



SilverOak

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WEALTH MANAGEMENT LLC

Quarterly Webinar  
October 19, 2021



# Introduction

- Shannon King, CPA, CFP<sup>®</sup>, PFS, CIMA<sup>®</sup>, CPWA<sup>®</sup>, MBT  
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP<sup>®</sup>, AEP<sup>®</sup>, CAIA  
Partner and Lead Analyst



# Agenda

- Economic data
- Market data
- Transitions
- SilverOak's outlook
- SilverOak updates
- Questions



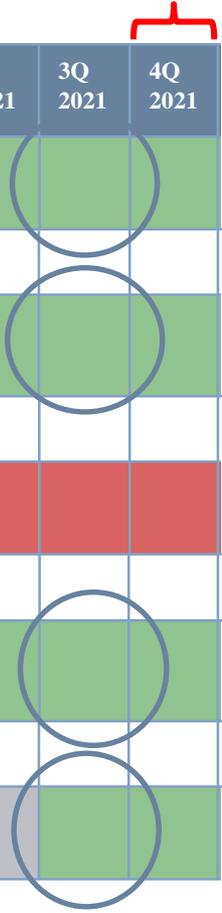
*Economy:  
Pace of Recovery Slowed  
During Third Quarter*



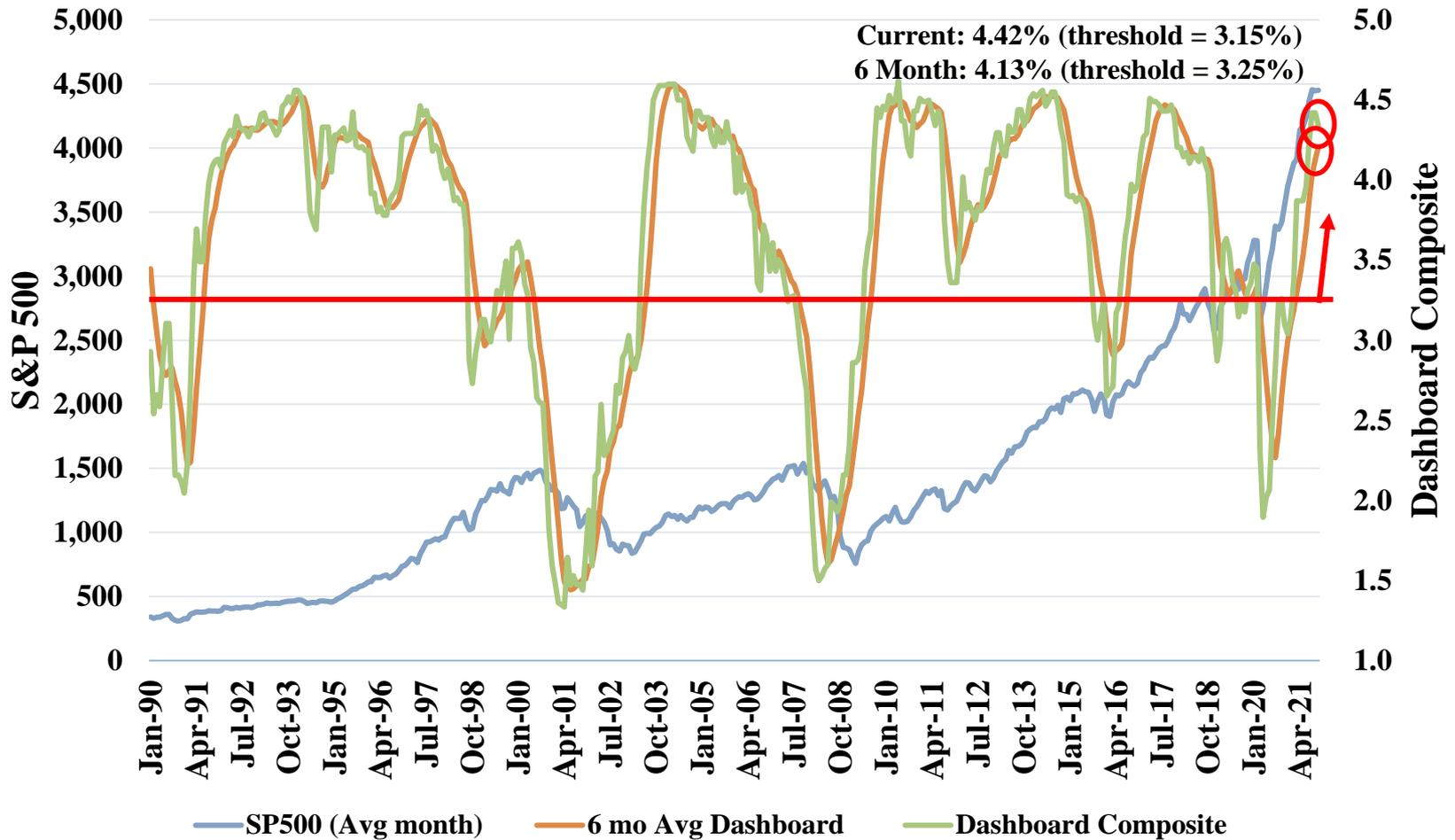
# Market Dashboard

Projected

	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
<b>Economy</b>	Green	Green	Green	Grey	Grey	Grey	Red	Red	Red	Grey	Green	Green	Green	Green
<b>Credit Markets</b>	Green	Green	Grey	Green	Grey	Grey	Red	Red	Grey	Grey	Green	Green	Green	Green
<b>Valuations</b>	Red	Grey	Grey	Grey	Grey	Grey	Grey	Red						
<b>Market Sentiment</b>	Green	Grey	Grey	Green	Green	Green	Grey	Red	Green	Green	Green	Green	Green	Green
<b>Composite 6mo. Avg.</b>	Green	Green	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Grey	Grey	Green	Green



# Market Dashboard



# Current Economic Factors Scorecard

## Positive

Fiscal Policy  
Monetary Policy  
Interest Rates ↓  
Housing  
Credit Conditions  
Corporate Earnings (+)

## Neutral

Commodity Prices ↓  
U.S. Politics  
U.S. Dollar  
Employment  
Consumer Confidence  
U.S. Inflation ↓  
Global Growth ↓  
Eurozone

## Negative

China ↓  
Tariffs  
Geopolitics

(+)/(-) signifies upgrades/downgrades in categories  
↑ ↓ signifies sentiment shifts within a category

