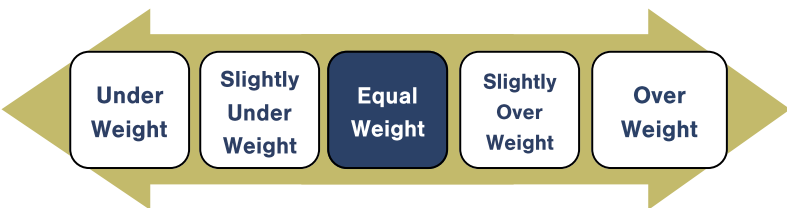


### SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



### CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. We have increased 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. Leading Economic Indicators increased slightly in March after declining for the three consecutive months prior. The index level points to slow growth, but the small increase provides some relief to recession concerns.
- ◆ China's economic outlook remains hazy, but data such as industrial output and fixed asset investment are showing early signs of recovery as monetary stimulus continues.
- ◆ The world's largest oil producers met this month to discuss a plan to freeze crude production in an attempt to support higher oil prices. Negotiations failed as Iran's desire to regain market share prohibited a mutual agreement.

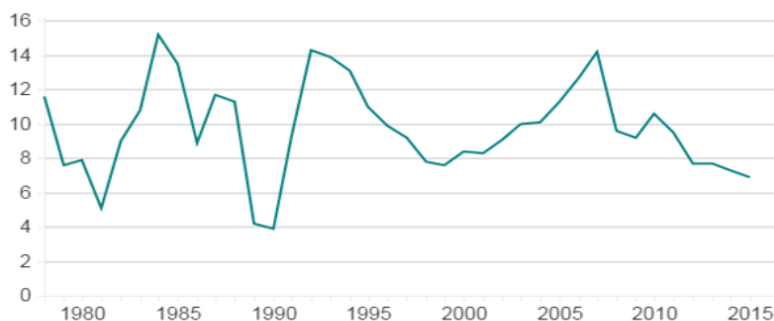
### MARKET NEWS

- ◆ Five of the six largest U.S. banks saw their revenue decline by an average of -16% in the first quarter as a continued low interest rate environment and low trading volumes impact their overall margins.
- ◆ As the U.S. dollar weakened throughout the latest market rally, where capital flows into riskier assets moved the S&P 500 into positive territory for the year, the 10 year treasury yield was unable to break above its recent high of 2%.
- ◆ European indexes have kept up with the U.S. showing flat or slightly positive year to date returns. Asian markets on the other hand have lagged with more persistent volatility.

### DEBT MOUNTS AS ECONOMIC GROWTH PEAKS

#### China's GDP growth rate

%, inflation-adjusted



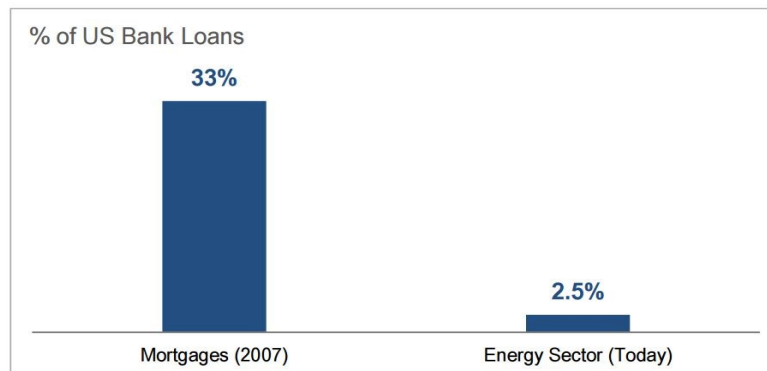
Source: National Bureau of Statistics of China

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Fears of a 'hard landing' in China may have temporarily subsided, but the trend in growth is clear. This slow down is concerning, especially as the country reaches record high debt levels; currently 237% of total Gross Domestic Product, up from 148% in 2007.

### KEEPING ENERGY EXPOSURE IN PERSPECTIVE

#### Bank Exposure: Less Than a Tenth<sup>1</sup>



Source: Goldman Sachs Global Investment Research.

While the number of energy loan defaults will certainly be an issue for some institutions, the banking industry's overall exposure to the energy sector is less than a tenth of the percentage of mortgage loans outstanding during the housing bubble, easing crisis fears.

### CURRENT THOUGHTS

The news surrounding this earnings season has been pessimistic to say the least, as we are likely to see the 4th consecutive quarter of negative earnings growth. Such an adverse outlook brings weakened expectations among analysts. These lowered expectations are very often too low and thus many companies are able to 'beat' the estimates. News headlines sometimes find optimism in companies beating lowered expectations, which can surprisingly overshadow whether or not the actual data was good or bad. Price to earnings ratios show market valuations are slightly above their historic average, which generally calls for a convergence. This can come in the form of improving earnings through the rest of this year or a decline in prices. That said, S&P 500 prices have been incredibly resilient amid a difficult economic backdrop that still needs to regain footing. The consumer remains paramount in achieving this rebound while Europe, Japan, and China continue to work through their own problems and provide meager support by way of global demand. Oil prices are slowly climbing higher even without a 'freeze deal' among OPEC members, with production in the U.S. continuing to drop. The impact of a struggling energy sector on banks should be limited, but the effect on aggregate earnings is meaningful. Any sort of sustainable oil rally, hopefully on real changes in the supply/demand imbalance will provide alleviation to the negative earnings data going forward, allowing for more reasonable valuation levels without another steep price correction.

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