



SilverOak

WEALTH MANAGEMENT LLC

Fourth Quarter 2017 Market Summary

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Fourth Quarter 2017 Market Summary

Coming into the year, we had a favorable outlook for the economy and equity markets despite political noise, geopolitical risks and elevated valuations. Surprisingly, equity returns turned out to be stronger than expected. Even fixed income had solid returns. Global central bank policy remained highly predictable which helped provide a benign environment for all asset classes. As of year-end, the current U.S. bull market is the second longest in history at 105 months versus the October 1990 to March 2000 recovery, which lasted 113 months. The cumulative return for the S&P 500 during the current bull market has been 295%, which is also the second largest gain behind the 417% gain of the 1990-2000 recovery. The strong equity returns over the past nine years are impressive considering the U.S. economy has had the weakest post-recession growth since 1948, as represented by the cumulative real GDP.

U.S. large company stocks, represented by the S&P 500 Index, were up 6.6% during the fourth quarter and they finished the year up nearly 22%. It was the first time in history the S&P 500 had a positive return in each month of the year. U.S. small company stocks, represented by the Russell 2000 Index, lagged their large counterparts with a positive 3.3% return during the quarter. They were up nearly 15% for the year. Growth stocks significantly outperformed value stocks in the U.S. and international markets. The differential in returns between these differing styles of investing was anywhere from 10% to 17%. Additionally, certain sectors such as telecom, health care, and retail were pressured at different times during the year while many technology, industrial and material companies performed well.

Over the past year, SilverOak has been highlighting the improvement in economic data and corporate earnings across international and emerging markets. The improving fundamentals of global stocks has helped drive outperformance of non-U.S. equities relative to domestic equities. Overall, international stock markets had strong performance with the MSCI ACWI ex US Index up 5.0% for the quarter and 27.2% for the year. Emerging markets performed even better with returns of 7.4% and 37.3% for the quarter and year respectively. The depreciation of the U.S. dollar added to international returns.

For the quarter, the Barclays U.S. Aggregate Index, which represents a broad basket of bonds, was up 0.4%. For the year, the index was up 3.5%. Credit sectors and municipal bonds performed even better. The Federal Reserve raised the Fed Funds rate in December to 1.25% - 1.50%, which was widely expected. The Fed is forecasting three more rate hikes in 2018 and two in 2019; whereas, market participants are expecting that only two rate increases will occur in 2018.

Adding to the uncertainty of Fed policy is the changing composition of the Federal Open Market Committee and potentially the board's view of monetary policy and communication style. Incoming Fed chairman Jerome Powell will take over in February and four unassigned Fed committee seats will be nominated by President Trump.

Volatility was very low in 2017. The MSCI ACWI, which represents global equities, recorded the fewest days in which the index declined by more than 1% over the past 30 years. This statistic is quite remarkable and contributed to positive investor sentiment. Markets are expecting the current trend of moderate growth and historically low volatility to continue. The breadth of global growth is certainly encouraging; however, are investors getting complacent? Are you ready for a 10% market correction? The S&P 500 averages three corrections of 5% a year and a 10% correction about once every eighteen months.

Broad Market Index Returns Fourth Quarter 2017



It is easy for investors to get complacent after a period of significant returns and steady growth. As a word of caution. Late in market cycles, investors often search for greater gains and buy securities irrespective of underlying value or the appropriateness relative to their personal situation, expecting the price to continue its ascent. In general, this can be described as speculation.

Fourth Quarter 2017 Market Summary (continued)

Investing, on the other hand, is often described with a different sentiment. Investors buy securities based on sound fundamentals including an attractive price relative to intrinsic value. Speculators and investors are both needed to maintain a healthy market. At SilverOak, our focus is clearly on helping our clients invest their money wisely and avoid taking imprudent risks on the investment du jour.

