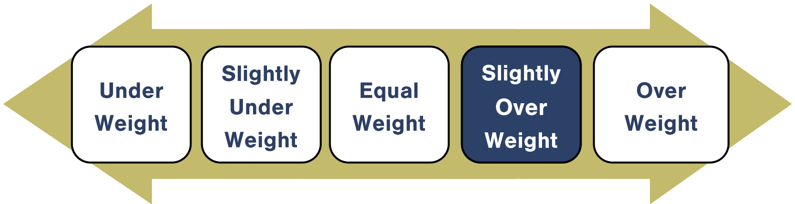
ECONOMIC & MARKET UPDATE—MAY 2021 (as of 5/27/21)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The long-term uptrend in markets was broken, but has recovered. Following the strength in our risk signals, we have maintained our stock exposure of **Slightly Overweight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

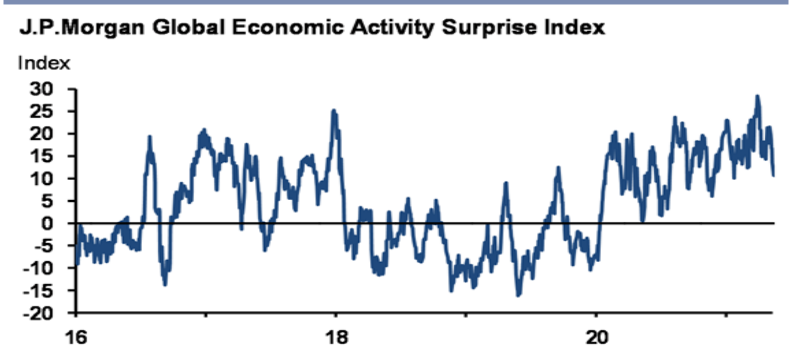
ECONOMIC NEWS

- The Producer Price Index rose 6.2% in April compared to last year. Prices paid by producers of goods in the U.S. are rising significantly as a result of supply chain issues and bottlenecks. As input costs for producers increase, they may need to pass some of that on to consumers via higher prices on the goods they produce.
- Initial jobless claims fell to a post-pandemic low of 406,000 in the week ended May 22, beating estimates of 425,000 and marking the 4th straight week of declines in claims.
- The European Consumer Confidence Index jumped to the highest level since 2018 this month, as per capita vaccination rates reach the same levels the U.S. achieved in March.

MARKET NEWS

- The yield on the 10 Year Treasury has hovered around 1.60% for the past couple of months, remaining largely range-bound. Bond markets may need more clarity on how economic growth might be limited by supply shortages for goods & labor as well as inflation dynamics before resuming their upward trend.
- The average price for a gallon of gas in the U.S. rose above $3 this month for the first time in 6.5 years. The shutdown of the Colonial Pipeline following a cyberattack resulted in gas shortages across the East Coast.
- Share buybacks are on the rise in the U.S., but also in Europe, where they are less prevalent. Companies buying back their shares has historically been accretive to stock performance.

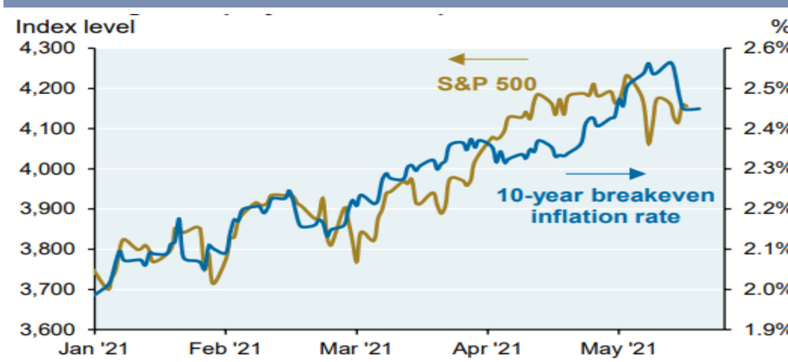
ECONOMIC SURPRISES COOLING DOWN



Source: J.P. Morgan

Throughout the recovery, economic data has been surprising to the upside, as government and central bank stimulus programs proved largely effective in keeping the broader economy afloat until parts of the world could begin reopening. Now, although the economic data is still encouraging, the data is surprising to the upside less. A combination of higher prices for producers and consumers, worker shortages, and lofty expectations are the likely cause.

S&P 500 SLOWS AMID INFLATION EXPECTATIONS



Source: Bloomberg. May 21, 2021.

The S&P 500, as well as most other major U.S. stock market indexes, have slowed throughout April and May. Inflation expectations have risen consistently throughout 2021 but jumped even higher over the past 2 months. Part of the concern may be if inflation continues to rise, the Federal Reserve may be forced to tighten monetary policy or even raise rates sooner than expected, which could pressure company earnings and stock valuations.

CURRENT THOUGHTS

The April inflation reading, specifically the Consumer Price Index (CPI), rose 4.2% year over year and was higher than the 3.6% rise expected by economists. Investors are concerned which price increases may be more permanent rather than "transitory" as the Fed is predicting. Among the underlying components in CPI, airfare, used vehicle prices, and lodging prices all rose 10% from March to April. Those increases are primarily tied to pent-up demand for travel and supply chain issues for semiconductors, which are impacting the ability to manufacture new cars. Much of that should be relieved over the course of the year. However, unlike supply chain issues and pent up demand, wage growth is typically longer lasting. We are beginning to see signs of wage inflation as businesses have to raise wages to attract workers. While unemployment remains high, job openings continue to rise as well. As extended unemployment benefits are discontinued, childcare and schools reopen further, and more of the population gets vaccinated, we should see more of those job openings being filled. Until then and even potentially afterward, workers may still be looking for higher compensation. Companies like McDonald's, Chipotle, and Amazon are already boosting their minimum wage. We should expect businesses to increase prices to cover higher labor costs, which will be reflected in future CPI readings. We will be evaluating inflation readings closely to try and determine if more sustainable inflation is reaching levels that may cause the Fed to try and control it and become more restrictive sooner than expected.