SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - DECEMBER 2020 (as of 12/31/20)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION

Under Weight | Slightly Under Weight | **Equal Weight** | Slightly Over Weight | Over Weight

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 of **Equal Weight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

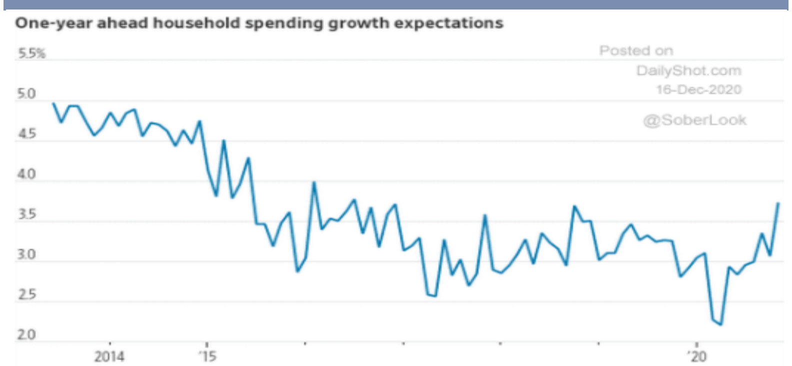
ECONOMIC NEWS

- The latest COVID-19 relief package in the U.S. was approved which includes one-time $600 checks per adult and dependent child, a $300 weekly enhancement to unemployment benefits through mid-March, and $325 billion in aid to small businesses.
- A Brexit trade agreement has finally been reached meaning the United Kingdom is no longer in a transition period and officially out of the European Union. There are still decisions to be made around some specific issues, but the agreement alleviates broader uncertainty around trade and tariffs.
- Eurozone manufacturing exceeded expectations in December. The Purchasing Managers Index, measuring output, rose to 55.5 from 53.8, illustrating manufacturing has been less impacted by the lockdowns, similar to U.S. manufacturing.

MARKET NEWS

- The Dow Jones Transportation Average (used as a proxy for economic activity via airline, trucking, and delivery service stocks) and the Russell 2000 index (smaller companies), both hit all-time highs in December. This is a positive signal for market leadership as more cyclical stock performance begins to catch up with the larger technology companies.
- In June, amid the pandemic, the Federal Reserve restricted large U.S. banks from share buybacks and capped dividend payouts. Those restrictions are being eased following the Fed's latest stress test results, indicating the banks are well capitalized to weather the remainder of the pandemic.
- High profile initial public offerings for companies with inconsistent or no profits like Airbnb & DoorDash continue to raise caution over stretched valuations and speculative trading in the stock market.

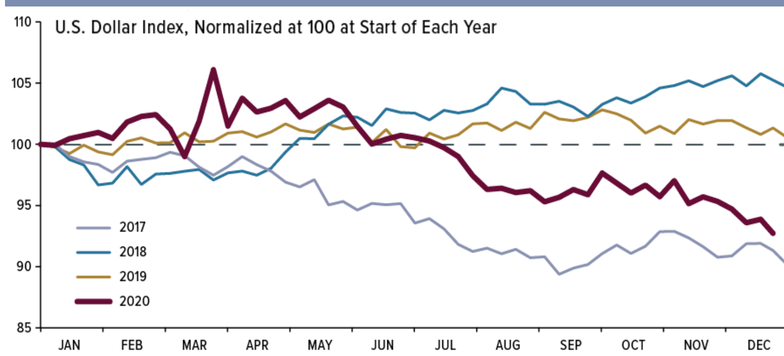
HOUSEHOLD SPENDING EXPECTATIONS RISING



Source: Federal Reserve Bank of New York

Consumer confidence has been deteriorating as spiking COVID cases and renewed restrictions weigh on sentiment. However, looking forward, households are more optimistic about spending growth. The chart above shows households plan to boost spending over next 12 months. This is likely being driven by positive vaccine news & optimism for a 'return to normal' in 2021.

DOLLAR DECLINES TO LOWEST LEVEL SINCE 2017



Source: Bloomberg, U.S. Global Investors

The U.S. Dollar dropped to a three year low on Brexit news (strengthening the Pound vs the Dollar), additional fiscal stimulus being enacted, and continued accommodative monetary policy from the Federal Reserve. A weaker dollar continues to be a tailwind for U.S. companies with significant amounts of non-US revenue exposure, as well as emerging market companies.

CURRENT THOUGHTS

Major market indexes continue to slowly grind higher despite rising coronavirus case counts following the holidays. There is on-going anticipation that even if cases and lockdowns get a bit worse in the short-term, the vaccine distribution will still allow for an economic recovery in 2021 and we should see things get mostly back to normal by the middle of the year. Business spending, manufacturing, and other leading economic indicators continue to improve, while the labor market and service sector parts of the economy stagnate. Smooth vaccine distribution and availability will be the primary focus in early 2021 to allow for those stagnant or weakening areas to recover. Any serious missteps in the vaccine rollout could quickly put the market's growth expectations into question. On the political front, markets have also embraced a divided government, as it pertains to Republicans retaining control of the Senate and the Democratic party controlling the White House. Markets viewed this as a positive simply from the standpoint of reduced uncertainty stemming from major policy changes, which would be difficult for a divided government. However the runoff in Georgia for the final two Senate seats is not a foregone conclusion. Polls are tightening and we'll know for sure on January 5th, but if Republicans do not maintain the Senate majority, it could introduce volatility back into the markets. As investors await the outcome, vaccine distribution, an accommodative Federal Reserve, and additional stimulus provide a positive support for the potential 2021 recovery and the longer-term improving outlook for stocks.

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