Going into 2018, our outlook has not dramatically changed for the coming year, though we find it unlikely the current trajectory of the equity markets will be sustainable. Components of SilverOak's Market Dashboard are still signaling favorable conditions. The global economy is growing, corporate earnings are increasing, and momentum is positive. Congress passed a tax reform bill in December that includes a large tax cut for corporations. The market has generally viewed the bill as a mild boost to GDP and a positive for equity returns. The main caution for the equity markets is valuations; however, they are a weak timing tool as they can stay elevated or low for long periods of time. Some economists are not calling for a U.S. recession for another 3-5 years. While that may be the case, it is prudent to stay disciplined and maintain perspective.

SilverOak helps clients navigate the market cycles by creating globally diversified portfolios that participate in bull rallies while providing some protection when corrections occur. Correlation of asset classes, which were elevated during the financial crisis, continue to trend down to historical norms. Lower correlations increase the benefits of diversification and rebalancing, which SilverOak will be coordinating with clients in the first few months of the new year.

HIGHLIGHTS

MACROECONOMICS

- The Bureau of Economic Analysis released the advanced estimate of fourth quarter 2017 real GDP, an annual rate increase of 2.6% from the preceding quarter. The estimate was slightly lower than analysts were expecting.
- The University of Michigan Consumer Sentiment Index final reading for December was 95.9, which was an increase from the third quarter. Consumer sentiment is very strong, averaging 96.8 for 2017, which was the high annual average since 2000.
- The ISM Manufacturing Index remained high during the quarter, finishing at 59.7 in December. The ISM Index has risen steadily since the beginning of 2016 and has reached the highest level since 2004. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish.
- In December, the Conference Board Leading Economic Index increased 0.6% month-over-month to 107.0. The Index has shown a pick-up in economic growth during the fourth quarter.
- The price of WTI Crude Oil was \$60.46 at the end of December, which is 17% higher than \$51.67 at the end of September. The price of Brent Crude Oil increased 17% in the quarter to \$66.73. Strong demand and OPEC supply cuts have caused the oil market to tighten faster than investors expected.
- In December, headline CPI increased 2.1% year-over-year, roughly flat with the 2.2% in September. Core CPI, which does not include food and energy, had a 1.8% increase. Inflation is expected to remain low but could increase modestly due to wage growth and commodity price stabilization.

HOUSING

- The housing sector has been very strong the past few years with increasing sales and rising home prices.
- Preliminary existing home sales increased in the quarter with a monthly average annualized rate of 5.62 million units from 5.39 million units in the third quarter. The December annualized rate is 1.1% higher than the 5.51 million units in December 2016. Unsold home supply remains at very low levels.
- Median existing home sale prices increased during the quarter. The preliminary prices for December were 5.8% higher than the levels of one year ago and have been trending up since the beginning of 2012. Prices are now higher than the previous peak in 2007.

- New home sales have been strong during the year and have been increasing since 2011. However, new home sales remain slightly below average due to the below average housing starts since 2009.
- S&P Case-Shiller 20-City Home Price Index (seasonally adjusted) showed home prices rose over 5.0% year-over-year during 2017.

EMPLOYMENT

- The labor market data has generally been healthy. The job growth rate has slowed slightly as the labor market is at or near full employment. Wages have been slowly rising over the past few years.
- During the quarter, nonfarm payrolls averaged 204,000 jobs added per month, which is much higher than past quarters.
- The unemployment rate declined to 4.1% in December from 4.7% at the beginning of the year.
- Initial Jobless Claims have been decreasing since 2009 and dipped to lows last seen in 1973, reflecting a tight labor market.

DOMESTIC CORPORATIONS

- Corporate operating earnings in the third quarter 2017 were higher than the previous year. Estimates for the fourth quarter show an acceleration of earnings growth and should surpass peak levels set in 2014. Corporate earnings in 2018 are expected to benefit from the recently passed tax reform bill.
- Operating margins remain well above historical averages. Margins could contract from record levels if interest rates rise and wages increase. However, net margins will get a boost from lower taxes.
- Forward and trailing P/E multiples are above historical averages.
- The U.S. dollar depreciated almost 9% vs. major currencies during 2017, which benefited non-U.S. securities.