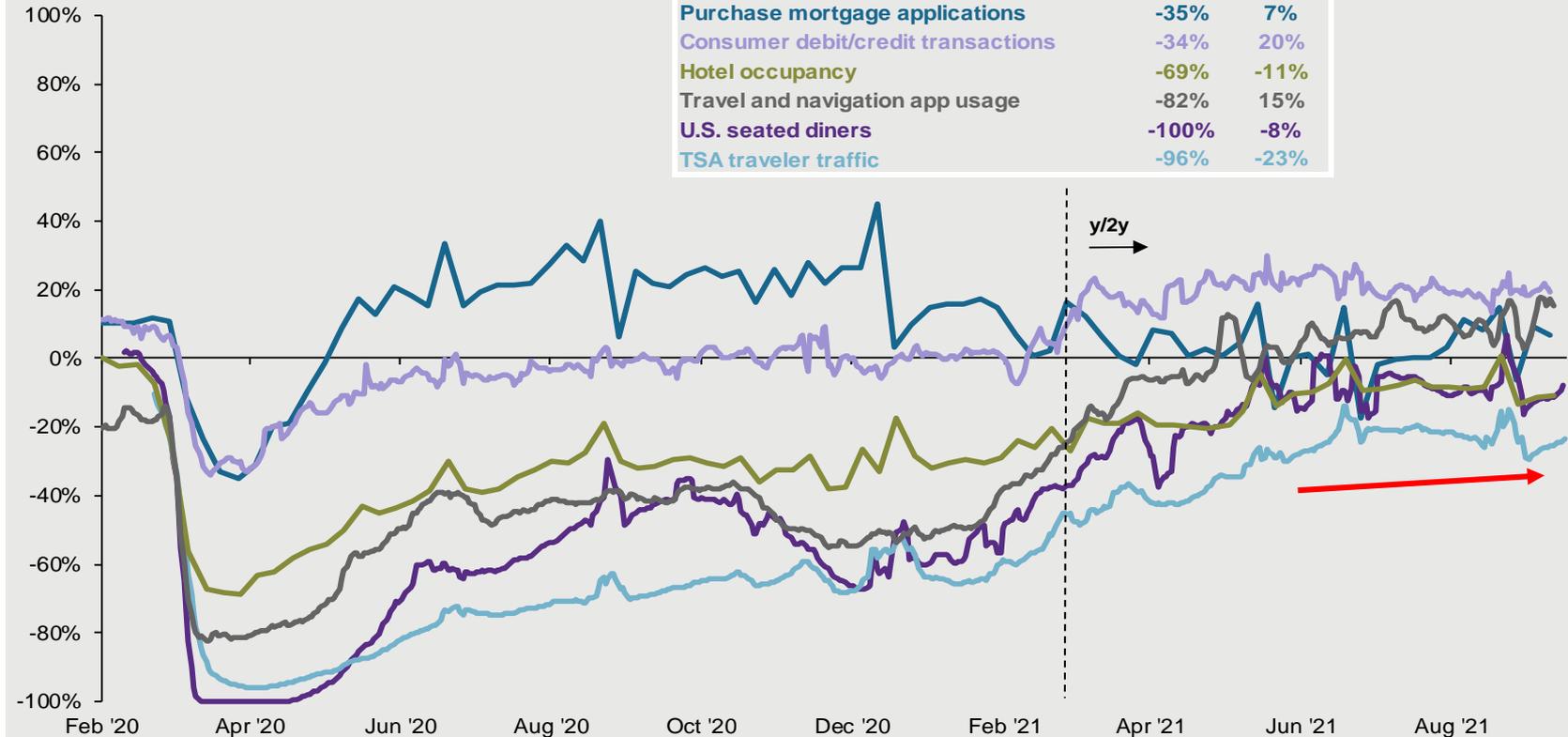


As of 9/30/2021

# Consumer Activity Flattened Due to Delta

## High-frequency data

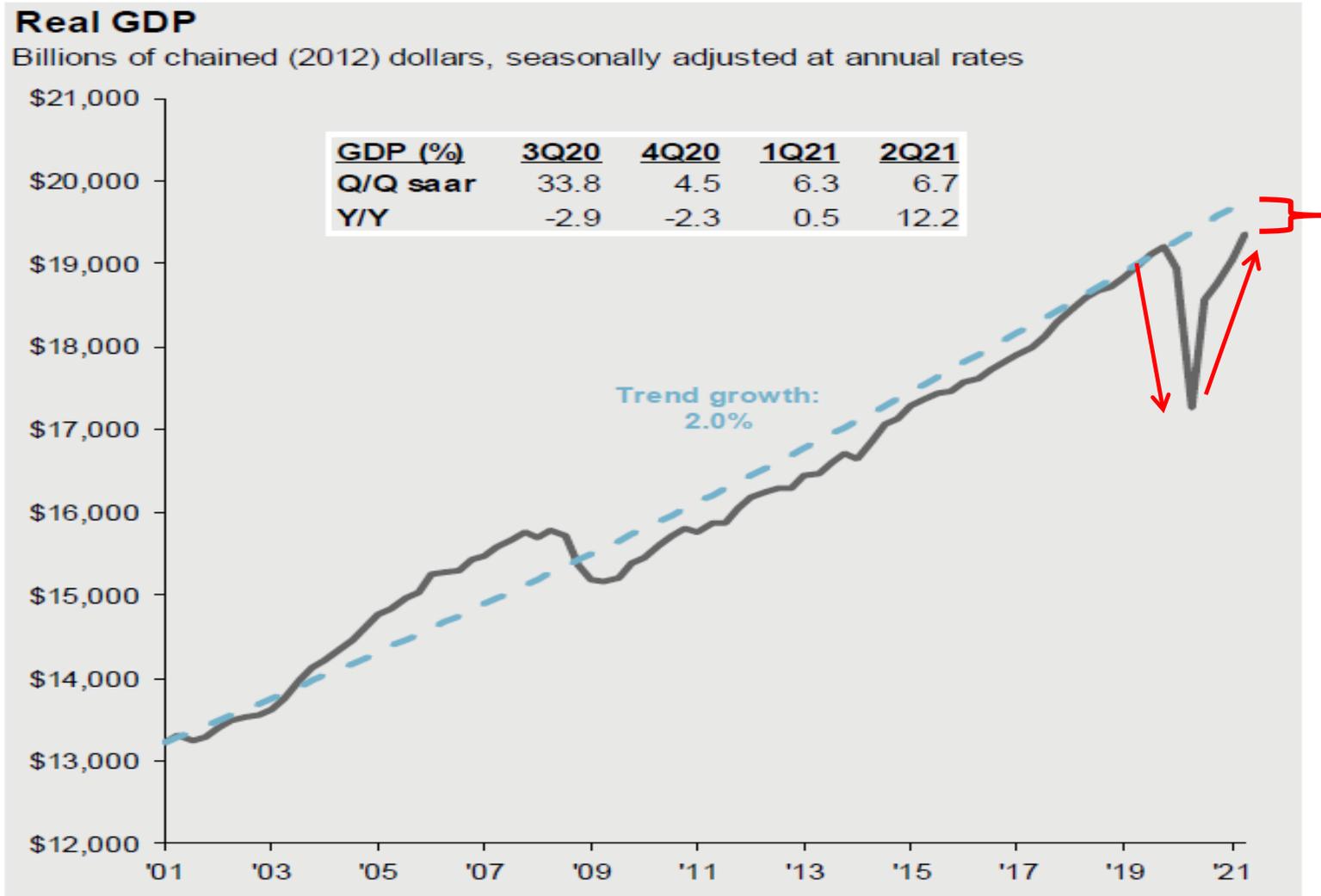
Year-over-year % change; Year-over-2 year after 3/15/21\*



Source: App Annie, Chase, Mortgage Banker's Association, Open Table, STR, TSA and J.P. Morgan Asset Management.



# GDP Has Recovered to Pre-Pandemic Levels



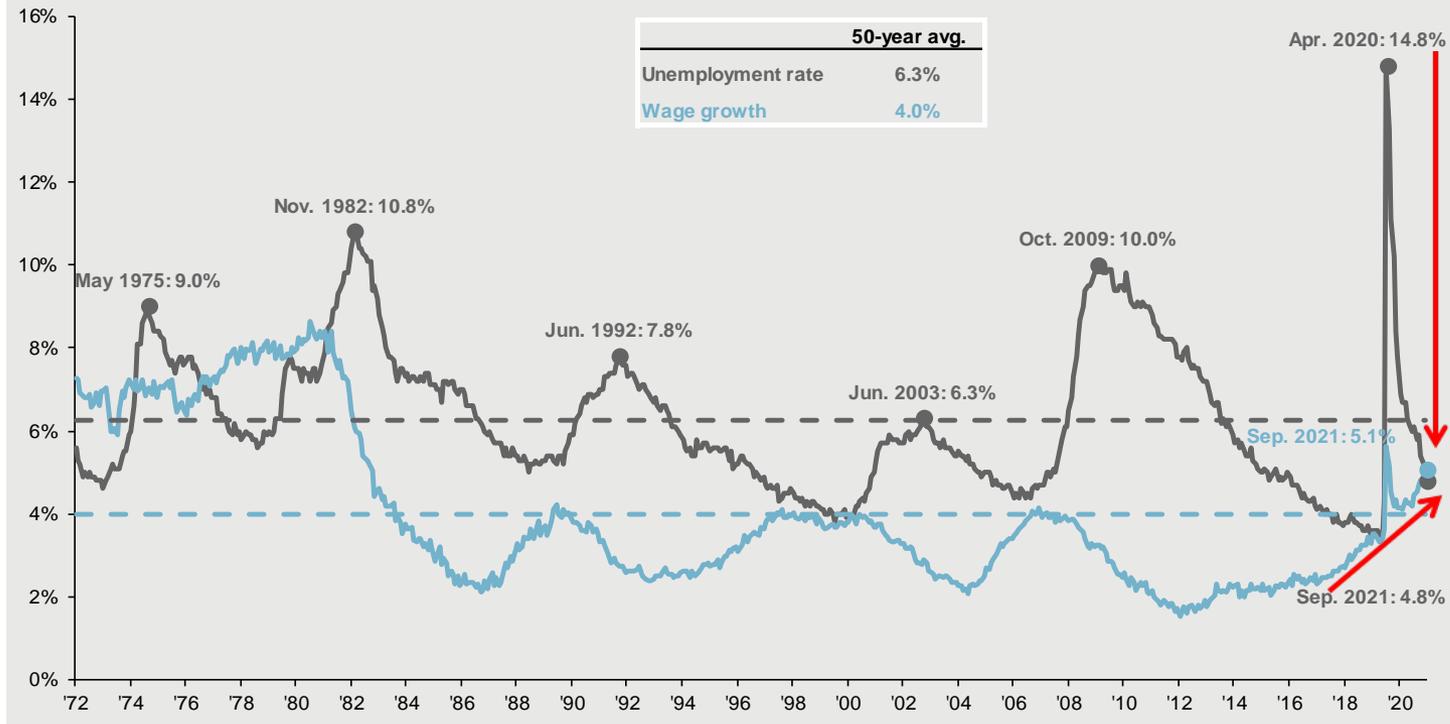
Source: Bureau of Economic Analysis, Factset, J.P. Morgan Asset Management. Data as of 9/30/2021



# Jobs Market Remains Tight

**Civilian unemployment rate and annualized y/2y wage growth for private production and non-supervisory workers**

Seasonally adjusted, percent

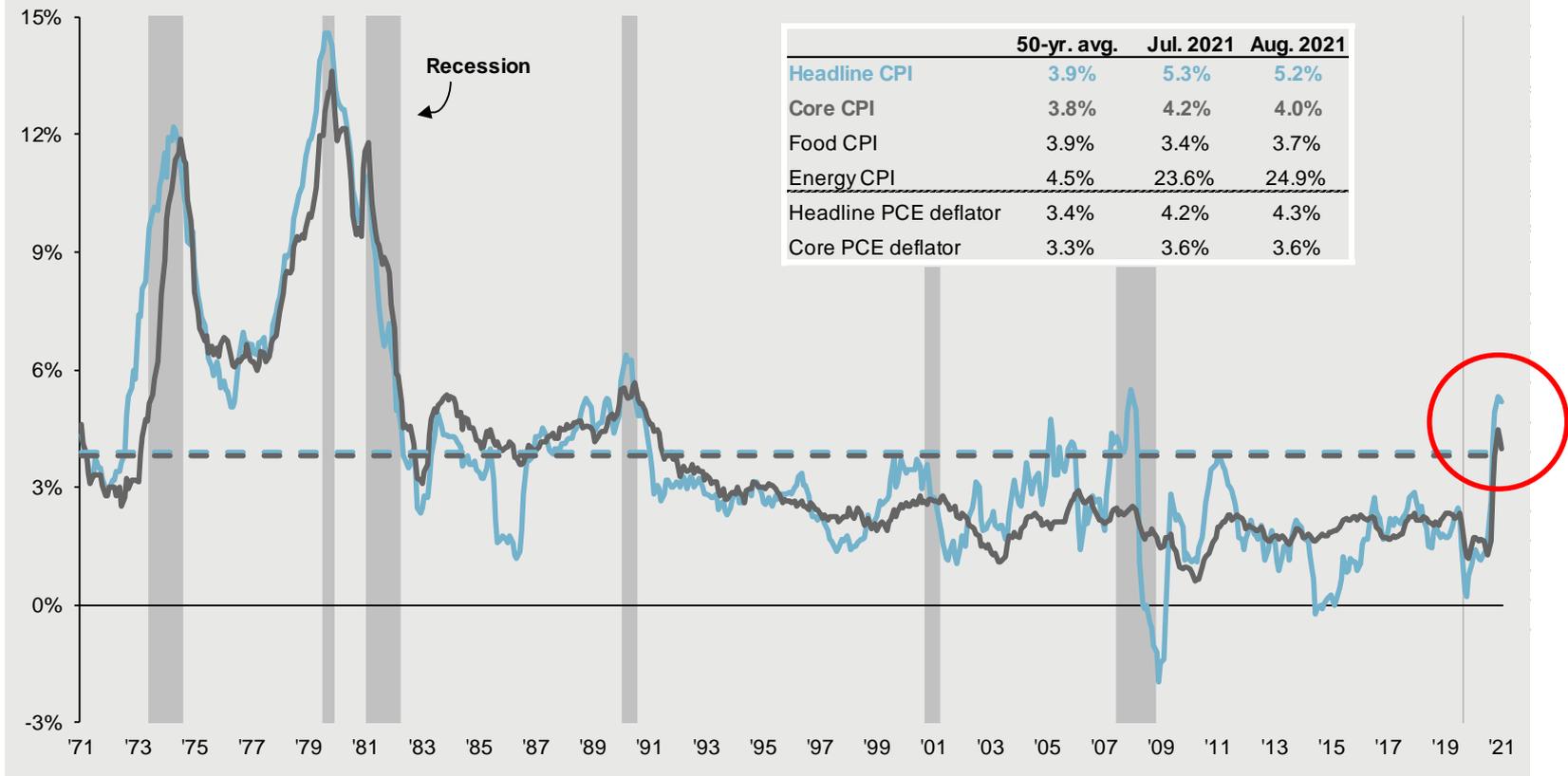


Source: BLS, FactSet, J.P. Morgan Asset Management.  
*Guide to the Markets* – U.S. Data are as of September 30, 2021.

