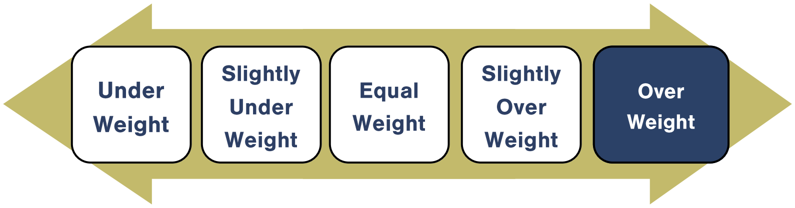
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - APRIL 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.

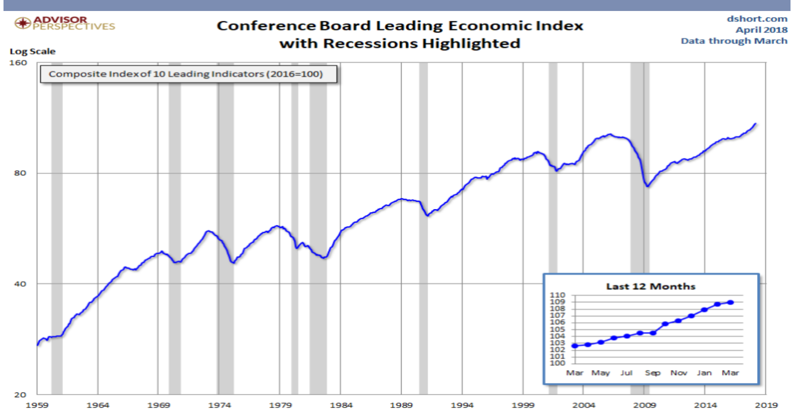
ECONOMIC NEWS

- New home sales in the U.S. continue to rise, up 4% from February. Mortgage rates are rising, which negatively impacts affordability, but buyers are still eager to take advantage of these pre-financial crisis levels.
- The strength in the Euro, trade concerns, and economic moderation are putting a damper on earnings estimates and sentiment among business owners in the Eurozone.
- Importantly, while the European Central Bank's intentions are to normalize monetary policy and reduce stimulus, they still have the ability to keep rates low if growth slows.

MARKET NEWS

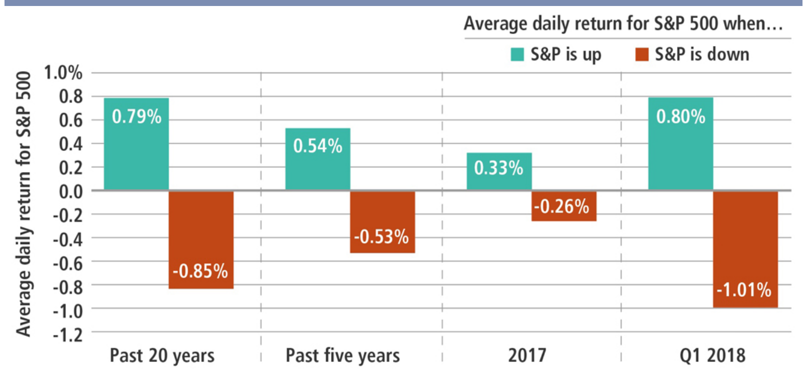
- Selling pressure on the S&P 500 in March looked to be over when the market bounced about 5% in the first few weeks of April. The price movement however, was on the weakest volume of the year, indicating subpar conviction.
- Volatility can typically benefit defensive sectors such as Consumer Staples and Utilities, however these sectors are some of the worst performers year-to-date, down –10.86% and –3.72% respectively through 4/24.
- The 10-year treasury yield crossed above 3% for the first time since 2014, increasing pressure on stocks & bonds.

LEADING ECONOMIC INDICATORS STILL RISING



The Conference Board's Leading Economic Index, meant to signal changes in the business cycle and economy, continues to point to strong growth in 2018. The index rose 0.3% in March, with new orders in manufacturing and expectations for business conditions outweighing weakness in employment components.

DAILY RETURN MOVEMENT NORMALIZING



Source: Bloomberg as of 31 March 2018 & PIMCO

Market volatility can be measured in different ways; one of which is daily price returns. These first several months may seem more on the extreme side, but in reality, these types of daily returns are closer to the long-term average than the historically low volatility seen in 2017, which was more of an anomaly.

CURRENT THOUGHTS

Corporate earnings are holding up for the most part, but we're beginning to see that there may be greater performance dispersion among sectors going forward. Industrials was a recent instance of this, where despite fine earnings results for the first quarter, the forecasts of some companies were gloomy, citing rising energy, shipping, and materials costs. While those factors led to some selling pressure for more industrial and materials focused companies, they are not all that meaningful for other sectors, such as technology or financials. An important factor for the broader market is higher interest rates, which can put negative pressure on both stock and bond prices. As the 10-year treasury yield breached 3% this month, the concern is that rates rise too quickly, choking off economic growth. However, with Europe and Japan's Central Banks still keeping rates low, the higher rates in the U.S. look attractive enough to domestic and foreign investors to maintain demand, which should keep rates from rising faster than expected. Political tensions seem to have subsided for the time being, which is allowing investors to focus on earnings and economic data. U.S. retail sales snapped 3 months of declines, rising 0.6% in April. The figure was stronger than expected, hinting that perhaps the weakness in previous months was more seasonal and that tax cuts and wage bumps are taking affect. Strength in consumer spending and the service sector will play a key part in overall U.S. growth, especially if manufacturing and industrial activity pull back. The ride may be bumpy, but with continued earnings strength and economic fundamentals, a near-term recession or bear market seems unlikely.

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