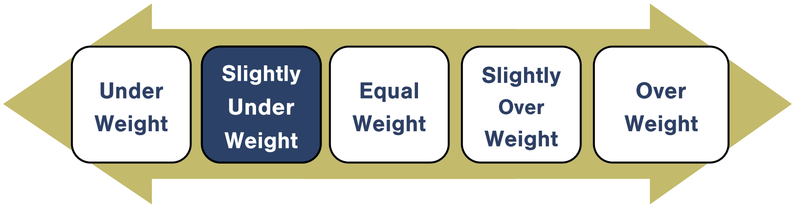
ECONOMIC & MARKET UPDATE - APRIL 2020 (as of 4/30/20)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

While the long-term uptrend in markets has been broken, we are beginning to see signs of improvement in our risk signals. We have increased our stock exposure to **Slightly Underweight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

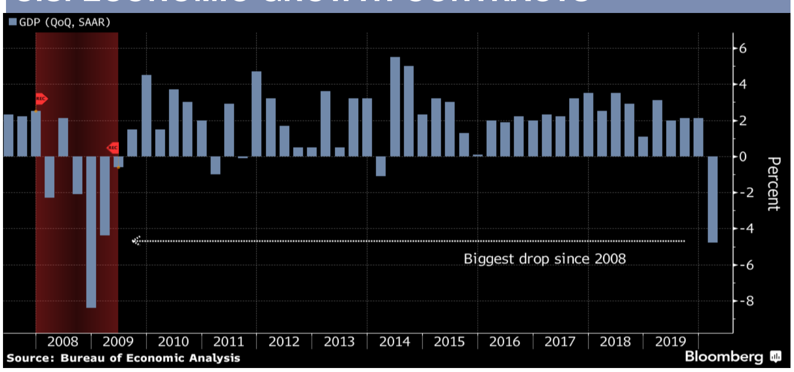
ECONOMIC NEWS

- The Trump administration is organizing a program titled "Operation Warp Speed" with a goal of banding together pharmaceutical companies and government agencies to decrease vaccine development times and have 300 million doses of a vaccine ready by January 2021.
- The Senate passed a second $484 billion relief package to replenish the initial small business aid program as well as provide more funds for virus testing & hospitals.
- China's non-manufacturing business activity index has risen to a three month high of 53.2 in April. A reading above 50 indicates expansion. The growth is modest, but the steady improvement is a positive sign.

MARKET NEWS

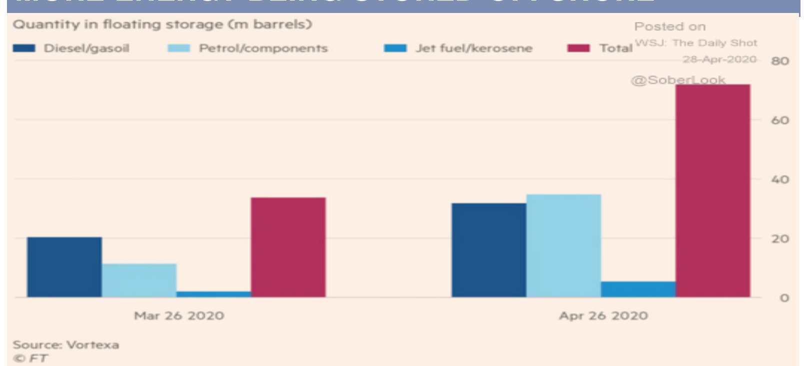
- After briefly rebounding above 1% in March as the selling in the bond market subsided, the 10 year Treasury yield has since remained suppressed around 0.60%.
- Biotech is one of the few areas sporting a positive return for the year of just over 4%. The broader and relatively less volatile healthcare sector is almost positive year-to-date at −1.16%. Both are benefitting from hopes for virus treatments and stable demand for healthcare products.
- Weakened energy consumption is clearly pressuring oil companies. Royal Dutch Shell cut its dividend for the first time since World War II, bringing its recent yield of around 10% to below 4%.

U.S. ECONOMIC GROWTH CONTRACTS



U.S. economic growth in the first quarter contracted at −4.8%, the sharpest decline since 2008. Two quarters of consecutive negative economic growth signals a recession. The 2nd quarter will encompass more of the 'lockdown period', and growth estimates range from −10% to −50%. Thus, it's expected the first quarter marks the beginning of an official recession.

MORE ENERGY BEING STORED OFFSHORE



Energy prices have remained under pressure and recently storage issues have taken center stage. The levels of production for oil and refined oil products have not slowed enough to account for the drop in demand. The imbalance has resulted in onshore storage facilities filling up and forcing those holding the commodities to store the products offshore on fuel tanker ships for example.

CURRENT THOUGHTS

Consumer spending was unsurprisingly the key driver in the first quarter's negative gross domestic product figure (GDP), as it accounts for 70% of overall economic growth in the U.S.. Since lock down orders and unemployment claims both began to increase in the final few weeks of the first quarter, the data suggests consumers significantly and quickly slowed their spending. Jobless claims rose further into April, so the decline in consumer spending should have a larger impact in the 2nd quarter. To make matters more challenging, many states have had difficulty in administering unemployment benefits given the record surge in claims. For the economy to get back on track, consumer spending must improve. As states open back up for business, the key factor will be how many of those unemployed get their jobs back. For businesses that aren't operating at full capacity or still seeing lower levels of demand, it may still be too early to take on pre -crisis levels of labor costs. Positive news on Gilead's Remdesivir treatment and vaccine progress from Oxford University are encouraging for potentially being able to begin getting 'back to normal'. With the Federal Reserve pledging to effectively do whatever it takes to support the markets, investors may feel emboldened to begin pricing in a quick economic recovery. The Fed's stimulus actions continue to be a factor that can't be ignored, however, there may also be longer-lasting effects on consumer spending habits and overall behavior as the crisis fades, even with a treatment or vaccine available. If company earnings are negatively impacted for a longer than expected timeframe, stocks may have to reprice the current optimistic level of future growth expectations.

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