SilverOak

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Fourth Quarter 2021 Market Summary

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Fourth Quarter 2021 Market Summary

The beginning of 2021 was greeted with great anticipation. News of further fiscal stimulus, vaccine rollouts, and the reopening of businesses and social settings seemed to set us on the path of economic recovery, though there were still uncertainties about what might lie ahead. Over the last year, many of these uncertainties have subsided, some remain unresolved and new ones have emerged. Inflation remained higher than many expected throughout the year due to strong demand, labor shortages and supply chain issues. And while many Americans did receive their COVID vaccines, the Omicron variant has led to all-time high infection rates. Despite some challenging events, market participants have seemingly remained optimistic while looking ahead.

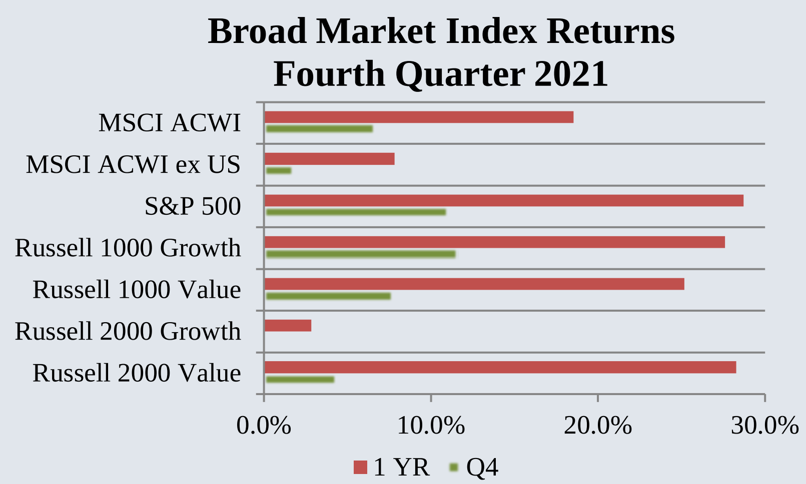
2021 Markets in Review

The year ended with strong returns across many asset classes, particularly equities. U.S. large company stocks, represented by the S&P 500 Index, were up 28.7% during the year. The index steadily rose and even set 70 all-time highs. Earnings growth of greater than 30% was the primary driver of returns being offset partially by contracting valuations. In the prior two years, valuation expansion was the primary driver of positive returns.

While year-end returns were solid for overall indices, peering underneath the surface revealed more nuanced stories. Roughly 40% of the S&P 500's return was due to ten companies, including many of the largest companies such as Microsoft, Apple, Alphabet, etc. Although the market has a significant concentration in technology firms, the best performing sectors were actually energy, real estate and financials. Equity markets appeared to have a calm year as the S&P 500's maximum drawdown was only 5%. But, individual stocks saw much greater volatility as over 90% of U.S. equities had an intra-year correction of greater than 10%. Many growth and small cap equities were down 30% at one point during the year. Overall U.S. small company stocks, represented by the Russell 2000 Index, were up 14.8% for 2021.

International stocks, represented by the MSCI ACWI ex US Index, were up 7.8% during the year. Weaker non-USD currency detracted from international stock performance. The potential for a future decline in the U.S. dollar due to fiscal and current account deficits could benefit non-U.S. securities going forward. In addition, valuations remain more attractive in non-U.S. equities relative to U.S. equities. Earnings growth in international markets for 2022 are also expected to be greater than U.S. corporations.

Fixed income markets were weaker compared to equities. The Bloomberg Barclays U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 1.5% for the year as interest rates increased, making it the third-worst year on record since the index's inception in 1976. However, while it was undoubtedly a challenging year for bonds, the downside volatility pales in comparison to historical drawdowns in many other asset classes. Many credit sectors outperformed treasuries as there was little volatility in credit spreads during the year and spreads remain near all-time lows. In addition, with the continued economic improvement, there was a number of rating upgrades in the corporate credit space and limited defaults.



The Fed indicated in their December meeting that they will attempt to address inflation and accelerate the reduction of bond purchases. Short-term interest rates have increased as the market is expecting the Federal Reserve will raise the fed funds rate three to four times in 2022. The transition in reducing its purchases may cause mild short-term volatility as we saw in 2013, the last time the Fed began the process of shifting away from stimulus. Other central banks around the world are also slightly tightening monetary policy. These actions likely mean interest rates will slowly go higher over the next few years.

