SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - OCTOBER 2019 (as of 10/30/19)

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

- U.S. durable goods orders, measuring purchases of bigger ticket, longer-lasting items, and proxy for business spending, declined -1.1% in September. Uncertainty surrounding trade issues continues to weigh on business investment decisions.
- Economic growth in the U.S. hit its slowest pace of the year in the 3rd quarter, falling to 1.9%. This beat economists' expectations of 1.6%, but is still below the 2.3% average pace of year over year growth achieved since 2009.
- The risk of a 'No-Deal Brexit" decreased after the European Union agreed to delay Brexit until January 31st, 2020. General elections will also be held on December 12th, allowing the British public to select new Members of Parliament (MPs). Choosing new MPs could facilitate an agreement amongst decision makers on how to move forward with Brexit.

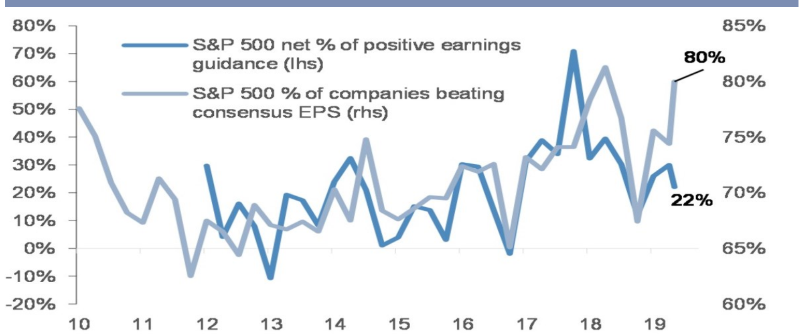
MARKET NEWS

- The S&P 500 hit all-time highs in October, which brought the 2019 gain on the index to just over 20%. That said, it's been a volatile ride and the market is only approximately 3.6% higher than the all-time highs reached back in September 2018.
- Real Estate Investment Trusts (REITS) have been outperforming the broad market this year. REITS, which are companies that own and operate real estate, have benefitted from lower rates. This sector is also viewed as a defensive play given longer-term lease income can provide insulation in a weakening economic environment.
- The U.S. Dollar has weakened throughout October resulting from relative strength in the Euro and the Pound as Brexit fears fade. Optimism for a trade deal may also be reducing investor demand for the Dollar as a safe-haven currency.

SIGNS OF MANUFACTURING STABLIZATION

The IHS Markit U.S. Purchasing Managers' Index, another manufacturing activity survey similar to the ISM Manufacturing Index, climbed to 51.5 in October. This is the second straight month of positive movement following August's three and a half year low, indicating the manufacturing sector may be stabilizing.

EARNINGS GUIDANCE STILL WEAK



Source: J.P.Morgan

Although 3rd quarter corporate earnings have been coming in better than expected so far, the guidance on future earnings that companies have been forecasting continues to be weak. Earnings growth estimates will need to improve to prevent market valuations from becoming unreasonable for investors.

CURRENT THOUGHTS

Markets seem to have a renewed sense of optimism with the Federal Reserve lowering interest rates by another 0.25% and the announcement of the "Phase One" trade deal between the U.S. and China. The S&P 500 rose 5.51% from the October 2nd low through the 30th. After cutting rates for the 3rd time this year, the Fed now believes the current level is appropriate given the environment and likely won't lower rates further unless there is significant weakening of the economy. On the flip side, Fed Chairman Powell signaled that there will be no discussion of raising rates until inflation begins to rise substantially. For the markets, this means that while another rate cut in December may not be likely, with no signs of sustainable increases in inflation, the interest rate environment should remain accommodative for awhile. Time will tell, but the hope continues to be that this year's round of rate cuts will help keep the current economic expansion going, which has been helping the market rally. Secondly, the Phase One trade deal was a headline positive enough to push the markets higher as well. Ultimately, there is still much left to be determined and nothing has been formally signed or put into action yet. More importantly, the possibility of the U.S. enacting additional tariffs on $156 billion of consumer goods imported from China this December is still on the table. Phase One was a sign of progress and welcomed, although the uncertainties have not been removed, which have been negatively impacting business spending all year. The 3rd quarter gross domestic product (GDP) data illustrates that while business spending has been a detractor from growth, consumer spending remains in tact and strong enough to support growth. Consumer confidence has softened the past couple months, but is still at a level that would indicate potential for a strong holiday shopping season. However, if more tariffs go into effect in December, volatility will pick up, given higher consumer goods prices can curtail spending trends.

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

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