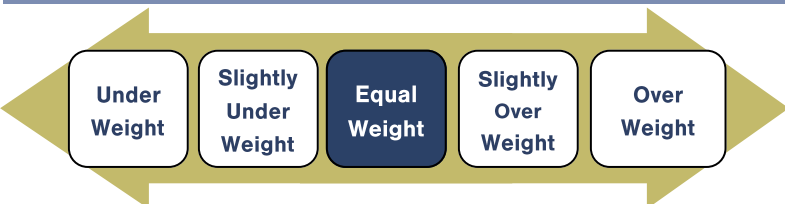


SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



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 **Equal Weight**. This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

ECONOMIC NEWS

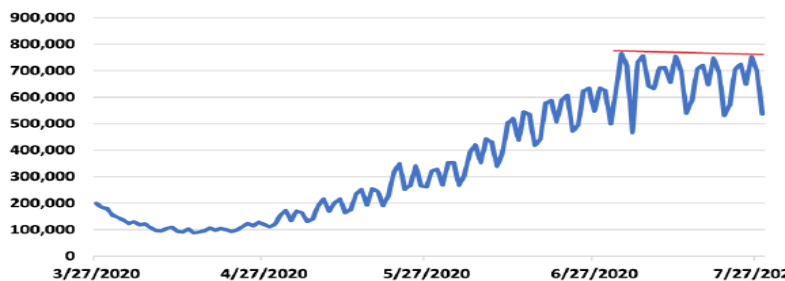
- ◆ Retail sales numbers in China declined by -1.8% year over year versus +0.3% expected in June. China is further along in the recovery process; however, their weaker consumer demand may provide insights as to how consumer behavior may shift in other areas of the world.
- ◆ U.S. economic growth (Gross Domestic Product) contracted at a record pace in the 2nd quarter, declining by -32.9%. While this was the worst decline ever, it actually beat expectations, with some estimates as low as -50%.
- ◆ The increased unemployment benefits as a part of the CARES Act are set to expire this month. Lawmakers are attempting to negotiate the level at which increased benefits should continue as the economy and labor market slowly recover.

MARKET NEWS

- ◆ OPEC nations agreed to increase overall oil production by roughly 2 million barrels per day beginning in August. Oil prices have remained stable, but if the increased output isn't met with steady demand, prices could be pressured.
- ◆ Gold prices reached all time highs in July as investors continue to seek safe haven assets that may protect against market uncertainty and a weakening dollar. Gold is up nearly 30% year-to-date.
- ◆ Airline stocks rallied sharply into June on optimism surrounding economic reopenings. The trend has reversed as the momentum in flight activity and expectations for increased traveling has waned.

AIRLINE PASSENGER TRAFFIC STALLS

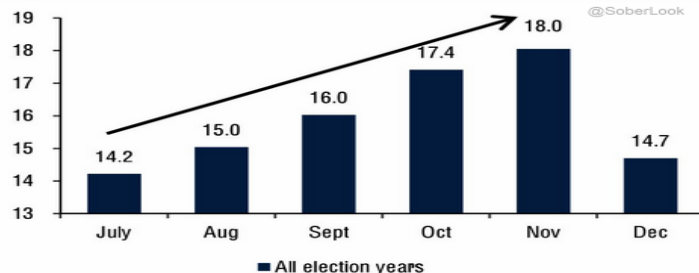
TSA Throughput Data



Airline passenger traffic, measured by the number of people passing through TSA checkpoints, had been recovering since May. The momentum stalled and the current level sits roughly 70% lower than last year. Investors may be able to look past the absolute level for now, but the upward trajectory here and in other important indicators needs to resume to support optimism for economic recovery.

ELECTION YEAR VOLATILITY

Average monthly volatility (VIX 1990-present, monthly average of daily S&P 500 return volatility 1928-1989) for US election years since 1928



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

During presidential election years, investors begin to wrestle with trying to determine which presidential candidate will help or hurt each particular sector of the market and subsequently the chances of each candidate winning. The Volatility Index (VIX) can be used to measure market fear or uncertainty. On average, volatility has increased nearly 30% in the months leading up to the election.

CURRENT THOUGHTS

Tensions between the U.S. and China are on the rise once again as the U.S. ordered China to close its Houston consulate based on accusations of espionage. China retaliated by shutting the U.S. consulate located in the Chinese city of Chengdu. This represents added stress to the relationship as the issues with trade deals, Hong Kong, and control in the South China sea, to name a few, all remain ongoing. The markets reaction to these geopolitical tensions have been relatively muted however and focus remains on economic data and COVID-19 trends. Economic data in both China and the U.S. has lost a little steam recently. Given China is further along in the recovery process, and has largely contained the virus, their slowdown in activity may foreshadow upcoming difficulties for the U.S. where containment has not been as effective. If the U.S. economic recovery and normalization process continues to abate, U.S. lawmakers will come under even more pressure to agree on and pass the next coronavirus relief package. Negotiations are underway and while the larger details may take some time to iron out, at the very least a stopgap for keeping additional unemployment benefits is needed quickly. Hospitalizations and new infection cases seem to be subsiding in the recent hot-spot states, which should help consumer confidence pick back up. Ultimately, getting the virus under control is positive, but it's the reopenings that will need to accelerate in order to renew market optimism.

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

The purpose of the update is to share some of our current views and research. Although we make every effort to be accurate in our content, the datum is derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity. Charts and tables shown above are for informational purposes, and are not recommendations for investment in any specific security.