Fourth Quarter 2021 Market Summary (continued)

Looking Ahead

When reviewing quarterly or year-end data, it is easy to lose perspective, focusing only on the most recent performance while forgetting the past. This has been particularly true over the last two years. In general, a lot of what performed well in 2020, such as higher growth oriented companies and emerging markets, became laggards in 2021. Whereas, value, REITs, and commodities were on the bottom in 2020 but rose to the top in 2021. Maintaining a long-term perspective can help temper your reactions to short-term performance fluctuations. Just as mountainous peaks look much less spectacular when seen from a distance, the drama of short-term volatility is lessened when put in the context of a much longer period of time.

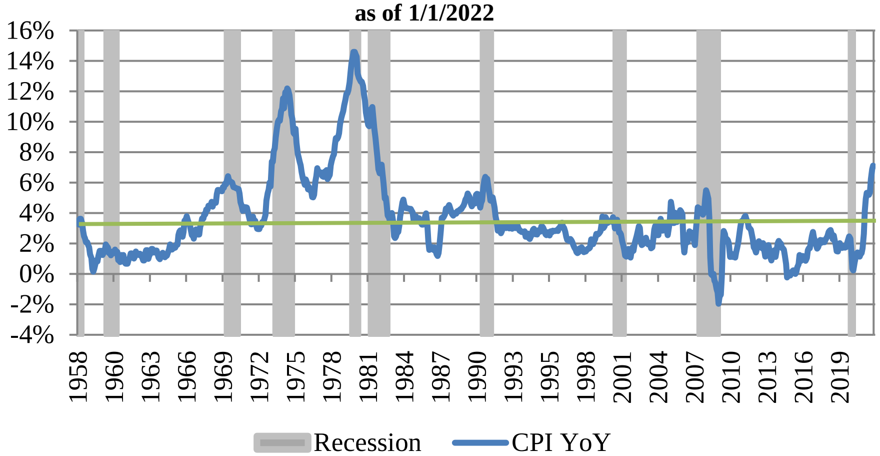
There are many identifiable negative risks that the market has been digesting over the past few months and these may cause higher volatility than has occurred over the past year. After all, the S&P 500 averages three corrections of 5% a year and a 10% correction about once every eighteen months. Inflation may stay above the Fed's targeted 2% long-term goal. Traditional asset classes tend to perform worst at the extreme ends of the scale, when inflation is either very high (above 6%) or so low it becomes negative. However, stocks and bonds have historically performed well in environments with some inflation. This is an election year, and typically such years see higher volatility or muted returns until that politically-inspired uncertainty is resolved closer to Election Day. Though it's important to remember that elections, and even which party controls the government, have little impact on long-term portfolio results.

We have learned all too well in the past two years that with the nation's ever-changing health care situation, as well as the policies taken in response, it can be very difficult to predict what will happen next. As new COVID variants continue to emerge, some have naturally come to question the direction and strength of the economy, wondering if we've made any progress at all. But in transitions it is vital to keep perspective, and as we enter the third year living in a pandemic, it is important to remember the advances in preventative care, and therapeutics as well as the other ways we have learned to adapt during this challenging time. There is more data now than ever before, but that does not mean human's predictions have improved. Thus, while a prognostication can by captivating, it can lead to misplaced confidence. To balance, a dose of humility is needed as outcomes are often unforeseen and even sometimes defy reason.

MACROECONOMICS

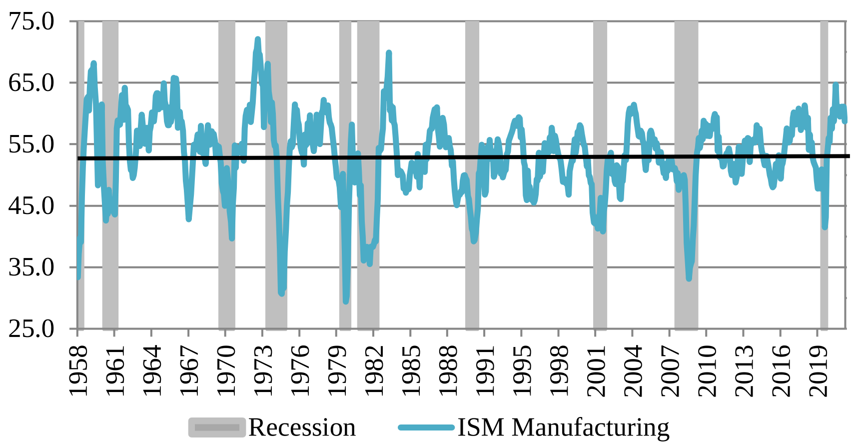
- The Bureau of Economic Analysis released the advanced estimate of fourth quarter 2021 real GDP, an annual rate increase of 6.9% from the preceding quarter.
- Inflation has increased over the past year. In December, headline CPI increased 7.0% year-over-year. Core CPI, which does not include food and energy, had a 5.5% increase.

