illustrating further business optimism for an accelerating U.S. economy.
- Clarity surrounding the new trade policies of President Trump will be very important for investors to weigh, especially when considering the direction of the U.S. Dollar and related global currencies. Trading with China, Canada, and Mexico, among others, will have a major effect.

MARKET NEWS

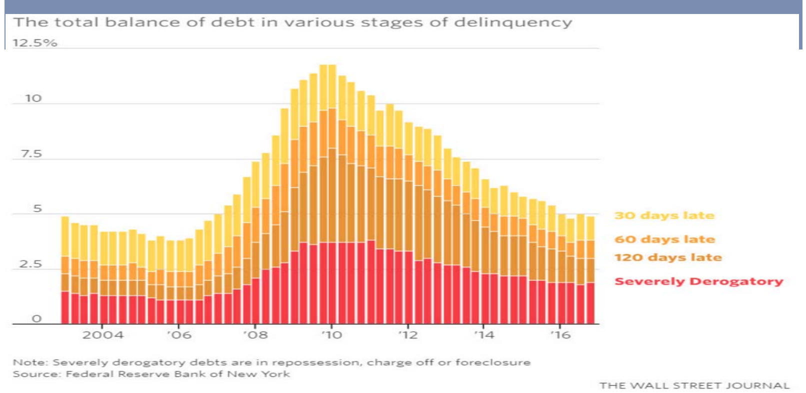
- The S&P 500 has traded over 50 days without a move greater than 1% up or down, the longest streak since 2014. Low volatility and positive fundamentals have kept the post election rally slow and steady.
- Technology, Financials, and Utilities have led 4th quarter earnings growth, with improvements across almost all sectors, with the exception of Telecom and Industrials.
- Eurozone bond prices are declining on banking sector concerns. Many European banks hold their government's debt on their balance sheets, so when bond prices decline, the solvency of the bank is impacted. Italy's banks hold nearly 12% of their total assets in government bonds.

U.S. OIL EXPORTERS STAYING ACTIVE



With OPEC (The Organization of the Petroleum Exporting Countries) oil production cuts underway, the U.S. looks to be filling that gap, as overall production and exports by U.S. oil companies has increased. Since the 40-year ban on exporting oil out of the U.S. was lifted in December 2015, domestic companies have been eager to take advantage and meet global demand.

LOW DELINQUENCIES SHOW CONSUMER STRENGTH



Since peaking in 2010, delinquencies on U.S. household debt have been improving and are approaching pre-financial crisis levels. Consumers have kept their debt to income ratios low throughout the economic recovery, strengthening their financial positions. A firm labor market and increasing wages should allow this trend to continue.

CURRENT THOUGHTS

Equity valuations are still above average, but earnings per share in 2017 are expected to continue to grow. Without putting too much emphasis on policy speculation, if the proposed corporate tax cuts are enacted, this would improve valuations significantly. Tax cuts are going to be a major driver of forward earnings estimates, but the timing and size of the impact is not fully known. Historically, after tax cuts are enacted, only 50% of the impact is registered in the first year and a half. Other factors however, make the current situation different from the environments during the Reagan and Bush tax cuts. Gross Federal debt for example, is now at 105.5% of total economic growth, compared to 31.7% and 57% of Reagan and Bush respectively. Increasing the deficit through government spending and tax cuts could benefit businesses, but without offsetting cuts elsewhere, the growing deficit could restrain growth. Overseas, despite improving economic conditions, politics is the main risk source. French presidential candidates François Fillon and Emmanuel Macron are leading the right-wing candidate, Marine Le Pen, but she is gaining popularity, according to French polls. Le Pen favors France exiting the European Union, which has bond investors selling their French government bonds and moving to more stable German bonds. While her victory still looks unlikely, the unexpected Brexit and U.S. election results remind us that we must remain prepared.

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