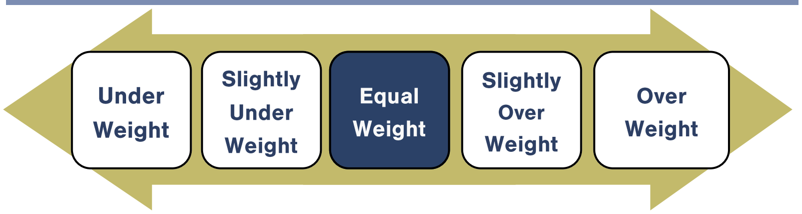
ECONOMIC AND MARKET UPDATE - JANUARY 2019

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. stock markets remain in a long-term uptrend. We have reduced our stock exposure and are **Equal Weight** to stocks. The allocation mix of bonds vs. stocks depends on our risk signals that shift our weightings accordingly.

ECONOMIC NEWS

- January's U.S. manufacturing report was a welcomed positive amid weakening results out of Europe, Japan, and China. Within the U.S., new orders, outputs, and employment all rose from December's lower figures.
- The longest U.S. government shutdown on record and market volatility to end 2018 led to a significant weakening in consumer confidence. A rebound is expected as the government comes back online and stocks recover.
- Economic growth in China slowed to 6.4% in the 4th quarter of 2018 to the lowest level seen since 2009, as weak global demand and trade conflicts continue to weigh.

MARKET NEWS

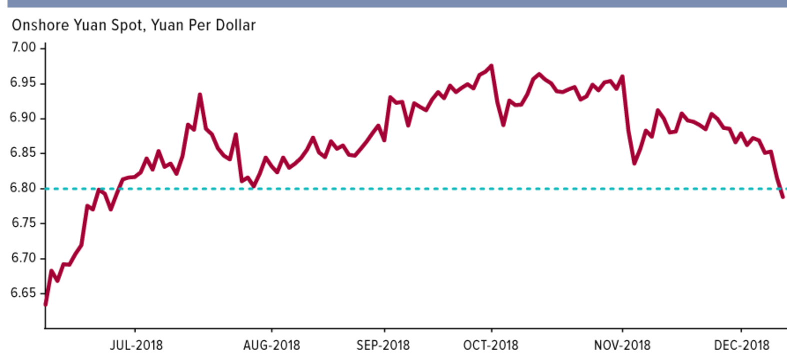
- The S&P 500 has rallied back just over 14% as of 1/30/19, following the Christmas Eve low, clawing back half of the decline that started back in September.
- Utilities have been the worst performing sector year-to-date, up only 1.34% as of 1/30. California utility company PG&E filed for bankruptcy amid wildfire liabilities and has since been an anchor on the broader utilities market.
- The uptrend in oil prices has paused in recent weeks, due to a supply/demand 'tug-of-war' from OPEC production cuts, U.S. sanctions on Venezuelan oil, and broader concerns for oil demand as the global economy slows.

REAL WAGES GROW FOR U.S. WORKERS

Source: JPMorgan

December's U.S. jobs report was strong, not only in the number of jobs added, but more importantly, wage growth. Real wages (accounting for inflation) for production and nonsupervisory workers rose 1.4% from last year. Real wages and consumer spending often coincide, providing support for continued U.S. spending growth. Consumer spending accounts for approximately 70% of U.S. economic growth.

CHINESE CURRENCY STRENGTHENS VS U.S. DOLLAR



Source: Bloomberg, U.S. Global Investors

China's currency, the Yuan, strengthened to a 5-month high as hopes for a trade deal between the U.S. and China increase. The less Yuan it takes to purchase a U.S. Dollar, the stronger the Yuan becomes. Yuan strength can be beneficial for China's imports because it effectively makes any goods purchased in a different currency cost less, which may help stimulate their economy.

CURRENT THOUGHTS

The 5-week partial government shutdown came to an end this month which is certainly a positive for federal workers as they begin to earn paychecks again, but also for the economy. Most of the economic damage done should be reversed as these federal workers return to their jobs. Despite the shutdown, stock prices have been on the rise in January with investors focusing on potential for positive developments in U.S. and China trade relations. Also boosting investor sentiment was the Federal Reserve pausing its cycle of interest rate increases. While trade relations and the Federal Reserve sparked the rally to start 2019, investors needed to see support from earnings growth for any sustainable upward movement. So far, earnings growth has come in better than expected, and although some companies continue to cite concerns stemming from trade uncertainty with China and weak global demand, the overall tone hasn't been alarming. If this trend continues we should see stocks recover further. That said, we believe economic fundamentals need to regain some footing. There has been some softness in U.S economic data and leading economic indicators, but the bigger clouds are still hovering over Europe and Asia, where the deterioration of growth looks to be more widespread and sustained. In an interconnected global ecosystem, the longer this trend continues the more difficult it will become for U.S. companies to meet growth expectations, especially as the impact from corporate tax cuts begin to fade. It is necessary that we see some positive economic acceleration outside of the U.S. in order to lengthen the duration of the current market uptrend.

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