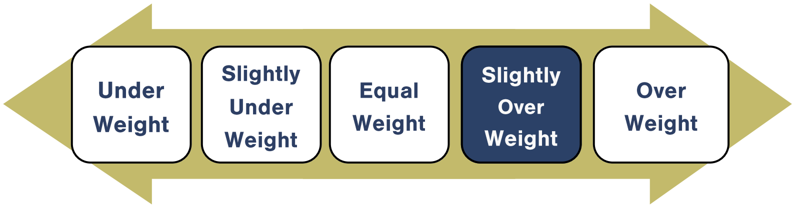
ECONOMIC & MARKET UPDATE - JANUARY 2020 (as of 1/31/20)

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.

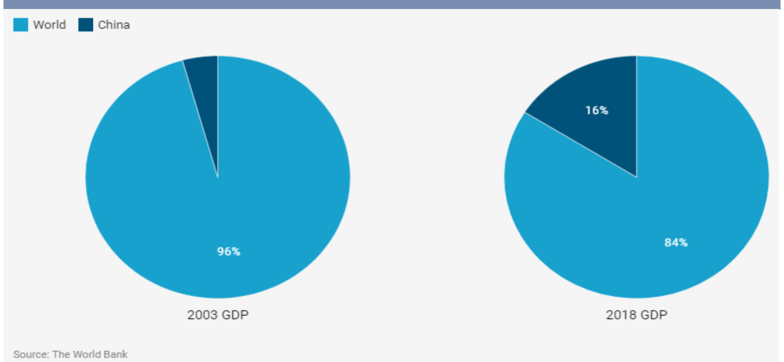
ECONOMIC NEWS

- The Conference Board's Consumer Confidence index rose to a 5-month high in January, resulting from optimism on labor market strength and future economic prospects. This should continue to support the consumption and service sectors.
- Business spending, on the other hand, is still weak, with non-defense capital goods orders (ex aircraft) declining 0.9% in December. The Phase One trade deal wasn't signed until January so the consensus remains that the deal will give businesses more confidence and help boost spending.
- As the number of cases and deaths from the Wuhan coronavirus rise, investors are trying to measure the economic impact that travel restrictions, store closings, and overall consumer fear will have on spending and global growth.

MARKET NEWS

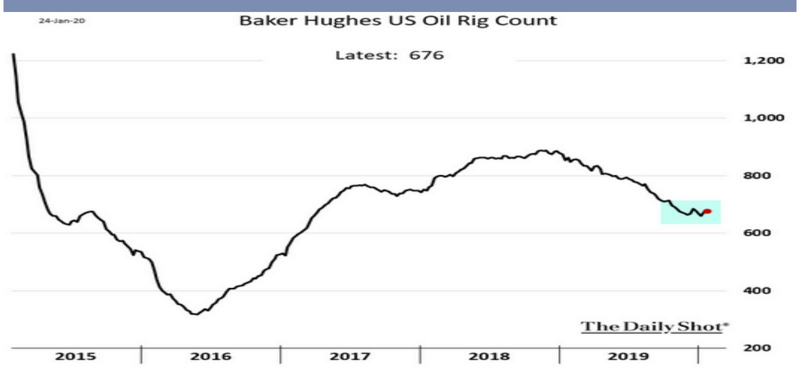
- The 10-year treasury yield fell to 1.60% this month from 1.90%, the lowest level since October, as investors purchased Treasuries for safety in response to coronavirus concerns.
- Within stocks, travel and leisure companies have been some of the hardest hit amid virus-related volatility. Airlines and casino companies are expected to see a slowdown in volume, especially in the most susceptible regions.
- The U.S. Treasury will begin issuing 20-year bonds in 2020 for the first time since 1986, in an effort to continue to finance a growing budget deficit with new products. The Treasury also considered the possibility of issuing debt with maturities beyond 30 years. However, there appeared to be little interest among market participants.

CHINA'S SHARE OF THE GLOBAL ECONOMY



As the Wuhan coronavirus is compared to the 2003 SARS outbreak, there are two key points. First, a slowdown in China resulting from the virus will have a larger impact on the global economy as China's overall share has increased from roughly 4% to 16%. Secondly, their economy has become more oriented towards consumers vs. manufacturing, relative to 2003, so weaker consumer spending is more of a concern.

U.S. OIL RIG NUMBERS STABILIZING



The number of U.S. rigs producing oil fluctuates with oil prices as operators determine production profitability. Rig counts declined in 2019 as oil prices fell from over $70/barrel in 2018 and have remained range-bound between $50 to $60/barrel. The number of oil-producing rigs appears to have stabilized, but prices will need to move higher for production numbers to increase meaningfully.

CURRENT THOUGHTS

The year got off to a concerning start as tensions between the U.S. and Iran rose following the death of Iranian General Qasem Soleimani and the subsequent retaliation by Iran on a U.S. military base. The conflict was de-escalated quickly by both sides and resulted in a minimal amount of market volatility. However, it hasn't taken long for markets to encounter their next challenge. The Wuhan coronavirus emerged in China at a particularly challenging time. The Chinese Lunar New Year is a particularly busy time for travel and consumer spending and thus an important week for the Chinese economy. Cases have shown up in several countries around the world, but the respective governments seem to be putting the appropriate measures in place for containment. While government-mandated travel bans and company closings could harm economic growth, it will hopefully limit longer-term damage. So far the markets have remained stable as central banks have increased liquidity on a global scale. In addition, fourth-quarter U.S. earnings have not disappointed. Aside from bouts of volatility related to the coronavirus, we cannot overlook the potential for more trade-related volatility even after the Phase One Deal with China. With Europe struggling to rebound economically, if the U.S. administration pushes forward with imposing tariffs on European imports, markets could once again come under pressure.

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