



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
July 26, 2019

Presented by:
Shannon King and
Jonathan Scharlau



Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®]
Partner and Lead Analyst



Agenda

- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates and important reminders
- Minnesota tax conformity
- Questions



*Economy:
Modest Growth During
Second Quarter*



Market Dashboard

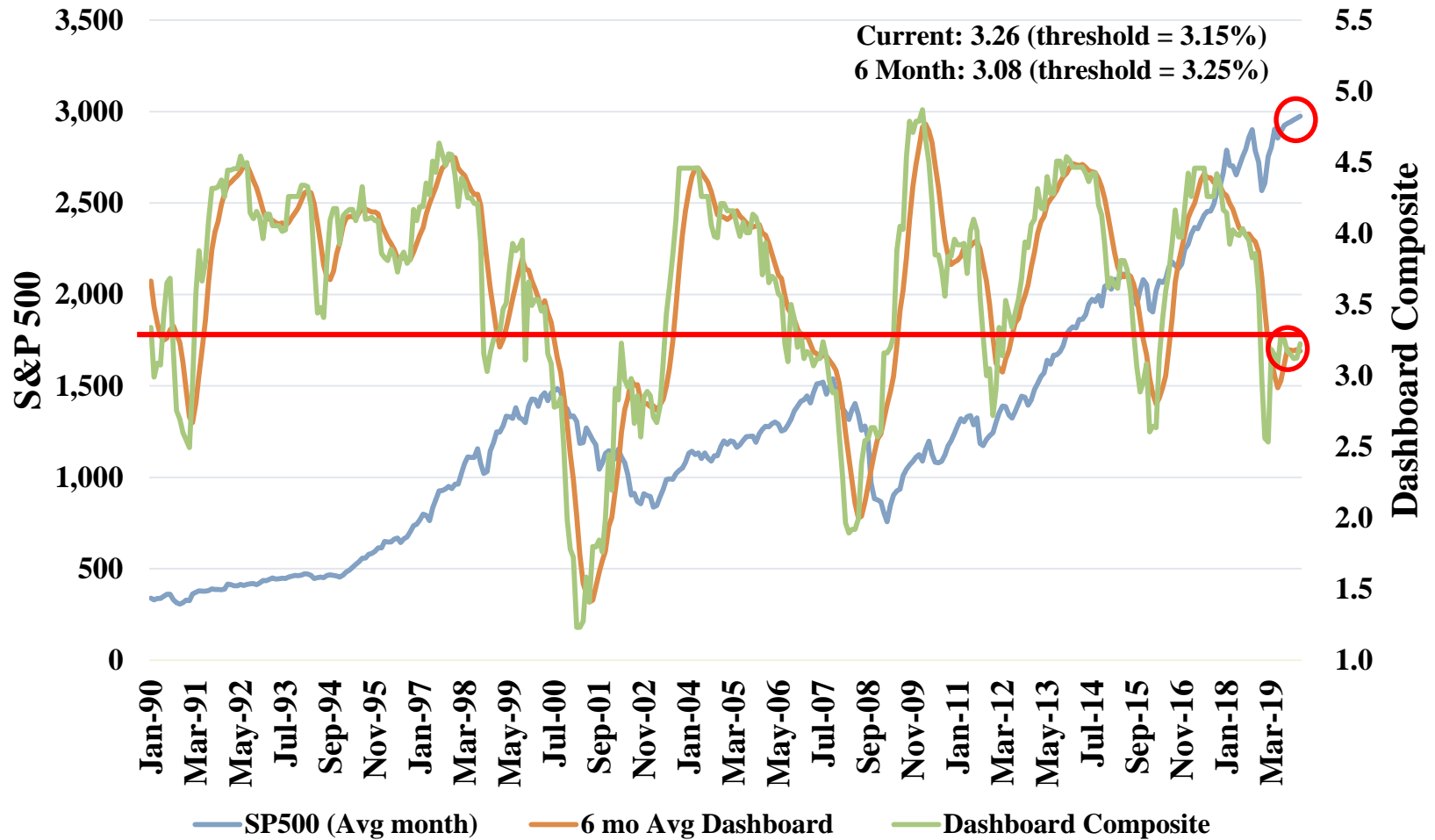
Projected



	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
Economy	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey
Credit Markets	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Red	Red	Red
Valuations	Red	Red	Red	Red	Red	Red	Red	Red	Red	Grey	Grey	Grey	Grey	Grey	Grey	Grey
Market Sentiment	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Red	Grey	Green	Green	Green	Green
Composite	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey	Grey	Grey