# Inflation Currently A Bit High

## CPI and core CPI

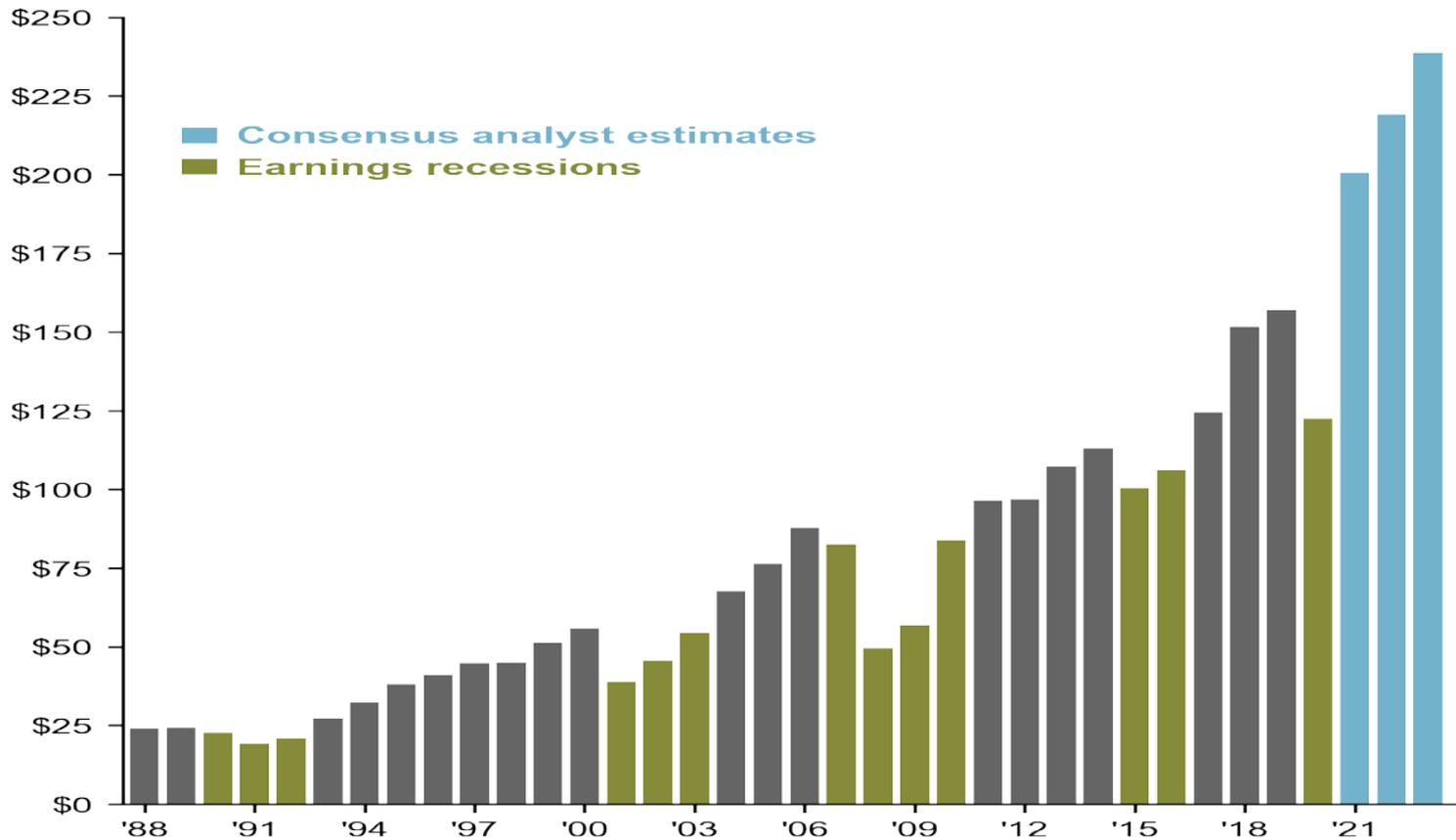
% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, JP Morgan Asset Mgmt. US Data as of 9/30/2021



# Strong Earnings Rebound Expected



Source: FactSet, Compustat, S&P, JP Morgan Asset Management. Data as of 9/30/2021



# *Markets: Mixed Performance*



# Market Summary

## ■ Equity market performance

	<u>Q3 2021</u>	<u>YTD</u>
– US large cap		
• S&P 500	+0.6%	+15.9%
– US mid cap		
• Russell Midcap	-0.9%	+15.2%
– US small cap		
• Russell Smallcap	-4.4%	+12.4%
– International equities		
• MSCI ACWI ex US	-3.0%	+5.9%
– Emerging markets		
• MSCI Emerging Markets	-8.1%	-1.3%

Source: Morningstar



# Market Summary

## ■ Bonds and other asset class performance

	<u>Q3 2021</u>	<u>YTD</u>
– US fixed income		
• Barclay’s Aggregate	+0.1%	-1.6%
– Global fixed income		
• Bloomberg Barclay’s Global ex US	-1.6%	-5.9%
– Commodities		
• Bloomberg Commodity TR	+6.6%	+29.1%
– REITS		
• MSCI US REIT NR	+0.8%	+22.2%

Source: Morningstar



# Equity Market Conditions

## ■ Third Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	-0.9%	+0.6%	+1.9%
Mid	-1.0%	-0.9%	-0.8%
Small	-3.0%	-4.4%	-5.7%

## ■ YTD

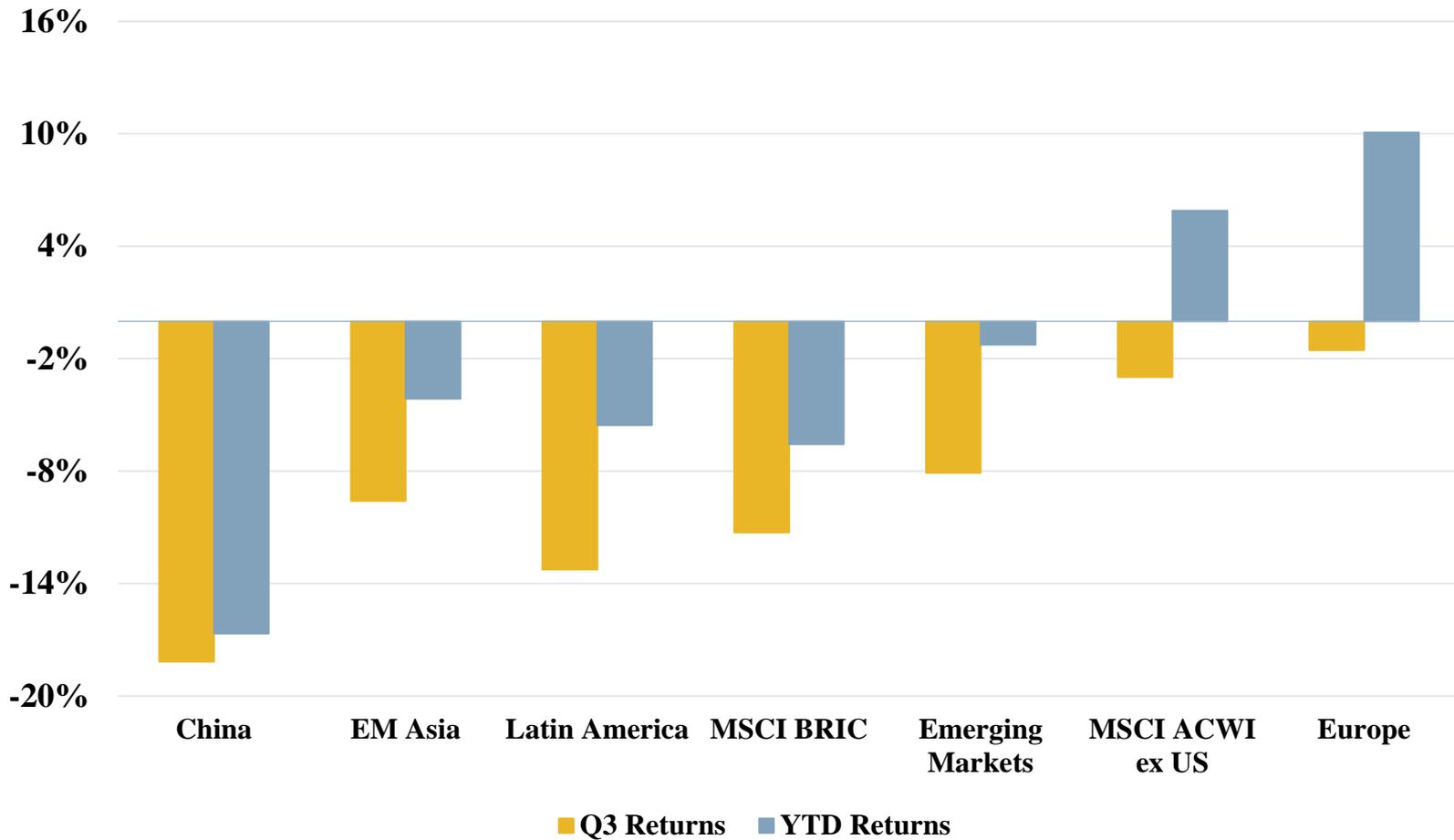
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+15.3%	+15.9%	+16.4%
Mid	+18.2%	+15.2%	+9.6%
Small	+22.9%	+12.4%	+2.8%

Source: Morningstar. All calculations are cumulative total return as of 9/30/2021.

Russell style indices utilized for all performance with the exception of large cap, which reflects the S&P 500 Index and its Value and Growth sub-components. Past performance is no guarantee of future success.



# Negative Q3 International Returns

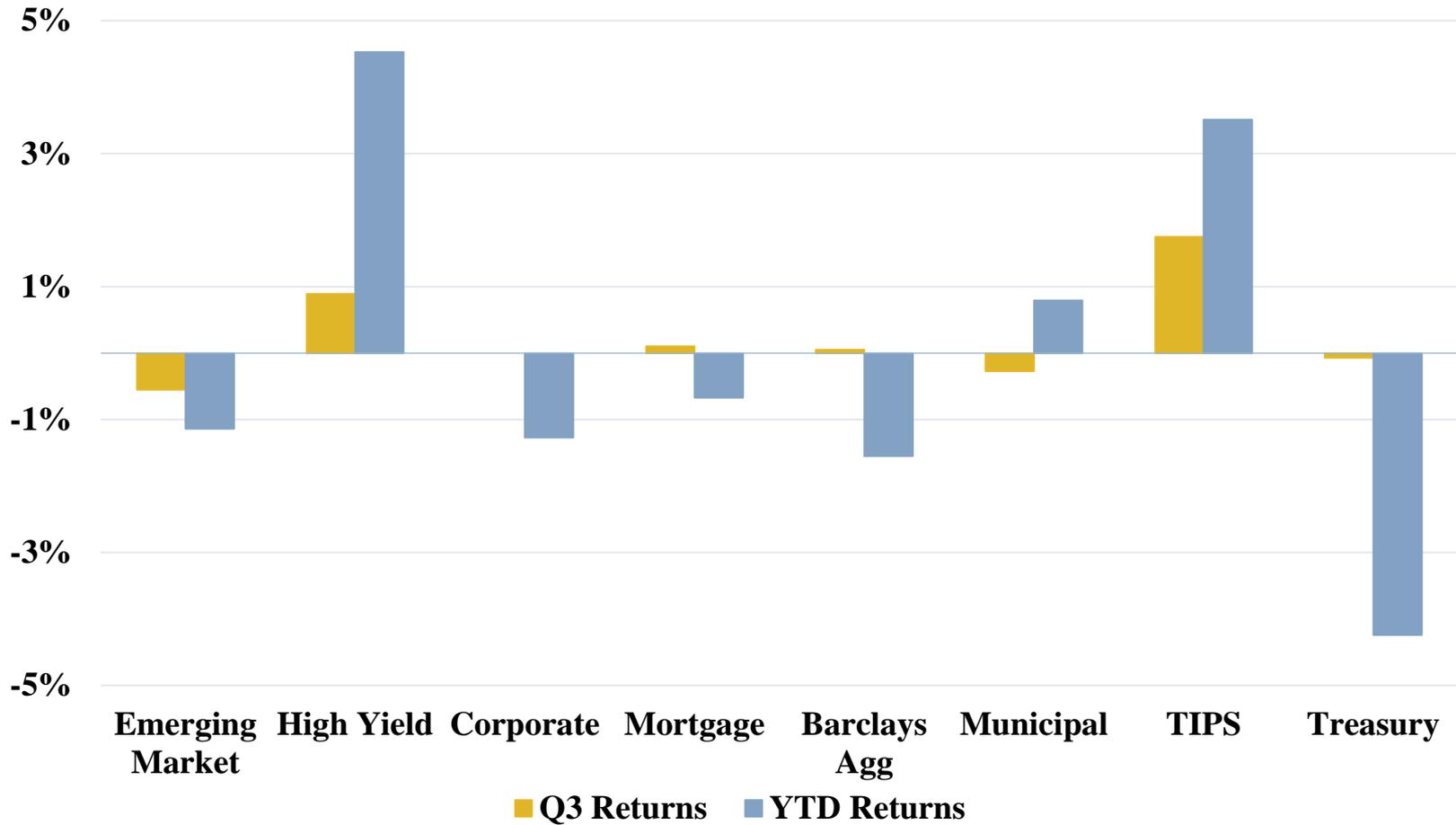


Past performance is no guarantee of future success. As of 9/30/2021

Returns in US dollars.



