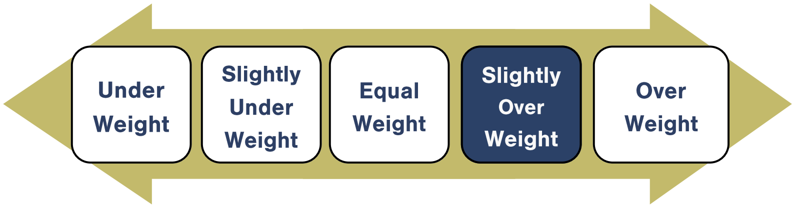
ECONOMIC AND MARKET UPDATE - MARCH 2019

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. stock markets remain in a long-term uptrend. We have increased 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.

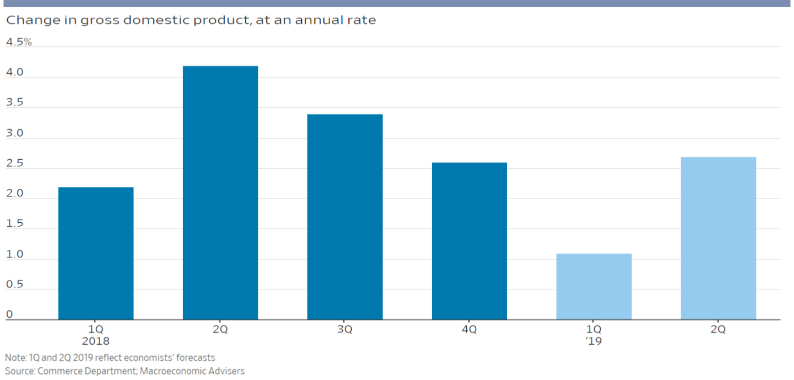
ECONOMIC NEWS

- The Federal Reserve reiterated its less restrictive monetary policy and it isn't expecting to raise interest rates at all this year. Their basis was an expectation for lower growth, which has led to the market beginning to anticipate rate cuts.
- After a rebound in February, the trend in weaker Consumer Confidence continued in March. The Conference Board's index measure fell, with survey respondents citing concerns around business conditions and ongoing uncertainty.
- Money supply in Europe, which measures money circulation in an economy and an indication of business activity grew more than expected in February, reaching 4.3% compared to last year. This is a welcomed positive in the weakened Eurozone.

MARKET NEWS

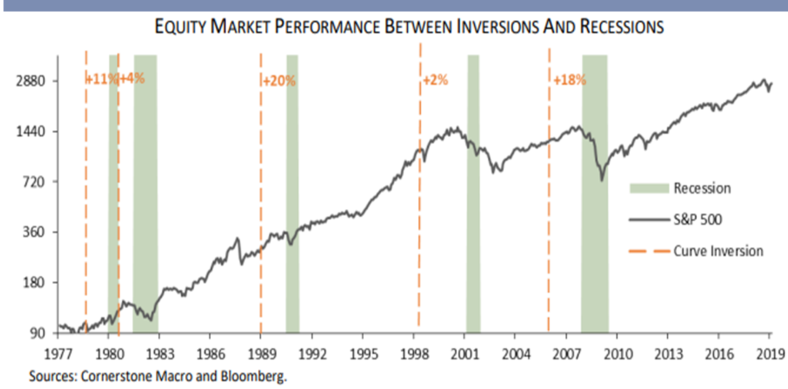
- The yield on the 10 year treasury has fallen further to the lowest level since 2017, around 2.40%. This trend is global as most central banks are holding off on raising interest rates until they see more evidence of growth.
- With higher interest rates off the table, dividend paying stocks become a more attractive option to lower yielding bonds. The S&P 500 High Dividend Index has outperformed the S&P 500 by approximately 1.10% since the Fed meeting on March 20th.
- The Federal Reserve's growth concerns have also resulted in capital flows into defensive sectors such as Consumer Staples and Utilities, which typically perform well in the late stages of the business cycle & as investors anticipate a slowdown.

U.S. ECONOMIC GROWTH EXPECTED TO REBOUND



Economic data has not been encouraging and it's expected this will translate into a subpar U.S. GDP (gross domestic product) report in the 1st quarter. Leading economic indicators have picked up for the first time in 5 months though and while overall annual growth may be slower than in 2018, a recession in 2019 is still unlikely.

STOCK RETURNS AFTER YIELD CURVE INVERSIONS



When shorter-term bonds are yielding more than longer-term bonds, the yield curve becomes inverted & is cited as a recessionary indicator. While an inversion may always happen before a recession, lead times can be long and variable in each instance, often leaving opportunity for the market to move quite a bit higher.

CURRENT THOUGHTS

Aside from the notable decline in U.S. Treasury yields, the yield on German government bonds called 'Bunds', turned negative again (previously in 2016), meaning the owner of the debt must actually pay interest as opposed to earning it. A natural question is why anyone would invest in a negative yielding bond. One main reason is that some banks and other financial institutions have a regulatory requirement to hold government bonds. But for those that aren't subject to this requirement, it's more likely they will look elsewhere for a positive yield. Even at such low levels, a relatively attractive option is still the U.S. Treasury. The global weakness in economic data is increasing the demand for safe-haven assets like government bonds, and positive yielding U.S. Treasuries are receiving the inflows. This hasn't reversed the stock market rally though, despite some volatility resurfacing this past month. The S&P 500 is less than 4% below the all-time highs in September 2018. Although the expectation may still be for growth to rebound, the trade deal with China remains a source of uncertainty for the markets and the longer it takes for a resolution to be announced, the higher likelihood of increased volatility. The market has been able to stomach some sluggish economic data, however leading economic indicators have shown some signs of light. If this trend does not continue, there is a risk that valuations for stocks at these levels may begin to look too expensive. The S&P 500 is just above the price level it was about a month ago and is at a turning point. A breakout above or below the current range will dictate whether more or less safe-haven assets might be warranted.

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