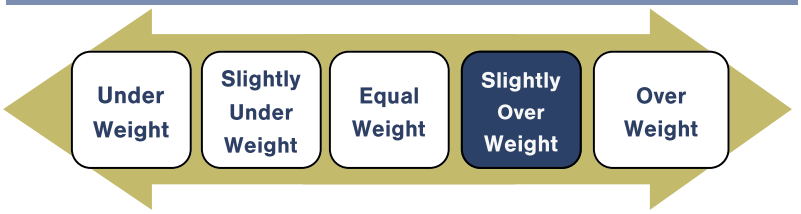
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - MAY 2019 (as of 5/28/19)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



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.

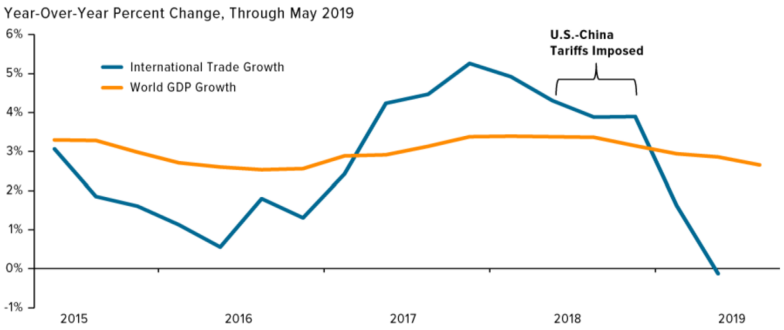
ECONOMIC NEWS

- The U.S. announced the increase of tariffs on China from 10% to 25% on $200 billion of Chinese goods and proposed the possibility of adding tariffs on another $300 billion of imports. China retaliated with tariffs on $60 billion of U.S. exports.
- New orders from U.S. manufacturers fell in May for the first time since 2009. While consumer spending accounts for a larger share of economic growth, a weakening manufacturing sector may put a damper on gross domestic product in the latter half of the year, when stronger growth was expected.
- Like U.S. employment, the housing market has remained resilient. Housing starts rose more than expected in April, benefitting from lower mortgage rates.

MARKET NEWS

- After a strong rally in 2019, oil prices dropped on concerns that the renewed trade war would cause global demand to weaken.
- Following a brief rebound off the March lows, bond yields have fallen back to the lowest levels since 2017. The yield on the 10 year Treasury has fallen below 2.3%. The question is whether this is reflective of concerns of the bond market about a weakening U.S. economy, or the result of money flows from Germany and Japan, where yields have once again turned negative, or a combination of the two.
- Since the escalation of trade tensions between the U.S. and China, stocks in Asia have begun to lag the U.S. and Europe. The Hang Seng, an index of primarily Chinese stocks, has underperformed the S&P 500 by –4.74% in May.

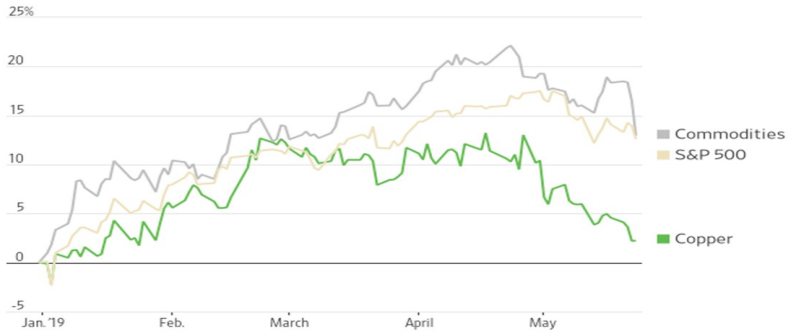
TARIFFS DAMAGING INTERNATIONAL TRADE



Source: IATA Economics, U.S. Global Investors

While the U.S. economy may be able to withstand damage done by a trade war, the negative impact to overall international trade is already well on its way. Trade volumes are down and weakness in world economic growth is expected to continue until there is a resolution to the ongoing trade tensions.

COPPER PRICES GIVE BACK GAINS



Sources: FactSet (stocks and commodities); Dow Jones Market Data (copper)

Copper prices are seen as a proxy for the health of the global economy given the heavy use of the metal in manufacturing and industrial production. Prices moved higher to start the year on trade deal optimism, however the recent move lower confirms that expectations for a resolution are fading.

CURRENT THOUGHTS

The trade war with China has once again become the center of attention for markets with stock prices moving on any trade related headlines. Investors are attempting to determine what the timeframe may be for an actual deal, or if the global economy should be bracing for more tariffs. Without any 'trade talks' scheduled between the U.S. and China, the next opportunity for President Trump and President Xi to meet will be at the G20 summit in Japan in late June. Although inflation has continued to remain subdued in the U.S., added tariffs could provide some upward inflationary pressure. Tariffs on Chinese goods make those imports more expensive for U.S. companies. While the overall amount of imports from China is not a large part of the U.S. economy, retailers like Walmart and Macy's have recently stated that more tariffs would result in higher prices for their consumers. This could discourage consumer spending, which has been a key driver of economic growth in the U.S.. With the lack of inflation as well as concerns surrounding slowing growth, the Federal Reserve may actually lower interest rates preemptively in an effort to avoid or at least delay a recessionary cycle. Fed Chairman Jerome Powell has, for the moment, announced there is no intention to move rates lower, but if economic data doesn't improve, the markets may force the Fed's hand. However, the pullback to date in the S&P 500 has been less then 5% off the 2019 highs. We continue to watch for a more meaningful shift in risk sentiment.

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