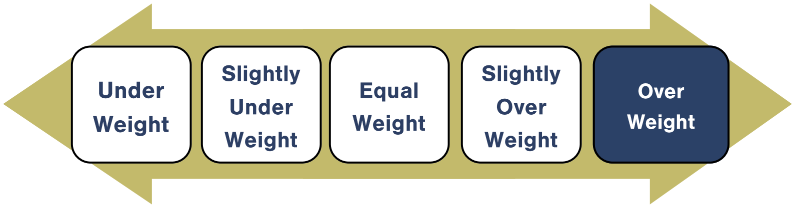
ECONOMIC AND MARKET UPDATE - JUNE 2018

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

- Based on current figures showing gains in consumer spending, energy investment, and housing, estimates for 2nd quarter U.S. growth are now ranging from around 3%—5%.
- The Federal Reserve hiked the federal funds rate by another 0.25% in June to a range of 1.75% - 2.0%, with expectations now for 4 total interest rate hikes in 2018.
- Japan's inflation has decelerated, which prompted the Bank of Japan's decision to continue its monetary policy easing. Their lack of inflation separates them the U.S. and Europe who are more concerned with upward inflationary pressures.

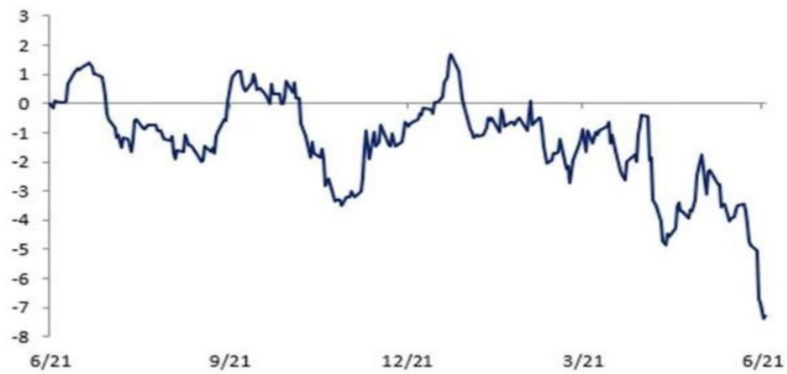
MARKET NEWS

- Chinese stocks fell into bear market territory, with the Shanghai Composite Index down just over −20% from its 2-year high in January. The decline is partly due to softer economic data, but mostly on escalating trade tensions.
- Despite a promising environment for U.S. banks, the sector has struggled. Deregulation, strong credit, and loan demand are positive, but the rise in long-term rates has been muted.
- AT&T's bid to acquire Time Warner was approved by a district court, which then sparked a bidding war for 21st Century Fox, improving merger activity outlook in the telecom sector.

U.S. & EUROPEAN MANUFACTURING

European manufacturing pulled back from somewhat unsustainable levels in 2018. After an unusually cold winter, which had some negative effects, the sector should stabilize amid improving employment, consumer sentiment, and accommodative monetary policy. The U.S. data has been strong this year, but higher input prices could be a headwind going forward.

RELATIVE STRENGTH OF INDUSTRIALS VS S&P 500



Industrials have been one of the worst performing sectors this year and have felt even more pain recently, down approximately −4.52% in the past 30 days as trade uncertainty rises. Business leaders in the auto and construction industries have vocalized concerns about how a trade war could negatively impact profits and it's clear investors share the same concern.

CURRENT THOUGHTS

Conflicts surrounding global trade are continuing and markets are reacting more as the rhetoric escalates. Steel and aluminum tariffs on Canada, the European Union, and Mexico were met with threats of retaliatory tariffs on U.S. goods. China has been pushing back as well, which has only led to consideration of even more tariffs by the U.S.. The sticking point more recently has been technology and intellectual property theft. The Trump administration is looking to increase security for U.S. technology. The initial proposal to use executive action to limit China's investments into the U.S. was walked back and now they may rely on the less restrictive laws that Congress is working on. For now, the economic data in the U.S. still looks good and trade policy shouldn't derail that unless an escalated trade war is actually put into action. That said, there has been a focus on headlines in the short-term, which has resulted in a very choppy stock market. More companies, including Daimler most recently, have made mention of the negative impact tariffs can have and consequentially, earnings forecasts get toned-down. The back and forth of rhetoric may ultimately be a part of negotiations and compromise, but the uncertainty is souring sentiment. Business and consumer sentiment is a very important factor when thinking about plans for hiring, wages, expansion, spending, and overall demand. Over time, if these factors dampen, sentiment can flow through to earnings and economic data. Once investors can get more clarity on global trade and policy, the upward market trend based on low recession risk, improved valuations, and a growing economy can advance.

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