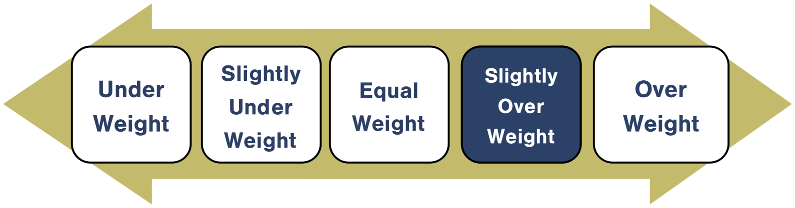
ECONOMIC AND MARKET UPDATE - OCTOBER 2017

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 **Slightly Over Weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

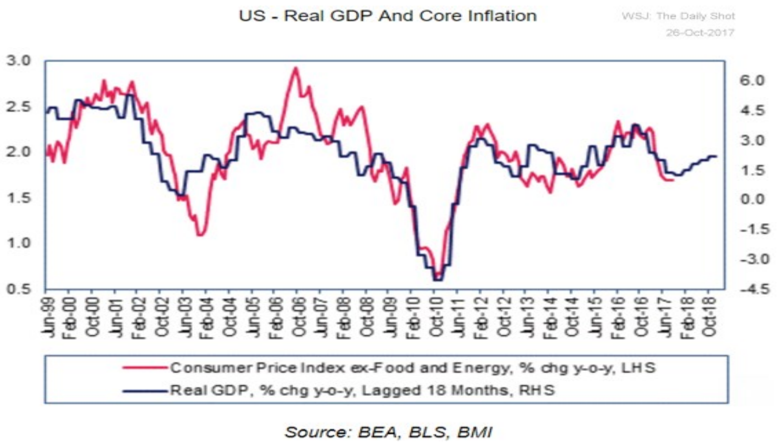
ECONOMIC NEWS

- Japanese Prime Minister Shinzo Abe was reelected this month which had a positive effect on world stocks, based on expectations for the continuation of his accommodative monetary stimulus policy, “Abenomics”.
- The Conference Board’s Leading Economic Index experienced its first decline in over a year, dropping 0.2%. Building permits & jobless claims both had negative impacts, but are thought to be temporary effects of the hurricanes.
- International Monetary fund economists have raised global growth forecasts by 0.1% to 3.6% in 2017 & 3.7% in 2018.

MARKET NEWS

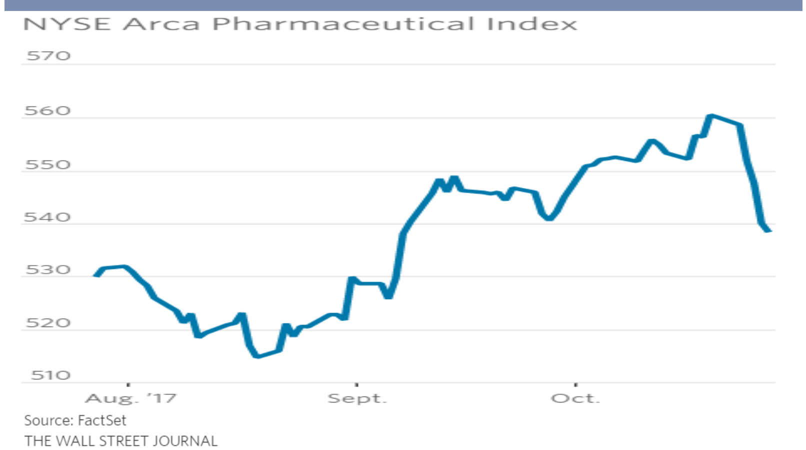
- The average cash balance of fund managers is down to 4.7%, the lowest level since May 2015, according to a Merrill Lynch survey. This illustrates further confidence in stocks as more cash comes off the sidelines.
- The S&P 500 has gone over 242 trading days without a 3% decline. This is the longest streak ever and comes amid a historic level of low volatility.
- Market breadth has been strong as most major indexes have made new highs. The technology sector however has been the strongest driver of market gains recently.

U.S. GROWTH AND INFLATION



Inflation remains below the Federal Reserve’s target level of 2%, however this could change with the pace of gross domestic product advancing. Higher growth has historically meant higher prices, thus the Federal Reserve will be keeping a watchful eye on various inflation measures, especially as they raise rates.

PHARMACEUTICAL STOCKS DECLINE



Biotech and healthcare companies have struggled in the final days of October. Weak earnings and growth prospects have sent shares lower, but legislation concerns out of Washington and the possibility of Amazon’s impact on the industry have also contributed to the volatility.

CURRENT THOUGHTS

The 2018 fiscal year budget was passed in the U.S. Senate, which was a necessary step in getting closer to a tax reform bill. There still seems to be some disagreement among Republicans on certain aspects of the proposed cuts and reform, but the biggest issue is how the lost tax revenue will be offset. Without a tangible way to reduce government spending, taxes would need to be increased somewhere. Earlier this year, the thought was that ‘Border Adjustment Taxes’ would be levied on companies, but now the focus is on state and local taxes; ‘SALTS’ for short. This would remove the ability for taxpayers to deduct state and local taxes against federal income taxes. A compromise will need to be made, but the result is still very much up in the air. Current stock market levels indicate that the benefits of tax reform are being priced in. If a resolution is not reached, economic data and earnings will need to remain positive to support stock prices. U.S. Gross Domestic Product had another relatively strong showing, rising 3.0% quarter over quarter, suggesting the impact from hurricanes may be more limited than previously expected. Growth in manufacturing and consumer spending, along with a strong 3rd quarter earnings season have all helped the stock rally continue. The bond markets however, have been reacting to the potential Fed Chair possibilities. Yields initially pushed higher when John Taylor was the front runner, but with the odds shifting to the more accommodative Jerome Powell, yields have pulled back. As we enter the final months of a year, some sort of market correction would not be surprising given the record low volatility, but we are still absent any major recessionary signals.