Market Dashboard



Current Economic Factors Scorecard

Positive

Credit Conditions ↑
Consumer Confidence
Employment ↑
Corporate Sector

Neutral

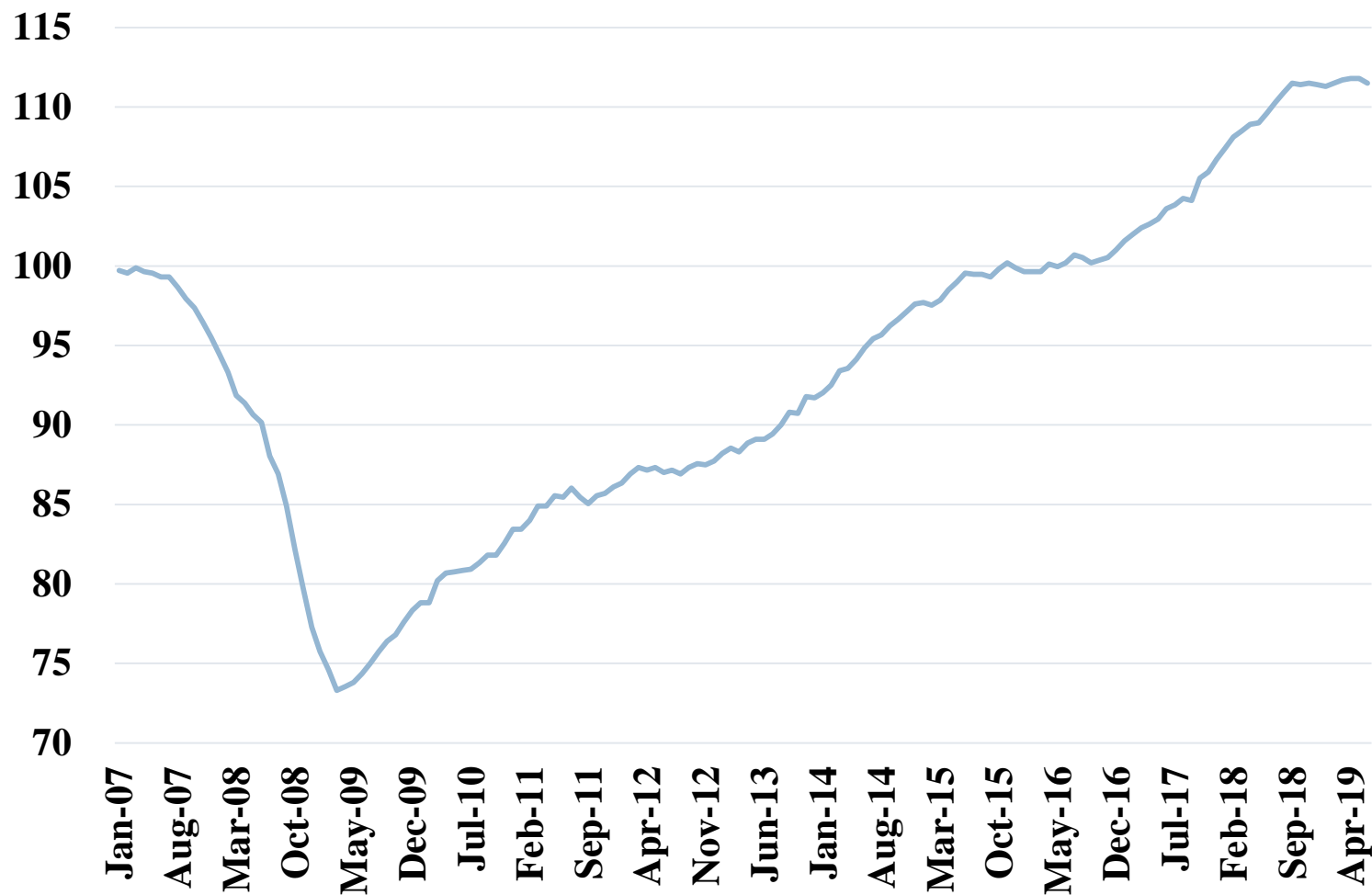
Housing (-)
Fiscal Policy (-)
Commodity Prices
Interest Rates ↑
U.S. Politics
U.S. Dollar
U.S. Inflation
China