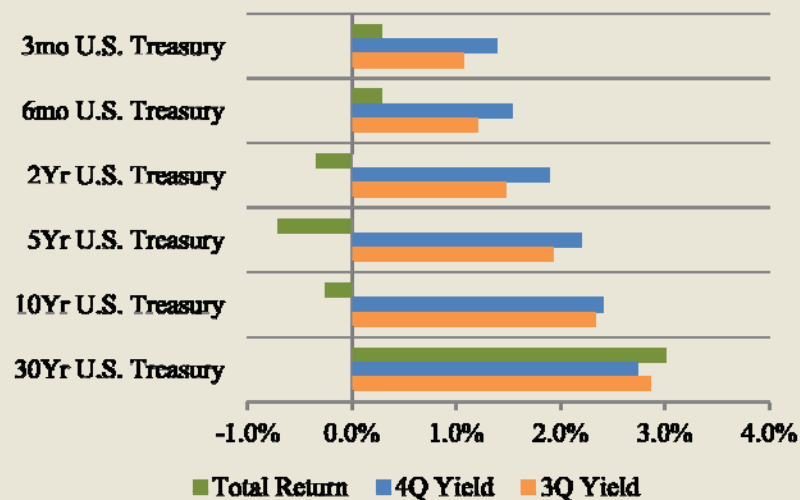
FED POLICY

- In December, the Federal Open Market Committee (FOMC) decided to raise the federal funds rate to 1.25% - 1.50%, which was widely expected. The Fed's assessment of economic conditions was unchanged. They noted the economy is expanding moderately, the labor market continues to strengthen and inflation remains low.
- The Fed is forecasting they expect to raise rates three times in 2018 and twice in 2019. Market expectations believe the Fed will only raise twice by the end of 2018. In the September meeting, the Fed announced a plan to reduce their balance sheet by letting bonds mature rather than reinvesting. The unwinding of the Fed's balance sheet may put upward pressure on interest rates and add volatility to the markets.
- Incoming Fed chairman Powell is expected to provide continuity of current monetary policies; however, it will be important to watch if the Fed's transparent communication style continues with the committee personnel changes.

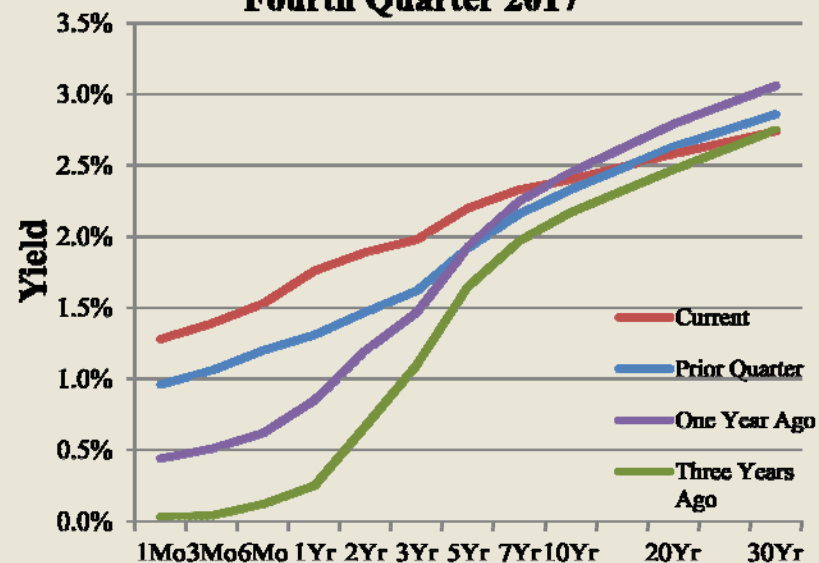
FIXED INCOME

- Long term yields decreased quarter-over-quarter; however, the short and intermediate end of the curve rose causing the yield curve to flatten. Short-term rates rose throughout the quarter as investors anticipated the Fed Fund rate hike in December. Short term interest rates are controlled or heavily influenced by central banks where as long term interest rates are controlled by market forces and economic growth. Historically, the yield curve has flattened as the Fed raises interest rates and the business cycle matures.
- Volatility in the U.S. Treasury market was near all-time lows in the fourth quarter.

