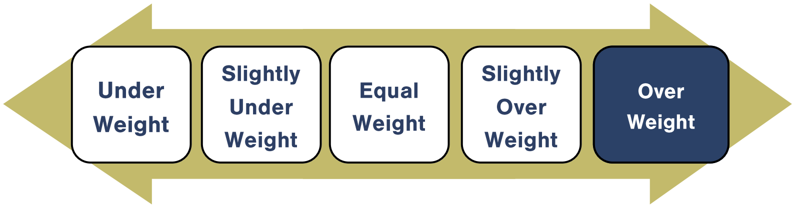
WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - JULY 2018

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

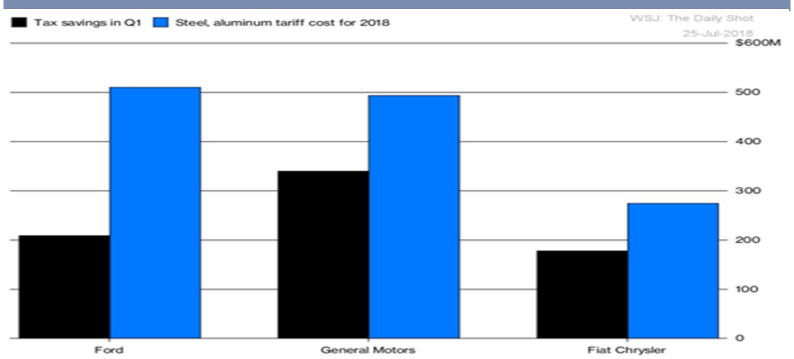
ECONOMIC NEWS

- China's trade surplus with the U.S. hit a record high in June due to Chinese exporters increasing shipments before tariffs went into effect in July. The goal of the tariffs put in place by the U.S. is to reduce China's trade surplus.
- U.S. economic growth rose to 4.1% in the 2nd quarter. Like in China, exports rose significantly, which may be temporary, but consumer spending was the important driving force.
- U.S. new home sales have declined for the past 3 months, down 5.3% in June. Home prices have continued to increase, sending housing affordability to a 10 year low.

MARKET NEWS

- Japanese bond yields rose 0.06%, to the highest level since February, albeit only to 0.09%, on expectations that the Bank of Japan will reduce its accommodative monetary policy.
- Brexit negotiations are still underway. Although a deal is expected to be reached before the official U.K. exit from the European Union, uncertainty on the deal terms has negatively impacted both regions' markets, as well as their currencies.
- With 25% of S&P 500 companies having reported earnings for the 2nd quarter, the pace is set for the strongest earnings growth since 2010 & the strongest sales growth since 2011.

TARIFF COSTS OVERSHADOW TAX CUT BENEFITS

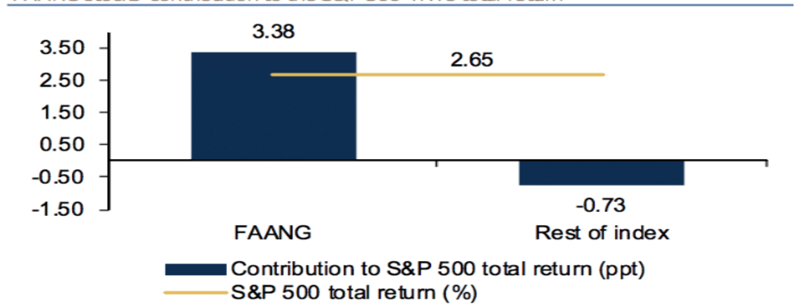


Note: Calculations don't take into account other factors, such as depreciation, foreign tax credits or other one-time tax charges or benefits that can alter overall tax rate. Data: Bloomberg, Nomura; graphic by Bloomberg Businessweek

Tax cuts have been positive for companies & a key driver of higher earnings and revenue numbers. The impact of tariffs however is overshadowing these benefits in certain areas of the economy. Automakers for example are seeing costs jump significantly as a result of the steel & aluminum tariffs. Industry leaders have warned of the need to increase prices on their autos to offset rising costs.

TECHNOLOGY DRIVING PERFORMANCE

FAANG stocks' contribution to the S&P 500 1H18 total return



Note: FAANG = FB, AAPL, AMZN, NFLX, GOOG/GOOGL
Source: S&P, BofA Merrill Lynch US Equity & US Quant Strategy

In the large cap space, technology companies have been able to withstand the volatility surrounding global trade. Given their earnings are more 'service-oriented', they are not as sensitive to raw material prices for example. The largest tech names accounted for nearly all of the S&P 500's gains in the first half of the year. In fact, if those names were removed, the index return would have been negative.

CURRENT THOUGHTS

Earnings season has gotten off to a solid start overall driven mainly from better overall revenues aided by tax cuts. There have, however, been some high-profile misses, resulting in double-digit losses. Facebook's stock declined nearly 20% after its earnings release. While the big tech names have been the strongest performers in the first half of the year, they certainly aren't invincible and lofty optimism can result in sharp reversals. That said, it would be an overall positive for other sectors of the market to gain some momentum and lead indices higher. This would increase confidence that a continuation of the bull market uptrend is sustainable. The earnings releases over the next several weeks are of particular importance in that investors are looking for positive catalysts that will allow them to shift focus back towards fundamentals and away from trade war rhetoric. Developments on global trade have been mixed. China has allowed their currency, the yuan, to depreciate. This was likely done in an effort to partially offset the effects of the tariffs and be more accommodative in the face of a potential economic slowdown. A cheaper yuan makes buying Chinese goods more attractive and would help their exports. So far, we haven't seen any retaliation by the U.S in response. Meanwhile, talks have improved between the U.S. and Europe. On the surface, both sides seem resolute in removing tariffs and avoiding a trade war. Even as progress is made, further volatility should not come as a surprise. Leading economic indicators are still looking up and a strong earnings season coupled with lowered tensions on trade should be a supportive environment for stocks.

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

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