# Mixed Bond Performance



# *Transitions*



# Economic Transitions

- Supply chain
- Labor force
- Commodity prices
- China growth slowdown
- Consumer Spending
- Inflation



# Transportation Supply Chain Constrained



In an aerial view, container ships are anchored by the ports of Long Beach and Los Angeles as they wait to offload on Sept. 20, 2021, near Los Angeles. *Mario Tama, Getty Images*

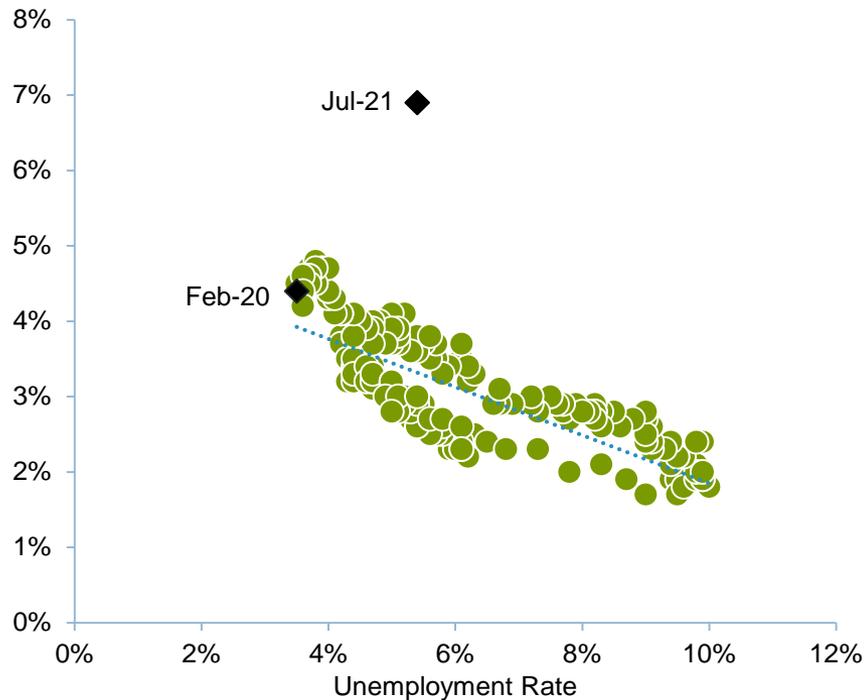


# Quick Snap Back In Labor Market Not Likely

## U.S. Unemployment and Job Openings Rates

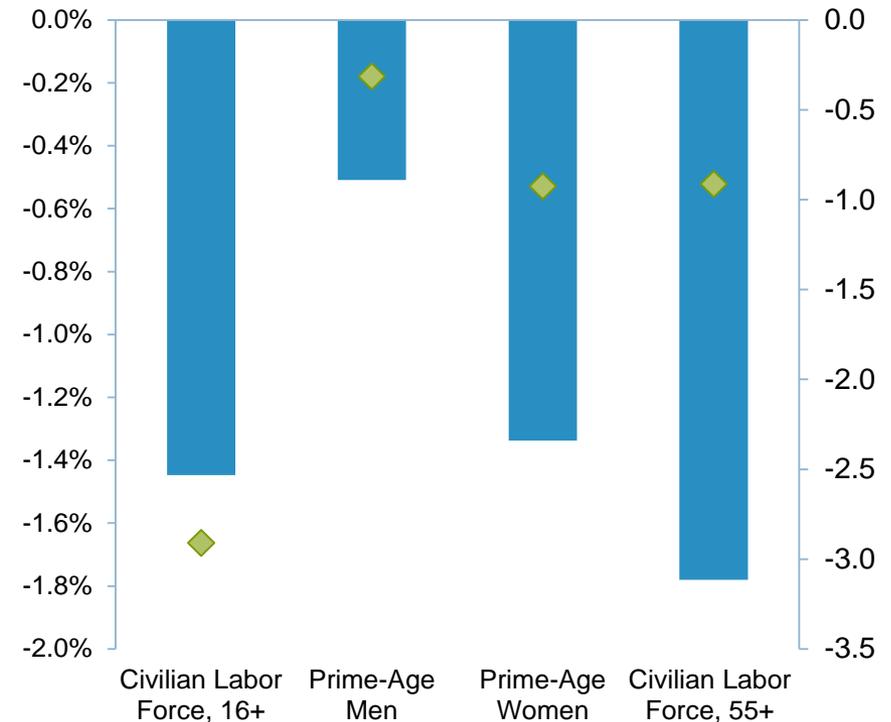
Job-Openings Rate

● 2001–2019



## Change in Labor Force Relative to Feb 2020

■ Participation Rate ◆ People

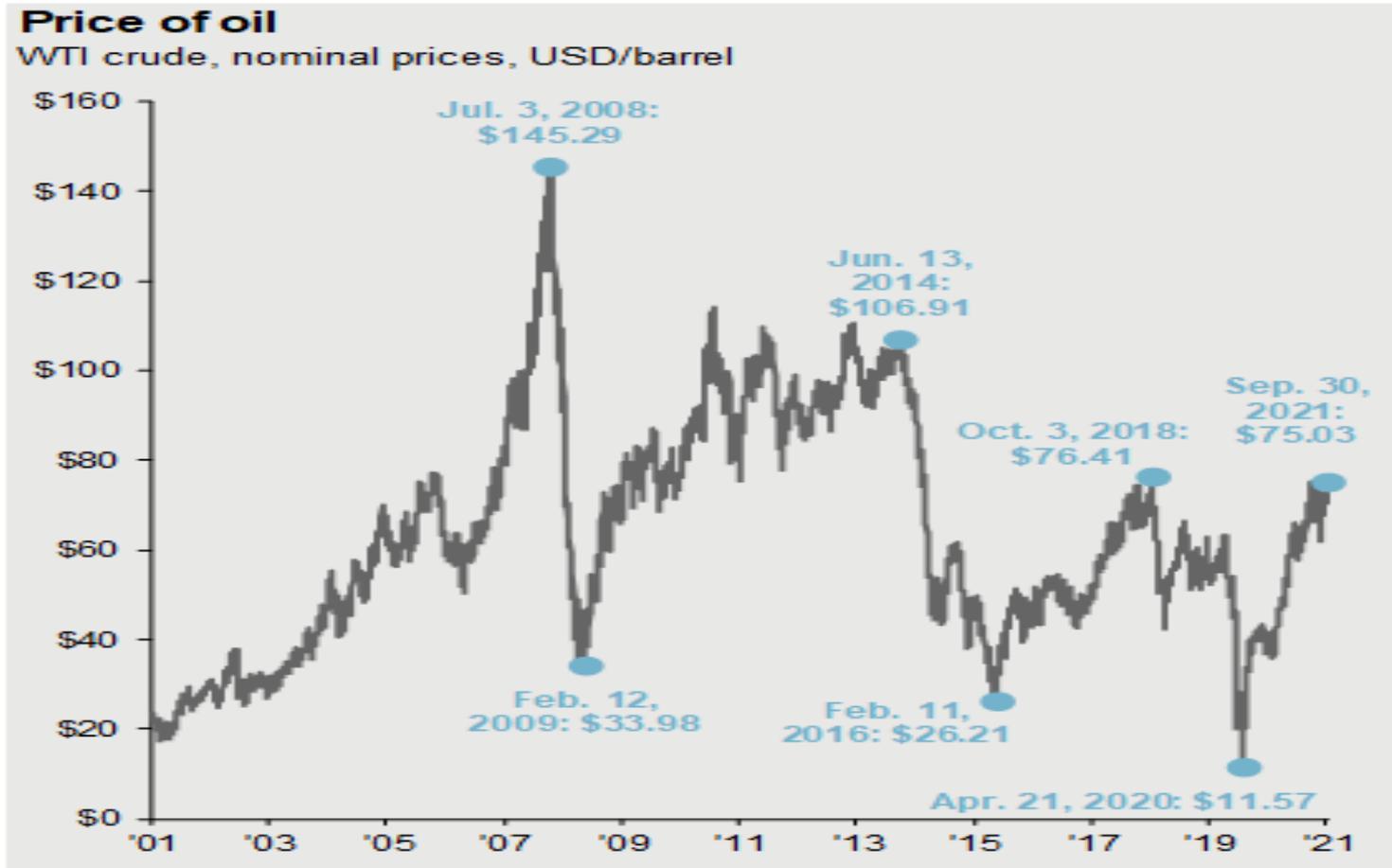


**LEFT:** Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 7/31/21.

**RIGHT:** Ppts: Percentage points. Seasonally adjusted data. Prime age comprises individuals 25 to 54 years old. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 8/31/21.



# Oil Prices Rising



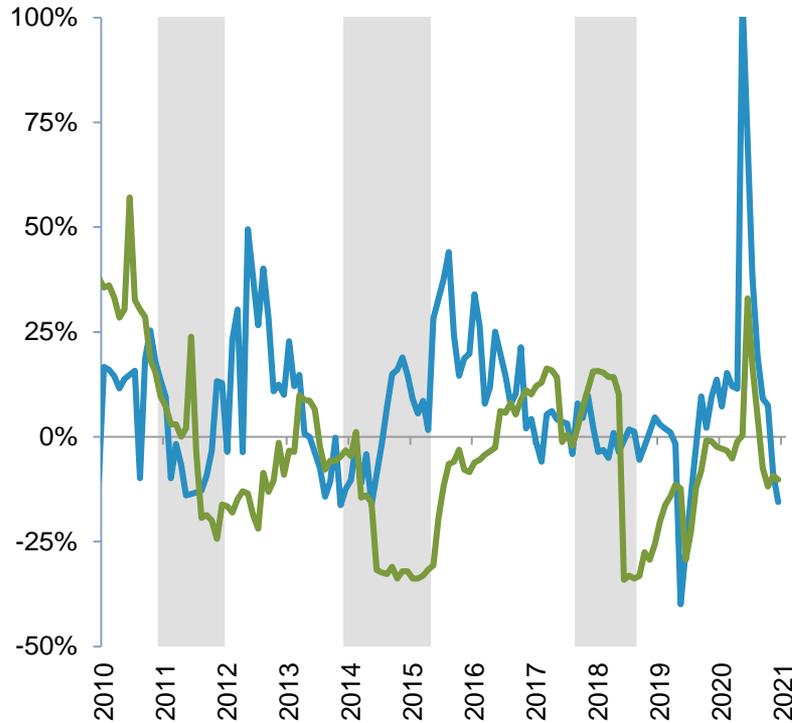
Source: J.P. Morgan Asset Management, EIA, Factset. Data as of September 30, 2021.