Inflation - CPI
as of 1/1/2022



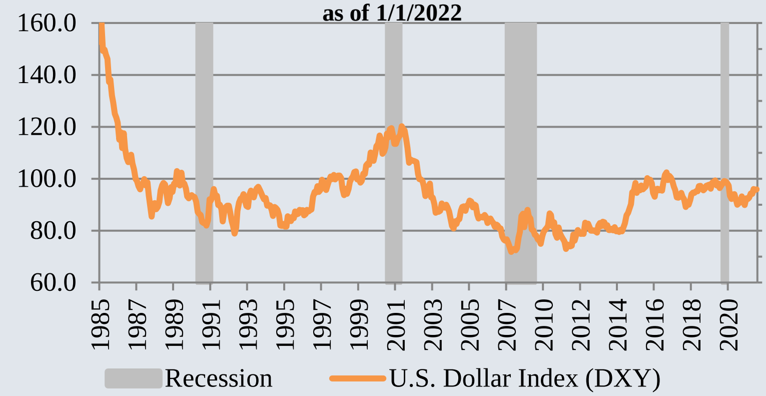
- The ISM Manufacturing Index remained elevated during the quarter, finishing at 58.7 versus 61.1 in September. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index was also strong during the quarter and finished at 62.0 in December.

ISM Manufacturing Index
as of 1/1/2022



- In December, the Conference Board Leading Economic Index increased 0.8% month-over-month to 120.8. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, continues to increase over the past year.
- The U.S. dollar appreciated over the quarter and the past year.

