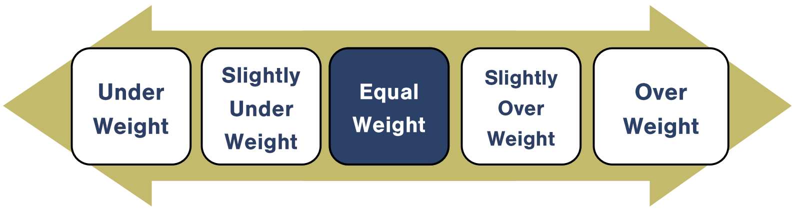
ECONOMIC AND MARKET UPDATE - JULY 2016

SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. We are maintaining our equity exposure and are **Equal weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

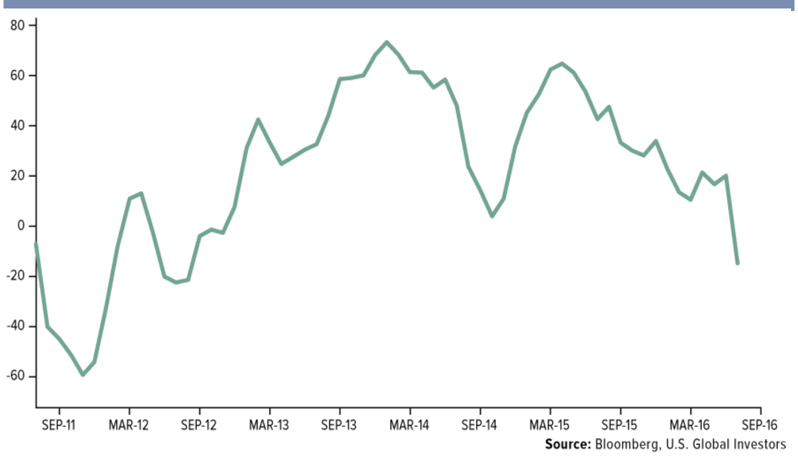
ECONOMIC NEWS

- The new Prime Minister of the U.K., Theresa May, confirmed that the submission of Article 50 to leave the European Union won't happen until 2017 at the earliest.
- U.S. inflation has risen to 1.6%, but still has not reached the Fed's 2% target rate. The upward pressure is an encouraging sign for the U.S., while deflation remains the main issue for many foreign developed economies.
- Despite improving economic conditions on several fronts within the U.S., including consumer spending, business spending has actually been contracting and could be a red flag for future hiring plans and subsequent growth.

MARKET NEWS

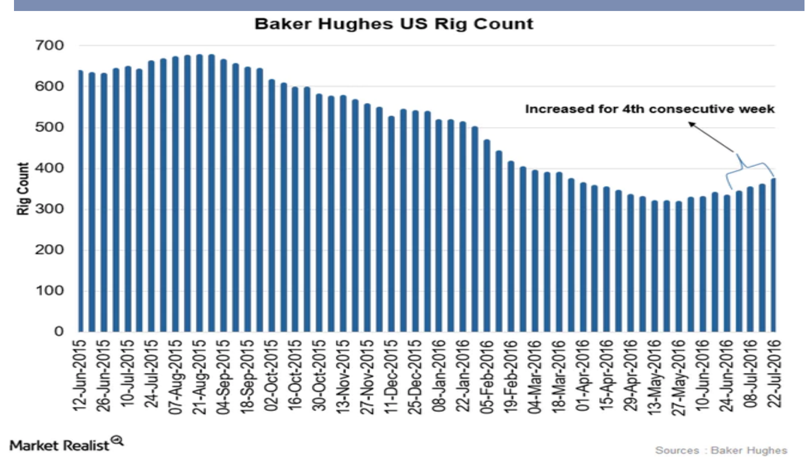
- The S&P 500 finally broke above the all-time high reached in May of 2015 as Brexit fears subsided and global stimulus policies remain accommodative.
- This latest 'post Brexit' rally has been reached mainly via less defensive growth stocks. This is typically a bullish indicator for the market, but without an earnings recovery, valuations now look more stretched.
- The U.S. dollar hit a 4-month high led by anticipation of a year-end rate hike and low global yields. The stronger dollar has also, in turn put, a damper on oil prices which have fallen over 20% since June.

EUROZONE INVESTOR CONFIDENCE WORSENS



Investor sentiment in the Eurozone has deteriorated to its lowest level in 4 years following the Brexit vote. If weak sentiment persists, it will likely translate into lower levels of investment by consumers and businesses, and ultimately slower economic growth.

OIL RIG COUNTS STEADILY INCREASING



Oil prices crossed above $50/barrel last month, sparking a rise in active rigs as producers attempted to drill near 52-week highs. On top of a stronger dollar, this increase in active rigs renewed concerns of oversupply and consequently pushed prices lower.

CURRENT THOUGHTS

The factors behind this post Brexit rally in U.S. stocks invoke varying degrees of confidence, but also concern. The first is the uptick in U.S. economic data. Employment numbers rebounded after May's weak report and retail sales, manufacturing, and the service sector all strung together consecutive months of improvements. Investor confidence based on positive economic fundamentals translating into stronger earnings, would be the most logical reason to support the rally. The next justification is central bank policies. Amid all the global uncertainties, central banks have reiterated that they will remain accommodative. The Fed has yet to implement a second rate hike, with consensus being there may be just one by year-end. The European Central Bank hasn't slowed its monetary stimulus and the Bank of Japan is upping the ante with a new 45 billion Dollar fiscal stimulus program. The effectiveness of these policies generating true growth is slightly less inspiring. A consequence of these policies, i.e. a surge in negative yielding government bonds abroad, leads to a final factor behind the rally. There are few better options than U.S. equities. Artificially low yields on a global scale has made it difficult for investors to find attractive opportunities in the bond market, which in turn has pushed flows into equities. Ultimately, investors must look to earnings to drive a sustainable rally, making positive earnings growth in the latter half of the year increasingly important.

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