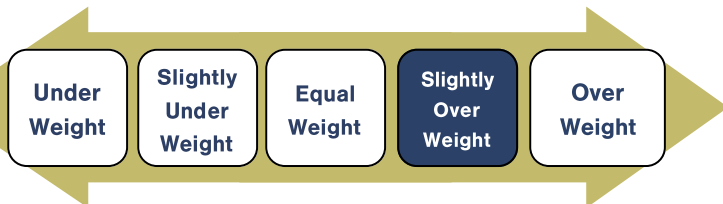


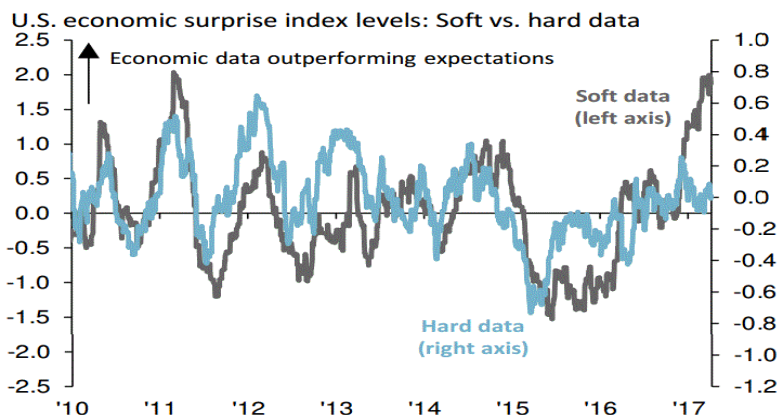
SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



ECONOMIC NEWS

- U.S. inflation, as measured by the Consumer Price Index, has eased slightly resulting mainly from a decline in gas prices. Inflation expectations are falling as well, as fiscal stimulus timing becomes more uncertain.
- Similar to the U.S., business optimism in the Eurozone is accelerating, especially in Germany, whose business climate index rose to its highest level in nearly six years.
- The Conference Board's index of leading economic indicators rose 0.4% in March. The index is up 2.4% over the past six months; the most since early 2015. Strength here suggests positive growth momentum going forward.

HARD VS. SOFT DATA



"Soft data", comprised of surveys and business cycle indicators have been rising significantly in the U.S., showing high levels of confidence among consumers and businesses. "Hard data" such as payrolls, sales, and production have been improving, but not at the same rate. Soft data is regarded as a **leading** indicator, meaning optimism and confidence are thought to lead to increased spending and growth.

CURRENT THOUGHTS

European political risk was reduced as Emmanuel Macron made it through to the final election round against Marine Le Pen, who supports France leaving the European Union (E.U.). Leading up to the election, investors sought some safety in U.S. treasuries, buying up bonds and pushing the yield on the 10-year treasury down to 5 month lows. Polls have Macron ahead by approximately a 20% margin for the May 7th election. Macron supports remaining in the E.U., but is also seen as "business-friendly," which is encouraging for the stability of France's economy and the E.U. as a whole. Business-friendly policies are still a work in progress in the U.S.. Treasury Secretary Steven Mnuchin has recently not been as optimistic about getting tax reform passed by August after an inability to repeal and replace the Affordable Care Act, as well as solidify infrastructure plans. Reworking the entire tax system however, will likely be a bigger undertaking than getting tax rate cuts passed. The cuts that have just been proposed are a corporate tax rate cut from 35% to 15% and reducing the tax on foreign income earned overseas. While the objective is to make U.S. businesses more competitive, future earnings growth is not dependent on these proposals. Over the long-run, the focus remains on the recovery from an earnings recessions for stocks and how the aforementioned hard data tracks the soft data. The continued improvement in production, sales, and growth do not need to see a move of the same magnitude and pace as the leading indicators for the outlook to remain positive.

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

The purpose of the update is to share some of our current views and research. Although we make every effort to be accurate in our content, the datum is derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity. Charts and tables shown above are for informational purposes, and are not recommendations for investment in any specific security.

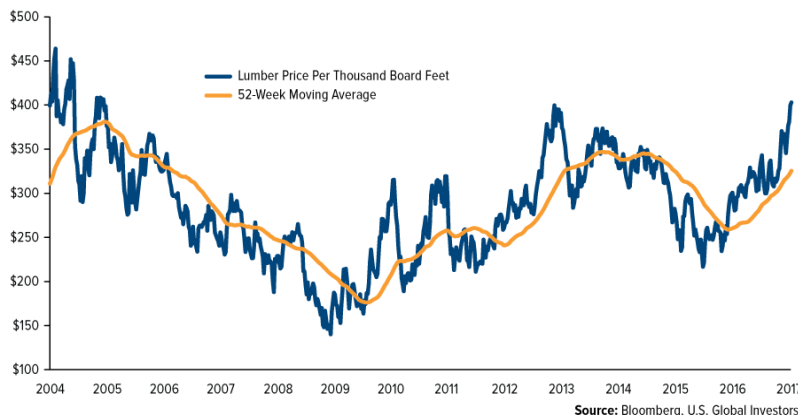
CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. We have maintained 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.

MARKET NEWS

- S&P 500 earnings-per-share growth for companies that have reported Q1 numbers is tracking a 10% increase from last year, the first quarter of double-digit growth since 2014.
- After the first round of French elections, European Union supporter, Emmanuel Macron is the front-runner against Marine Le Pen for the final round. European equities, bonds and the Euro all rallied as "Frexit" fears fade.
- Market volatility remained historically low in the first quarter, and only saw a brief increase recently from a number of geopolitical risks. The volatility index (VIX) is back at low levels reflecting a sense of investor complacency.

TRADE POLICY LEADS TO LUMBER PRICE JUMP



Source: Bloomberg, U.S. Global Investors

Lumber prices are hitting the highest prices seen in over a decade as the U.S. seeks to impose tariffs on Canadian imported lumber. Tariffs make it more expensive for foreign countries to export and likewise countries like the U.S. to import. This impacts both inflation & related industries like housing in this example. Canadian lumber makes up about 30% of lumber used in U.S. residential housing construction.