Negative

Global Growth (-)
Geopolitics
Tariffs ↓
Eurozone



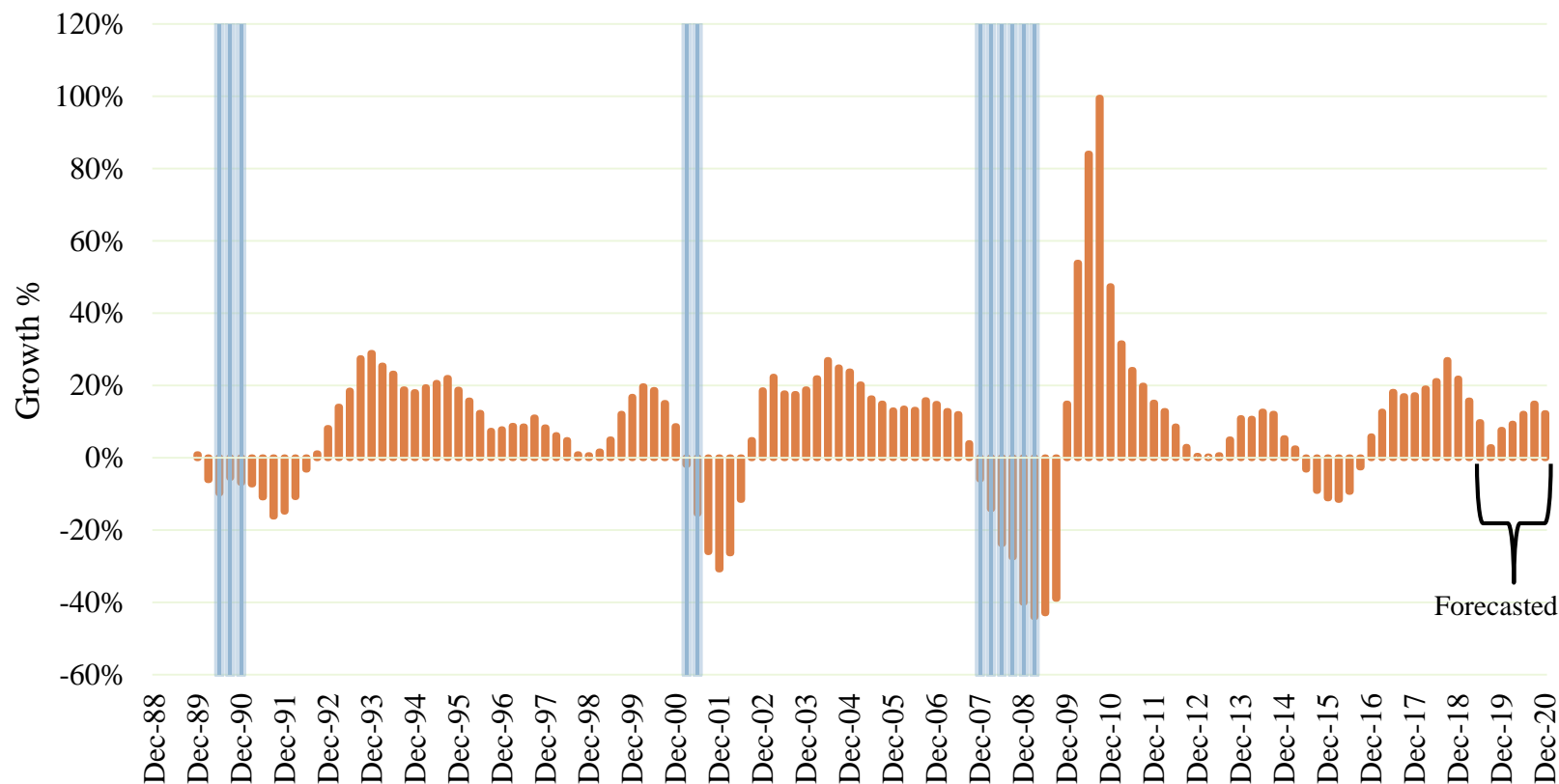
LEI Has Flattened Over the Past Year



Source: The Conference Board, as of 7/18/19

Earnings Growth Set to Moderate in 2019

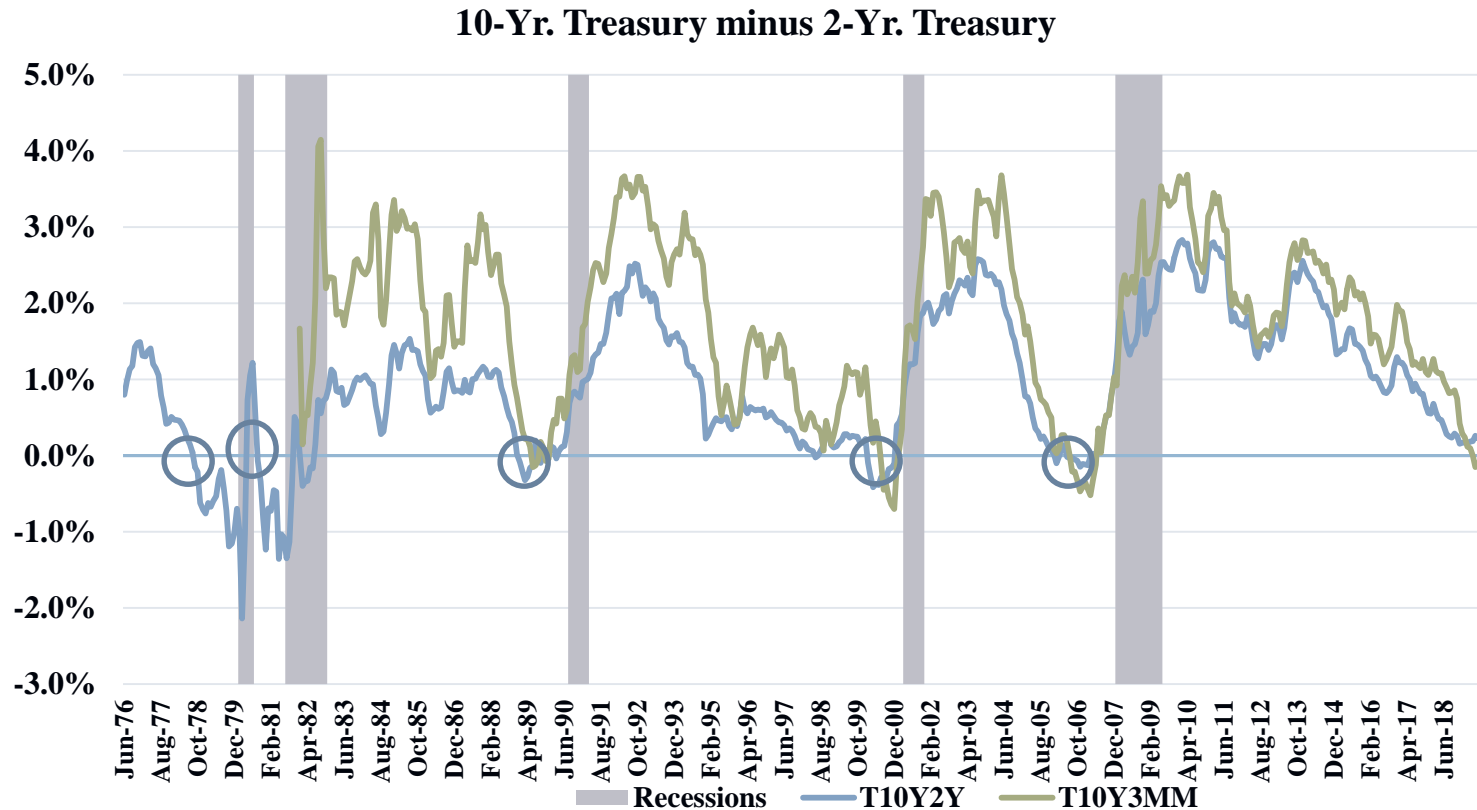
S&P 500 Earnings Growth
Trailing 12-Month Operating Earnings Growth YOY



