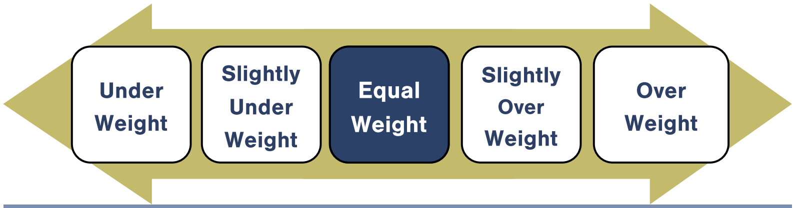
ECONOMIC & MARKET UPDATE - OCTOBER 2020 (as of 10/29/20)

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

ECONOMIC NEWS

- China's economic growth rose 4.9% in the 3rd quarter, missing expectations of 5.2%, but still approaching pre-COVID growth levels. The labor market and consumer confidence have been improving, supporting their accelerating recovery.
- U.S. retail sales rose 1.9% in September, marking the 5th straight month of increases. There has been a shift towards spending on goods rather than services as consumers remain at home more.
- France and Germany announced new lockdowns in response to rising COVID infections. While not as severe as the initial round of protocols, the national lockdowns will include at least a month of shutting down non-essential businesses such as restaurants, bars, and shops.

MARKET NEWS

- Stock markets retraced October gains, with the S&P 500 down around −6% from the month's high point. Volatility has sparked from disappointing U.S. stimulus headlines, but primarily from increased restrictions and lockdown measures resulting from rising COVID cases globally.
- Oil prices sunk to the lowest level since May on European coronavirus restrictions that could lower the demand for oil. Brent crude oil dropped back to nearly $35 per barrel.
- Third quarter earnings from big banks have surprised to the upside as a result of trading and investment banking activity, but the financial sector is still down 23% from the highs in February as the meager interest rate environment weighs on future growth potential.

DURABLE GOODS PRICES RISING

Sources: Bureau of Economic Analysis of the United States Department of Commerce, DWS Investment GmbH as of 8/31/20

Prices for bigger ticket, long-lasting consumer items (durable goods) increased in August compared to the same period last year. This small sign of inflation is likely a side effect of the pandemic and low interest rates. For instance, if more people leave cities and purchase homes, this increases the demand for appliances and furniture (both durable goods). Also, commuters looking to avoid public transportation may now be buying used cars, leading to rising car prices.

GROWTH OF MONEY MARKET FUNDS

Source: Morningstar & RiverFront Investment Group

Assets in money market, or cash funds, hit a record high of nearly $5 trillion in May. The previous high in money market levels was $3.9 trillion in 2009. Investors shifted dollars into safe havens amid COVID related fears. Since May, the S&P 500 is up approximately 15%. As confidence increases, this cash being put back to work in the stock market could provide a tailwind for prices, especially as traditional fixed income returns have become less attractive.

CURRENT THOUGHTS

A number of evolving situations have markets wavering on the future path of economic growth. The worst is thought to be behind us, but the road to recovery is likely long and slow. How long depends on a multitude of factors including the spread of the coronavirus, the resulting safety restrictions, and what amount of stimulus might get passed to help businesses and citizens in need, just to name a few. Virus trends have undoubtedly been negative inside and outside the U.S. Hospitalizations and deaths seem to be more the focus for these next waves in determining whether lockdowns and restrictions are put back in place. During the initial lockdowns, investors tried to price in a future 2021 recovery, leading to a rapid rebound in stock prices. Massive monetary and fiscal stimulus was put in place to try and bridge the gap, which provided investors confidence. However, a scenario where economies revert back to some form of lockdown for any meaningful period of time, especially without another round of stimulus is not priced into this market. As for the election, a drawn-out contested election process could bring added pressure to stock prices, not necessarily from uncertainty about who will win, but simply because that process would even further delay any agreement on an additional stimulus package. Restrictions prohibiting economic reopening would also keep the labor market from improving. This dynamic coupled with a lack of additional stimulus would be detrimental to the more optimistic growth trajectory investors have been expecting. We continue to monitor these market drivers and trends to help inform portfolio allocations.

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