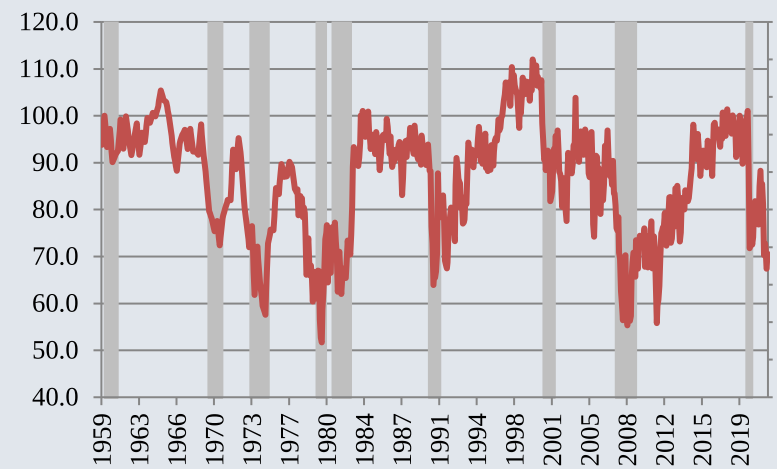
U.S. Dollar Index (DXY)
as of 1/1/2022



CONFIDENCE METRICS

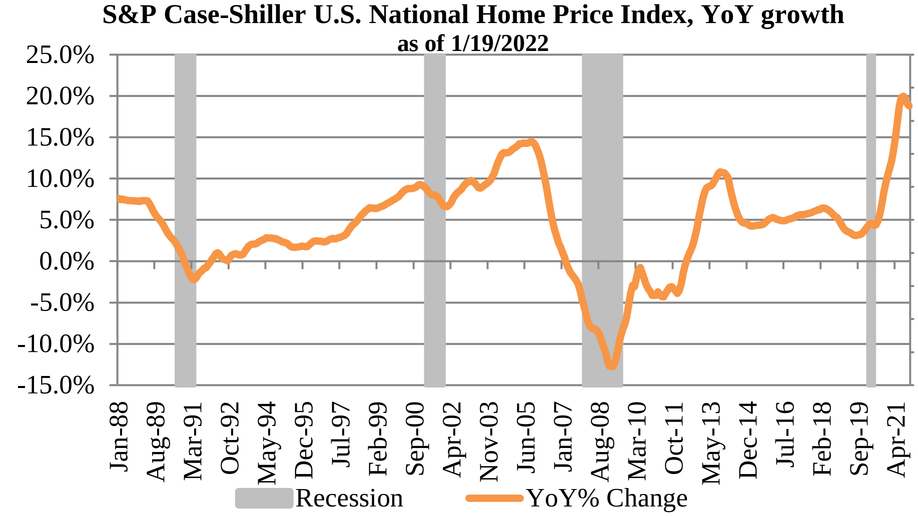
- The Conference Board's Consumer Confidence Index December reading was 115.2, up from 109.8 in September.
- The University of Michigan Consumer Sentiment Index final reading for December was 70.6, which is lower than 72.8 in September.

University of Michigan Consumer Sentiment Index
as of 1/1/2022

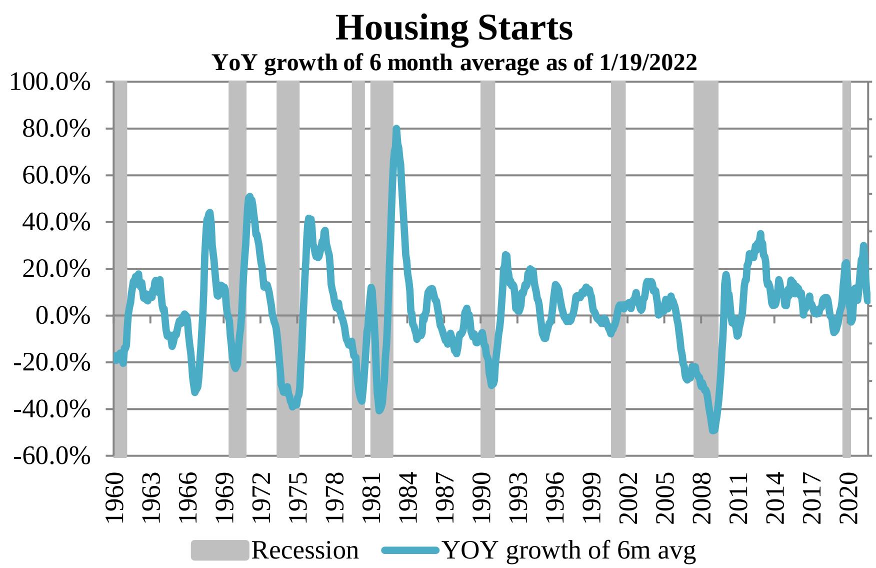


HOUSING

- Home prices continue to rise. S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices rose over 18.8% year-over-year in November.

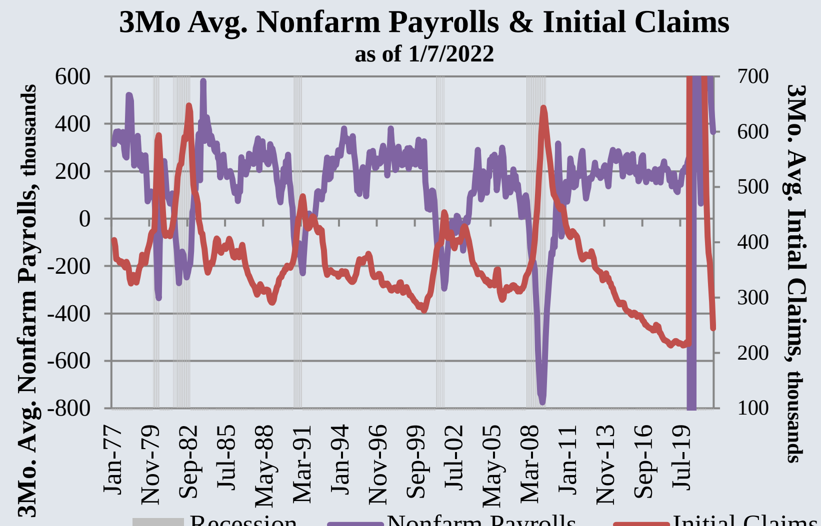


- Housing starts continued to be strong to meet high demand.