# China Growth Slowing

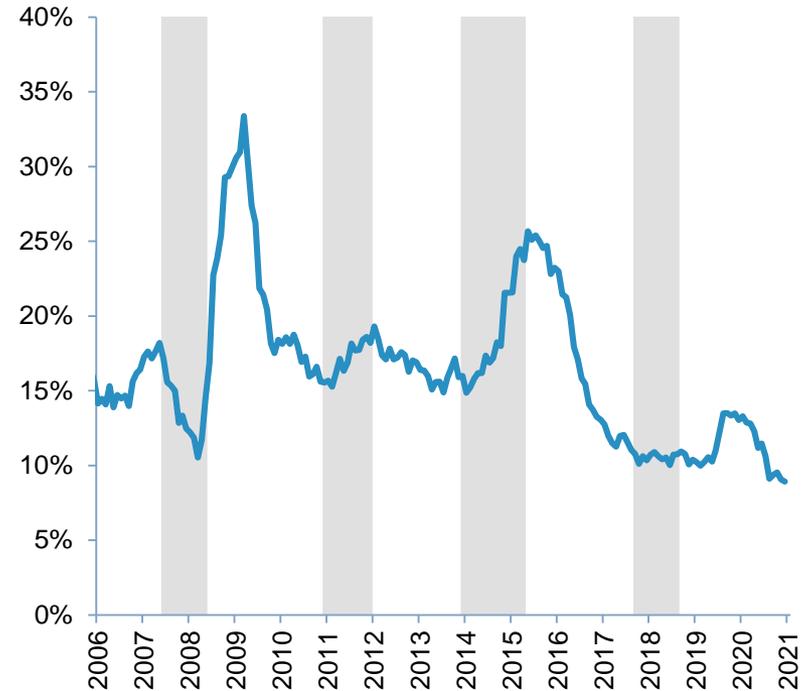
## China Property Market Activity

— Housing Sales — Land Acquisitions



## China Total Credit

Year-over-Year



Grey bars represent China growth recessions as defined by AART. **LEFT:** Annual change in the year-to-date acquisitions of land by developers. Annual change in housing sales by floor space sold. Source: National Bureau of Statistics, Haver Analytics, Fidelity Investments (AART), as of 8/31/21. **RIGHT:** Source: People's Bank of China, Haver Analytics, Fidelity Investments (AART), as of 8/31/21.



# Long-term Inflation Risks Rising

## Consumer Inflation Expectations



## Possible Secular Impact on Inflation

Secular Factors	Trends	Risks to Inflation
<b>Policy</b>	Fed tolerates higher inflation	↑
	More stimulative fiscal policy	↑
<b>Aging Demographics</b>	Elderly people:	
	<ul style="list-style-type: none"> <li>• Spend less (reducing demand)</li> <li>• Work less (reducing supply)</li> </ul>	↓ ↑
<b>Peak Globalization</b>	More expensive goods/labor	↑
<b>Technological Progress</b>	More robots, Amazon effect	↓
	Declining long-term productivity	↑

**LEFT:** University of Michigan Survey of Consumers. Sources: University of Michigan, Haver Analytics, Fidelity Investments (AART), as of 9/30/21. **RIGHT:** Source: Fidelity Investments (AART), as of 9/30/21.



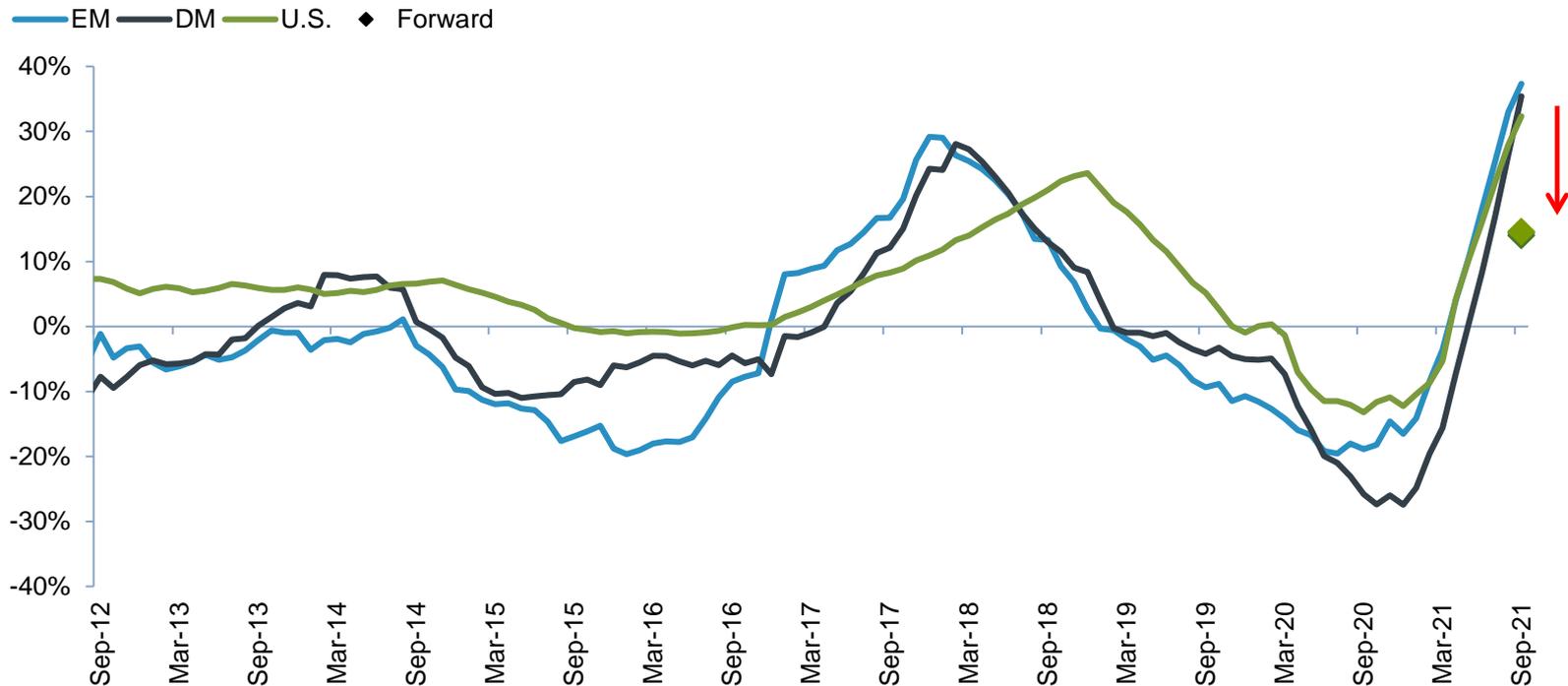
# Market Transitions

- Peak earnings growth has been reached
- Long-term interest rates likely to increase
- Valuation coming down
- Volatility could increase
- Future returns likely to be lower



# Global Rebound in Earnings Growth to Slow

## Global EPS Growth (Trailing 12 Months)



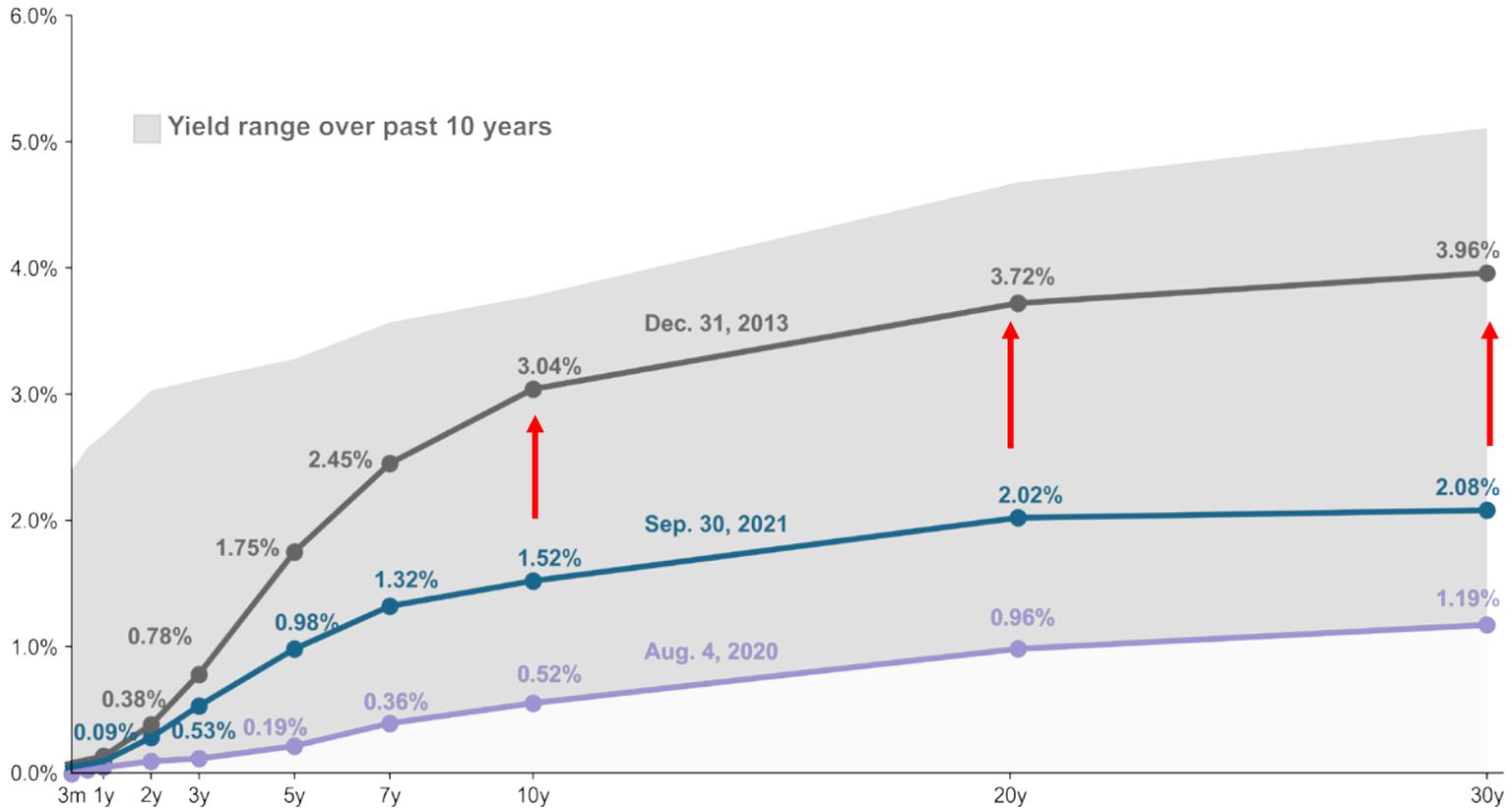
Past performance is no guarantee of future results. DM: Developed markets. EM: Emerging markets. EPS: Earnings per share. Forward EPS: Next 12 months expectations. Indexes: DM—MSCI EAFE Index; EM—MSCI Emerging Markets Index; U.S.—S&P 500. Source: MSCI, Bloomberg Finance L.P., Fidelity Investments (AART), as of 9/30/21.