Treasury Yields & Returns Fourth Quarter 2017



U.S. Treasuries Yield Curve Fourth Quarter 2017



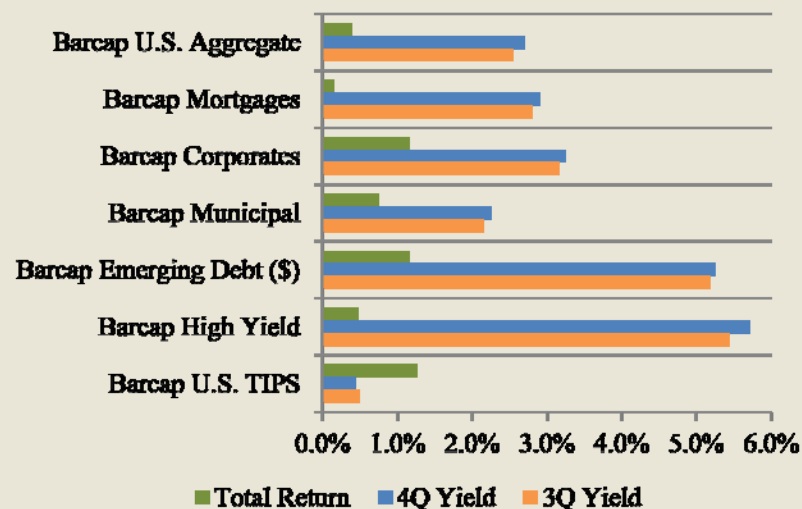
FIXED INCOME (continued)

- Returns across fixed income sectors were positive, with the Barclays U.S. Aggregate up 0.39% during the quarter. Municipal returns outperformed taxable bonds. High yield and corporates performed well as credit spreads tightened due to strong corporate earnings and investors' appetite for income. Emerging market debt also performed well with rising global growth prospects.
- The new tax reform bill will benefit some sectors over others but the changes will not have major implications in the bond market.
- Fixed income returns, going forward, are expected to be lower than historical averages as interest rates are still at a very low level. Historically, future ten year fixed income annualized returns have been about equal to the 10 year Treasury yield at the start of the period. Despite the low rates and muted expected returns of fixed income, it remains an important part of a diversified portfolio as it provides stability when equity markets decline.