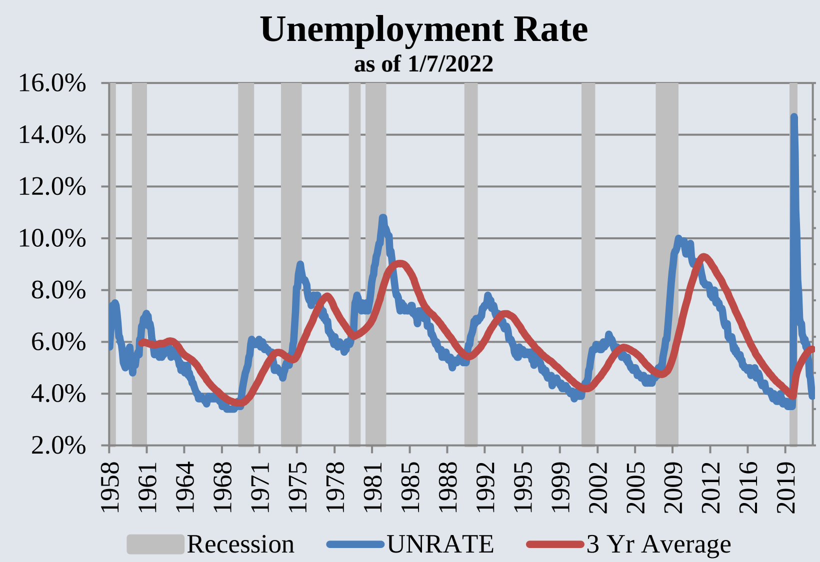


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 365,000 jobs added per month, while initial claims continue to decline



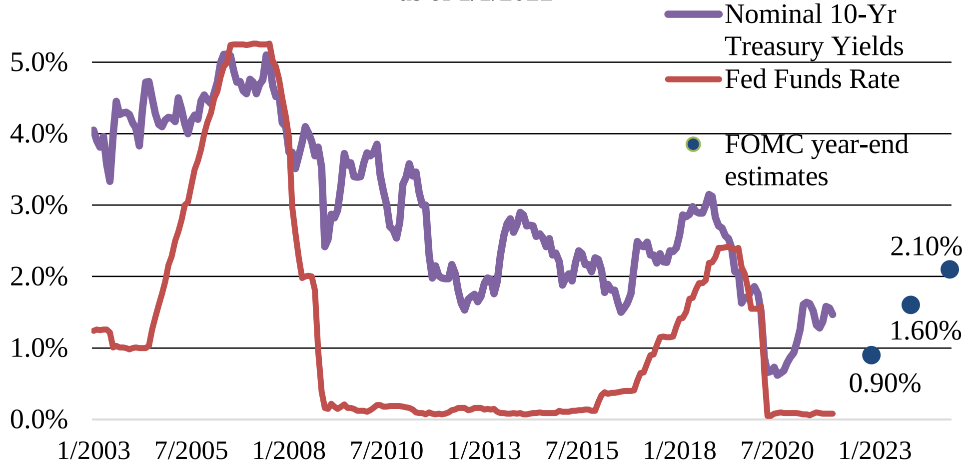
- The unemployment rate decreased during the quarter to 3.9% in December from 4.7% in September.



FED POLICY

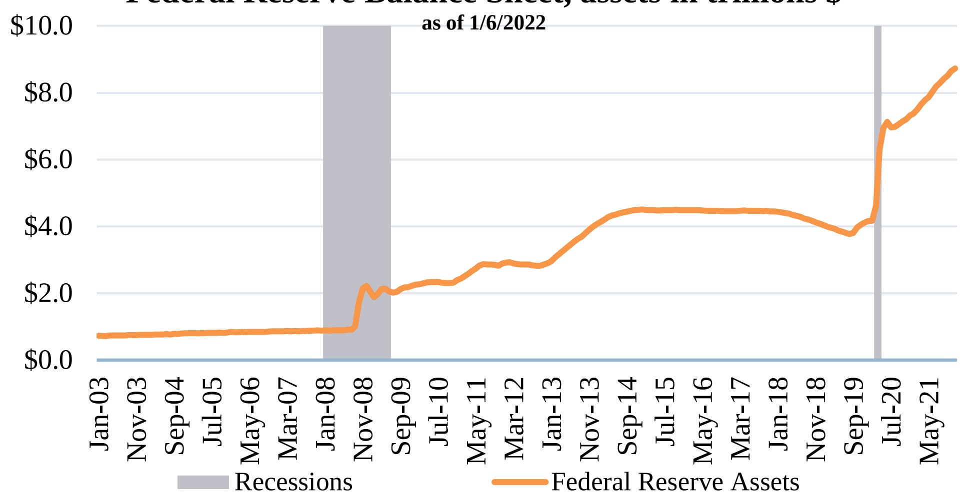
- The Federal Open Market Committee (FOMC) kept the federal funds rate at a target range of 0.00% - 0.25% in December. The Fed is expected to raise interest rates four times in 2022 in an attempt to contain inflation.

