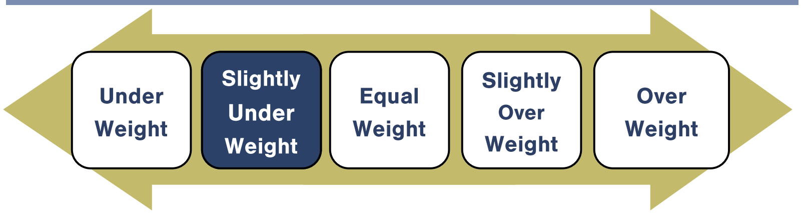
SFMG WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - MAY 2020 (as of 5/28/20)

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

- Tensions between the U.S. and China have escalated. In addition to threats of consequences for China's handling of COVID-19, China's recent plan to impose national security laws in Hong Kong complicates the relationship further.
- The European Union announced plans for a substantial fiscal stimulus package totaling nearly $2 trillion, with $750 billion going directly to COVID recovery efforts.
- New U.S. jobless claims have slowed for 8 straight weeks, however the total number jobless claims rose above 40 million in May. The trends indicate the worst may be over, but the record unemployment levels should take significant time to reverse assuming gradual economic re-openings.

MARKET NEWS

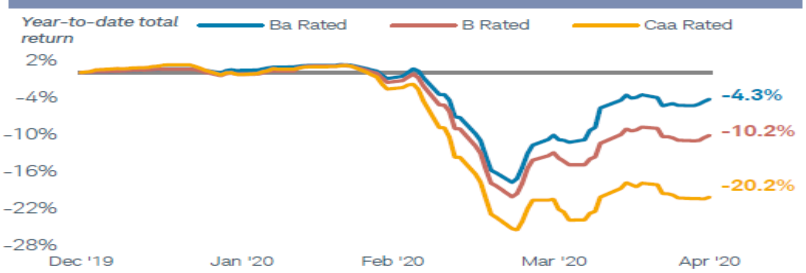
- The U.S. dollar reasserted its strength against global currencies as investors preferred the dollar as a high quality safe-haven currency. The dollar has weakened a bit in May however, as appetite for risky assets increased.
- Amid the pandemic, the U.S. housing market has remained resilient. Mortgage applications for house purchases have risen for a 6th straight week, hitting a multi-year high.
- The Federal Reserve officially began corporate bond fund purchases through its Secondary Market Corporate Credit Facility (SMCCF). Since beginning on May 12th, the Fed has purchased a total of $1.5 billion of corporate debt through exchange traded funds.

TEMPORARY VS PERMANENT JOB LOSS

Note: Seasonally adjusted; permanent layoffs include workers who completed a temporary jobs.
Source: Labor Department

April's unemployment report showed 20.5 million jobs lost that month, but 18 million of them were classified as temporary layoffs. This may be why consumer confidence surveys stabilized in May. The degree to which temporary job layoffs become permanent will depend on the ability for businesses to take on additional labor costs as they reopen even though demand may remain weak.

RISKIER BONDS HAVE NOT REBOUNDED AS MUCH



Source: Bloomberg. Cumulative total returns from 12/31/2019 through 4/30/2020. Returns assume reinvestment of interest and capital gains. Indices represented are the "Ba", "B", and "Caa" sub-indexes of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index. **Past performance is no guarantee of future results.**

High yield bonds have rebounded since the March lows following the Federal Reserve's stimulus measures. Not all high yield bonds are created equal though. Riskier bonds, rated Caa, have recovered much less compared to other high yield bonds with stronger ratings such as B and Ba. This reflects a higher expectation of default and limited intervention by the Fed in the riskier rungs of the high yield spectrum.

CURRENT THOUGHTS

Stock markets have continued to slowly grind higher as investors look past the economic data of April and May in hopes that economic activity will rebound in the latter half of the year. The seemingly infinite amount of stimulus continues to act as a tailwind as well. Fed chairman Jerome Powell stated they can continue to do more to support the markets through monetary measures. Senate Majority Leader Mitch McConnell stated he expects another round of fiscal stimulus in the next few months. Stimulus should continue to help boost investor confidence, but the focus also remains on states reopening from lockdowns and any subsequent spikes in infections. So far, there haven't been large spikes that are overwhelming healthcare systems. The next few weeks will be telling as more consumers try and get back to normal in a socially distant manner. Until a vaccine is readily available, the trajectory of the economic recovery will be based on a mixture of consumer spending habits picking back up, businesses' ability to rehire their workers, and the severity of any second waves. The hope is that any second waves can be dealt with using more targeted containment measures as opposed to broad based lock downs that more negatively impact the economy. On the horizon, geopolitical risks are taking shape between the U.S. and China again. Following China's plan to control Hong Kong's national security, the U.S. no longer deems Hong Kong autonomous. This means the U.S. may treat Hong Kong the same as China in regards to trade. China benefits from Hong Kong being a global financial center and any removal of trade privileges could threaten that. Ultimately, the U.S. may attempt to find ways to penalize China for imposing authority over Hong Kong without harming Hong Kong in the process. This situation puts a strain on the already fragile relationship between China and the U.S.

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