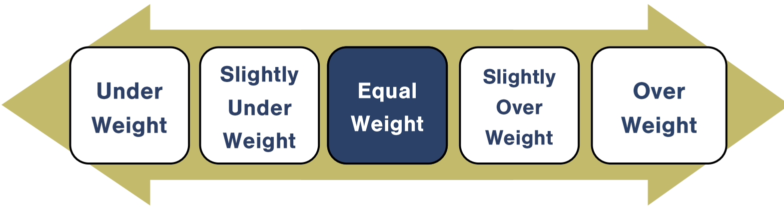
ECONOMIC AND MARKET UPDATE - SEPTEMBER 2016

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.

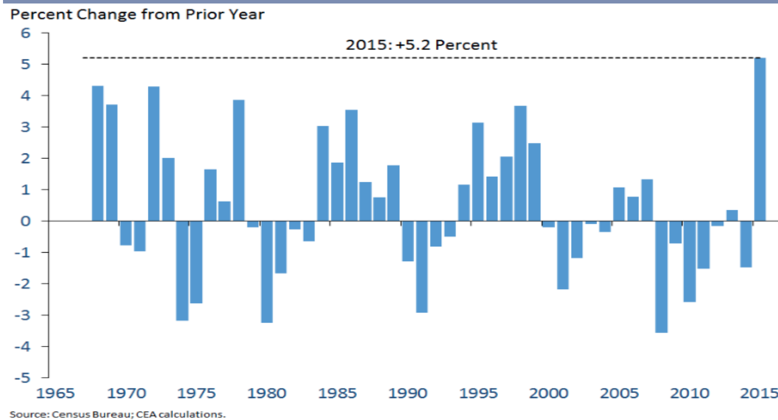
ECONOMIC NEWS

- U.S. economic data was subpar last month with declines in retail sales, industrial production, and manufacturing.
- As a result, the Federal Reserve is standing pat, leaving rates unchanged after their September meeting. Janet Yellen still projects a rate hike in December, assuming continued improvements in the labor market. This has been her mantra all year though, so skepticism remains.
- Eurozone growth is expected to remain sluggish, but stable. European Central Bank president, Mario Draghi, sees the economy becoming increasingly resilient post-Brexit as consumer confidence has begun to strengthen.

MARKET NEWS

- For the past 6 months oil prices have been stuck in a range of $40-$50/barrel with no major supply/demand trends taking hold. Attempts and failures at output freezes are still what seem to be moving prices in the short-term.
- After a historically slow summer, volatility picked back up in September. Competing opinions from various Fed members on interest rate policy resulted in 4 daily market moves greater than 1%, all in less than a week.
- Volatility is anticipated to continue through the U.S. election, but historically, on average, the S&P 500 has risen in the post-election period regardless of who is voted in.

MEDIAN HOUSEHOLD INCOME RISES



Real median household income rose by 5.2% in 2015. This is the fastest growth on record. Additionally, the higher gains were achieved by those in the bottom half of the income distribution, boding well for future spending by the average consumer.

EQUITIES AND BONDS MOVING TOGETHER

The correlation between global stock and bond prices has been steadily increasing this year. If rates ever do begin to rise and push bond prices lower, equities will likely move down in tandem. The deterioration of the traditional inverse relationship between equities and bonds will be a challenging scenario for investors.

CURRENT THOUGHTS

There has been a lack of consistency in economic numbers which has kept up market uncertainty. After what was a strong summer for U.S. data, recent releases show a pullback. Even the housing sector showed weakness, as housing starts fell the most in five months. In China's case, their economic weakness several months ago has recently been overshadowed by recovering imports, retail sales, and industrial production figures. Japan and Europe however, look to be treading water with no real trend. With nothing consistent to drive any long-term direction, the bigger picture is that economic statistics continue to take a back seat to central bank actions or inactions. The markets are less focused on any particular data trend and more concerned with what the central banks will do as a result of the data. Investors know the broader economic situation will be driven by the banks' policies. It's hard to make an argument that higher U.S. rates will help company earnings, consumer wages, and other factors that would drive growth, but rates can actually rise slowly and still be considered accommodative. It is not until 10-year rates exceed 5% that historically there is any material impact on equity prices. Even so, large knee-jerk moves based on any particular Fed meeting, or Fed member speaking out, continue to be the norm. All we can construe from the recent market movements is that investors still feel the economy may not be strong enough to handle any sort of consistent tightening. The Fed's actions confirm that they believe this too.

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

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