U.S. 10-Year Treasury Yield vs. Fed Funds Rate
as of 1/1/2022



- The Fed began tapering asset purchases in November and is scheduled to discontinue adding to its balance sheet by March 2022.

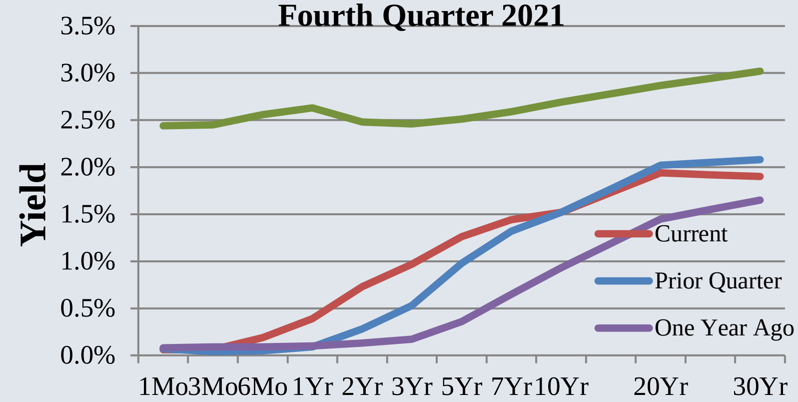
Federal Reserve Balance Sheet, assets in trillions $



FIXED INCOME

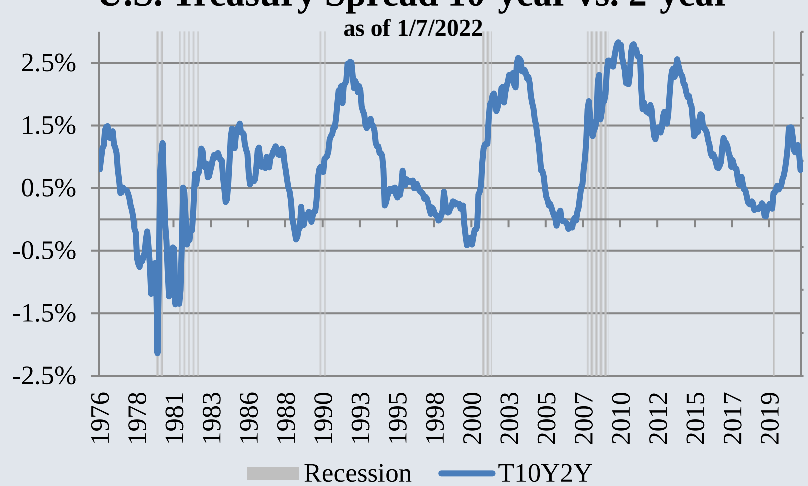
- Yields across the U.S. Treasury curve during the quarter increased on the short and intermediate-term but long-term rates fell slightly. Short-term interest rates are controlled or heavily influenced by central banks, where-as long term interest rates are affected by market forces and economic growth.

U.S. Treasuries Yield Curve
Fourth Quarter 2021



- The spread between short and intermediate-term Treasuries fell during the quarter to 79bps in December. Historically, the 10-year to 2-year Treasury curve has “inverted” before recessions.