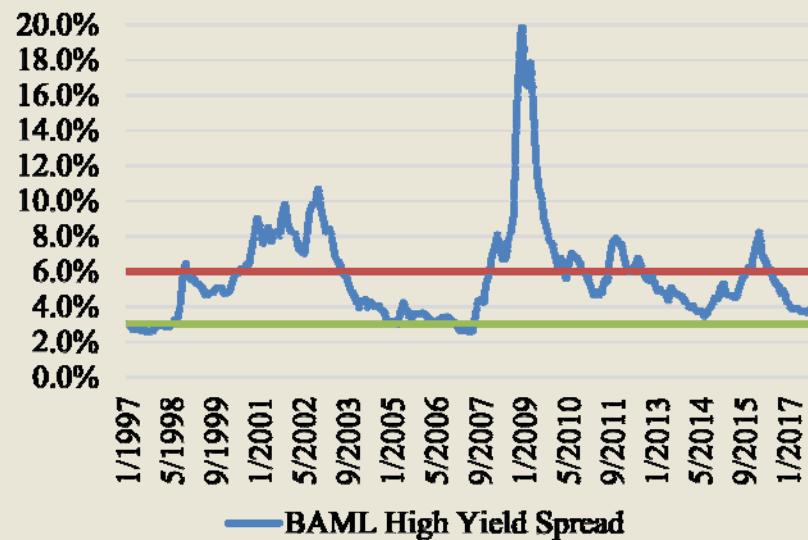
10-Year Treasury Yield



Fixed Income Yields & Returns Fourth Quarter 2017

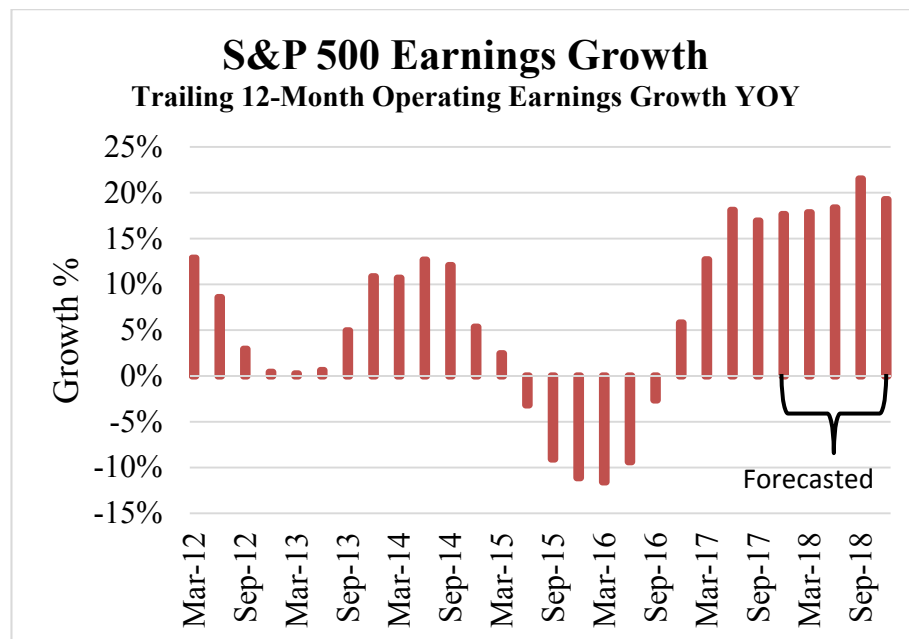


Credit Spreads - High Yield

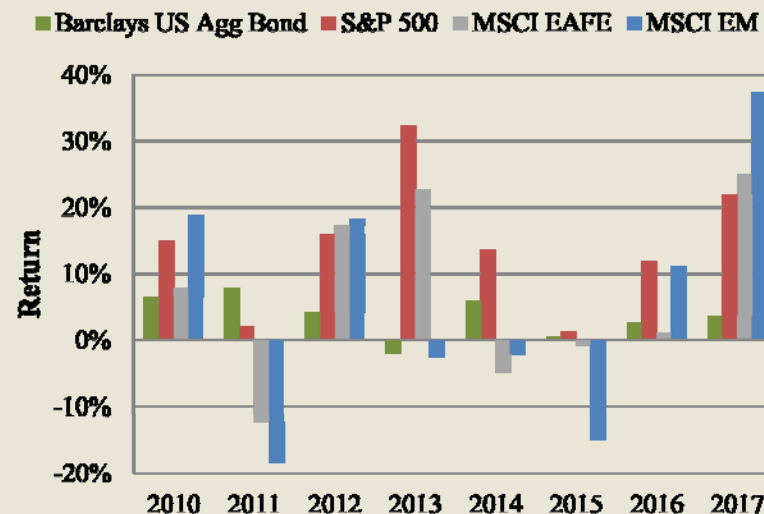


EQUITIES

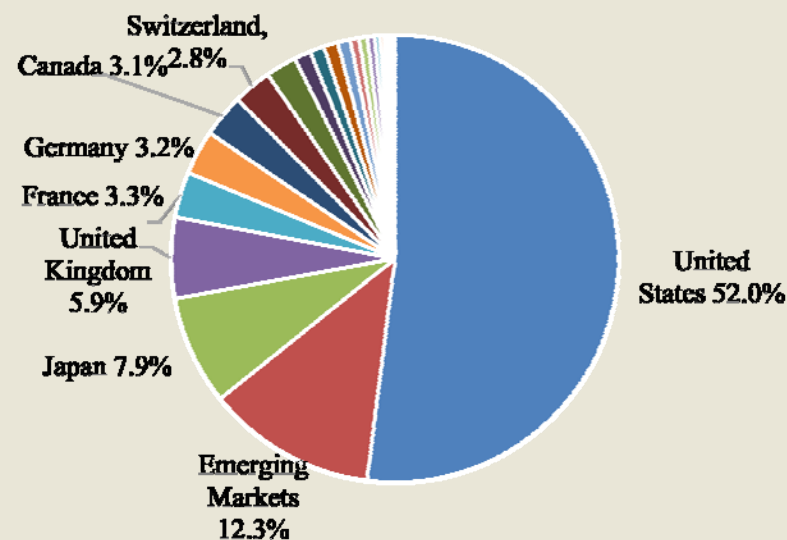
- Equities performed strongly during the quarter and year as volatility was non-existent and investor sentiment fueled the upward trend. In December, S&P 500 Index recorded its fourteenth straight positive performance month. The new tax reform bill is expected to boost economic growth and corporate earnings as corporate tax rate is lowered from 35% to 21%. Corporations