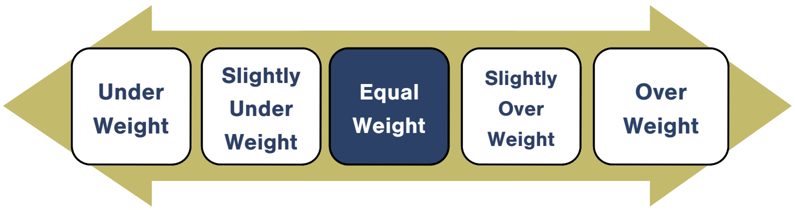
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - MAY 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

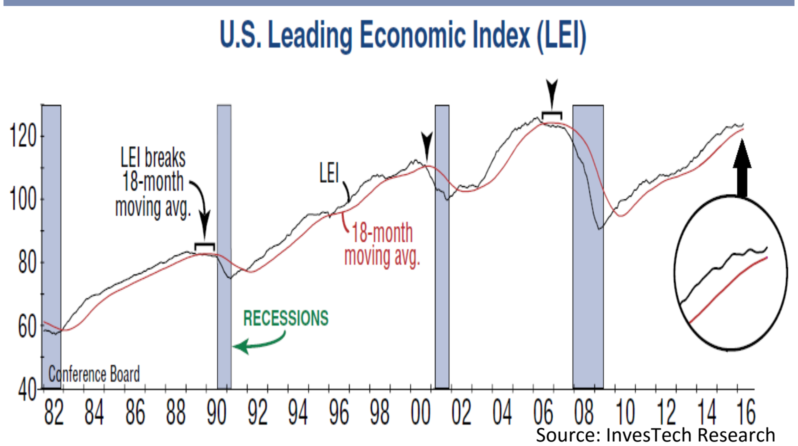
ECONOMIC NEWS

- Predictions for a turnaround in the declining manufacturing sector have not played out yet as manufacturers report a reduction in total output and new orders have failed to pick up, driven by continued weak foreign demand.
- The housing market, on the other hand, remains strong with existing home sales increasing above consensus in April, marking the 4th increase in the past 5 months.
- The Department of Labor is finalizing a rule to make around 4.2 million workers eligible for overtime pay based on an increased annual salary threshold. The rule is estimated to increase total pay by $12 billion over the next 10 years.

MARKET NEWS

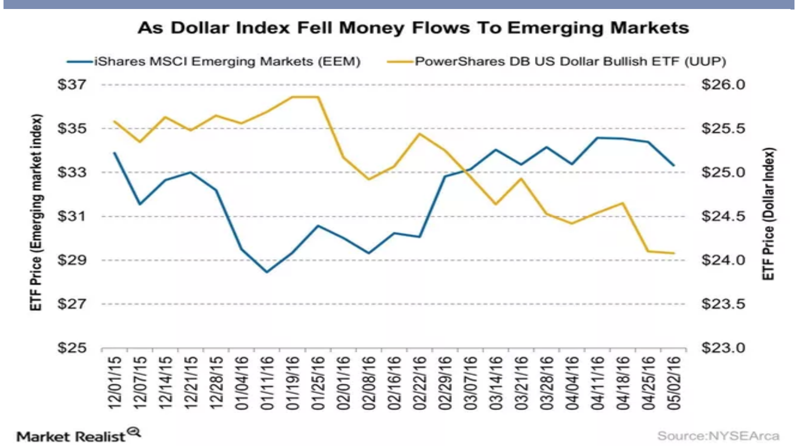
- Inflation ticked higher, with the Consumer Price Index rising 0.4% in April, the largest monthly increase since 2013. The increase was broad based with prices rising in all areas, but with the largest component being oil prices.
- Oil prices traded above $50 at the end of May for the first time in 7 months. Production outages due to wildfires in Canada and conflicts in Nigeria and Libya have led to a decline in supply of approximately 4 million barrels per day.
- The markets initially declined on the Fed's recent comments regarding a rate hike as early as June. The selloff was limited as investors anticipate the Fed's history of inaction.

ECONOMIC INDICATORS STAY RESILIENT



The Conference Board's Leading Economic Index (LEI) rose by 0.6% in April, the most in a year. Prior to March, the indicator was dangerously close to crossing below its 18-month moving average, which historically has been a precursor to a recession.

EMERGING MARKETS MOVE ON DOLLAR PULLBACK



Emerging Markets have enjoyed capital inflows on U.S. dollar weakness. Emerging economies borrow funds in dollar terms, so low rates are a positive for their ability to pay dollar interest. As the Fed becomes more hawkish, higher rates will impact that benefit.

CURRENT THOUGHTS

Janet Yellen's recent comments stirred a somewhat complacent market, which had effectively written off a rate hike at mid-year. The uptick in inflation gave the Fed some confidence to put a June or July rate hike back on the table. Although certain areas of the economy are showing strength, total economic growth is below trend and with 1st quarter GDP at 0.8%, the market is questioning the Fed's true ability to take action. Analysts remain optimistic for the second half of the year, forecasting positive earnings growth before year end. A major factor in those expectations however, is a sustained recovery in oil prices. External factors in Canada and Libya are not permanent and their production will come back; meaning the resulting upward price movement may only be temporary. Additionally, as prices approach U.S. producer break-even levels, there will be the pressure to begin drilling more in order to make up for the meager profits experienced in the past year and a half. An increase in domestic production as soon as it becomes economically viable and continued production in the Middle East should keep prices in check. Overall, the U.S. still appears stronger than its counterparts abroad as Europe, Japan, and China still face significant headwinds. The Fed does take the strength of the global economy into consideration when setting policy and although the global risks which delayed previous hikes are still present, Yellen recently described the weaknesses as "waning". This waffling along with mixed data at home have resulted in a choppy market with no clear direction.

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