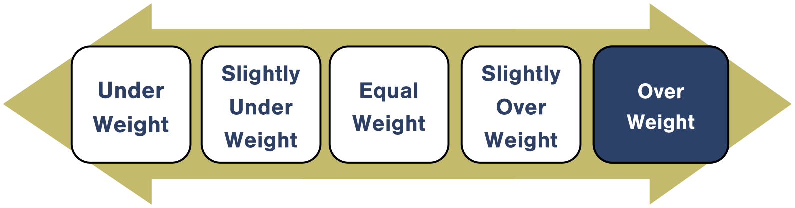
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - MARCH 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.

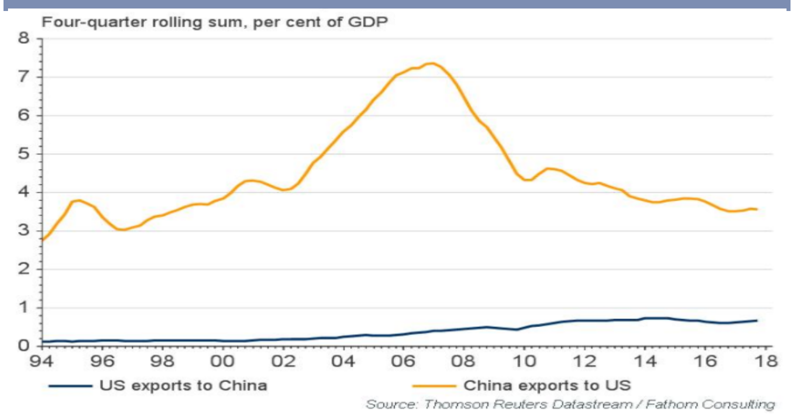
ECONOMIC NEWS

- Tariffs, a tax on imports or exports, are being imposed by the Trump administration. Countries applying their own tariffs on the U.S. (i.e. a 'trade war') would be negative, but so far, trading partners have been willing to negotiate.
- U.S. retail sales have slowed the past 3 months after a strong 4th quarter. Although spending has eased, consumer and small business confidence remains solid.
- Weaker consumer spending along with slower home sales have lowered expectations for U.S. 1st quarter economic growth from the 2.5% to 3% range to 2% to 2.5%.

MARKET NEWS

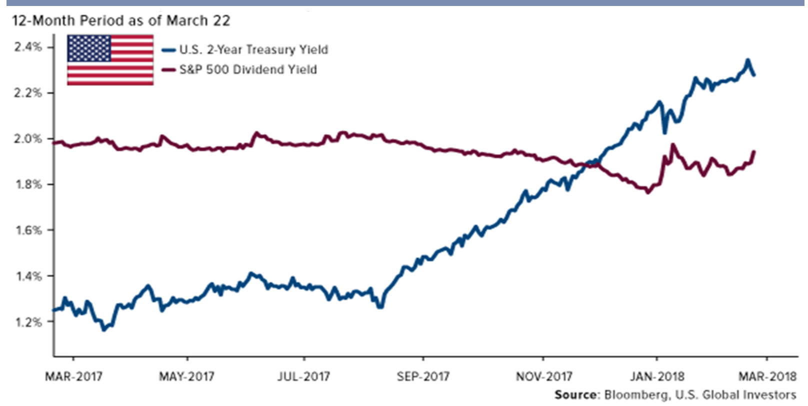
- Volatility has spiked again on White House staff changes and tariff talks leading to the S&P 500 experiencing a pullback of -4.60% during the week ending 3/23.
- Smaller companies have been outperforming the larger multi-national companies since trade war talks have begun. Given smaller companies have less revenue dependent on foreign prices, they are less impacted by global trade.
- Crude oil prices have risen to over $65/barrel due to Saudi Arabia hinting at possible production cuts, and the U.S. considering re-imposing economic sanctions on Iran.

TRADE BETWEEN THE U.S. AND CHINA



While the overall rhetoric surrounding tariffs has unnerved markets, especially with China, it's important note the relationship between China and the U.S.. Exports to the U.S. account for around 3.5% of China's total gross domestic product, providing incentive to negotiate as opposed to retaliate.

BOND YIELDS VERSUS STOCK DIVIDEND YIELDS



As short-term rates rise, investors looking for income will consider the relative attractiveness of bonds versus stocks. The yield on the 2-year treasury has risen to 2.29% and is now higher than the S&P 500 dividend yield of 1.80%. The yield on equities had been higher than the 2-year treasury yield since 2008.

CURRENT THOUGHTS

The market's dip in March has been far more politically headline driven as opposed to the fundamental concern surrounding rising inflation, which sparked the pullback in February. Gary Cohn exiting his role as Chief Economic Advisor exacerbated trade war concerns given Cohn was a strong proponent of global free trade. Steel and aluminum tariffs initially prompted worries, however most major U.S. trading partners have received exemptions. This month, 25% tariffs on $50-$60 billion of Chinese imports were announced. China stated they would defend their interests and imposed a small amount of their own tariffs, but the most recent news is that China and the U.S. will be attempting to negotiate around these tariffs. The trend seems to be that tariffs are being used as leverage for negotiations happening behind the scenes. The market reacted favorably on the news that there may not be retaliation by China and they are considering giving the U.S. better access to mainland Chinese markets. That said, stocks have struggled to surpass the previous highs made earlier in the year. The economic data in the U.S. has slowed in certain areas in the first quarter, however the easing has largely followed very positive readings in the third and fourth quarter of last year. Even so, without any additional headline shocks around tariffs or political shake-ups, the market fundamentals are still providing a runway for stocks. Earnings and revenue growth continue to be strong, inflation has remained contained, and the Federal Reserve seems focused on not raising rates too aggressively. So while the longer-term bull market is still in place, if these first three months are any indication, it will be a much bumpier ride than what we saw with the record low volatility in 2017.

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