will likely use cash to increase share repurchases and dividends which will help shareholders.
- Correlations among equities has fallen to levels last seen in the early 2000's. Low correlations increases the benefits of a diversified equity portfolio. Many international markets are experiencing stronger earnings growth relative to U.S. companies. Additionally, many non-U.S. equities and currencies have lower valuations relative to U.S. equities and the dollar.



Equity & Fixed Income Market Annual Returns

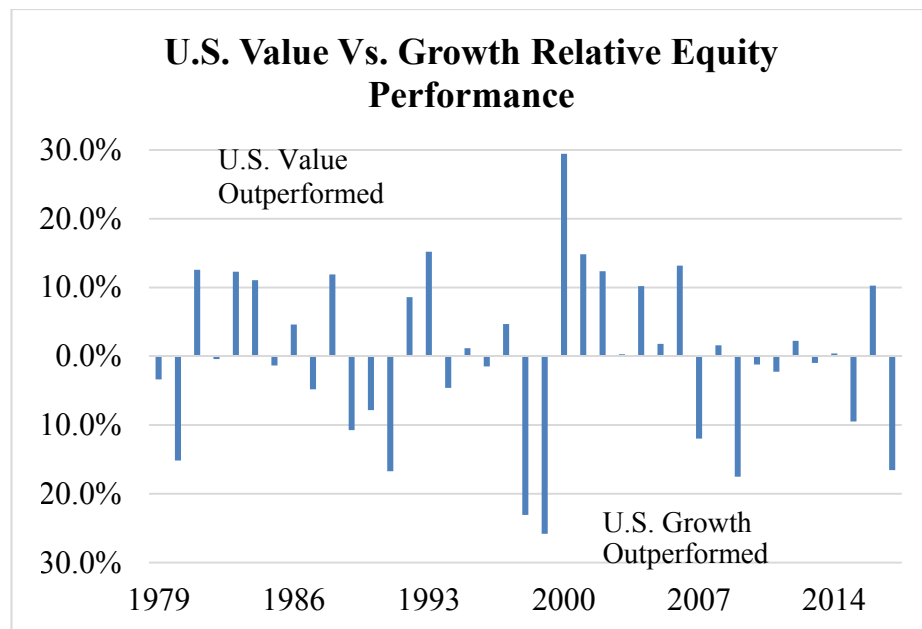


Country Weighting in MSCI ACWI (as of 1/17/2018)



DOMESTIC EQUITIES (continued)

