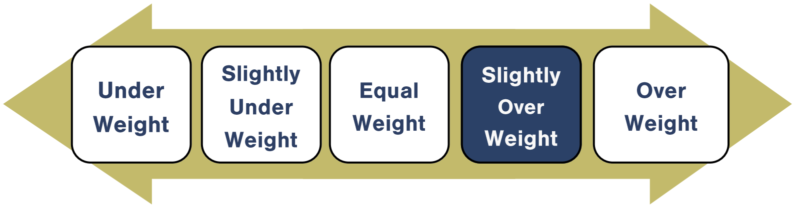
ECONOMIC & MARKET UPDATE - NOVEMBER 2019 (as of 11/26/19)

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.

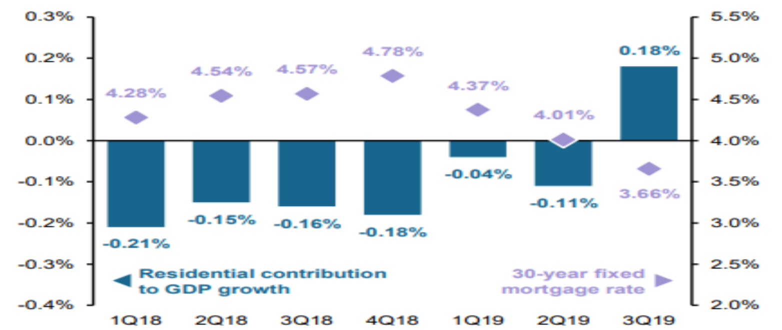
ECONOMIC NEWS

- Jobless claims rose to 227k in November, marking a 5-month high. While the number of applicants for unemployment is still low on an absolute basis, a trend higher in this figure would indicate the labor market's strength may be faltering.
- U.S retail sales remained on solid footing last month, but the pace of growth is slowing. The year over year figure in October was near 3% versus closer to 4% in both August and September.
- German exports grew by 1.5% in September, the highest level since November 2017. This pushed Germany's Gross Domestic Product (GDP) for the 3rd quarter into positive territory at 0.1%. After contracting at −0.2% in the 2nd quarter, Germany narrowly avoided reporting two straight quarters of negative growth, which would have indicated a recession.

MARKET NEWS

- Expected market volatility as measured by the Volatility Index, also known as the 'fear gauge' or VIX, has dropped back down to historic lows. Extremely low levels of expected volatility, can indicate excessive bullishness and is watched by investors as a contrarian indicator.
- Stocks rallied through October and November, and as risk appetite rose, bonds were sold. This pushed the yield on the 10-year Treasury to 1.94% at its peak on 11/8. Since then stocks have remained elevated, but the 10-year yield has fallen to near 1.7%, indicating bond investors are becoming more cautious.
- International stocks have improved as the All Country World Index ex U.S. finally made new 2019 highs on 11/1, and is up 16.89% year-to-date. However, the U.S. has continued to show relative strength with the S&P 500 up 27.43%.

HOUSING CONTRIBUTING TO ECONOMIC GROWTH



Source: JPMorgan Asset Management

For the first time since 2017, the housing market positively contributed to growth in the 3rd quarter, benefitting from lower mortgage rates. Consumer spending drives the majority of U.S. growth, but a positive contribution from housing helps pick up some slack as the manufacturing sector's contribution has been weak.

MARKET ANTICIPATING GROWTH ACCELERATION

Source: Goldman Sachs Global Investment Research

Cyclical sectors such as industrials, technology, & financials have outperformed defensive ones lately in anticipation that a trade deal & central bank policy will lead to a pickup in economic activity. Excessive optimism may be unwarranted given trade issues could continue & economic data has not been particularly robust.

CURRENT THOUGHTS

This month the U.S. stock market continued to make new highs due primarily to on-going optimism following the Federal Reserve cutting rates, 3rd quarter corporate earnings coming in better than expected, and hopes for an improved trade environment. However, the stock market seems to be pricing in expectations ahead of reality. After three rate cuts in 2019, a pickup in economic growth has yet to be realized, the rate of corporate earnings growth has been declining, and a trade deal is not yet complete. The bond market also reflected hope for an improved environment through mid-November. Reduced demand for safe-haven treasury bonds pushed yields higher, but over the past few weeks the outlook from bond investors has been tempered by weakening data in some areas. For example global manufacturing has stabilized, but activity is still below desired levels. Revised 3rd quarter U.S. economic growth was reported at 2.1%, but many forecasted figures for the 4th quarter are projected to come in lower. The bond market may be needing more confirmation from the economic data before yields can move higher. That said, consumer and business sentiment across the globe has been improving, which could help a pickup in economic activity come to fruition. Looking forward into the final month of 2019, and into 2020, the pillars for a continued bull market are in place, but caution is still warranted until the data itself begins to reflect more strength.

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