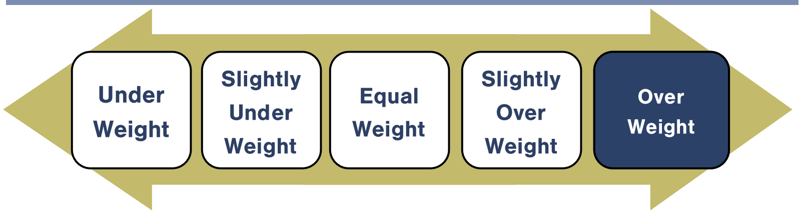
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - NOVEMBER 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 **Over Weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

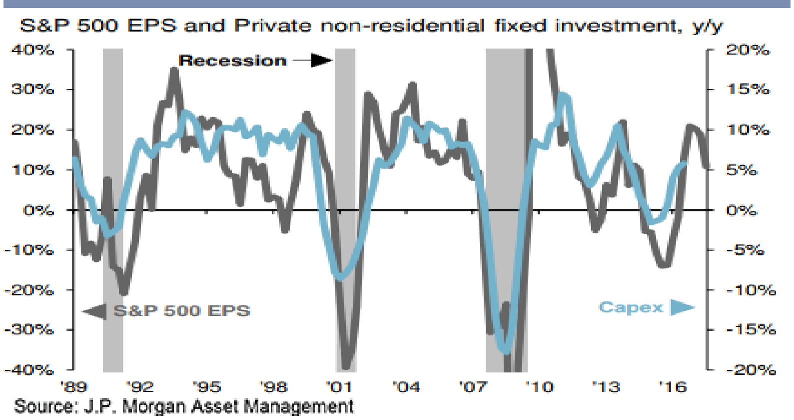
ECONOMIC NEWS

- European manufacturing and service sectors continue to show strength, with survey indexes registering their best combined month since April 2011.
- U.S. employment is healthy, however the Federal Reserve sees room for improvement given moderate wage growth and level of participation in the labor force. This relieves concern over runaway inflation and supports rate hikes.
- Record high sales were achieved in the U.S. on Cyber Monday and in China for 'Singles Day', substantiating U.S. consumer confidence and middle-class growth in China.

MARKET NEWS

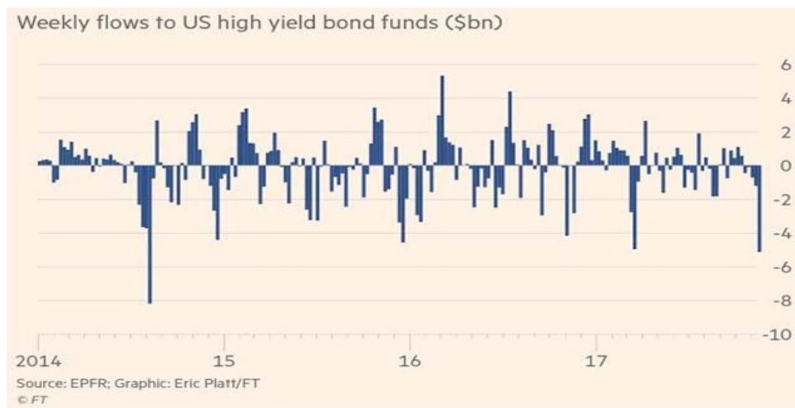
- Volatility has picked up in Chinese equity and bond markets as a result of investors' concerns surrounding the government's plans to tighten access to credit.
- Oil prices rose to the highest level in over 2 years with West Texas Intermediate crude hitting $58.75. Expected OPEC production cuts and supply constraints pushed the prices higher, but the momentum has recently subsided.
- Single-family home sales in the U.S. rose to the highest level in 10 years, reinforcing the sustained demand and confidence in the housing market.

EARNINGS LEADING TO CAPITAL EXPENDITURES



U.S. company earnings have been strong all year. Earnings growth has a positive relationship with business investment and historically, leads capital expenditures (capex) by 4 quarters. Intuitively, as businesses see earnings growth, they are more confident in investing in assets, which could lead to further capex in 2018.

HIGH YIELD BONDS SHOW WEAKNESS



Junk bonds suffered the largest weekly withdrawal in 3 years in November. Weakening demand for these riskier bonds is sometimes viewed as a precursor to overall economic weakness, but this most recent instance was less of a broad selloff and more isolated to debt in particular sectors; notably Telecom and Healthcare.

CURRENT THOUGHTS

Jerome Powell was named the new chair of the Federal Reserve this month and will replace Janet Yellen in early 2018. Powell's nomination was a positive for the markets given he will likely stick to the current plan regarding monetary policy and not be overly aggressive in removing accommodative conditions. With monetary policy plans well telegraphed, markets are more focused on fiscal policy and how tax cuts will play out. Disagreements between House & Senate members remain, but both sides do seem to be progressing towards a common goal of accomplishing some form of cuts. Concerned investors have pointed to a lack of 'hard' data pushing the market higher and that new highs were being achieved only by 'soft data' driven speculation i.e. consumer confidence surveys, small business surveys etc.. However, we've noted that often soft data should lead to hard data and that has begun to take place. Consumer confidence has led to increased spending, seen in retail sales numbers, home sales, and durable goods growth (purchases of larger household items). Business optimism coupled with earnings growth has translated to capital expenditures up 8.1% in October, near 5 year highs, compared to last year. Economies are humming on a global scale and as long as earnings growth and hard economic data remains solid, the uptrend in equity markets should continue. These factors have led us to shift to a full overweight allocation to equities. If we run into a catalyst that sparks a pullback, the key will be identifying a true fundamental shift to a bear market environment, versus normal volatility.

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