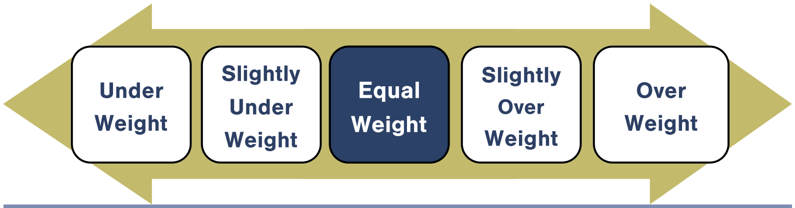
WEALTH ADVISORS
AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC & MARKET UPDATE - SEPTEMBER 2020 (as of 9/30/20)

SFMG MARKET RISK SIGNAL—STOCK ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The long-term uptrend in markets was broken, but has recovered. We continue to see signs of improvement in our risk signals. We have maintained our stock exposure to **Equal Weight.** This allocation of stocks vs. bonds depends on our risk signals that shift our weightings accordingly.

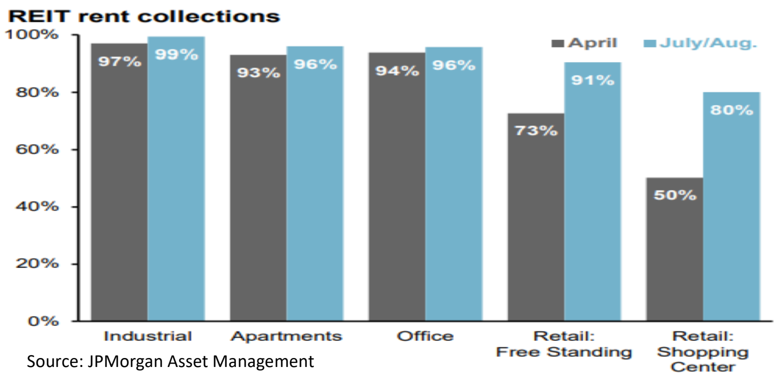
ECONOMIC NEWS

- Applications for unemployment benefits have held steady between 800k – 900k per week in September. These figures were closer to 200k pre-pandemic, so there is still a large gap to fill for the recovering labor market.
- The outlook for global oil demand has been lowered by multiple groups such as the International Energy Agency and OPEC. Expectations are for a marked deceleration in demand amid on-going coronavirus cases and longer than expected recoveries in areas like the airline industry.
- Consumer spending slowed in August as the extra $600 per week in unemployment benefits ended. Core retail sales (excludes autos and gasoline sales), fell 0.1% last month versus expectations for 0.5% increase.

MARKET NEWS

- The S&P 500 declined for 4 straight weeks in September. The index was down nearly -10% intra-month, but the move has been more measured, occurring over a matter of weeks, as opposed to a few significantly volatile trading days.
- Although the market's recent decline has not necessarily been sharp, the Volatility Index (VIX), representing investors' expectations for future volatility, has been creeping higher since mid-August & remained elevated, illustrating lingering levels of fear based on many on-going uncertainties.
- High yield 'junk' bonds experienced net outflows this month. The average yields investors are now requiring to hold these riskier bonds has risen by over 0.50% to 5.50%, the highest level in 2 months.

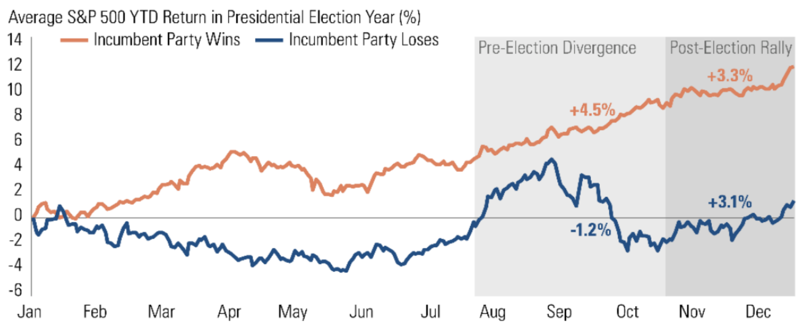
RENT COLLECTIONS HAVE REMAINED STRONG



Source: JPMorgan Asset Management

Rent collections across most real estate sectors remained resilient in the wake of the lockdowns. Industrial real estate hardly saw a dip, perhaps benefitting from shipping activity from online sales. Retail sectors have seen a surprising rebound following the lows in April. The resiliency is likely at least in part due to PPP loans that could be used for rent. That loan program expired August 8th, which could pressure future collections.

MARKET'S HISTORICAL ELECTION PREDICTIONS



Source: Bloomberg and GSAM.

The S&P 500 has historically been a strong predictor of which party wins the election. Pre-election, a positive 3 month return has led to an incumbent party victory in 20 of 23 elections since 1928. A negative return over that period generally led to an incumbent party loss. Currently, from August through the end of September, the S&P 500 is up approximately 2%. Post-election, on average, the S&P 500 rallies roughly 3% through year-end regardless of which party wins.

CURRENT THOUGHTS

Through this year's on-going economic recovery, initial rounds of government stimulus provided support to consumers and businesses, which kept spending afloat. But now, the various forms of stimulus (e.g. PPP loans, increased unemployment benefits, etc.) have expired or are set to expire, and another round of fiscal stimulus from Washington has yet to be agreed upon. The longer this remains the case, the more difficult a situation consumers and businesses will face. All this against the backdrop of an upcoming presidential election, where the uncertainty extends beyond just who will win. The ability to make sure mail-in ballots are able to be properly accounted for and the risk of a contested election result could also result in further market volatility through the end of the year. In the last example of a contested election between Bush/Gore in 2000, the results weren't determined until December 11th. During that contested period, the S&P 500 declined 8.4%. An eventual enactment of more stimulus, improving economic numbers, and further vaccine progress will likely determine the strength of any continued uptrend through the final quarter of 2020 and into 2021.

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