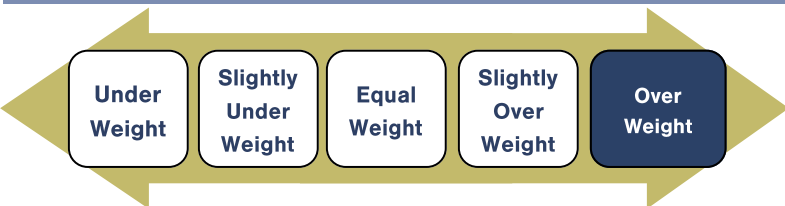


SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



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.

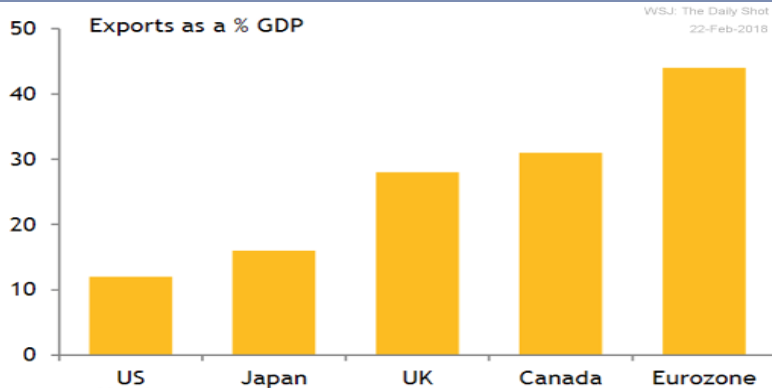
ECONOMIC NEWS

- ◆ Signs of wage inflation finally emerged last month with average hourly earnings in the U.S. rising to 2.9% from the year prior.
- ◆ The Eurozone economy grew at 2.7% in the 4th quarter to close out the best year of growth experienced by the region since 2007.
- ◆ The United Kingdom on the other hand had 4th quarter growth revised down to 0.4% as higher inflation and a weaker Pound have curbed consumer spending.

MARKET NEWS

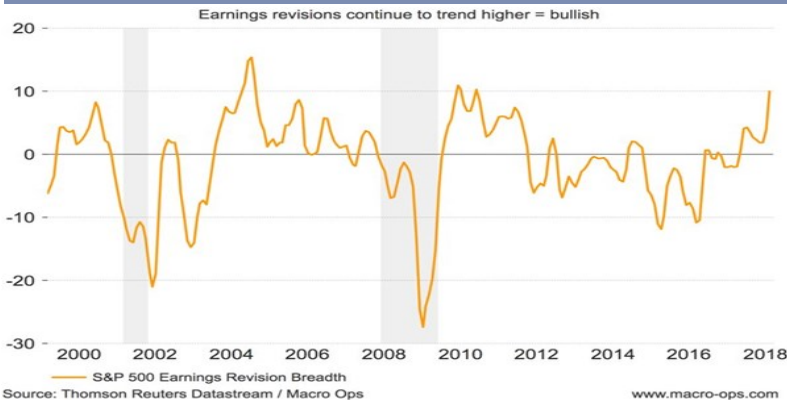
- ◆ The U.S. markets saw the first correction since late 2015, with the S&P 500 dropping -10.16%. The drop was initiated on fears of accelerating inflation, but also exacerbated by the use of leveraged volatility products.
- ◆ Among those products was XIV, an inverse volatility fund that gains when volatility is low. The fund lost over 80% of its value as volatility spiked, resulting in closure of the fund.
- ◆ Interest rate sensitive sectors such as utilities and public real estate have been in a downtrend since December and will have continued difficulty if rates rise further.

CURRENCY IMPACT ON EXPORTS AND GROWTH



A country's exports are directly impacted by currency movements. For a region like the Eurozone which derives a large percentage of growth from exports, a strengthening Euro has a negative impact on exporting, making it more expensive for other countries to purchase goods at a higher exchange rate.

COMPANY EARNINGS BEING REVISED HIGHER



Earnings per share growth for S&P 500 companies in the 4th quarter is around 15%, the strongest level in 7 years. Forward looking estimates are looking strong as well. The breadth of US company earnings being revised upward is at the highest level since 2010.

CURRENT THOUGHTS

Double digit corrections are a normal part of bull markets. Since the post-financial crisis market bottom in March 2009, the S&P 500 has seen 5 double digit corrections, including the most recent this year. The bull market looks to still be in tact, however, it has become apparent that we are entering a period of time where low volatility will no longer be the norm. Interest rates and inflation will likely contribute to additional market volatility in the months ahead and equities will be caught in the middle. That said, sentiment towards stocks remains positive. Company earnings are still growing at a healthy pace and after the correction, prices are lower which improves valuation metrics. It's important to remember that inflation is not necessarily a bad thing, especially when it's wage inflation. Higher wages for workers can boost consumer spending. There can however be cases where good news is bad news. Investors can look at improving wages and an improving economy as being good, but then have to consider that the Federal Reserve may raise rates quicker than expected as a result, which can be viewed as a negative. Fed chairman Jerome Powell has stressed his plan to maintain a slow and steady approach towards managing interest rates as he succeeds Janet Yellen. The consensus is still that rates will be increased 3 times this year, although the probability of 4 rate hikes has risen this past month. In addition to wages, broader inflation as measured by the Consumer Price Index (CPI) has also risen slightly, but runaway inflation is not yet a reality, which has led to the stock market entering back into positive territory for the year.

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