# LT Interest Rates Likely to Continue to Rise

## Yield curve

U.S. Treasury yield curve

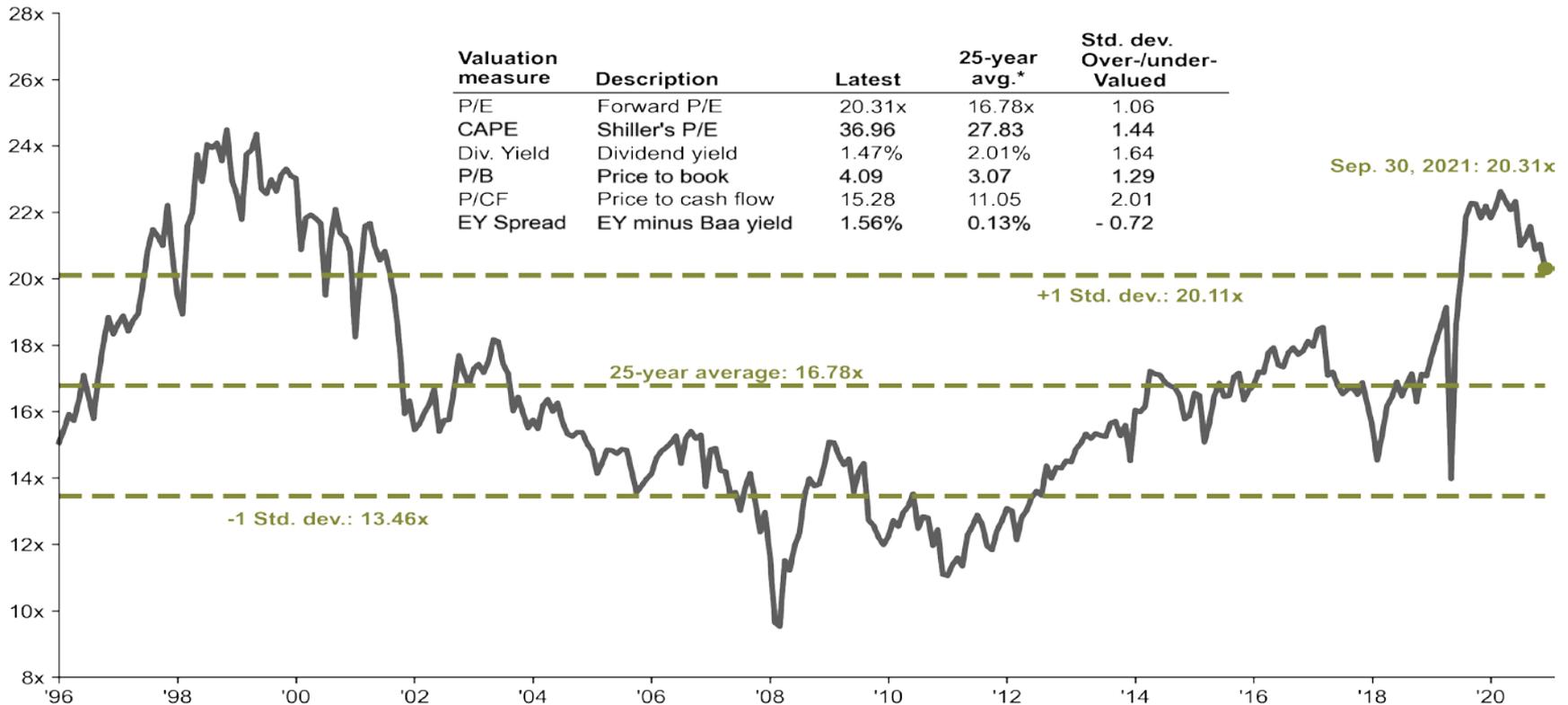


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. 12/31/2013 is the date the yield curve reached one of its steepest levels in reaction to the Fed announcing it would begin paring down its bond-buying program. 08/04/2020 is the date of a record low on the 10-year, driven by safe haven demand and pessimism around the U.S. pandemic recovery. Data are as of September 30, 2021.



# Strong Earnings Driving Down Valuation

## S&P 500 Index: Forward P/E ratio



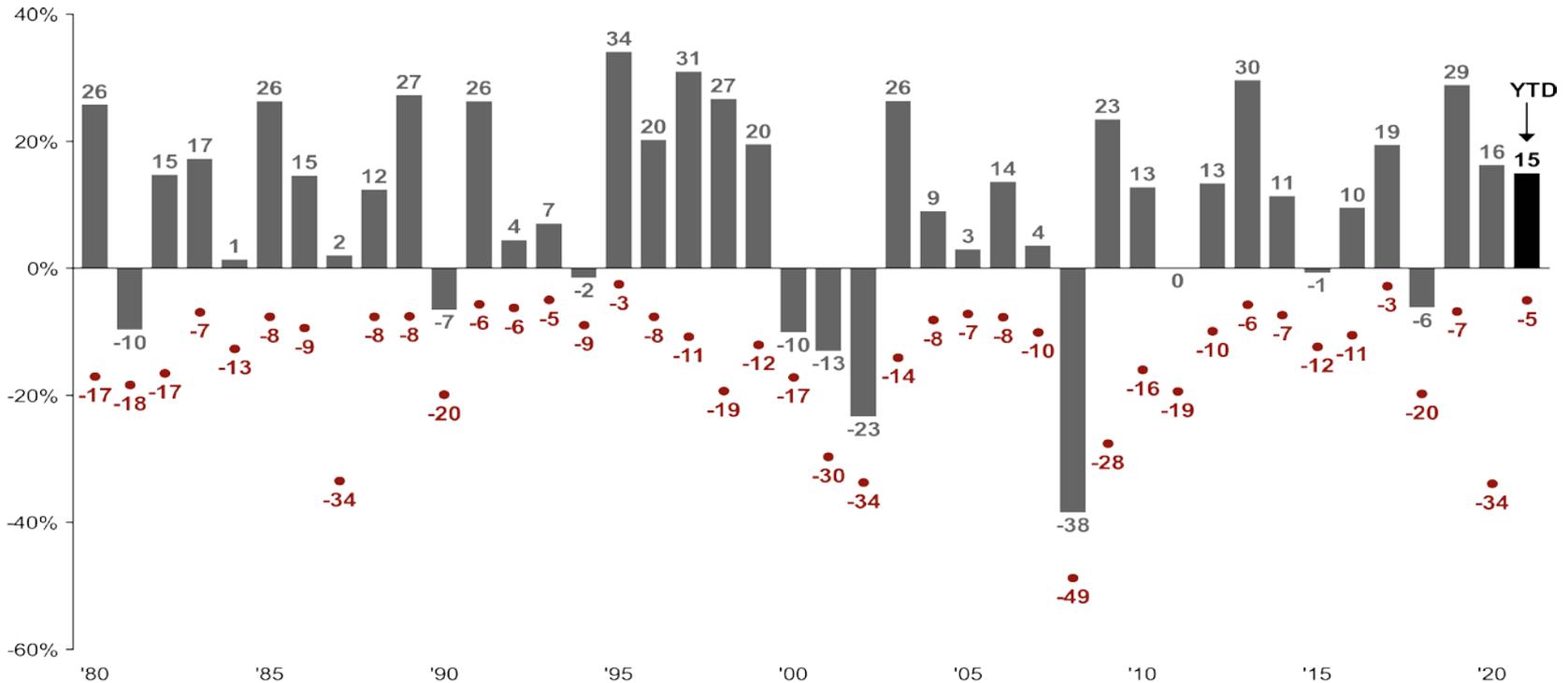
Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Data are as of September 30, 2021.



# Market Volatility Like to Increase

## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 31 of 41 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%. Data are as of September 30, 2021.



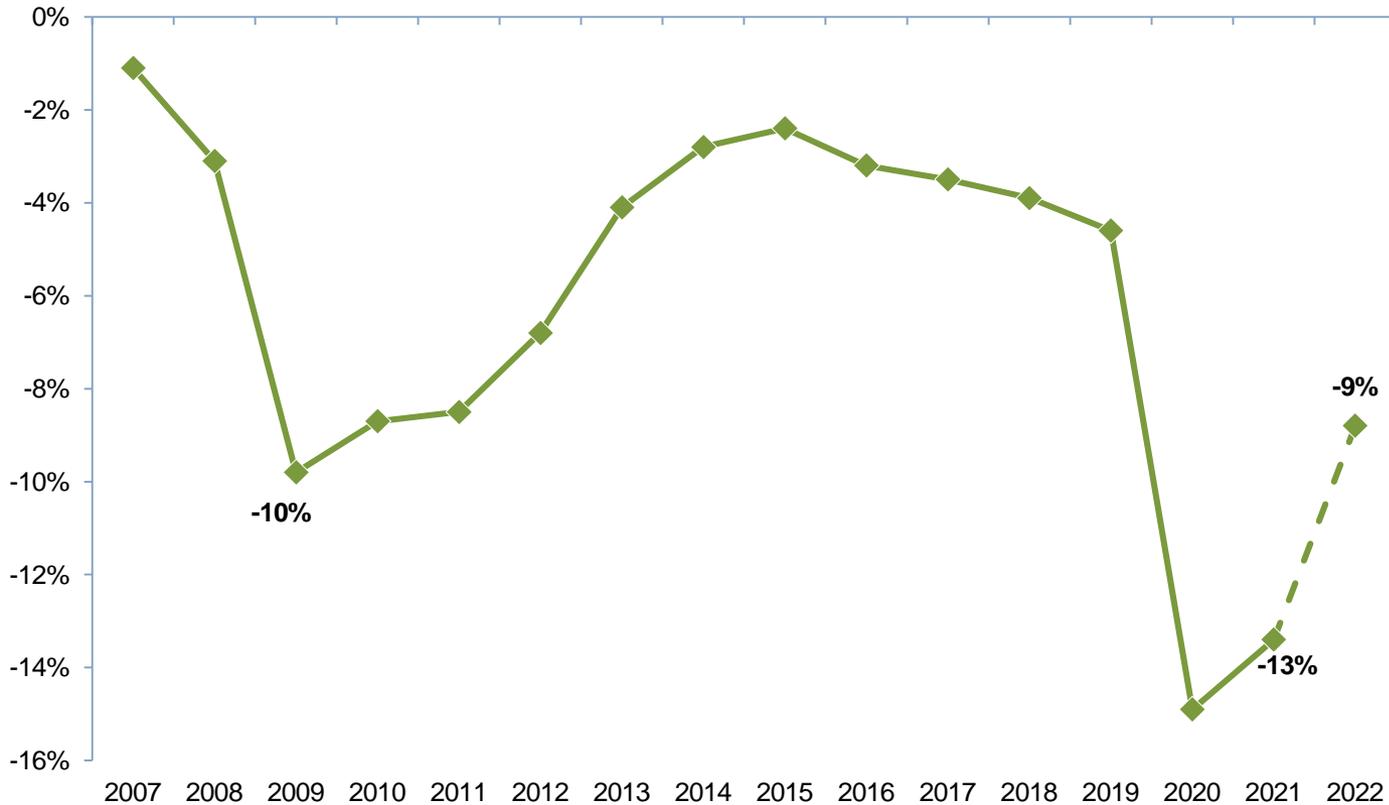
# Government Policy Transitions

- New administration
- Fiscal stimulus declining
- Monetary stimulus will come down