U.S. Treasury Spread 10-year vs. 2-year



FIXED INCOME (continued)

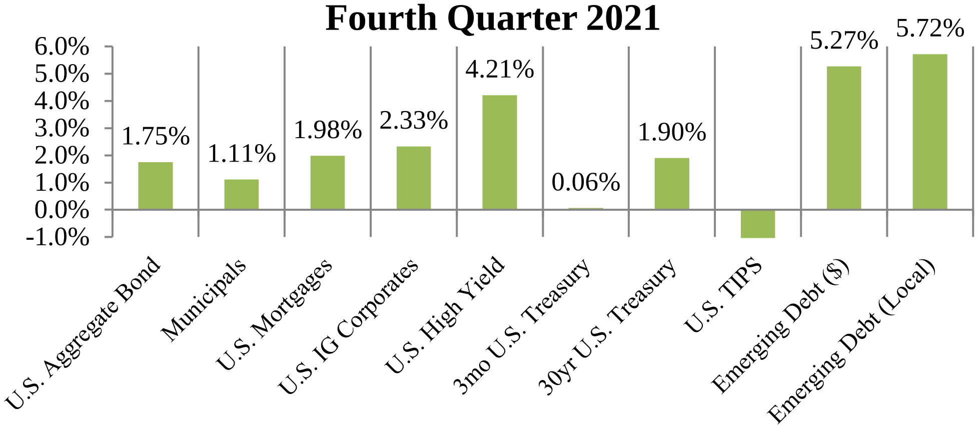
- During the quarter, the Bloomberg Barclays U.S. Aggregate was up 0.01%. U.S. high yield and U.S. TIPS had the strongest returns, while emerging market debt saw negative returns as the U.S. dollar appreciated relative to many other currencies.
- Many sectors had negative returns in 2021 as interest rates rose.

	4Q 21 Return	2021 Return	5-yr Return	10-yr Return
U.S. Aggregate Bond	0.01%	-1.54%	3.57%	2.90%
Municipals	0.72%	1.52%	4.17%	3.72%
U.S. Mortgages	-0.37%	-1.04%	2.50%	2.28%
U.S IG Corporates	0.23%	-1.04%	5.26%	4.70%
U.S. High Yield	0.71%	5.28%	6.30%	6.83%
3mo U.S. Treasury	0.01%	0.04%	1.15%	0.64%
30yr U.S. Treasury	4.70%	-4.62%	6.96%	4.40%
U.S. TIPS	2.36%	5.96%	5.34%	3.09%
Emerging Debt ($)	-0.44%	-1.80%	4.65%	5.28%
Emerging Debt (LCL)	-2.53%	-8.75%	2.82%	0.74%

Bloomberg and JPMorgan Indices

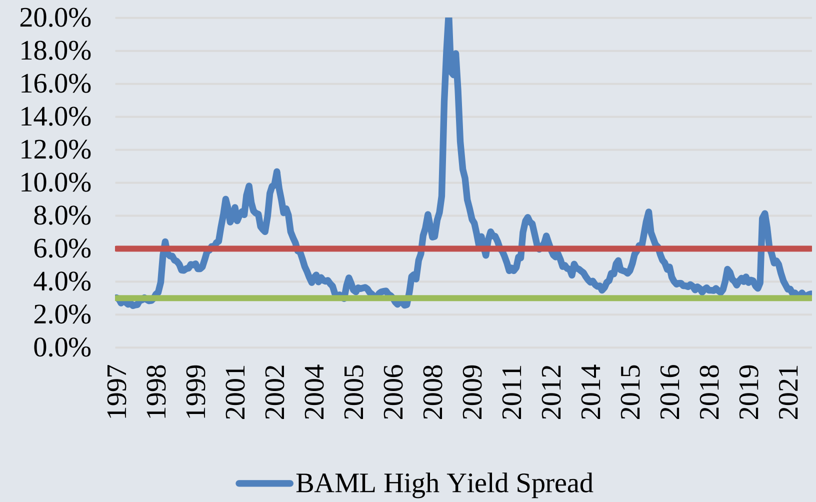
- Yields have come down considerably over the past few years. Emerging markets currently has the highest yields.

