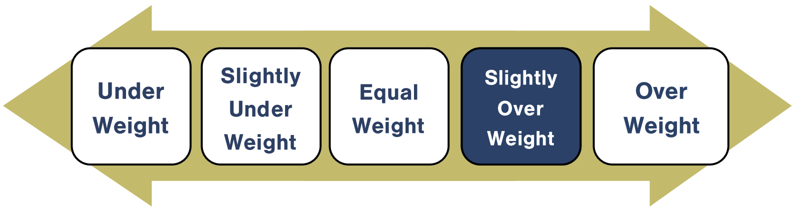
WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

# ECONOMIC AND MARKET UPDATE - MAY 2017

## 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 **Slightly Over Weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

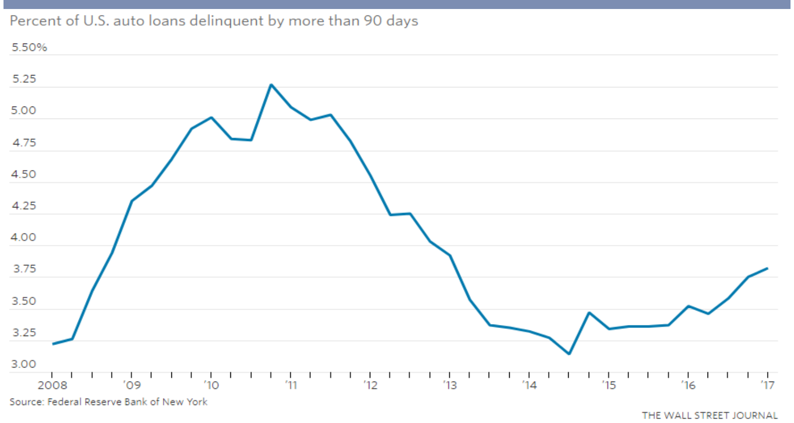
## ECONOMIC NEWS

- Rating agency Moody's lowered China's credit rating for the first time in 25 years to A1 from Aa3, citing Beijing's rising liabilities and financial instability. China's Finance Ministry called the downgrade "groundless".
- U.S. growth for the first quarter was revised upward to 1.2% from a meager 0.7%. Consumer spending weakened less than initially thought and is expected to be transitory, leading to a stronger second quarter growth figure.
- Japan's economy hit its 5th straight quarter of growth with Q1 Gross Domestic Product coming in at 2.2%. This is the longest consecutive growth streak in over 10 years.

## MARKET NEWS

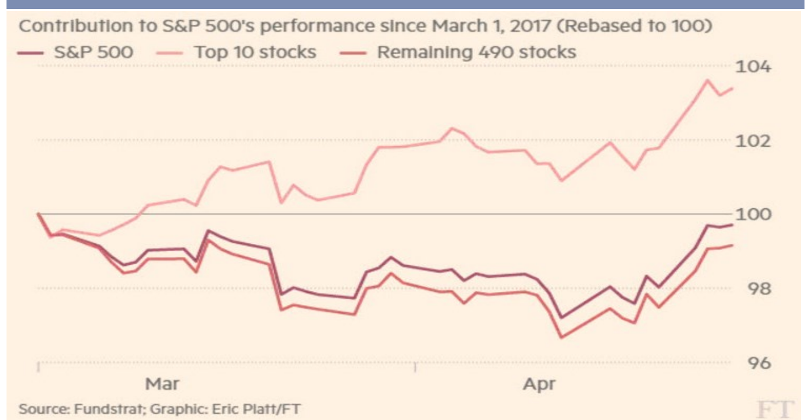
- Investigations into the Trump administration and the firing of FBI Director James Comey spooked the market causing an S&P 500 single day decline of –1.83% on May 17th. This was the largest single day loss since September 2016, but the market has since rebounded.
- U.S. treasury yields have yet to see a material shift upward. This means that despite stocks marking new all time highs, investors haven't begun shifting out of safe haven assets.
- Energy sector prices remain pressured as oil production cuts by OPEC underwhelm investors who believe larger cuts are needed to absorb the current oversupply.

## DELINQUENT AUTO LOANS RISING




*Auto loan delinquencies have picked up, but not due to the typical economic factors such as rising unemployment or a spike in interest rates. Given the strong labor market and low rate environment, the culprit seems to be lower post financial crisis lending standards. While this portion of borrowers perhaps shouldn't have received loans, the broader credit market remains healthy.*

## MARKET PARTICIPATION HAS BEEN LACKLUSTER




*As the S&P 500 slowly grinds higher, the overall participation of the underlying stocks remains muted. The chart above shows that the top 10 largest companies of the 500 total stocks have produced a large portion of the gains to the overall index. Broader participation will be an important factor for a sustained continuation of the upward trend.*

## CURRENT THOUGHTS

After an impressive earnings season, U.S. markets largely shrugged off the results without moving much higher, presumably because the strong earnings numbers were expected and already 'priced' in. Investors at least to some extent have also anticipated that tax reform and fiscal stimulus should boost company profitability and economic growth. The market's post-election rally illustrates that. The challenge is determining how much of those expectations are in fact reflected in current stock prices and reconciling that with what will actually happen. Without the ability to accurately predict what the Trump administration will be able to accomplish with its agenda, it's best to focus on the next real catalysts for the market, which continue to be the fundamentals. Economic data has been in the spotlight and expectations have been high. While the headline Q1 growth number was below trend, there were some bright spots. For example, capital investment was up 9.4% on an annual basis, the highest since 2013. This is the translation of positive growth expectations into actual capital expenditures, which is a very important part of further economic expansion. As long as the fundamental data continues to show improvement, expectations and the market trend should continue to improve as well.

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