Forecasted



Historical Inversions of the Yield Curve



Source: Federal Reserve St. Louis, as of 7/25/2019

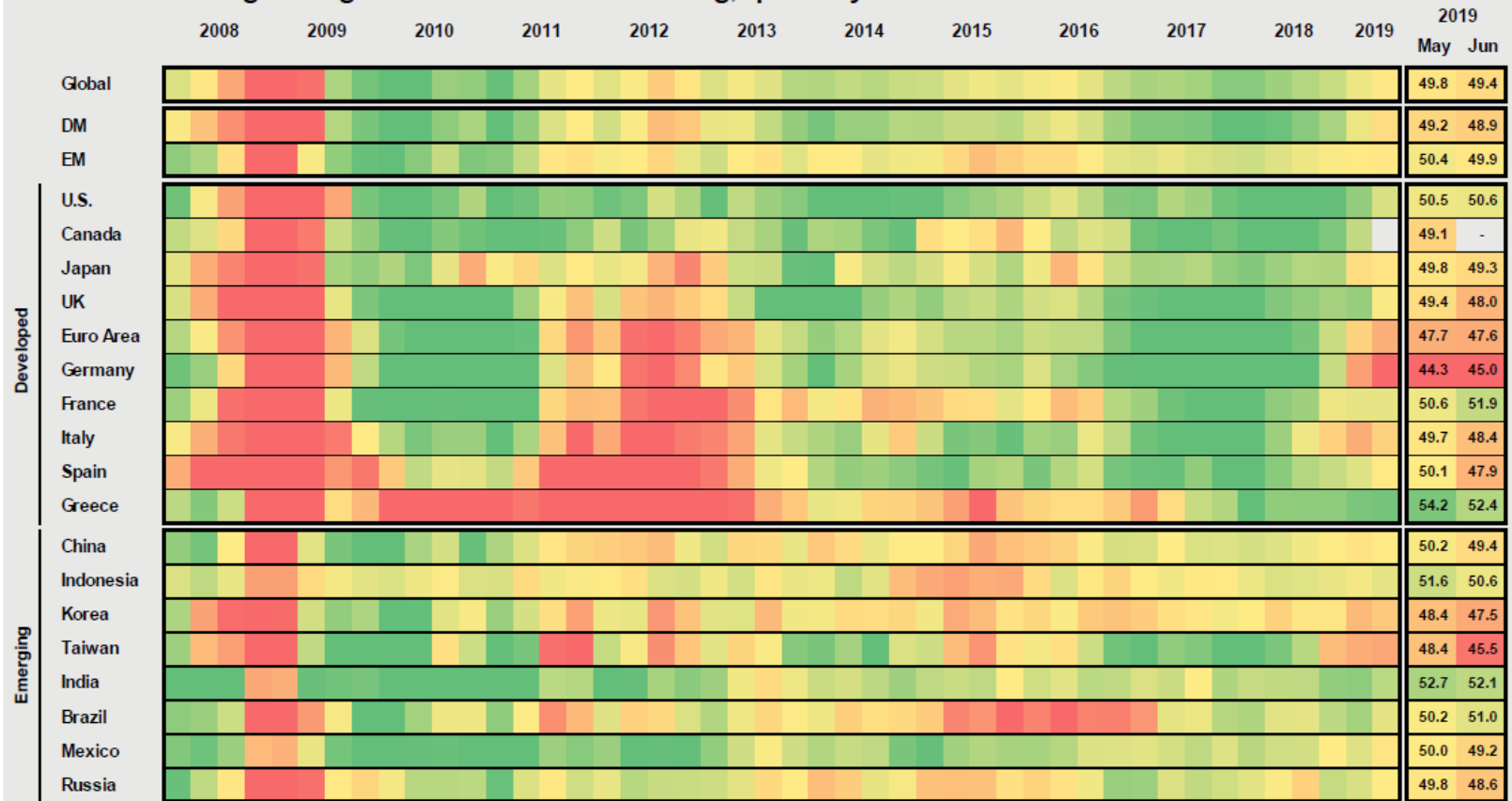
US-China Tariffs



Source: Schwab

Global Manufacturing Contracting

Global Purchasing Managers' Index for manufacturing, quarterly



Source: Markit, J.P. Morgan Asset Management.

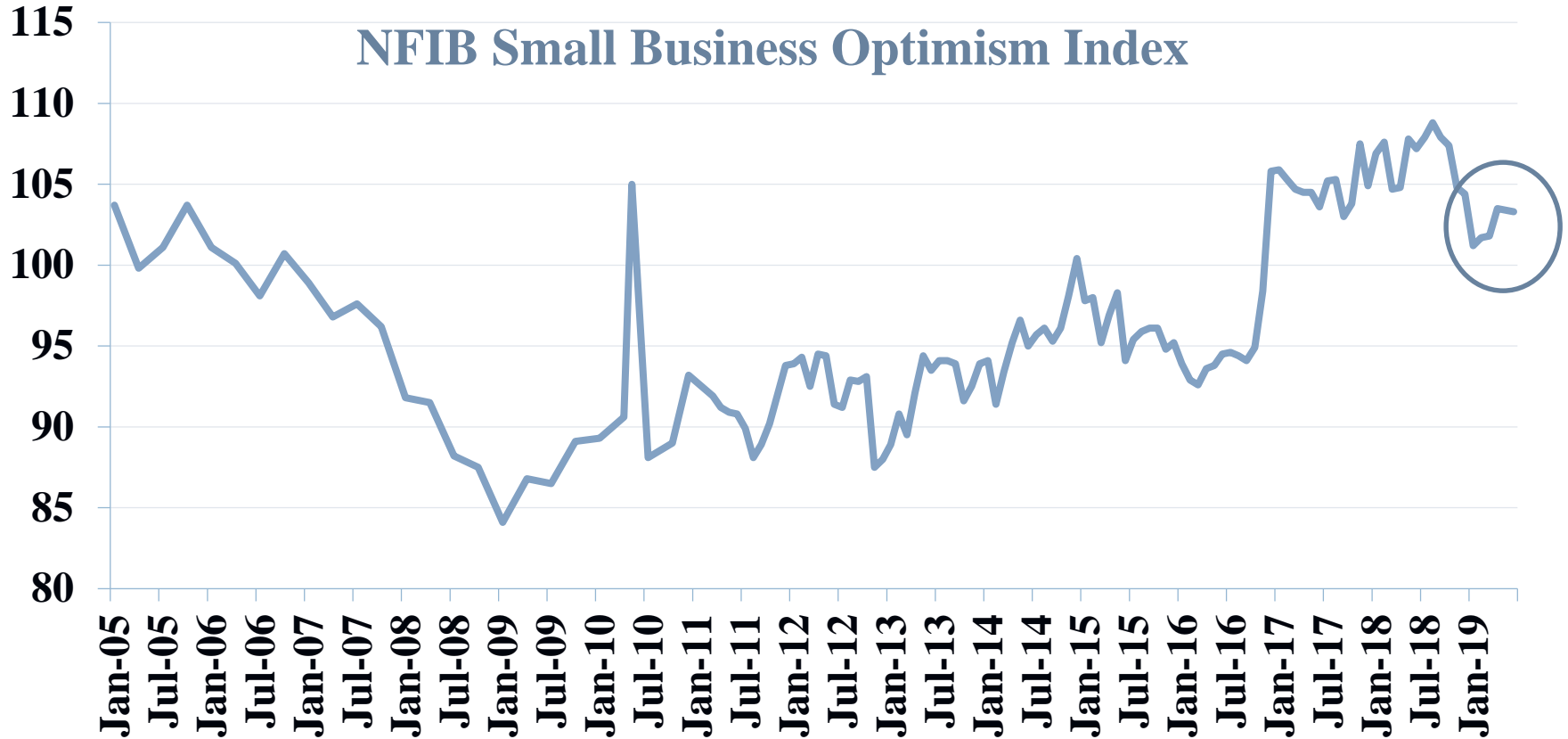
Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for Canada, Indonesia and Mexico are back-tested and filled in from December 2007 to November 2010 for Canada and May 2011 for Indonesia and Mexico due to lack of existing PMI figures for these countries. DM and EM represent developed markets and emerging markets, respectively.

Guide to the Markets – U.S. Data are as of June 30, 2019.

