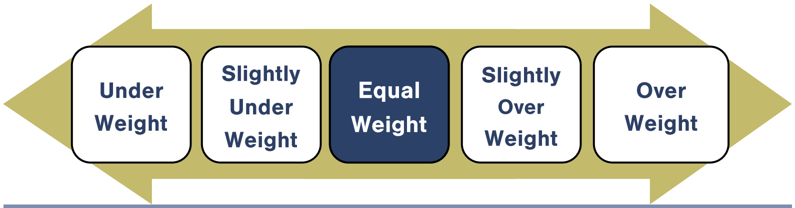
WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - AUGUST 2020 (as of 8/31/20)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The long-term uptrend in markets was broken, but has recovered. We continue to see signs of improvement in our risk signals. We have maintained our stock exposure to **Equal Weight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

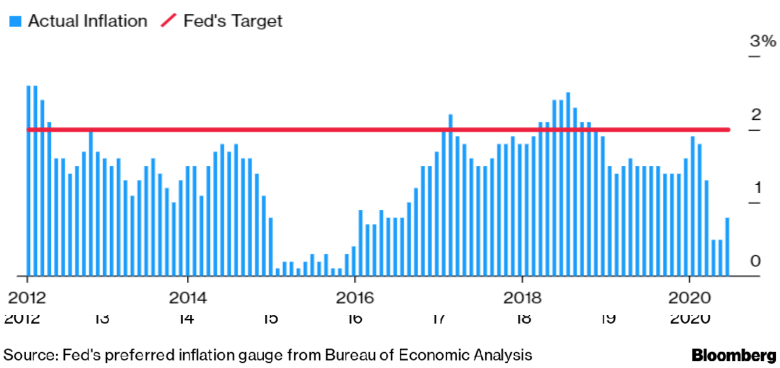
ECONOMIC NEWS

- Consumer confidence has fallen in recent months, but surveys of CEO confidence have risen 22% in the 2nd quarter, showing improved optimism among company leaders despite on-going layoffs & the coronavirus landscape.
- Existing home sales saw a record jump in July, rising 24.7%, pushing sales above pre-pandemic levels. The demand may be driven by multiple factors, including low interest rates, pent-up demand, and buyers looking for larger home office spaces as they move further away from cities.
- U.S. manufacturing activity continued to expand for the 2nd month in a row in July. The ISM Manufacturing Index rose to 54.2% from 52.6%, showing better activity overall, and more importantly, stronger levels of new orders.

MARKET NEWS

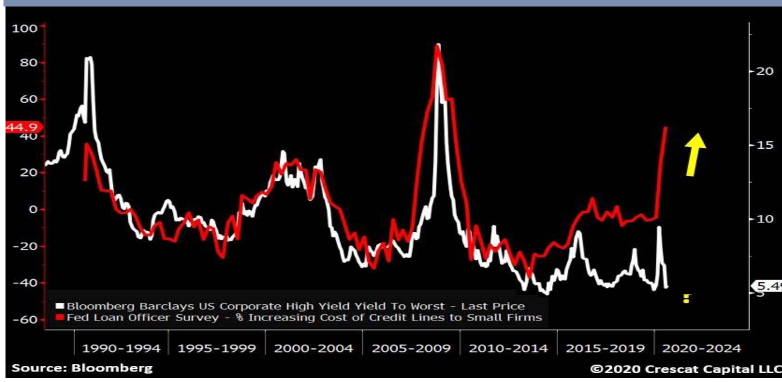
- The generally accepted definition of a new bull market is prices reaching all time highs, after a bear market low. The S&P 500 reached new highs in August following the March low, technically marking the start of a bull market. This has been the fastest recovery in history after a 30+% decline.
- The U.S. 10 year Treasury yield crept higher all month, rising to 0.72% from roughly 0.50% earlier in August; Still a far cry from the near 2% levels seen in 2019.
- The value of the U.S. Dollar has slid roughly 8% since May as improving economic data has lessened the appeal for the safe-haven currency. Expectations for higher inflation and lower interest rates are also adding to the pressure.

FEDERAL RESERVE MODIFIES INFLATION TARGET



Since 2012, the Federal Reserve has targeted a 2% inflation rate (red line), however the blue bars illustrate that inflation has rarely met or exceeded that level. This mandate was recently changed and now the Fed is seeking a level of inflation that roughly *averages* 2% over time. This should allow the Central Bank to keep interest rates lower for longer even if inflation begins to pick up and exceed 2%.

COST OF DEBT FOR SMALL VS LARGE COMPANIES



Corporate bond issuance has increased since the COVID-19 crisis as companies seek capital to weather the economic downturn. Demand for these bonds has been strong, so interest rates on even higher yielding debt have remained low (white line). Small businesses don't have access to these same debt markets. Their cost of credit (red line) has been rising as banks tighten their lending standards.

CURRENT THOUGHTS

Negotiations on the next round of stimulus for Americans are still underway as Democrats and Republicans try to land on the overall level of benefits that will be provided. At this time, a deal is not expected until mid to late September. Benefits should be applied retroactively once there is an agreement, but those in need of benefits now may still begin to cut back on spending with less money in their pockets for the time being. Although the housing market has been a pillar of the economic recovery, specifically housing demand, there are some concerns in the housing sector. Mortgage delinquency rates rose to their highest level since 2011 in the 2nd quarter, as certain homeowners struggle with lost jobs or being furloughed. The labor market has been recovering, but the pace has slowed, meaning the stimulus benefits remain important in bridging the gap for those still out of work. Without it, the risk of weaker consumer spending and missed loan payments should increase. As for prices in the stock market, the technology sector and a handful of growth stocks have largely driven the positive movements in the S&P 500 and pushed valuations to even higher levels. We are watching for broader participation across other segments of the market to determine how sustainable the recent recovery might be.

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