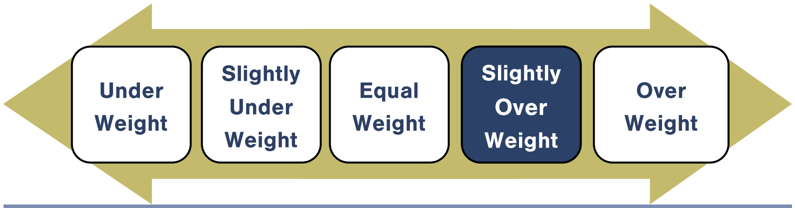
ECONOMIC & MARKET UPDATE - JANUARY 2021 (as of 1/28/21)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The long-term uptrend in markets was broken, but has recovered. Following the sustained strength in our risk signals, we have increased our stock exposure to **Slightly Overweight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

ECONOMIC NEWS

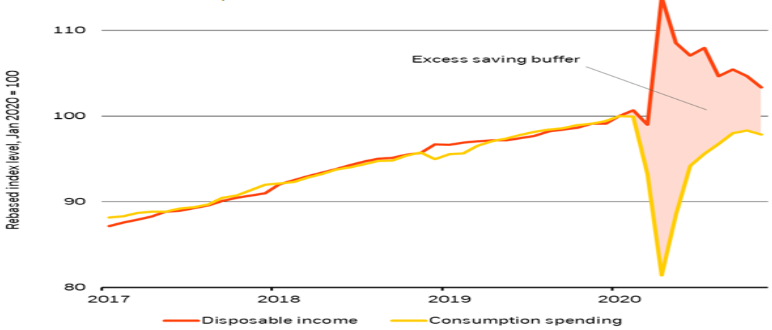
- U.S. manufacturing rose to its highest level since 2018 in December showing strength into year-end. Even the services industry, which has been more impacted by COVID restrictions surprised to the upside, reaching a 3 month high in activity.
- The Biden administration's plans for the next round of stimulus includes more individual checks, expanded unemployment benefits, a higher minimum wage, and more funding for vaccine distribution. The full package would be valued at $1.9 trillion, but will likely be lowered to garner bipartisan support.
- The NFIB Small Business Optimism index has dropped the past two months, hitting a 7-month low, as owners fear on-going COVID related challenges. Hiring and spending plans may be delayed, but additional stimulus could improve sentiment.

MARKET NEWS

- The 10 year treasury yield rose solidly above 1% following the Democrat's taking control of the Senate, which increased expectations for more stimulus. Additional stimulus in the economy may result in higher inflation, which has put upward pressure on interest rates.
- Cryptocurrencies have also been on the move, partly due to inflation expectations and larger institutions publicly taking positions in the digital asset. Bitcoin rose roughly 150% in the past 3 months, however remains very susceptible to extreme volatility. Following the recent high on January 8th, Bitcoin fell nearly 30% in a single day.
- The technology sector has lagged more cyclical and value-oriented parts of the market to kick-off 2021. The tech heavy NASDAQ index is up 3.48% year-to-date while the Russell 2000 small cap index has returned approximately 6.5%. Both are still besting the S&P 500, which is roughly flat for the year.

PENT UP DEMAND POTENTIAL FOR SPENDING

U.S. income vs. consumption, 2017-2020

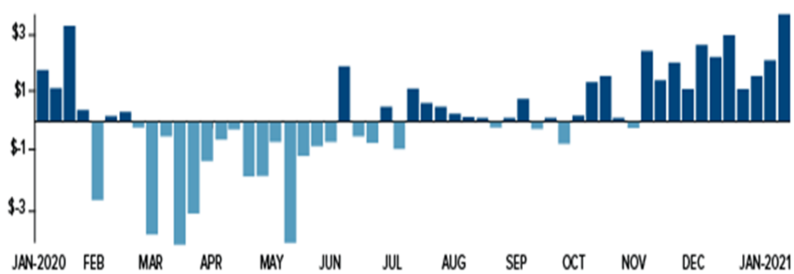


Sources: BlackRock Investment Institute, Bureau of Economic Analysis, with data from Haver, January 2021.

Economic growth in 2021 is expected to be fueled by large accumulated amounts of household savings, which is estimated to be about $1.5 trillion larger than the savings levels in the year before the pandemic. As restrictions unwind further and people get vaccinated, consumer spending should increase and use the excess amount of savings that have been built up.

EMERGING MARKET FUNDS SEE INFLOWS

Net Flows Into U.S. Listed Emerging-Market Stocks and Bonds ETFs
In Billion U.S. Dollars



Includes ETFs that invest across emerging markets as well as those that target specific countries. **Source:** Bloomberg, U.S. Global Investors

Emerging market bond and stock funds have seen 11 straight weeks of inflows from investors. The inflows have come alongside strong performance in these areas. A weaker U.S. dollar, continued accommodative monetary and fiscal policies from central banks, and a pickup in global growth should all continue to be beneficial for regions outside the U.S.

CURRENT THOUGHTS

It has now been over a year since the first U.S. case of COVID-19 was documented and while the landscape for the markets and economy have changed dramatically, the same drivers of the changes are still very much in play. Vaccine hopes helped stocks move higher last year. This year the focus is on a speedy distribution to get as many people protected as possible. Central Banks and government stimulus supported the 2020 market rebound, but all eyes are still on the negotiations for the next round of stimulus. The stage is set for a return to normal in 2021, however the trajectory and effects of the normalization must be monitored. Higher economic growth, especially when driven by stimulus, will likely result in some inflationary pressures. Prices of goods and services should rise as demand picks up. The question is how quickly and to what extent. Rising inflation generally comes with rising interest rates. Higher interest rates at some point will pressure stock markets as investors may be more willing to shift dollars away from stocks and into a less risky bond investments earning at least some desired level of interest. This is a natural part of the business and economic cycle, however when it occurs too rapidly, the market moves for both stocks and bonds can be volatile. So far, any inflation pressures have been moderate and interest rates have risen gradually over the past several months, but we are watching closely for signs of acceleration in either and evaluating different ways to address it.

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