- The Russell 1000 Index of large capitalization stocks posted a total return of 6.6% during the quarter. On a year-over-year basis, the Russell 1000 Index has increased 21.7%.
- Small capitalization stocks, as represented by the Russell 2000 Index, posted a total return of 3.3% during the quarter. On a year-over-year basis, the index has increased 14.7%.
- Markets in 2017 and during the quarter were led by growth companies, specifically large cap technology companies. Traditionally defensive sectors such as Utilities, Telecommunications, Health Care, and Real Estate lagged during the quarter and year. As it stands, 8 of the largest 10 companies in the world are U.S. companies.
- Growth companies have outperformed Value companies over the past 1-, 3-, 5-, 10-, and 15-year basis. However, Value has outperformed over the past 20 years and all-time. The market cyclicalality can be seen below.

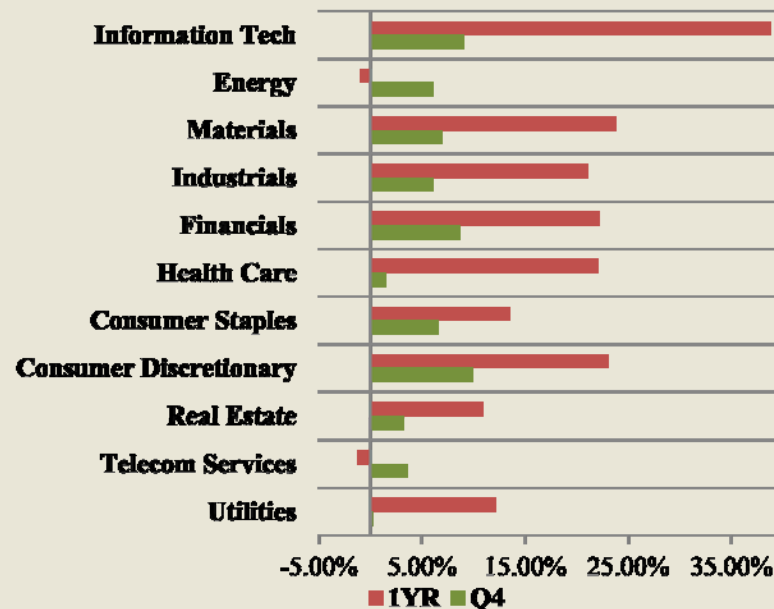


Russell 1000 Growth TR vs. Russell 1000 Value TR

Fourth Quarter 2017 Returns

	Value	Core	Growth
Mega Cap		7.3%	
Large Cap	5.3%	6.6%	7.9%
Mid Cap	5.5%	6.1%	6.8%
Small Cap	2.1%	3.3%	4.6%
Micro Cap	2.4%	1.8%	0.9%

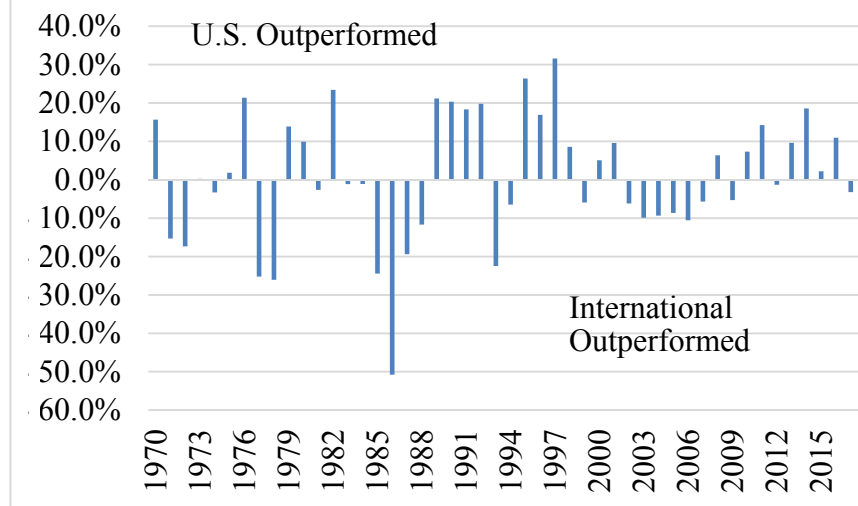
U.S. Equity Market Returns by Major Sector (Securities in S&P 500, Fourth Quarter 2017)



