WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - NOVEMBER 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION

Under Weight | Slightly Under Weight | Equal Weight | **Slightly Over Weight** | Over Weight

CURRENT ASSET CLASS ALLOCATIONS

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

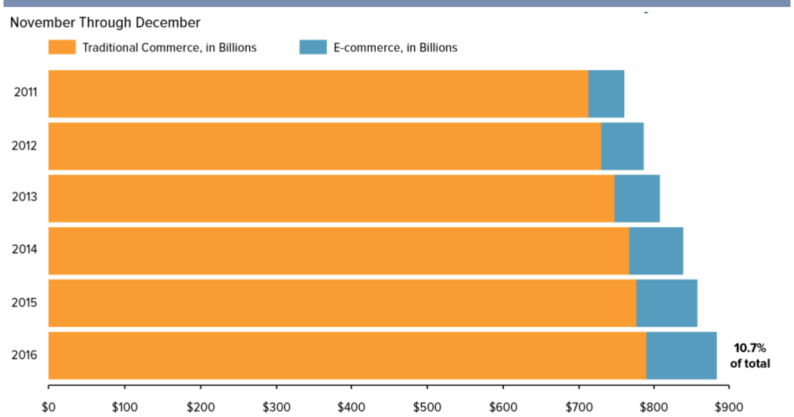
ECONOMIC NEWS

- Average hourly earnings in the U.S. rose 0.1% in October on an inflation-adjusted basis. Although the increases are modest, this is the fourth monthly rise in 2016.
- Even though inflation is crawling higher in the U.S., deflationary pressures abroad continue to pose a threat. Consumer prices in Japan fell for the 8th straight month as central bank stimulus fails to trigger any sort of inflation.
- U.S. corporate earnings for S&P 500 companies grew for the first time in over a year in Q3, up 3.2% from this time in 2015. However, future earnings growth will be challenged by higher interest rates and a strong U.S. Dollar.

MARKET NEWS

- Two weeks after the election, four major U.S. stock indexes, the S&P 500, Dow Jones, Russell 2000, and the Nasdaq all made new highs as the post-election rally persists.
- Over that same period, 10-year treasury yields saw their largest 2-week rise in 15 years, moving up to 2.34%, based on inflation and rate hike expectations.
- There has been large divergences in sector performance driven by Trump-policy speculation, with economically cyclical areas like financials and industrials outperforming, while defensive sectors such as healthcare and utilities have lagged.

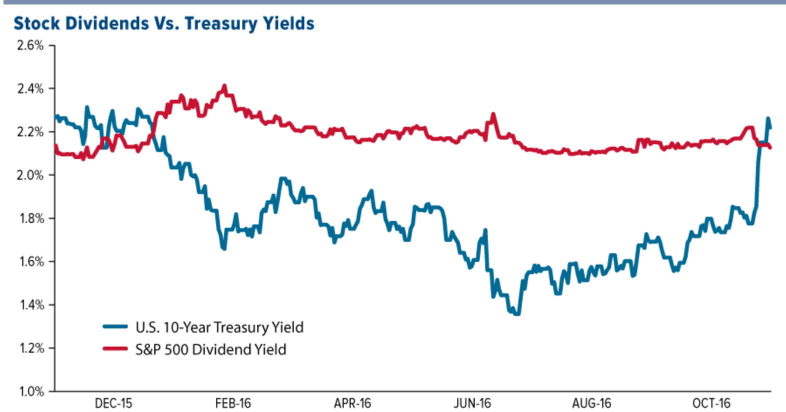
E-COMMERCE INCREASING ITS SHARE OF SALES



Source: eMarketer, Bloomberg, U.S. Global Investors

Online sales have been a growing share of the retail market and this holiday season e-commerce is expected to be at record levels; nearly 11% of total sales. Mirroring that rise has been an increase in packages sent, helping delivery companies like FedEx and UPS.

TREASURY YIELDS RISE ABOVE DIVIDENDS



Source: Bloomberg, U.S. Global Investors

The latest surge out of treasuries pushed yield levels above the S&P 500 dividend yield for the first time in 2016. If that holds, some investors that were forced into equities by historically low rates may begin to try to achieve their income needs with bonds once again.

CURRENT THOUGHTS

The market seems completely focused on a “pro-growth” agenda that may come from some of Donald Trump’s proposed policies. These include tax reform, infrastructure spending, and less government red tape, which are generally seen as positive for the economy. The concern is that some of the rise in stock prices may be overdone, with certain sectors up substantially since the election, based on policies that haven’t been enacted. A focus on fundamental data however, still provides a sense of optimism. Retail sales increased in October at a pace that doubled expectations, with August and September’s numbers being positively revised as well. Signs in other areas such as manufacturing, employment, and the service sector all remain steady or have been improving for consecutive months. These factors, along with improving earnings, bode well for the stock market. Several forces in the bond market on the other hand, are becoming more challenging. The post election drop in bonds is partially a result of rising inflation expectations and also for a stronger economy, which pushes flows into equities. Trump’s promise for infrastructure spending and fiscal stimulus would likely spur more inflation, but this speculation, like in certain equity sectors, may be overdone too. While some of the dramatic moves in the market may materialize into long-term trends guided by government policies, it’s possible that traders have overshot the mark for now and a retracement may be necessary for the longer-term trends to continue.

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