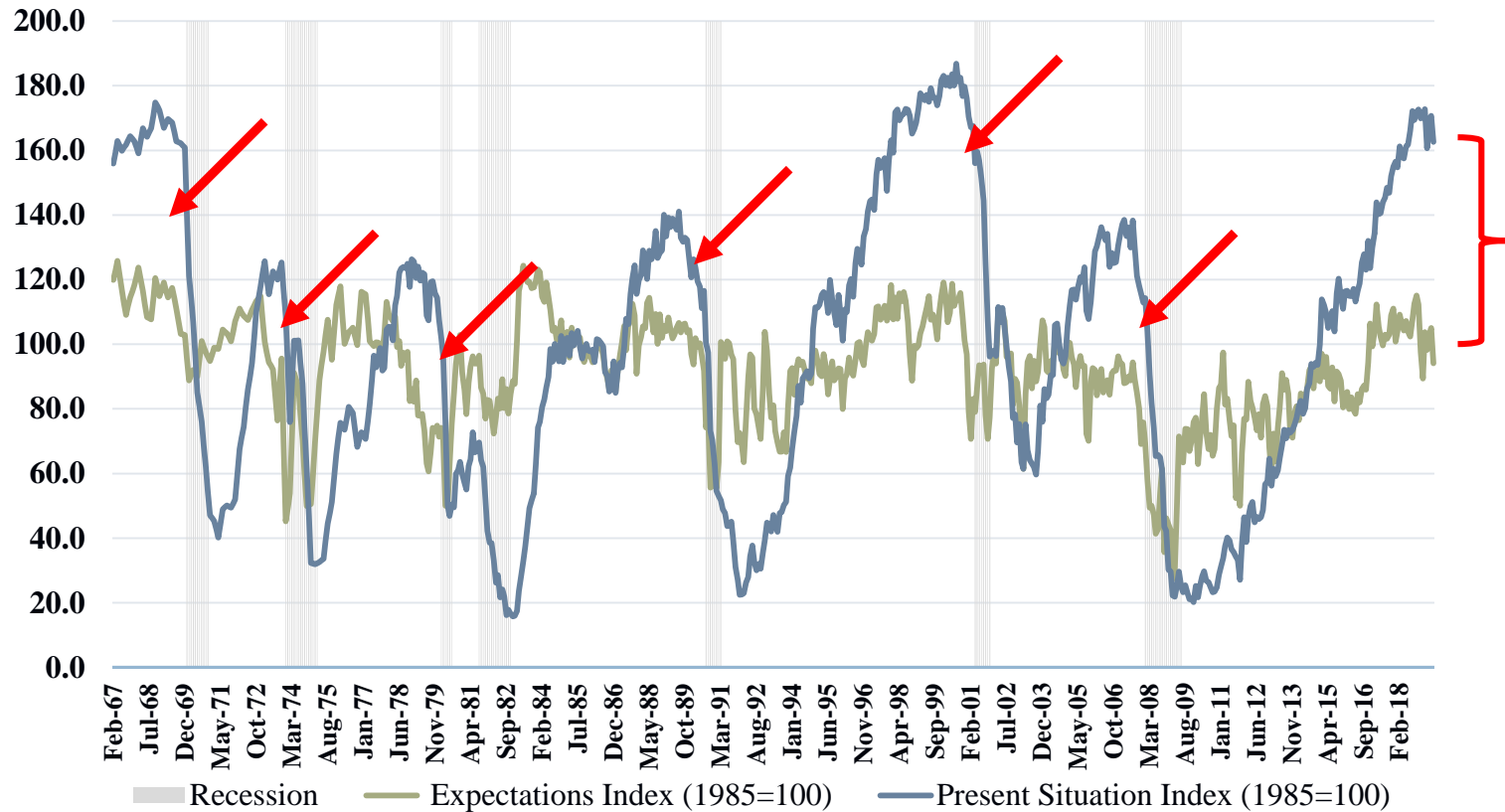
J.P.Morgan



Small Business Confidence Remains High



Conference Board Consumer Confidence

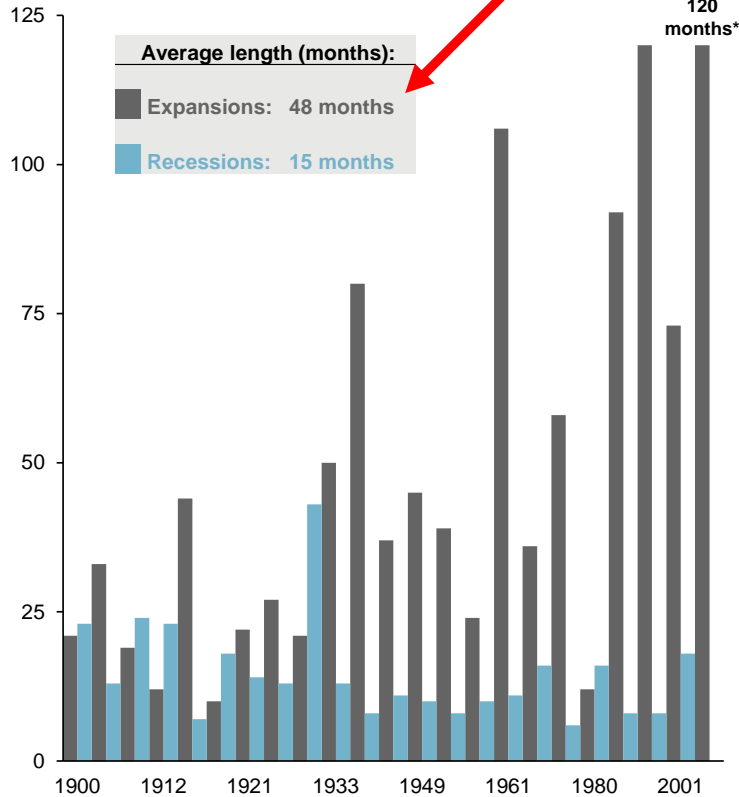


Source: Conference Board, as of 6/25/19

Shallow Current Expansion

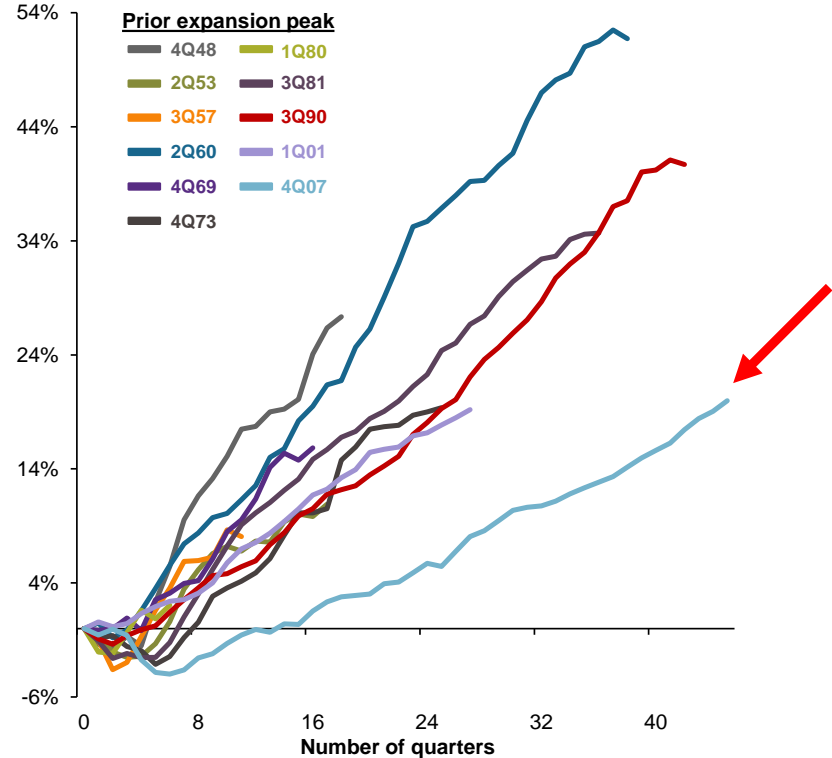
Economy

Length of economic expansions and recessions



Strength of economic expansions

Cumulative real GDP growth since prior peak, percent



Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through June 2019, lasting 120 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through June 2019. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – U.S. Data are as of June 30, 2019.



