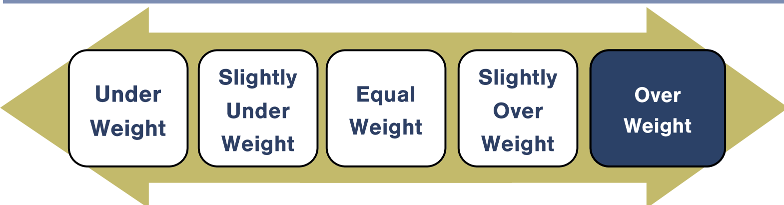
SFMG WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - NOVEMBER 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.

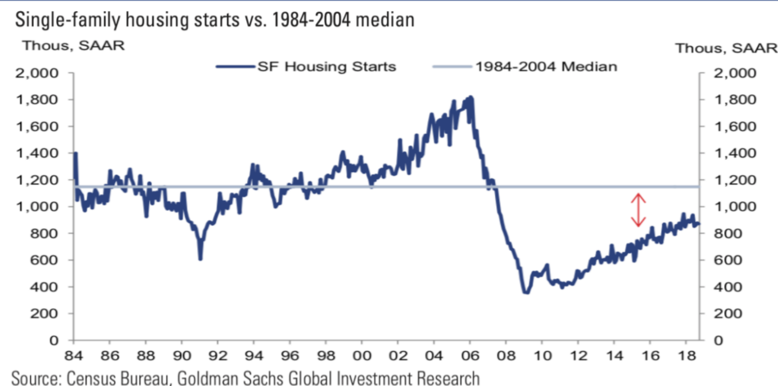
ECONOMIC NEWS

- Economic sentiment in the Eurozone continues to weaken as manufacturing activity falls to the lowest level in 5 years and political uncertainty remains elevated.
- Expectations are rising that the Federal Reserve won't hike rates as many times as initially intended. As global growth slows, Chairman Powell stated they could slow the hikes, which gave relief to stocks and sent treasury yields lower.
- U.S. Retail Sales rose by 0.8% in October, the strongest level in 5 months. Consumer confidence is still at very high levels, as is the outlook for continued growth in spending.

MARKET NEWS

- Oil prices have declined by just over 30% since October as Saudi Arabia oil production hit an all time high and U.S. shale drillers increase their production as well.
- The 10-year treasury yield has retreated to near 3% from over 3.20% this month, as weaker stock prices push investors to bonds, driving bond prices up & yields down.
- More defensive sectors such as Utilities and Consumer Staples have outperformed this month as market volatility kept up, however more 'risky' cyclical sectors have recently begun to regain some ground.

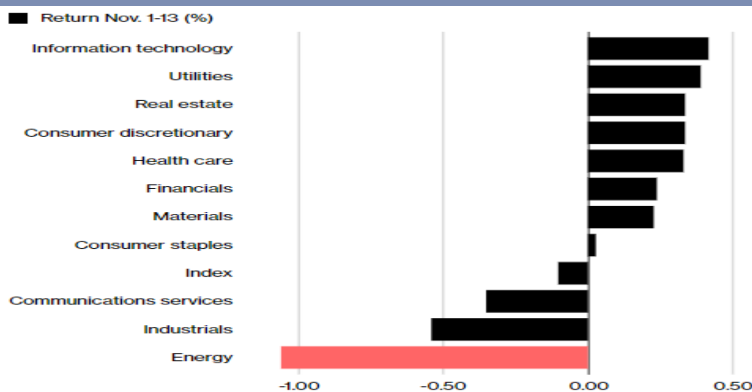
HOUSING MARKET COOLING



Source: Census Bureau, Goldman Sachs Global Investment Research

The housing market is softening & the outlook for homebuilders has turned sour, but this may not be signaling a long-term decline. Single family home construction has been below average since the financial crisis, keeping inventories low & providing upward pressure on prices. Higher mortgage rates hurt demand initially, but as prices cool, balance may be reached as buyers step back in.

ENERGY SECTOR IMPACT ON HIGH YIELD MARKET



Junk bonds, i.e. high yield debt, is issued by companies with a higher level of credit risk. As a result, certain sectors of the high yield index are more sensitive to market moves. Energy debt has been the worst performing sector in the index (pictured above) as oil prices sink. Lower oil prices mean lower revenues for those companies, making their risk of default higher.

CURRENT THOUGHTS

As we approach the final weeks of the year, the stock market is attempting to scrape together positive returns. The S&P 500 was down 2.35% for the year at its low point on November 23rd, but is now just back into positive territory. U.S. earnings for the 3rd quarter have come in strong, but the expectation for future growth is dampening and we may be experiencing peak earnings growth. While a slowdown in earnings growth is not a positive, it does not necessarily translate into lower stock prices right away. Historically, approximately 75% of equity market peaks have happened more than 2 years after earning growth reaches its high point. Although earnings are a primary driver of the stock market, there are factors both domestically and globally that can determine when the market may reach a top. Despite the U.S. generating solid economic growth, the global macro and political headwinds persist and until there are resolutions, there will be an increased likelihood of the U.S. economy beginning to slow. Although recent reports imply that progress could be made between the U.S. & China in their meeting via the G-20 summit taking place 11/30/18 and 12/1/18, investors are growing weary of the see-sawing rhetoric. As a result, the markets are no longer responding as enthusiastically to headlines that hint of potential progress. For better or for worse, eventually there will be an answer and this upcoming meeting could be a catalyst.

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

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