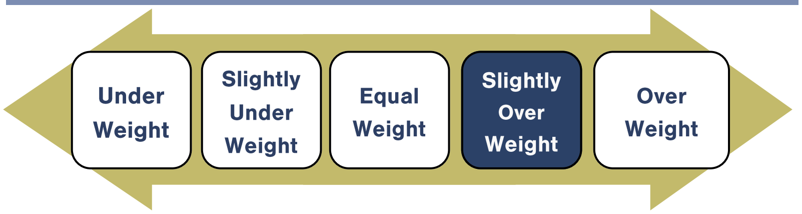
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - AUGUST 2019 (as of 8/29/19)

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.

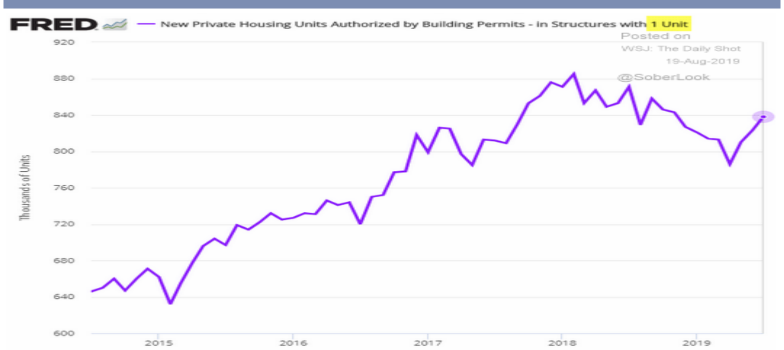
ECONOMIC NEWS

- The outlook for trade between the U.S. and China remains cloudy. The U.S. announced plans to apply tariffs to an additional $300 billion of Chinese goods. China retaliated by adding tariffs to another $75 billion worth of U.S. goods. Trade negotiations are expected to continue in September.
- Aside from weakening in the manufacturing sector, U.S. economic data has been resilient. U.S. consumers are still spending, due to a strong labor market & rising wages. As a result, the Federal Reserve Bank of Atlanta is forecasting economic growth for the 3rd quarter to expand by 2.3%.
- Economic sentiment in the U.K. has hit a 7-year low according to a report from the European Commission. Lower consumer confidence and deteriorating business conditions for retailers were the major contributors to the latest drop in sentiment.

MARKET NEWS

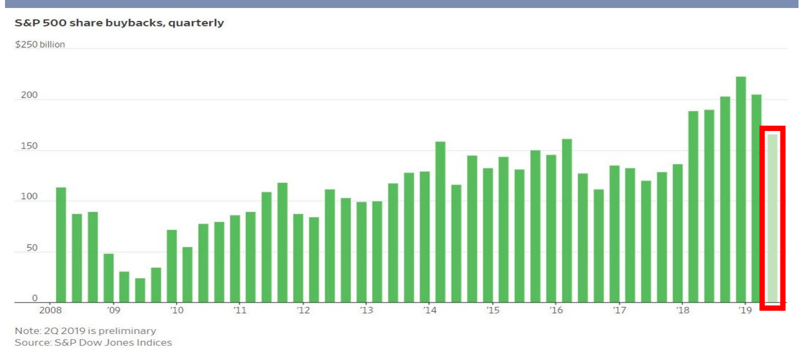
- The 10-year U.S. Treasury yield fell to 1.46% this month, the lowest point since 2016. As demand for the safety of Treasuries increases, yields fall. Increased appetite for longer-dated Treasuries illustrates investors' concerns about future economic growth, especially for investors outside the U.S.
- Defensive sectors of the stock market such as Consumer Staples and Utilities lagged early on this year, but as volatility and recession fears have picked up, they have outperformed the S&P 500. Year-to-date, Staples and Utilities have returned 21.30% and 20.04% respectively vs 18.16% for the S&P 500.
- Despite the heightened level of volatility, including over 50% of August trading days with S&P 500 moves up or down 1% or more, the index is only down –0.99% this month through 8/29.

BUILDING PERMITS FOR HOUSING ON THE RISE



Although housing starts slowed in July and prices have come down, building permits for single-family housing have been increasing. July saw a 1.8% increase in permits, reaching the highest level in 8 months. Lower mortgage rates may be beginning to boost demand and could prevent further declines in housing prices.

SHARE BUYBACKS SLOW TO AN 18-MONTH LOW



As volatility picks up, it can provide corporations an opportunity to buy their own shares at a discount. Buybacks in the 4th quarter drawdown last year surged. But when volatility picked up in May, companies didn't buy back as much, suggesting trade uncertainty is affecting more than just capital expenditures and is sending cash to the sidelines.

CURRENT THOUGHTS

There has been no shortage of market-moving headlines in August, but the bond market has certainly caught everyone's attention with the "inverted yield curve". The yield curve illustrates the interest rates associated with U.S. Treasuries of various maturities. A normal yield curve is one where rates on longer-term Treasury bonds are higher than short-term Treasury rates. Investors should get paid more when their money is invested for a longer period of time. When this relationship inverts, meaning longer-term Treasuries yield less than short-term Treasuries, it is a cautionary signal. Historically, if bond investors believe the economy is beginning to slow, demand increases for longer-term bonds and consequentially, lower yields follow. If the Fed is slow to react and doesn't cut short-term interest rates quick enough, short-term yields remain higher, leading to the inversion. With so much of the global bond universe yielding negative rates, foreign investors' demand for positive yielding Treasuries is also adding to the demand pressure. An inverted yield curve is touted as one of the most reliable indicators of a looming recession. There are examples where it doesn't hold true, but the bigger point is that an inverted yield curve doesn't mean the recession is right around the corner. In fact, the time between the initial yield curve inversion to recession can on average span 12-18 months. Further, the S&P 500 has booked positive returns 6 months after the curve has inverted approximately 88% of the time. That said, it does call for even more attention to where we are in the cycle and the strength of the economic data. U.S. weakness seems to be isolated to sectors most sensitive to the trade war. Across Europe and Asia however, the difficulties are more than just the trade issues. Brexit now seems almost inevitable even without a negotiated deal with the European Union (EU). More political drama is stemming from the resignation of the Italian Prime Minister which has opened the door for an 'anti-EU' party to strengthen influence in the government. Protests in Hong Kong are having an impact on business and investment throughout the region. All of these factors are now driving volatility and weighing on growth forecasts. The U.S. may be able to continue at its current pace of growth for the time being, but a trade deal and economic strength internationally will likely dictate how far away the next recession will be.

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