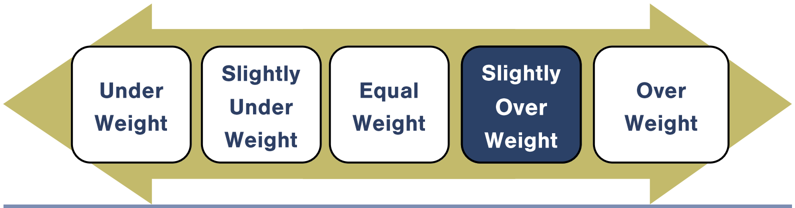
ECONOMIC & MARKET UPDATE - FEBRUARY 2021 (as of 2/25/21)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

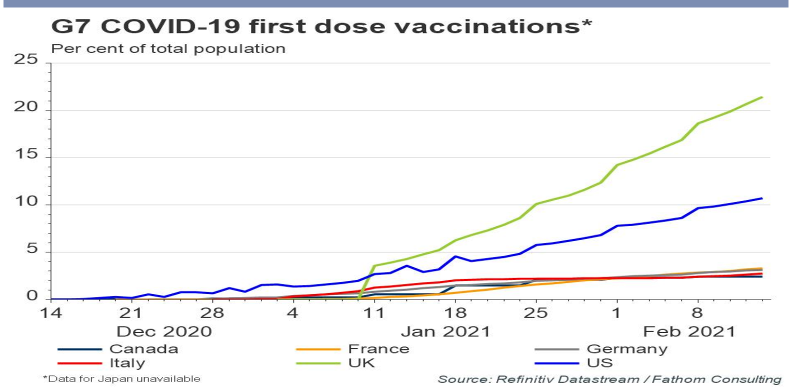
ECONOMIC NEWS

- After 3 consecutive months of declines, U.S. Retail Sales started 2021 off strong, rising 5.3% in January. The combination of more reopened businesses and stimulus checks are likely the culprit for the strongest gain in consumer spending in 7 months.
- As better than expected economic data continues to come in, economists have been revising U.S. growth projections higher. Goldman Sachs recently updated its 2021 Gross Domestic Product (GDP) forecast up to 6.8%.
- The final details of the upcoming coronavirus relief package are still being ironed out; however, a ruling has been made that the $15 minimum wage provision proposed by the Democrats won't likely be included in the package.

MARKET NEWS

- Interest rates have continued to rise as economic growth and inflation expectations pick up. The 10-year Treasury yield breached 1.50% for the first time since January 2020.
- The utilities sector has declined roughly −6.5% over the past month due to rising bond yields. One reason investors may prefer utility companies is for their dividend yields, which look relatively less attractive as bond yields become more competitive.
- Commodities have been benefitting from an improving global economy. Higher demand for goods means higher prices for the inputs needed to manufacture the goods. Copper prices, for example, have risen to the highest level in 9 years. Other commodities such as oil and lumber have also seen increases in value.

UNITED KINGDOM VACCINATION SUCCESS



Although the U.K. has been experiencing some of the highest COVID-19 mortality rates & total infections in Europe, the vaccine rollout has been a success. The program has surpassed the government's target of initial doses offered to the highest priority groups. Prime Minister Boris Johnson has now laid out a plan to reopen the economy and end all COVID-19 restrictions by June.

CHINESE STOCKS HIT ALL TIME HIGHS

China was the only major economy to see economic growth in 2020, resulting from the country's reliance on manufacturing, which was able to remain in operation despite lockdown measures. Their stock market has recently hit all time highs, pricing in on-going economic strength. China should be a beneficiary of its global trading partners recovering further from the pandemic.

CURRENT THOUGHTS

Positive vaccine news, stimulus, and an economic rebound continue to boost overall sentiment for a powerful recovery in 2021. COVID-19 cases, hospitalizations and deaths are all falling rapidly. Johnson & Johnson's single-dose vaccine is expected to obtain Emergency Use Authorization, which would put a third vaccine option on the market, after Pfizer and Moderna. This should expand the total supply of vaccines available to those that want to get vaccinated and consequently allow for a quicker 'return to normal' in consumer behavior. Those developments, along with additional stimulus on the horizon, have investors weighing the potential for even higher inflation levels, which is causing interest rates to rise. There has been some volatility in the stock market, in part due to the fast pace at which interest rates have risen, but as long as rates are shifting higher because of improving economic growth, the environment can remain positive for stocks. Historically, interest rates reaching levels in the 2-3% range haven't necessarily been a headwind for the stock market. But again, if rates rise too quickly and all at once, it will be unsettling for investors in the short-term. The changing environment, whether it be rates, inflation, or new government legislation can all have different impacts across asset classes and the various market segments within each asset class. We continue to search for ways to shift portfolio positioning to try and navigate these changes.

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