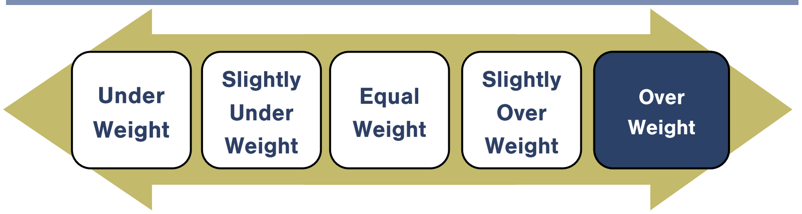
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - DECEMBER 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.

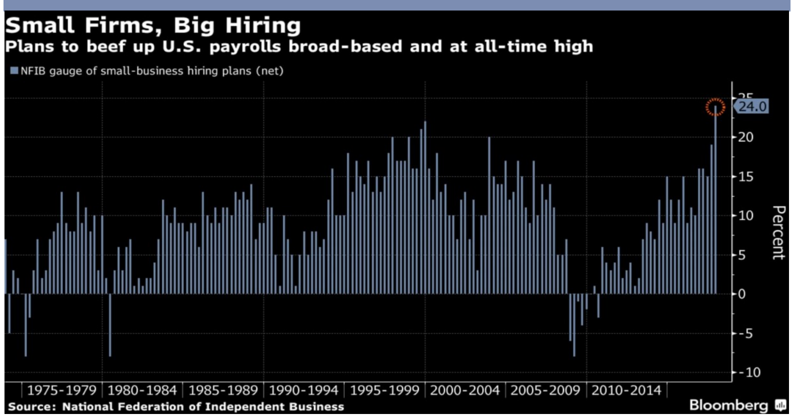
ECONOMIC NEWS

- Congress has passed a $1.5 trillion tax cut, the largest overhaul since 1986. The cuts will come as a relief to corporations which will now be taxed at 21% vs 35%.
- Third quarter growth in the U.S. came in officially at 3.2%, revised slightly lower from 3.3%, but still the fastest rate of expansion since 2015.
- The Fed raised rates for the last time in 2017, marking the 3rd hike this year. The benchmark interest rate was raised 0.25% to a 1.25%-1.50% range. With the economy running at its current pace, expectations are for 3 hikes in 2018.

MARKET NEWS

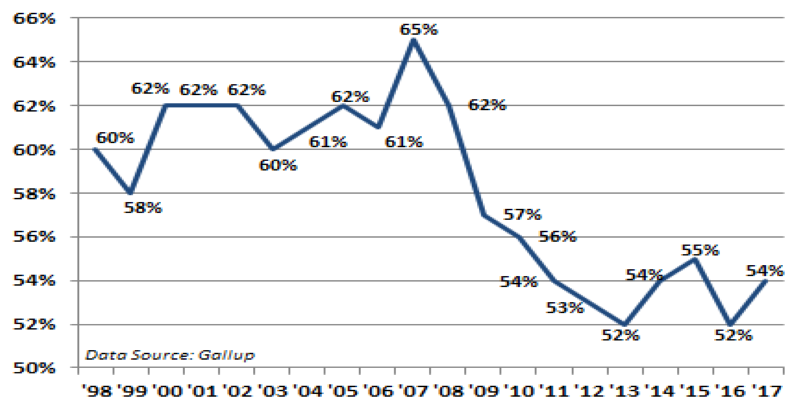
- Bond yields are rising in response to tax reform and higher global yields, with the U.S. 10-year treasury touching 2.5%.
- The U.S. Dollar is surprisingly not following interest rates higher. Yields in Europe are rising as a result of the European Central Bank's plans to taper its stimulus. This is pushing the Euro higher and pressuring the Dollar.
- The CBOE and CME Group, major trading exchanges, rolled out futures products for bitcoin. This helps further legitimize bitcoin, but also provides the ability for traders to short i.e. bet against, the speculative crypto-currency.

HIRING PLANS REACH AN ALL-TIME HIGH



As small business optimism hovers around all time highs, their plans to hire more is reaching highs as well. With new tax cuts in place and plans to add jobs, the biggest question is whether wage growth will come along with it. Wage growth has been a missing piece throughout the current bull market cycle.

STOCK OWNERSHIP REMAINS LOW



Since the financial crisis, stock ownership in the U.S. has dropped to 54% from 62%, meaning only about half of Americans experienced most of the equity market recovery. Declining ownership was found in all age groups except for older Americans with higher incomes.

CURRENT THOUGHTS

The final quarter of the year has largely played out as expected. Interest rates were notched higher, tax cuts were passed, and there wasn't any unexpected inflationary pressures to scare the Federal Reserve into raising rates too fast. The lack of surprises has kept markets steady and the ongoing environment of low volatility has persisted. The new tax cuts will be of particular benefit to U.S. corporations, which had the highest corporate tax rate in the world among developed economies. Reducing taxes should, on the surface, boost earnings. According to UBS Financial Services, the impact of the new 21% corporate tax rate will boost S&P 500 earnings by 9.1%. This increase in earnings should help with the above average equity valuations given current price levels. The reduction in taxes may also allow companies to add more jobs and/or raise wages. With global economic indicators moving higher, the overall sentiment remains 'cautiously optimistic'. Stronger growth, earnings, and the outcome on taxes should give the market a positive backdrop heading into 2018. If the S&P 500 closes higher in December, it will be the first time in history that the index produced gains all 12 months of the year. This type of unwavering uptrend should not be expected to continue. Although recession risks remain low, the removal of central bank stimulus on a global scale, makes company earnings and macroeconomic data increasingly important. Bond yields and inflation could begin to play a bigger factor moving forward as well, so there will be no shortage of forces that may spark some volatility in the new year.

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