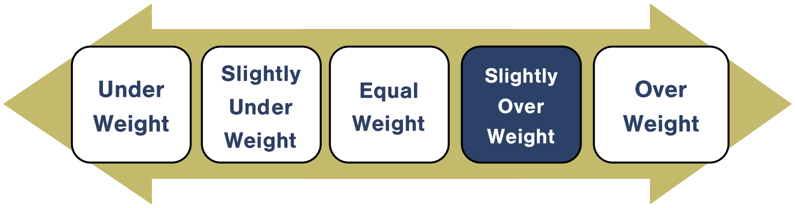
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - JULY 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.

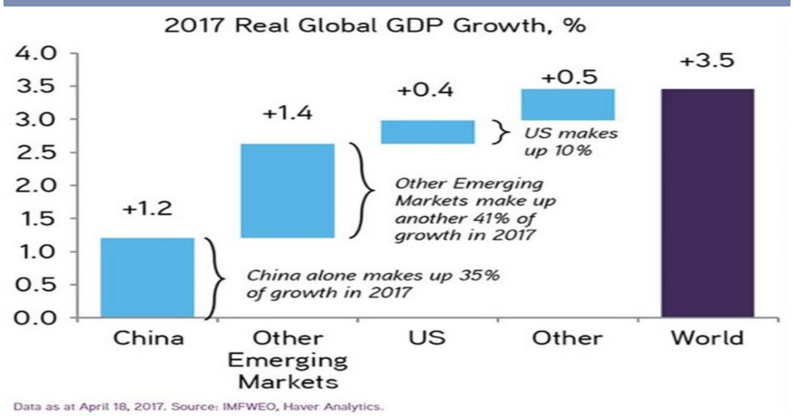
ECONOMIC NEWS

- The International Monetary Fund decreased its growth forecast in the U.S. from 2.3% down to 2.1%, resulting from further uncertainty about pro-growth policies.
- Strength in the U.S. service sector (non-manufacturing companies) continues, with the latest data showing an increase in business activity and new orders. As a large part of the overall economy, consumer spending in the service sector is especially vital.
- U.S. GDP for the second quarter grew at an annual rate of 2.6% meeting analyst expectations. A 2.8% annualized increase in consumer spending largely drove the results.

MARKET NEWS

- U.S. Dollar is at its lowest level in a year, falling over 8% in 2017. Lower confidence in future fiscal stimulus, such as tax reform, & a higher probability of interest rates remaining lower for longer, have contributed to the decline.
- Smaller companies in the U.S. stand to gain the most from tax reform and, like the Dollar, performance has lagged. The Russell 2000 (small company index) has returned 6.37% vs the S&P 500's 10.84% year-to-date.
- High yield bonds struggled in 2015 & 2016, due mainly to weakness in the energy sector, however the corporate default rate has recovered and is at a 2-year low of 3.8%.

GLOBAL GROWTH ATTRIBUTION



Although growth in the U.S. for 2017 is forecasted to be lower than expected, its contribution to global gross domestic product (GDP) remains just over 10%. The bulk of the world's growth will come from China and other Emerging Markets, which are expected to account for nearly 80% of overall GDP.

EARNINGS EXPECTATIONS HOLDING UP

Earnings revisions by analysts are typically overly optimistic around the beginning of the year and decline as companies progress through the year. So far, 2017 has been notable in that revisions have held fairly steady, meaning companies have been meeting expectations and their outlook remains positive.

CURRENT THOUGHTS

The Federal Reserve seems to be playing the waiting game on policy action, as we have yet to see a meaningful change in inflation or economic growth. The absence of a clear direction in those two factors has led to a continuation of historically low volatility. The good news is that as long as inflation isn't increasing faster than the Fed would like, they won't be forced to tighten monetary policy too fast, which could cause a shock to both the bond and stock markets. Without any unexpected Fed action and a lack of deterioration in overall economic factors, market indices and other asset prices, including housing, continue to steadily push higher. The global picture remains similar and with leading economic indicators still pointed in the right direction, the risk of recession is not imminent. The significant point of interest for investors currently is the Fed 'unwinding' their $4.5 trillion balance sheet. Their balance sheet expanded massively from purchasing government bonds and mortgage-backed securities through quantitative easing in order to help the economy recover from the financial crisis. They are now planning to take the next steps to further remove themselves as buyers in those bond markets, thereby shrinking their balance sheet. The sheer size of this reduction is resulting in uncertainty from investors, but with the Fed planning to give clear guidance on their intentions this September, the market reaction since the announcement has been rather muted.

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