INTERNATIONAL EQUITIES (continued)

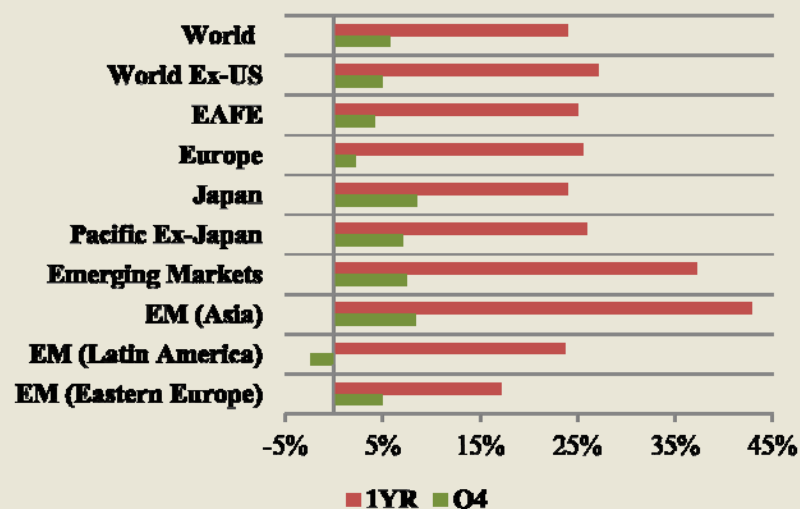
- Developed international stocks, as represented by the MSCI EAFE, were up 4.2% during the quarter. On a year-over-year basis, the EAFE is up 25.0%, performing better than U.S. domestic equities. Twenty of twenty-one countries in the MSCI EAFE Index had positive double-digit returns for the year.
- Emerging market stocks had a strong quarter, outperforming developed markets. The MSCI Emerging Markets Index increased 7.4% in the quarter and has increased 37.3% over the past year.
- The breadth of global growth is certainly encouraging. The Organization for Economic Cooperation and Development (OECD) tracks 45 major economies and is showing that each country grew in 2017 and is expected to grow in 2018. It was been a decade since global growth has been this coordinated. Global monetary policy remains supportive while the Federal Reserve begins winding down its quantitative easing.

U.S. vs. International Equity Performance

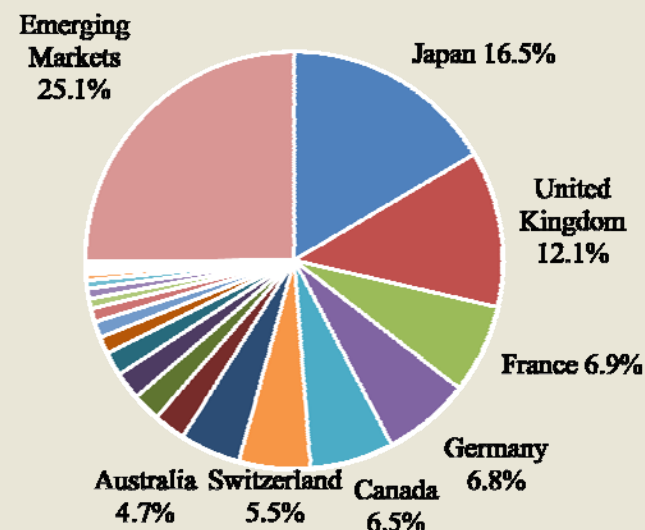


S&P 500 TR vs. MSCI EAFE NR

Non-U.S. Equity Market Returns Fourth Quarter 2017



Country Weighting in MSCI ACWI ex US (as of 1/12/2018)



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Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.