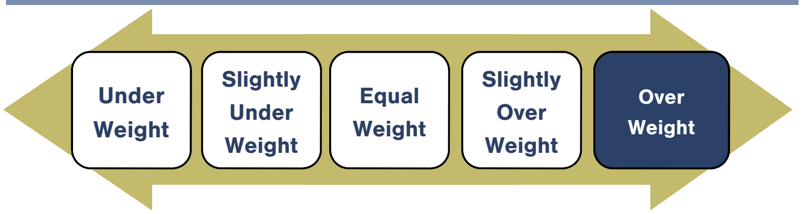
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - MAY 2018

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

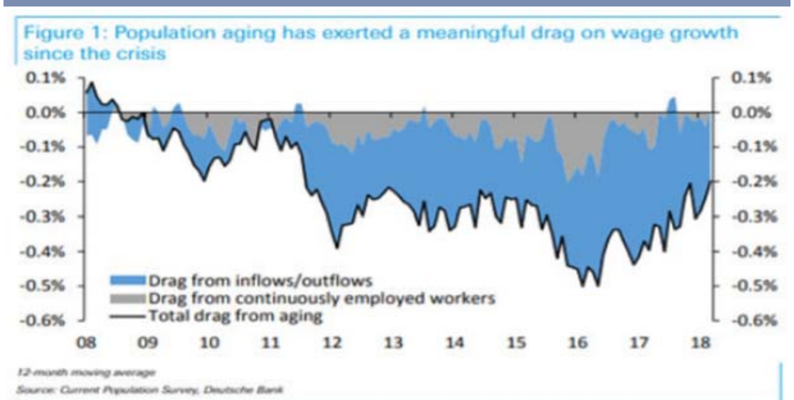
ECONOMIC NEWS

- Trade concerns were reignited as the U.S. Commerce Department launched an auto import investigation, which could lead to tariffs on auto imports of up to 25%.
- European markets have come under pressure with a newly formed Italian government pushing for greater public spending, which goes against EU directives.
- For the first time in several decades, the number of working days it takes to fill a job vacancy has topped 30, further evidencing a tightening labor market.

MARKET NEWS

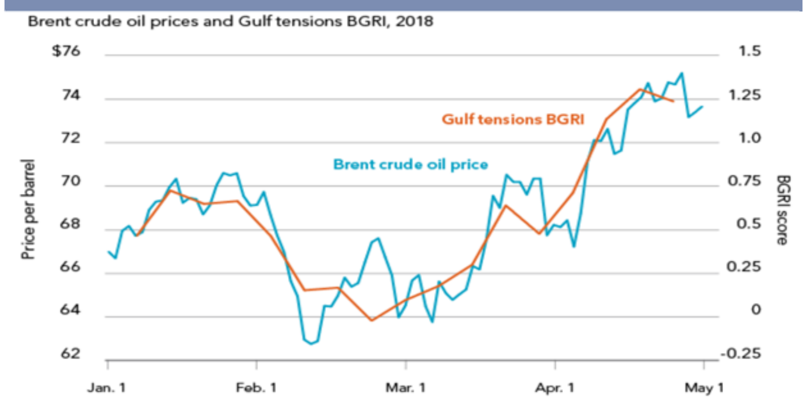
- 10 year Treasury yields exhibited increased volatility in May, topping 3.10% before retreating below 2.90%.
- The U.S. Dollar has rebounded over the last month, which is attributable to a rise in US treasury rates, eurozone tensions, and a de-escalation of trade war concerns with China.
- Emerging Market (EM) currencies have struggled as a result of the dollar's resurgence, which has had a negative impact on EM bonds and equities.

AGING POPULATION A DRAG ON WAGE GROWTH



While population aging does not account for all of the shortfall in wage growth, it does contribute a considerable amount. An explanation for this effect is that older workers who have yet to retire tend to get smaller raises since their base pay is already high. This drag will likely persist until 2020 when the share of older workers in the labor force is projected to peak.

MIDDLE EAST TENSIONS DRIVING OIL HIGHER



Source: BlackRock Investment Institute

In May oil prices reached their highest levels since 2014. This trend has been supported by the U.S. withdrawing from the Iran Nuclear Deal, as trade restrictions threaten to reduce global oil supply. Middle East tensions only partially explain oil price changes, with oil prices pulling back near the end of May as major oil-exporting nations discuss raising their output.

CURRENT THOUGHTS

With more than 90% of the S&P 500 companies having reported first quarter earnings, a remarkable 78% of these companies had a positive earnings surprise. Even if earnings are peaking, that does not necessarily mean the equity bull market is ending. According to one study, since the 1950s, a cyclical peak in earnings growth has tended to be followed by stock prices moving higher: From a peak in earnings per share growth, stock prices were still higher six months later 74% of the time and were higher 12 months later 68% of the time. Coupled with strong earnings, unemployment continues to decline and the labor market continues to tighten. As this trend continues, we could begin to see the anticipated rise in wage growth that has been suppressed for much of this bull market. The administration's decision to withdraw from the Iran Nuclear Deal could also place upward pressure on inflation, as persistently elevated oil prices can eventually result in higher core inflation. With inflation near the Fed's target rate, the Fed has indicated that they are willing to let inflation run above this level temporarily, which would provide the economy more time to expand. And while the Fed expressed concern over the possible adverse effects of tariffs and trade restrictions, their overall outlook remains positive. Ultimately, while the market remains headline driven, the economy continues to show signs of expansion, which supports our market thesis.

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