*Markets:
Solid Gains Across
All Asset Classes During
Second Quarter*



Market Summary

■ Equity market performance

	<u>Q2 2019</u>	<u>YTD</u>	<u>1-Year</u>
– US large cap			
• S&P 500	+4.3%	+19.8%	+10.4%
– US mid cap			
• Russell Midcap	+4.1%	+22.1%	+7.8%
– US small cap			
• Russell 2000	+2.1%	+16.5%	-3.3%
– International equities			
• MSCI ACWI ex US	+3.0%	+14.5%	+1.3%
– International small cap			
• MSCI ACWI ex US SMID	+2.1%	+13.5%	-3.8%
– Emerging markets			
• MSCI Emerging Markets	+0.6%	+11.6%	+1.2%



Market Summary

■ Bonds and other asset class performance

	<u>Q2 2019</u>	<u>YTD</u>	<u>1-Year</u>
– US fixed income			
• Barclay's Aggregate	+3.1%	+6.1%	+7.9%
– Global fixed income			
• Barclay's Global ex US	+3.4%	+5.0%	+4.1%
– Commodities			
• Bloomberg Commodity TR	-1.2%	+5.1%	+0.1%
– Long short			
• Morningstar Long Short	+1.8%	+7.7%	+3.3%
– REITS			
• MSCI US REIT NR	+1.0%	+17.1%	+5.9%



Equity Market Conditions

■ Second Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+3.8%	+4.3%	+4.6%
Mid	+3.2%	+4.1%	+5.4%
Small	+1.3%	+2.1%	+2.8%

■ 1-Year

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+8.5%	+10.4%	+11.6%
Mid	+3.7%	+7.8%	+13.9%
Small	-6.3%	-3.3%	-0.5%

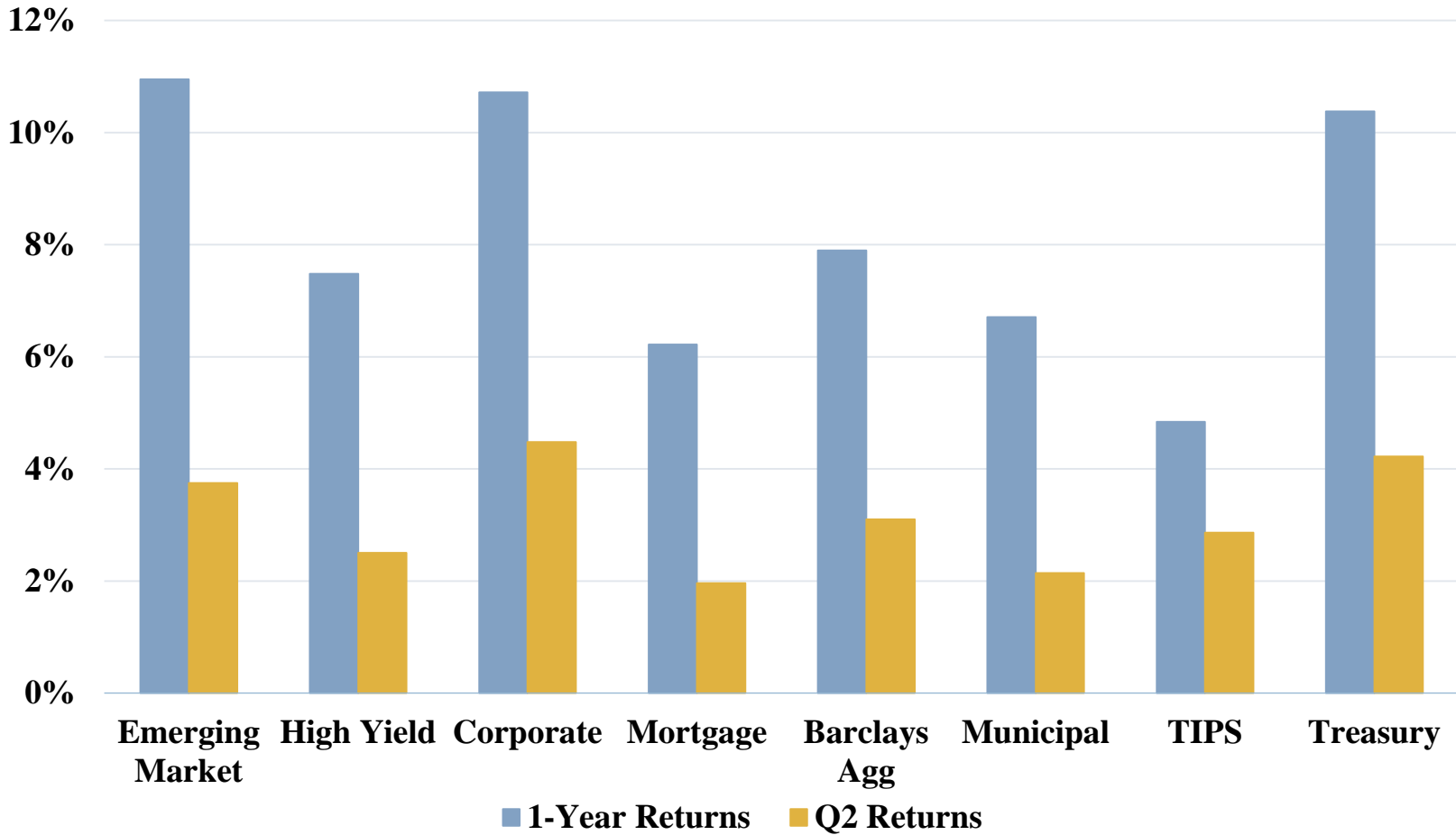
All calculations are cumulative total return as of 6/30/2019.

Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.

Past performance is no guarantee of future success.

