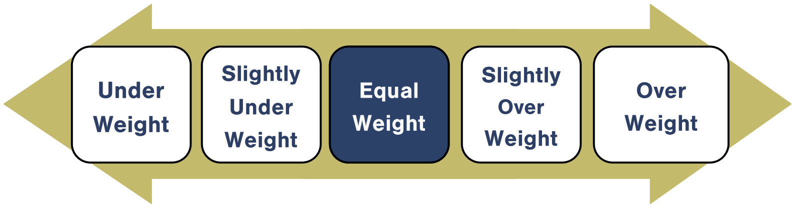
ECONOMIC AND MARKET UPDATE - DECEMBER 2018

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

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

ECONOMIC NEWS

- The U.S. Federal Reserve raised rates another 0.25% to a range of 2.50% to 2.75% this month. The number of hikes intended for 2019 was reduced to 2 from 3, as their U.S. growth forecasts for 2019 fell to 2.3% from 2.5%.
- Italy's finance ministry reached an informal compromise with the European Union over the Italian budget deficit. The dispute has been a looming concern for months.
- U.S. retail sales rose 5.1% this holiday season compared to last year, the largest gain in 6 years, illustrating the strength of U.S. consumer sentiment and spending.

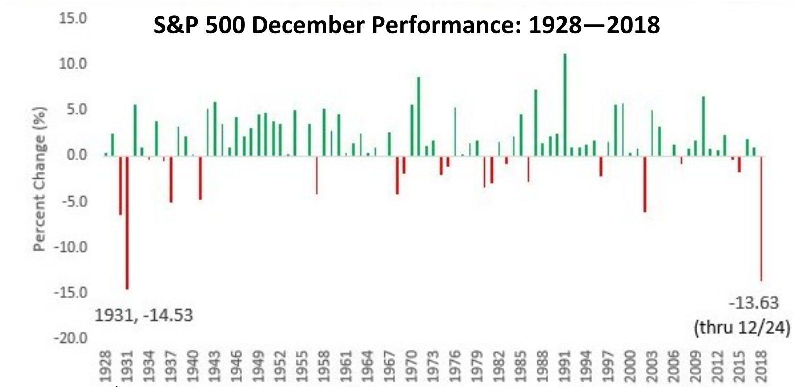
MARKET NEWS

- Short-term bond funds have been some of the strongest performers in the bond market & are seeing increased inflows as investors view them as 'safe-haven' assets.
- U.S. stocks are playing catch up to foreign markets, which began to struggle much earlier on in the year, but year-to-date, U.S. is still outperforming broad international and emerging indexes by roughly 7% - 8% as of 12/27.
- During the last 20 government shutdowns since 1976, the S&P 500 was negative only 50% of the time and had average overall performance of just –0.4%.

CHINESE INDUSTRIAL SECTOR WEAKENS

Chinese industrial output grew 5.4% in November compared to last year, which was the slowest pace of growth in nearly 3 years. Growth had remained fairly steady over the past several years, but the recent decline shows the effects of the trade war creeping in and highlights the importance of a deal between the U.S. & China.

MARKET RETURNS IN DECEMBER



Source: Bespoke Investment Group

Although December is historically one of the strongest months of the year on average for the S&P 500, this month has been the year's weakest and one of the worst Decembers since 1931. Even during what are usually quiet holiday trading days, the S&P 500 experienced its worst return on a Christmas Eve ever of –2.71%.

CURRENT THOUGHTS

Each stock market correction is different either in length, magnitude, or the forces driving them. The S&P 500 has experienced 30 corrections with percentage declines of 10-20% since 1946, not including the one we are currently in. More importantly, the average duration is 4 months. Market volatility has been elevated since October, but there is nothing out of the ordinary about the duration of this correction just yet. That said, as markets cross the threshold of being down 20%, they technically enter into a 'bear market'. It is important to note that bear markets don't always mean a recession is here. There are long-term bear markets and shorter-term ones. Shorter-term bear markets naturally occur in the context of the longer-term bull markets. The average shorter-term bear market decline that is not associated with a recession is –23% and historically has an average duration of 7 months. This could mean another quarter of heightened volatility, at which point, provided there are positive developments in U.S. trade, earnings figures, and no further loss of momentum in economic data, the long-term bull market that began in 2009 may resume before a recession takes place. Although the developments in those aforementioned areas haven't become significantly more negative, the market seems to be trading more on headlines and narratives. When markets decline in this way, investors can become more irrational and there can be somewhat of a snowball effect in price declines. There have been record setting negative days for the market, but the S&P 500 also just booked a record setting positive day, rising 4.96% on 12/26, the largest single day return since March of 2009. The 'bottoming' process may take some time, but with a long-term focus, opportunities may present themselves if the market is truly being a little too irrational.

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