# Less Fiscal Stimulus Expected

## Fiscal Deficit as a Percentage of GDP



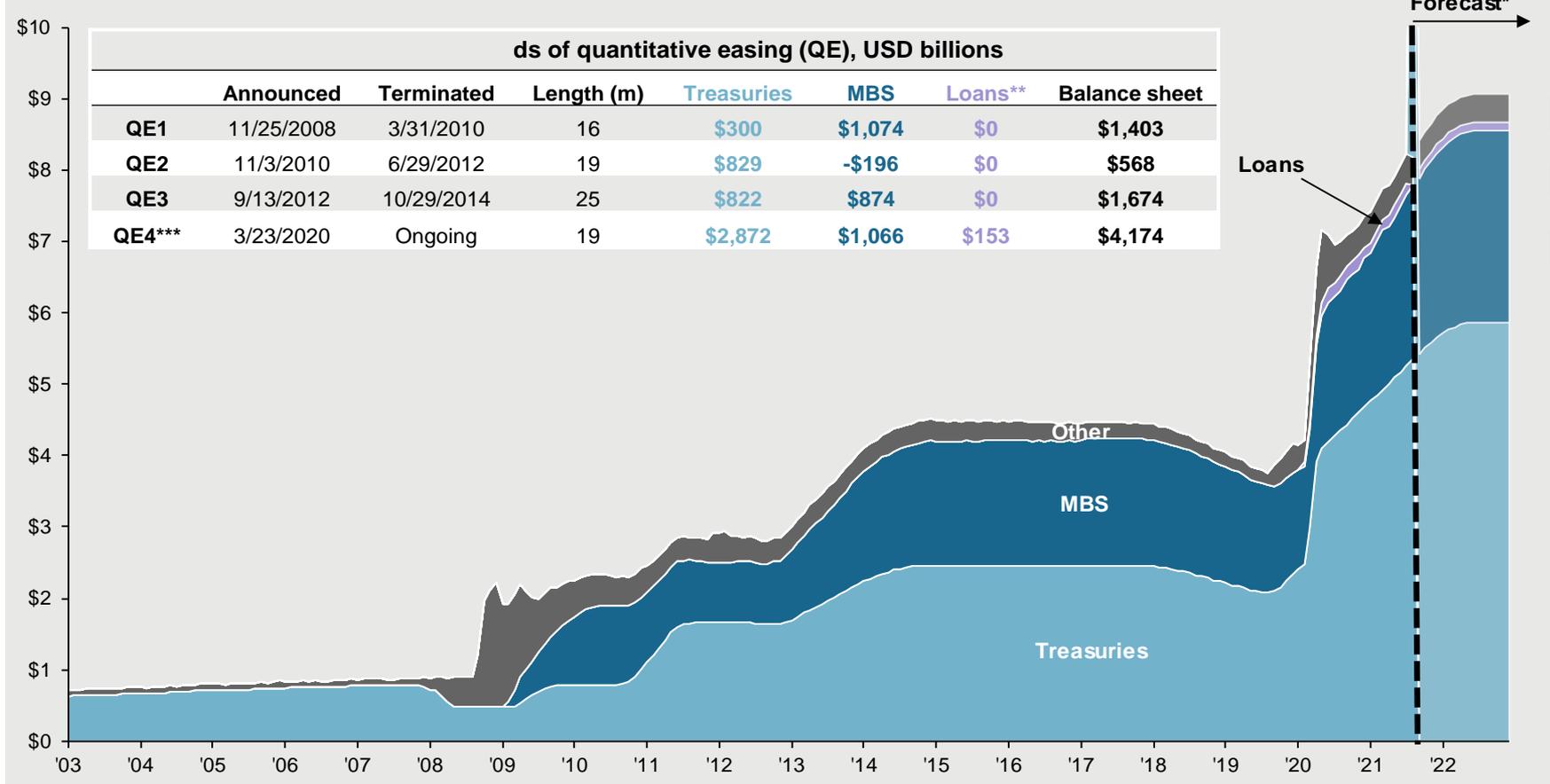
Dashed line projection represents CBO February 2021 baseline plus CBO May 2021 scenario that includes effects of increased spending levels and a potential \$2.7 trillion 10-year increase in spending. Source: Congressional Budget Office, Haver Analytics, Fidelity Investments (AART), as of 9/30/21



# Fed to Taper Amidst Fading Fiscal Liquidity

## The Federal Reserve balance sheet

USD trillions



Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management. Data as of 9/30/31.

C\*The end balance sheet forecast assumes the Federal Reserve maintains its current pace of purchases of Treasuries and MBS through at least November 2021 as suggested in the September 2021 FOMC meeting. \*\*Loans include liquidity and credit extended through corporate credit facilities established in March 2020. Other includes primary, secondary and seasonal loans, repurchase agreements, foreign currency reserves and maiden lane securities. \*\*\*QE4 is ongoing and the expansion figures are as of the most recent Wednesday close as reported by the Federal Reserve. Forecasts are not a reliable indicator of future performance.



# *SilverOak's Outlook*



# SilverOak's Economic Outlook

## ■ U.S. Economy

- Economic recovery continues
- Inflation likely to be an issue for the foreseeable future
- Fiscal and Monetary policy, although less generous, will remain accommodative
- “Flush” consumers can fuel further economic growth

## ■ International Economy

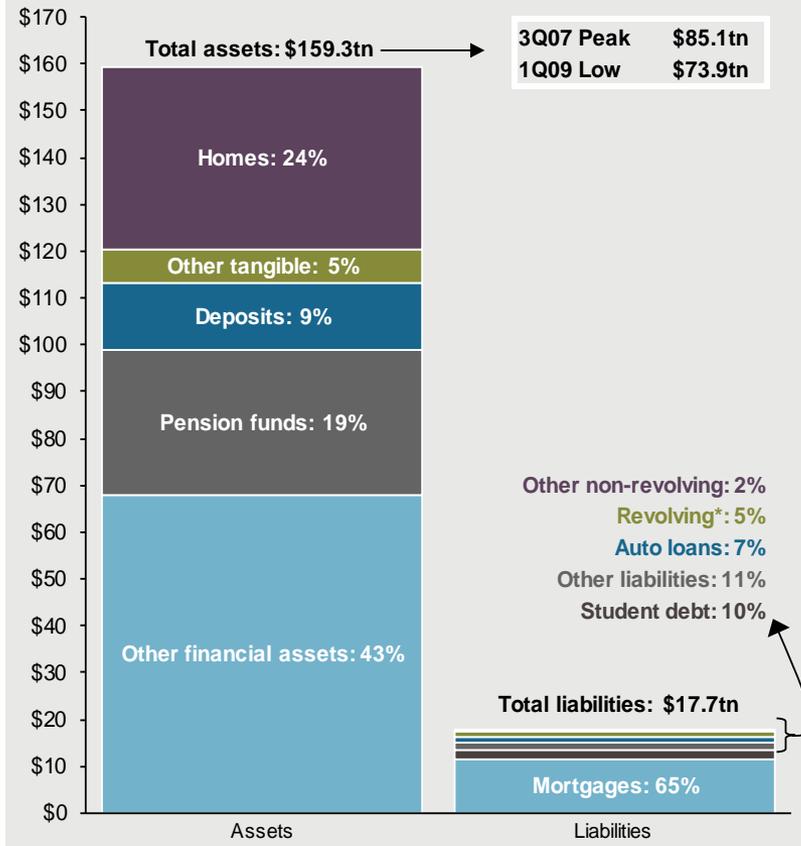
- Most major countries should see economic recovery in second half and next year as vaccine-related full economic reopening occurs and the Delta variant recedes
- Like the US, Global fiscal and monetary policy also becoming less generous but still accommodative
- China remains a wildcard



# Strong Consumer Likely to Fuel Growth Further

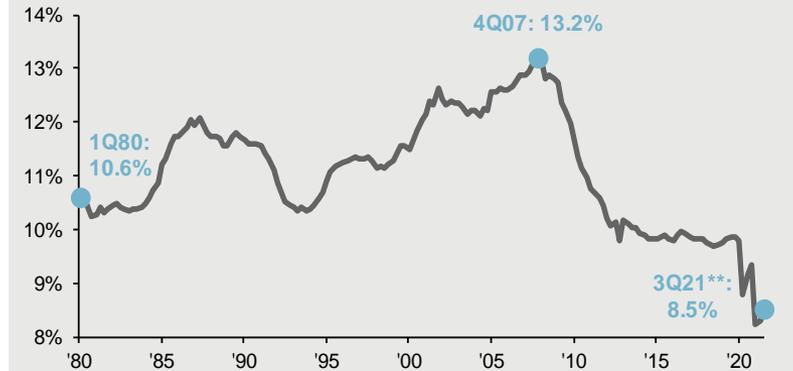
## Consumer balance sheet

2Q21, trillions of dollars outstanding, not seasonally adjusted



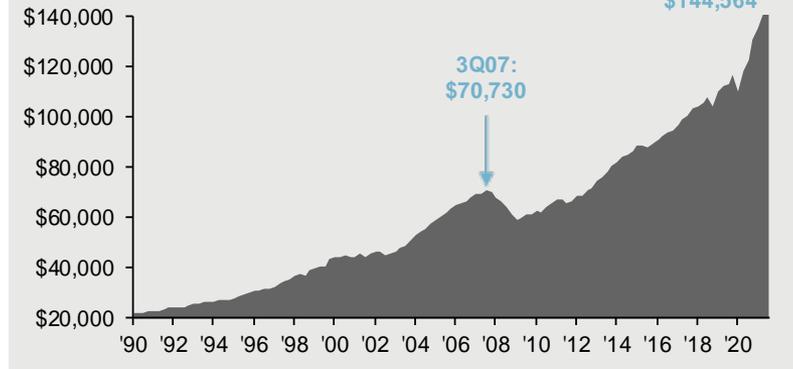
## Household debt service ratio

Debt payments as % of disposable personal income, SA



## Household net worth

Not seasonally adjusted, USD billions



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA. Data include households and nonprofit organizations. SA – seasonally adjusted. \*Revolving includes credit cards. Values may not sum to 100% due to rounding. \*\*3Q21 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates. *Guide to the Markets – U.S.* Data are as of September 30, 2021.



# SilverOak's Market Outlook

## ■ Equities

- Strong earnings growth to continue to moderate valuation
- Volatility may increase as expectations adjust to a post-pandemic landscape
- While the cyclical outlook remains constructive, the potential for a modest market pullback exists

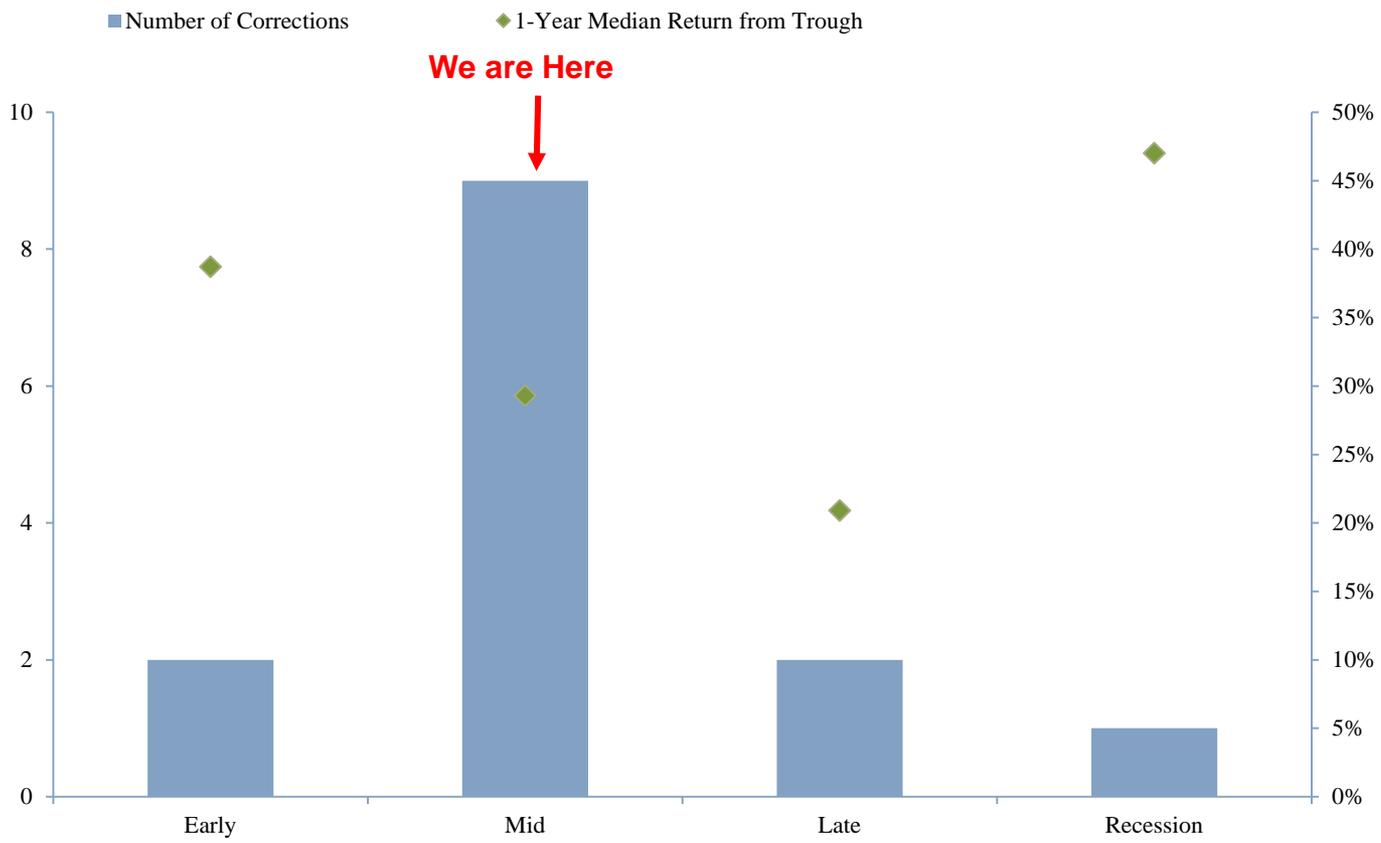
## ■ Bonds

- Returns dependent on interest rates and credit spreads
  - Likely to provide lower returns than in prior decade
  - Very rarely see two years in a row of negative returns
- Longer-term yields could continue to move higher if economic growth re-accelerates in the 4<sup>th</sup> quarter
- Continue to provide downside protection despite current low return expectations