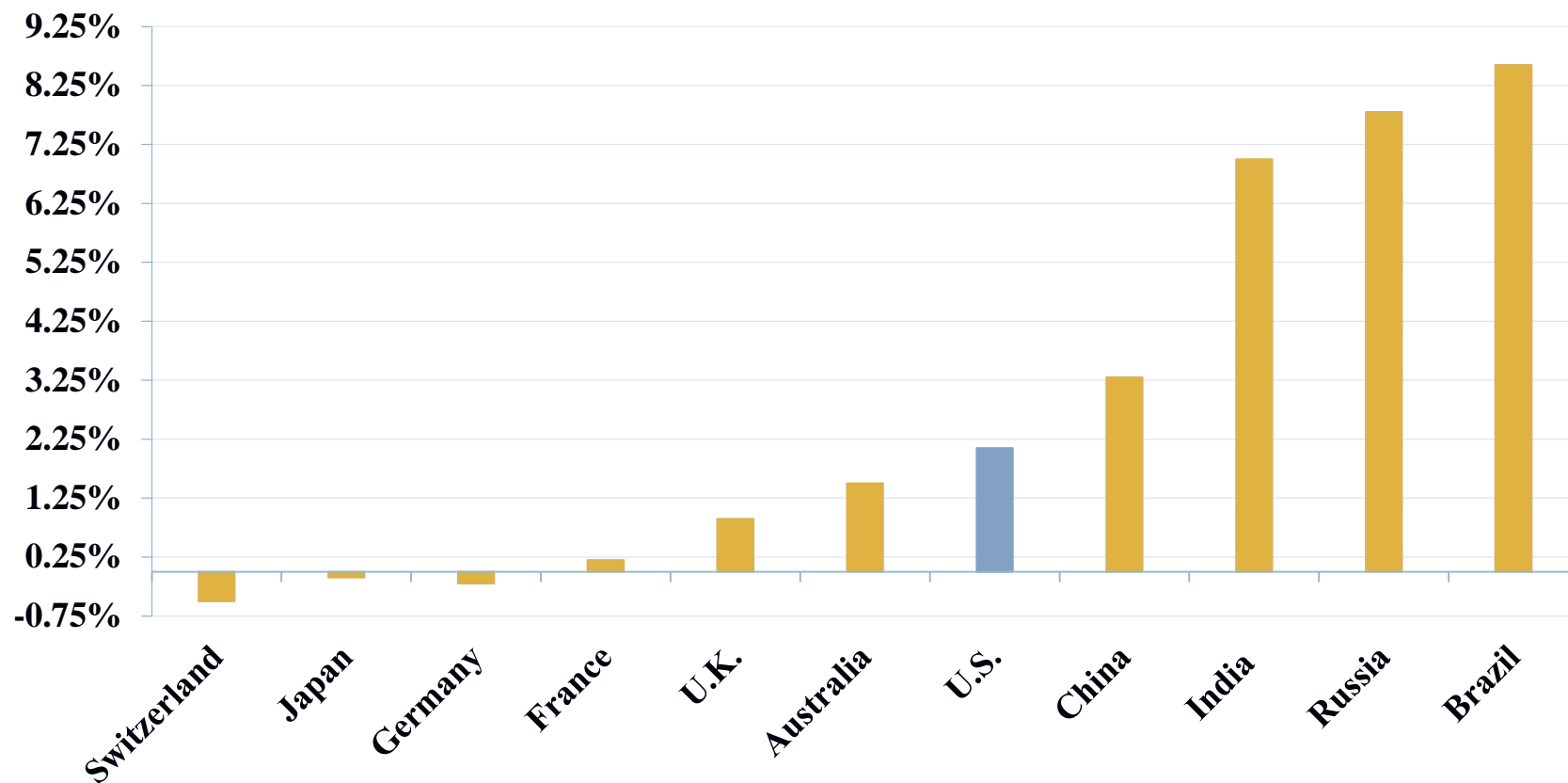


Falling Rates Drove Bond Returns Higher



Falling Global Yields Reflect Growth Concerns

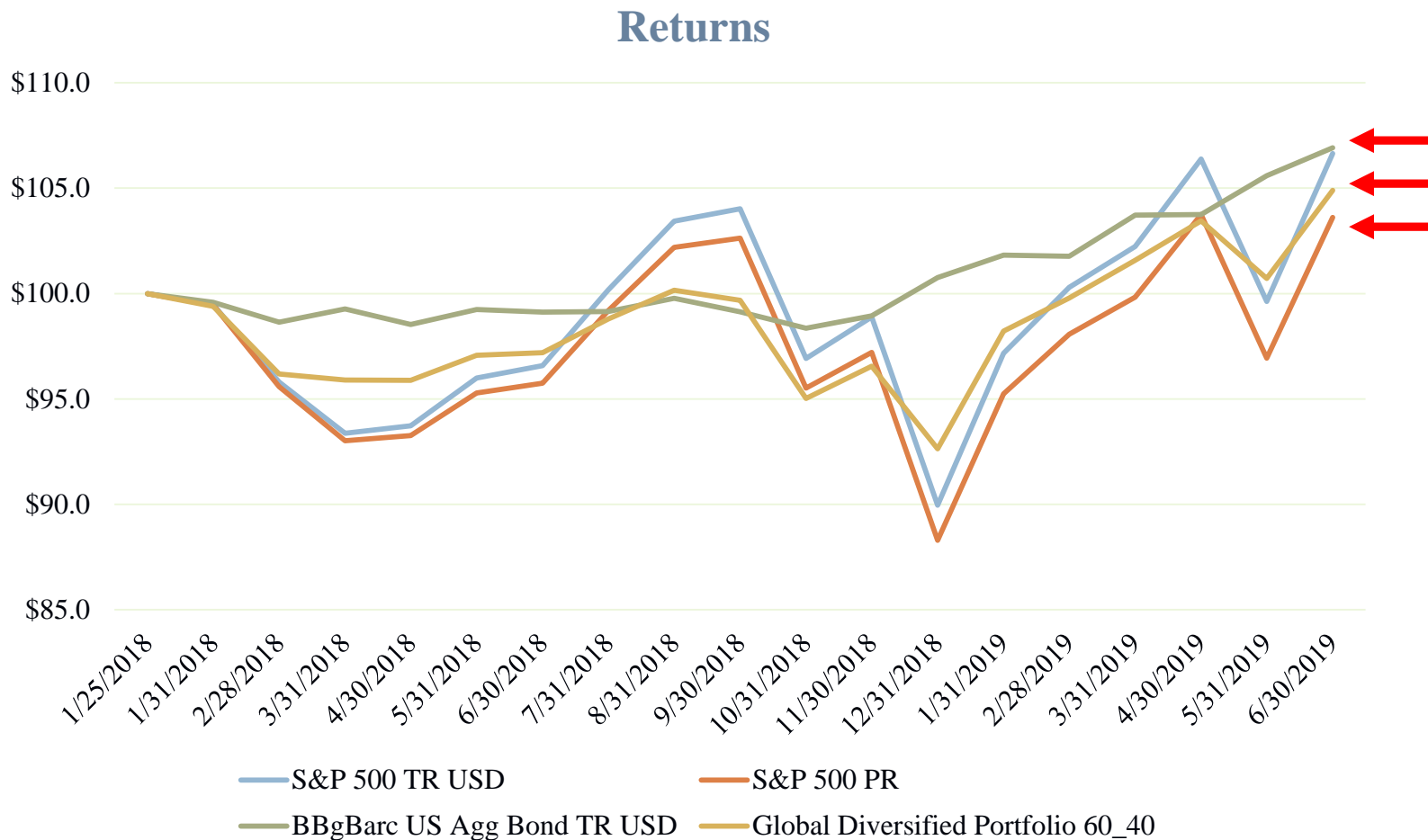
10-Year Sovereign Bond Yields



Source: Bloomberg, Factset, Voya Investment Management. Data as of 6/30/19



Modest Returns Since Late January 2018



SilverOak's Outlook



SilverOak's Outlook

■ U.S. Economy

- While near-term recession risk is low, most economic data points to a slow growth environment
 - Inversion on the short end of the yield curve
- The Federal Reserve has likely shifted to rate cuts to attempt to extend the recovery
 - Soft landing to roughly 2% GDP growth and mid-single digit corporate earnings growth likely

