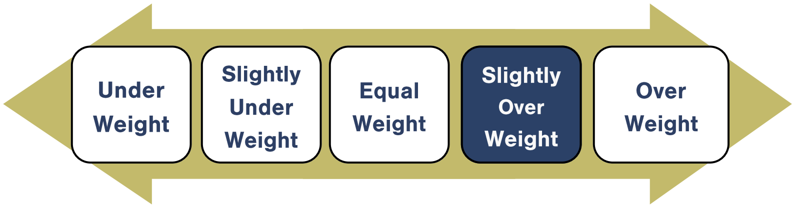
ECONOMIC & MARKET UPDATE - DECEMBER 2019 (as of 12/27/19)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

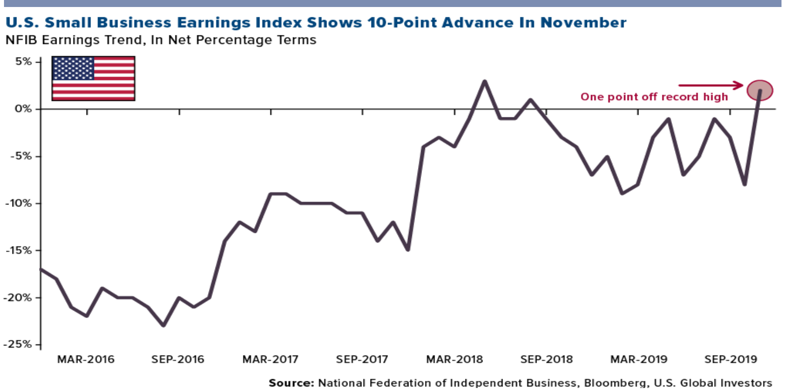
ECONOMIC NEWS

- The latest reading of leading economic indicators in the U.S., measured by the Organization for Economic Co-operation and Development (OECD), increased for the first time since April 2018, indicating a potential turning point in economic activity in the coming months.
- Additional tariffs slated to go into effect on Dec. 15th were postponed as the U.S. & China agreed to the terms of the 'phase one' trade deal. Existing tariffs from earlier in the year were reduced and the expectation is no new tariffs will be enacted while subsequent phases are negotiated.
- The manufacturing sector in China is showing some sustained improvement, expanding at the fastest pace in 3 years. The purchasing managers' index rose to 51.8 in November.

MARKET NEWS

- Crude oil prices continued their multi-month climb after major oil exporting countries committed to further production cuts in conjunction with trade deal progress fueling optimism for a pickup in global energy demand.
- China's stock market has experienced a mild rally alongside U.S. stocks following the phase one trade deal news, but still has not begun to outperform the U.S.. Since the lows in October, the S&P 500 has climbed approximately 10%, while the Shanghai Composite Index has only gained roughly 4% over that same period of time.
- Emerging market bonds have risen over 3% in December alone as investors' willingness to take on more credit risk in exchange for higher yields continues.

SMALL BUSINESS OPTIMISM JUMPS



The Small Business Optimism Index, measuring trends and sentiment of small business owners jumped in November, showing improved confidence in the economic environment. Notably, the survey showed that increased earnings were a major contributor to the index's jump, posting the largest month-over month gain since May 2018.

SMALL & MID CAPS SEE POSITIVE INFLOWS

Prices of more economically sensitive small and mid-sized companies have lagged large cap stocks all year long as the economy slowed and earnings declined. Forecasts are for an economic rebound, which has led to investors sending capital flows into small and mid-cap equity exchange traded funds.

CURRENT THOUGHTS

Investors have experienced a more positive holiday season this December compared to last year, with the S&P 500 notching more all-time highs in the final days of 2019. Last December, the Federal Reserve continued to raise interest rates amid slowing economic momentum and President Trump was ramping up trade war rhetoric. Both were major factors behind the market selloff late last year. Now, following three interest rate cuts by the Fed in 2019 and a partial trade agreement between the U.S. and China, investor sentiment is in a much better place. With tariffs being reduced on both sides and at least a tentative intention to not enact additional tariffs, uncertainty for businesses has been lowered. The rationale for fading recession fears is that improved business confidence will lead to an acceleration in business spending, and consequentially higher corporate earnings and economic growth. This concept applies globally, which provides the opportunity for a rebound in foreign markets as well, especially those more economically linked to the U.S. and China. Despite a full year of trade related headlines, both positive and negative, the S&P 500 posted one of the strongest annual rallies in years. But it is important to not become complacent. More difficult trade negotiations lie ahead and companies will need to meet raised earnings expectations, otherwise the rally to current levels makes market valuations look relatively rich. Overall, the landscape has improved and we enter into the new year cautiously optimistic.

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