SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - JULY 2019 (as of 7/30/19)

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. stock markets remain in a long-term uptrend. We have maintained our stock exposure and are **Slightly Over Weight** to stocks. The allocation mix of bonds vs. stocks depends on our risk signals that shift our weightings accordingly.

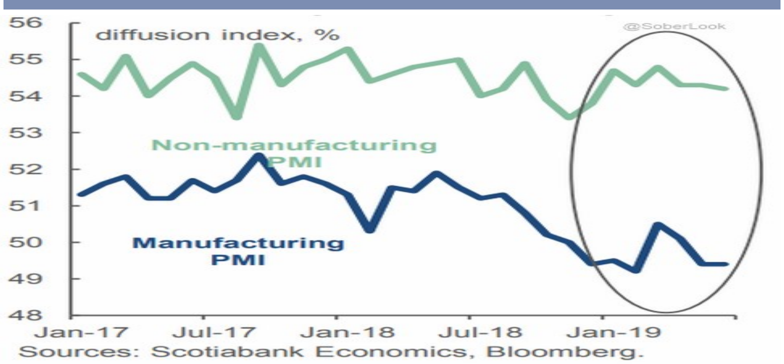
ECONOMIC NEWS

- U.S. economic growth slowed to 2.1% in the 2nd quarter compared to 3.1% in the 1st quarter. Stronger consumer spending pushed the growth figure above expectations of 1.8%, which was an encouraging sign.
- The German manufacturing sector fell to its lowest level in 7 years in July. This is notable given Germany is the largest manufacturing economy in Europe. The slowdown is being attributed to ongoing trade disputes & increased Brexit risks.
- Economic weakness across the globe has led the International Monetary Fund to revise its 2019 global growth forecasts down to 3.2% from 3.5% expected in January. The U.S. has remained relatively stable compared to other regions and thus had its growth outlook raised from 2.3% to 2.6%.

MARKET NEWS

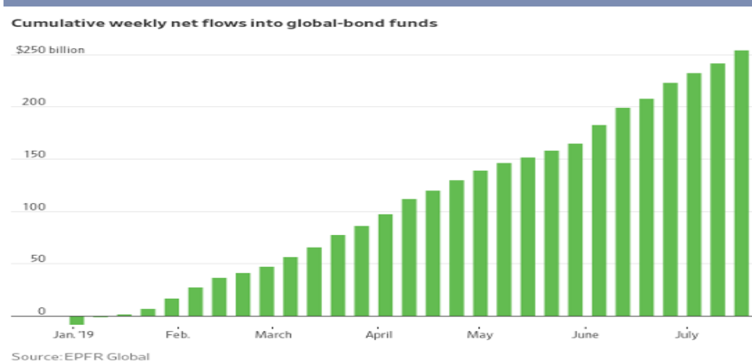
- Earnings releases for the 2nd quarter have been better than expected so far. That said, S&P 500 companies with greater than 50% of their sales outside of the U.S. have struggled. Those companies have reported a blended earnings decline of −13.6% while companies generating over 50% of their sales inside the U.S. are reporting earnings positive earnings growth of 3.2%.
- The British Pound has depreciated -8.33% vs the U.S. Dollar since 2/27/19. The U.K.'s new Prime Minister Boris Johnson stated he's willing to exit the European Union with no agreement, raising the odds of a 'Hard Brexit' and weakening their currency.
- 25% of all global bonds are trading with negative interest rates. As the amount of negative yielding debt rises, U.S. bonds look more attractive, even with the 10-year treasury yield near 2.0%.

CHINESE SERVICE SECTOR HOLDING STEADY



Similar to the U.S., the Chinese non-manufacturing sector, also known as the service sector, hasn't deteriorated as much as manufacturing. This dynamic is encouraging for China, but is not supporting overall growth the same way it can in the U.S. given the service sector represents a smaller share of their overall economy.

INFLOWS INTO BOND FUNDS CONTINUE TO RISE



Although the S&P 500 has hit all-time highs, there has been persistent demand for global-bond funds. The inflows have increased despite lower interest rates. This shows investors are remaining cautious amid an environment of slowing growth and higher equity valuations.

CURRENT THOUGHTS

There are currently no central banks around the world that are raising interest rates. The European Central Bank is now signaling plans for a rate cut in coming months as well as additional accommodative monetary stimulus. The Federal Reserve cut interest rates by 0.25% in July. This was the first rate cut by the Fed since 2008. Ultimately, the need for this stimulus, or reduction of interest rates, is rooted in the view that economies are beginning to slow. While the U.S. may look relatively strong compared to the other developed economies, corporate America and investors have tempered expectations. Even though Q2 earnings per share have been better than expected, expectations for Q3 are on average being revised lower. As interest rates have fallen, the lower cost of borrowing for companies could help stimulate additional economic growth, and outweigh these lowered near-term earnings expectations. This has, at least in part, helped the S&P 500 climb higher following a -6.84% market pullback in May. The index has posted an impressive year-to-date gain of approximately 20%, but the gain thus far has served mostly to recoup the losses from the market decline in Q4 of 2018. The S&P 500 is now 2.79% above the previous high made in September of 2018. When the Fed cuts interest rates the markets generally react favorably, since it is viewed as a preemptive strike against a possible recession. This latest cut by the Fed was largely expected, but the market dropped when Fed Chairman Powell called this move a mid-cycle adjustment, putting further cuts in doubt. If the economy slows in spite of the stimulus, then keeping close track of economic indicators is imperative. Potential threats to the economy include deterioration of trade talks with China and continued slowing of foreign economies. The weakness in earnings guidance shows that caution is warranted and volatility may pick up, even throughout a rate cut cycle.

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