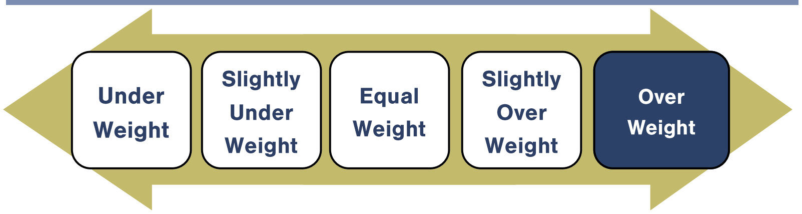
ECONOMIC AND MARKET UPDATE - OCTOBER 2018

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.

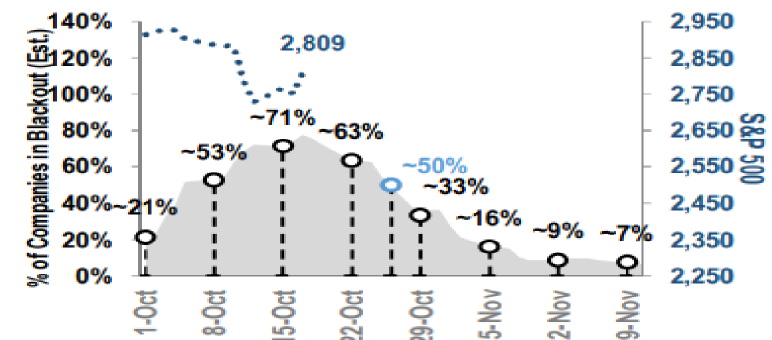
ECONOMIC NEWS

- The International Monetary Fund reduced its global growth forecast down from 3.9% to 3.7% for this year, citing trade policy disruptions and Emerging Markets instability.
- U.S. economic growth for the 3rd quarter was 3.5%. Growth was fueled by a large buildup in inventories, with consumer spending continuing to be a strong contributor.
- China's economy has begun to slow, but President Xi Jinping has vowed to support the private sector & economy & introduced a plan to cut personal income taxes.

MARKET NEWS

- Volatility has picked up in the 3rd quarter as more high profile companies begin to take a cautionary tone and are warning of increasing price pressures.
- The S&P 500 fell -9.88% from peak to trough, just shy of a -10% 'correction' level. If earnings per share estimates for the rest of the year are not revised significantly lower, this pullback has in effect improved valuations.
- Banks are still struggling as short-term rates rise quicker than long-term rates. This cuts into margin earned between what banks pay on deposits vs interest earned on loans.

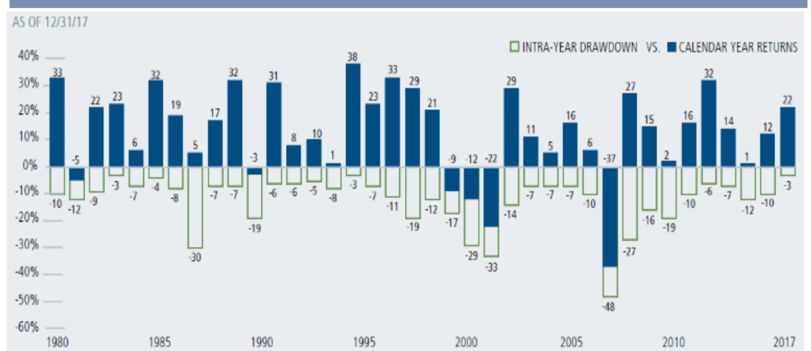
STOCK BUYBACKS COULD PROVIDE SUPPORT



Source: J.P. Morgan US Equity Strategy

Companies have 'blackout' periods surrounding their earnings releases, when they are restricted from buying back their own stock. The number of companies in blackout periods peaked in mid-October and is now declining. As more companies regain the ability to buy back stock, this could provide a source of buying demand and support for stock prices.

MARKET DRAWDOWNS AND ANNUAL RETURNS



Source: Morningstar. Data shown is represented by daily price return performance. **Past performance is no guarantee of future results.**

Perspective on stock market corrections is vital to remember during periods of volatility. Corrections for the S&P 500 (-10% drop or more) occur, on average, once every 357 days. The chart shows intra-year drawdowns outlined in green with the subsequent calendar year return in blue, illustrating the market's ability to have positive returns despite experiencing a correction.

CURRENT THOUGHTS

We noted last month that volatility has historically risen in weeks prior to mid-term elections. In addition to that driver of uncertainty, concerns over slowing earnings and economic growth have added to the volatility. But it's possible the market may be getting somewhat disjointed from fundamentals. This has led to stock prices in the U.S. across the broad market to decline nearly 10%. The tech sector weakened even further, which had been the strongest segment of the market for the past 12 months. There have been a few cracks in certain areas of the economy, such as housing, but manufacturing and consumer spending have remained solid. While more companies are citing concerns on the impact of tariffs and rising costs, overall earnings have held up. Considering companies that have reported, the current earnings growth rate is still at 22.5%. This level of growth would be the 3rd highest growth rate since the 3rd quarter of 2010, beaten only by the first two quarters of 2018. Overall economic conditions remain positive with the leading economic indicators showing continued strength. Inflation still hasn't accelerated in a way that would cause the Federal Reserve to hike rates faster than expected. We expect that after the uncertainty surrounding the mid-term elections is removed, investors will begin to refocus on earnings which appear to continue to be strong. The future direction of the markets will likely be determined by a resolution between the U.S. and China on trade issues that ultimately impact global growth. There may be some tailwinds for investors as share buybacks among companies could also boost demand, especially if share prices look to be discounted after the recent decline in the stock market. We continue to monitor factors that may help determine if this pullback should be short-lived or the start of a new trend.

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