# Stock Market Corrections Common in Mid Cycle

## S&P 500 Market Corrections Since 1950



Correction defined as a 10% to 20% market decline from peak to trough. Bear market defined as drawdown greater than 20%. Source: Bloomberg Financial L.P., Fidelity Investments (AART) as of 9/30/21.

# Rolling Correction Has Already Occurred

Index	% of members with at least -10% correction from YTD high	Average member decline from YTD high	% of members with positive YTD return	Average YTD return
S&P 500	91%	-17%	80%	19%
NASDAQ	90%	-38%	61%	22%
Russell 2000	98%	-34%	66%	23%

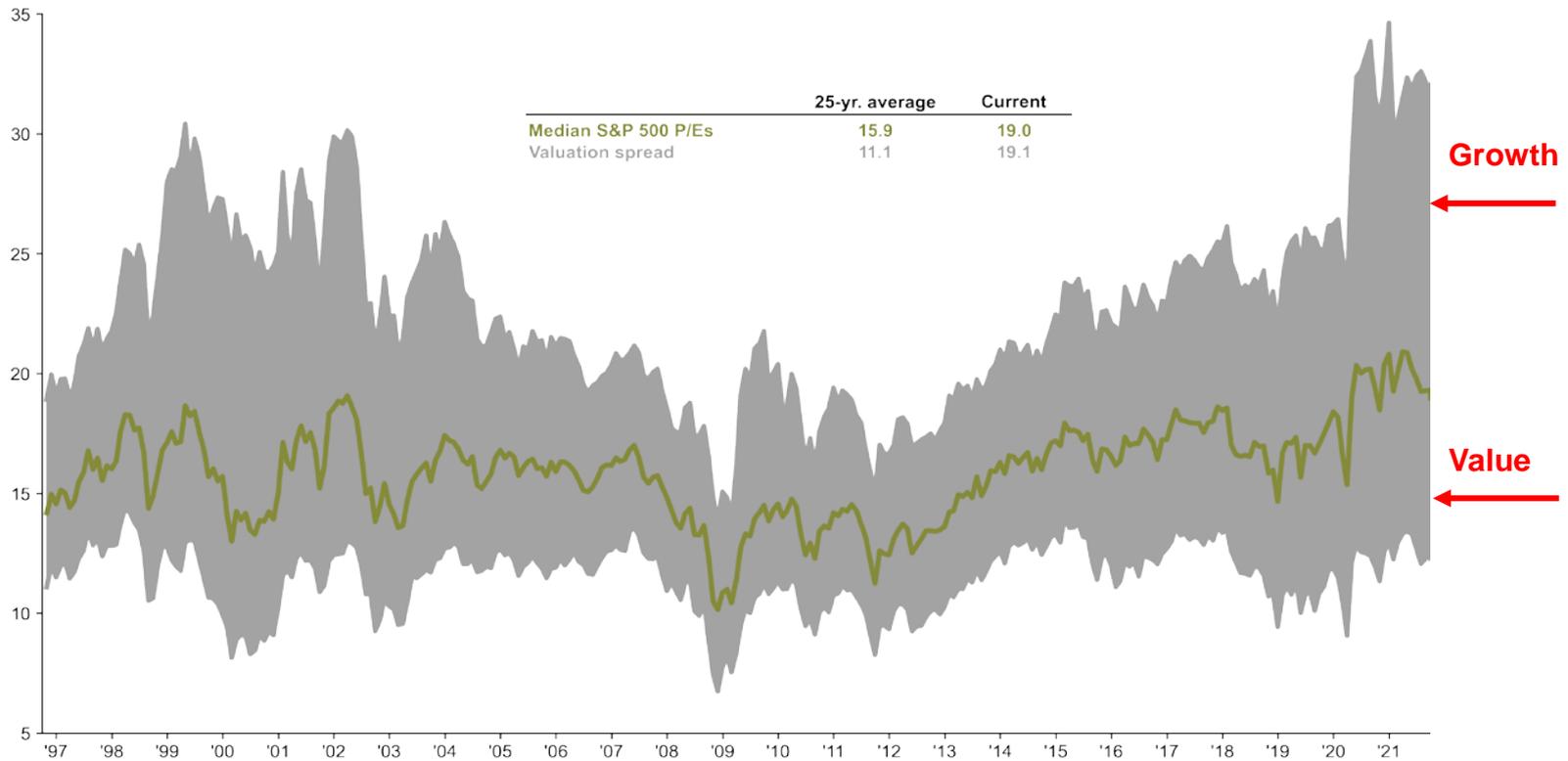
Source: Charles Schwab, Bloomberg, as of 10/6/2021. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee of future results.



# Value is Still Cheap

## S&P 500 valuation dispersion

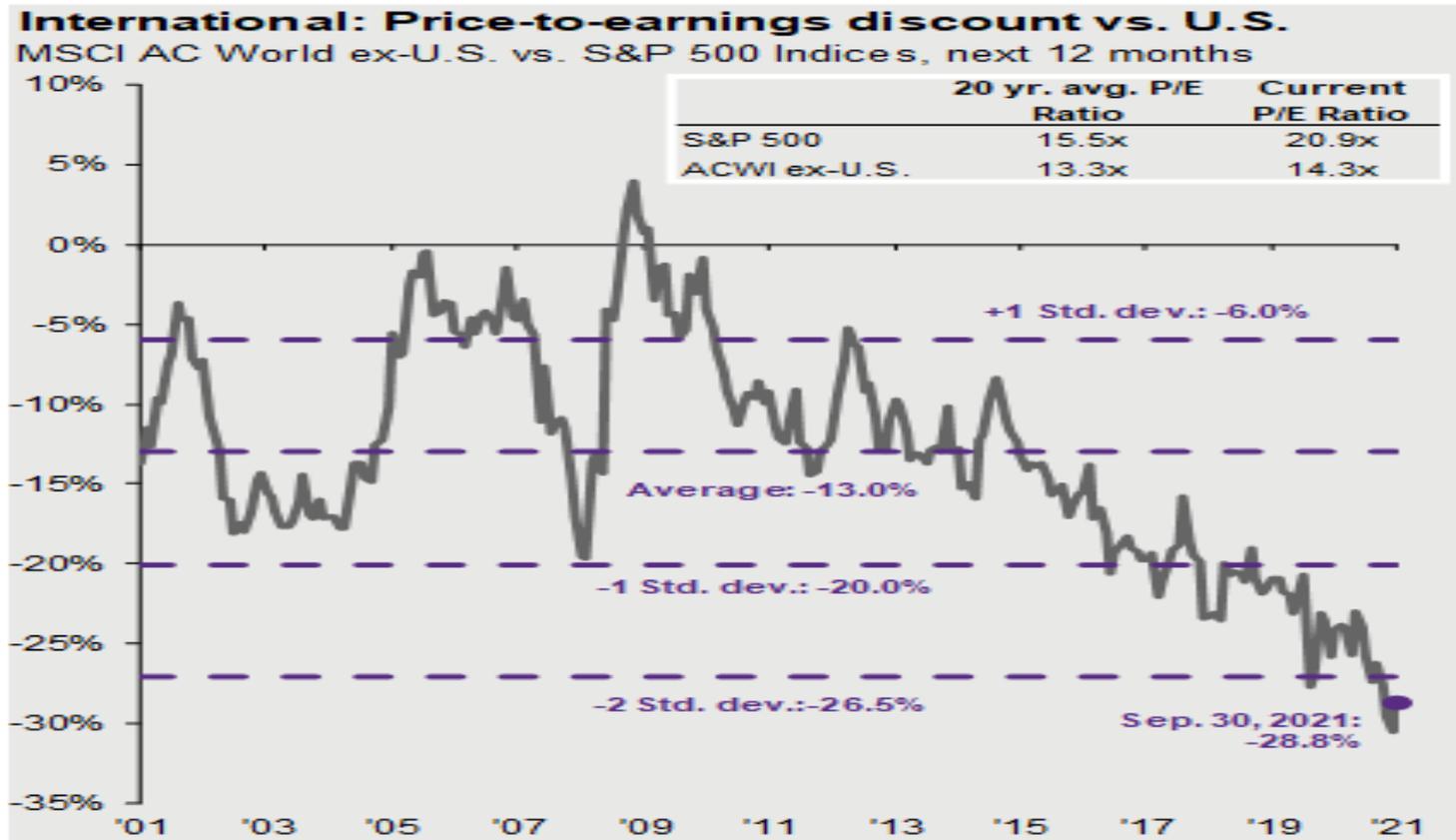
Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
*Guide to the Markets – U.S.* Data are as of September 30, 2021.



# International Valuation Cheap



We are here



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.  
 Guide to the Markets – U.S. Data are as of September 30, 2021.



# *SilverOak Updates and Important Reminders*



# SilverOak Updates

- Tax season is officially over!!
- IQSS<sup>™</sup> (Investment Quality Scoring System<sup>™</sup>)
  - Performance update
- SilverOak will be moving in October/November
  - Building next door
  - Our phone numbers will stay the same
  - Our new address:

**SilverOak Wealth Management LLC**  
**3600 Minnesota Drive, Suite 860**  
**Edina, MN 55435**



# Year-end Reminders

- Keep good tax records for 2021
- Ensure that you complete a year-end tax projection
- Watch for year-end capital gains distributions
- The current annual gift tax exclusion is \$15,000
- Consider using low-basis stock for charitable donations
- Review beneficiary designations
- Review personal property and casualty insurance coverage
- Ensure proper riders in place for jewelry, electronics, etc.



# Other Noteworthy Items

- Social Security updates
  - COLA increase of 5.9% for 2022!
  - Wage base increased from \$142,800 to \$147,000
  - Maximum monthly benefit increased from \$3,148 to \$3,345
- HSA updates
  - Family contribution increased by \$100 to \$7,300
  - Individual contribution increased by \$50 to \$3,650
  - Catch-up contribution unchanged at \$1,000
- Other annual limits not yet announced
  - 401(k) contributions
  - IRA contributions
  - Etc.



*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](http://www.silveroakwealth.com)