■ International Economy

- Tariffs have impacted China's already slowing growth
- Europe continues to be slow with European manufacturing data just short of recessionary
- Brexit remains a wildcard this fall



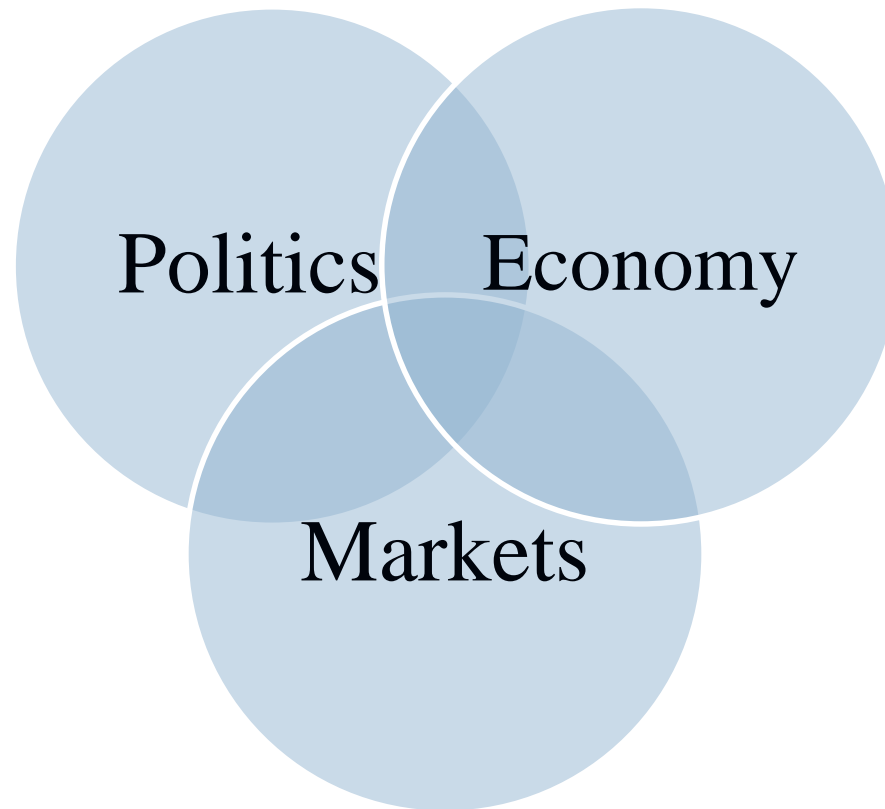
SilverOak's Outlook

▪ **Changing Probabilities**

- **Bull Case** – Re-acceleration of economy – reduced chance of strong synchronized global growth, no signs of strong re-acceleration, strong equity gains suggest hopes for re-acceleration
- **Base Case** – Low growth/no recession – slower EPS growth, weaker housing and capex, supportive Fed, no major imbalances in housing/consumer
- **Bear Case** – recession – increased probability of larger downside risks, trade dispute, populism, falling yields/inverted yield curve, global debt



Maintain a Consistent Strategy



SilverOak's Outlook

■ Bonds

- With rates falling due to growth concerns and the Federal Reserve likely shifting to cut interest rates, bond yields likely to stay within a fairly narrow range
 - After such a big downdraft in interest rates, bond returns will be more modest going forward
 - Growth expectations will likely influence credit spreads
 - Currently relatively narrow
 - Lower growth could cause credit spreads to widen
- Yield curve inversion remains a wildcard
- Bonds offer protection from equity volatility and potential downside risks
- Continue to focus on credit quality!



SilverOak's Outlook

■ Equities

- Valuations reflect much of the “good news”
 - However, the Federal Reserve's likely shift to rate cuts could continue to fuel U.S. equity markets
- With the markets seemingly ignoring potential bad news, a modest pullback from all-time highs is a possibility
 - China tariffs
 - Brexit
 - Slowing US and global growth
 - Relatively high 2019 earnings growth expectations
 - 2020 Election
- Diversification and consistency is more important than ever
 - Stay away from making large asset allocation shifts



SilverOak Update and Important Reminders



SilverOak Updates

- **SilverOak team**
 - Hired a second Associate Paraplanner
- **IQSStm (Investment Quality Scoring Systemtm)**
 - Consolation of several positions that have not been widely held is largely completed
- **Several white papers to be released shortly**
 - International investing
 - Behavioral finance



Reminders

- **Review your estate planning documents**
- **Tax planning**
 - Mid-year tax projections are underway
 - Begin to think about enrollment in 2020 deferred compensation plans
 - Minnesota enacted conformity on 5/30/19
 - Many components of conformity were made retroactive to 1/1/18!



Minnesota Tax Conformity

- **Standard deduction now matches the federal**
 - Single = \$12,200
 - MFJ = \$24,400
 - HOH = \$18,350
- **Itemized deductions “generally” match TCJA**
 - Property tax deduction is capped at \$10,000
 - Charitable contribution deduction increased to 60% of AGI
 - Home mortgage interest – deduction decreased from interest on first \$1.0 million of mortgage debt to the first \$750,000
 - Medical expense deduction equals amount in excess of 10% of AGI



Minnesota Tax Conformity

- **Personal exemptions eliminated, but maintained dependency exemption**
 - Dependency exemption = \$4,250 per dependent
- **Tax rate decrease:**
 - 2nd tier rate reduced from 7.05% to 6.80%
- **Alimony (paid under new agreements or orders)**
 - No longer nondeductible by the payer and nontaxable to recipient
- **529 dollars can be used for K-12 education (\$10k per year)**



*Additional
Questions
and/or Topics?*



End of Quarterly Webinar

Please contact your SilverOak Advisor
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free
to contact us at 952-896-5701 to learn more about our services.

www.silveroakwealth.com

