# ECONOMIC AND MARKET UPDATE - AUGUST 2018

## 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. 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.

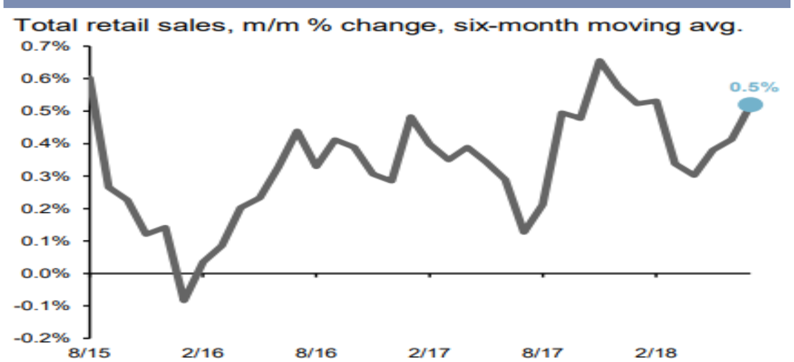
## ECONOMIC NEWS

- U.S. and Mexico officials announced a trade pact, revising major NAFTA provisions to bring more auto manufacturing to the U.S. and improve workers' rights in both the U.S. and Mexico. Negotiations with Canada are hoped to follow suit.
- Federal Reserve Chairman, Jerome Powell, confirmed they still expect 2 more rate hikes this year and that they don't see acceleration in wages or inflation. The clarity was well received by markets.
- Industrial companies in China showed slowing profit growth for the 3rd straight month in July.

## MARKET NEWS

- Even as defensive sectors took leadership briefly in parts of July & August, strong U.S. profits and improvements on trade issues led major U.S. indices to new highs this month.
- China's Central Bank announced plans to reintroduce 'factors' to stabilize the Yuan in an effort to curb the negative effects trade war rhetoric has had on the currency.
- The level of speculative bets on falling gold prices by investors surged to multi-year highs this month amid strength in the U.S. Dollar, to which gold is inversely correlated.

## RETAIL SALES & CORPORATE PROFITS RISE




*U.S. consumer confidence remains very strong, which has translated into healthy retail sales figures. The recent upswing could also be in part related to 'summer-centric' spending increases, but the trend is positive. Higher consumer spending along with tax-cuts have boosted corporate profits in the U.S., up 16.1% from last year, which was the largest gain in six years.*

## CURRENCY VOLATILITY AT 10-YEAR HIGH


*The Turkish Lira has fallen 40% vs the U.S. Dollar this year as relations between the countries deteriorate and sanctions are put in place. The tensions have pressured emerging currencies as a whole, bringing volatility up to levels not seen since the Global Financial Crisis. This volatility needs to subside for sentiment towards these developing economies to turn up.*

## CURRENT THOUGHTS

The S&P 500 got its latest leg up in August on the back of strong earnings data and solid overall economic growth, leading markets to new all-time highs once again. In the 2nd quarter, S&P 500 company revenues grew by 9.5%, which is the fastest rate of growth since 2011, and Gross Domestic Product was revised higher from 4.1% to 4.2%. The business environment in the U.S. remains favorable, but global forces can still have an impact. Foreign earnings for U.S. companies slowed from the 1st quarter as demand from abroad softened. Some of the concerns surrounding trade between the U.S., Mexico, Canada, and Europe have eased, which is obviously beneficial. With less uncertainty and hopefully increased confidence in these regions, the economic landscape for these foreign companies may improve. But even as trade potentially picks back up with these aforementioned partners, China continues to be the question mark. China is an integral part of the global economy with their reach spanning emerging and developed countries. Avoiding a material slowdown in their economy is imperative to get back to a synchronized global growth environment we saw in 2017. Investors will be anxious until the U.S. and China reach a positive resolution on trade issues. While a trade war would be negative for all parties involved, we see slightly less risk in domestic companies given the U.S. economic data has held up and shown to be more insulated relative to other international countries thus far.


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