Fixed Income Yields
Fourth Quarter 2021



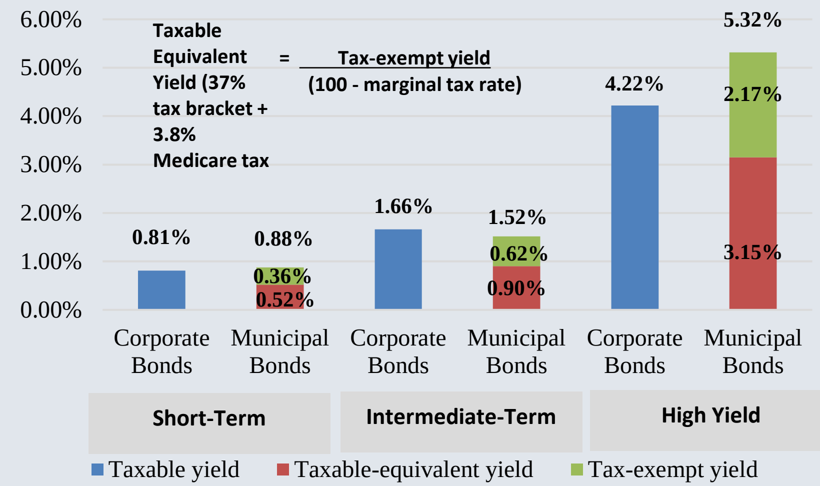
- Credit spreads are near their historic lows, indicating that a lot of the positive economic growth and earnings are baked in and there is not a lot of room to tighten further. Thus, returns in many fixed income sectors could be lower over the next year relative to last year's returns.

Credit Spreads - High Yield
as of 1/1/2022



- Taxable corporates are fairly priced relative to municipals.

Taxable and tax-equivalent yields
as of 12/31/2021



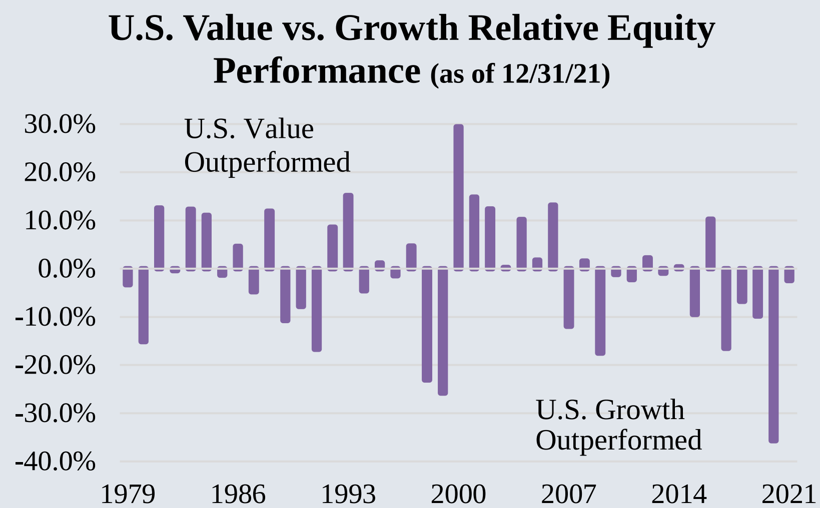
DOMESTIC EQUITIES

Fourth Quarter 2021 Returns			
	Value	Core	Growth
Mega Cap		12.14%	
Large Cap	7.77%	9.78%	11.64%
Mid Cap	8.54%	6.44%	2.85%
Small Cap	4.36%	2.14%	0.01%
Micro Cap	1.24%	-2.66%	-9.09%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a total return of 9.8% during the fourth quarter. This was the seventh quarter in a row with positive gains. On a year-over-year basis, the Russell 1000 Index has increased 26.5%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 2.1% during the fourth quarter. On a year-over-year basis, the index has increased 14.8%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	4Q 21 Return	2021 Return	10-yr Return
Energy	2.7%	5.1%	0.3%	8.0%	54.6%	1.2%
Materials	2.6%	3.8%	1.0%	15.2%	27.3%	12.8%
Financials	10.7%	20.7%	2.4%	4.6%	35.0%	16.3%
Industrials	7.8%	11.5%	5.8%	8.6%	21.1%	14.2%
Cons. Disc.	12.5%	5.7%	18.4%	12.8%	24.4%	19.6%
Technology	29.2%	10.2%	46.1%	16.7%	34.5%	24.0%
Comm. Services	10.2%	7.3%	11.6%	0.0%	21.6%	11.6%
Real Estate	2.8%	5.1%	1.8%	17.5%	46.2%	13.1%
Health Care	13.3%	18.0%	8.7%	11.2%	26.1%	17.2%
Cons. Staples	5.9%	7.4%	4.0%	13.3%	18.6%	12.2%
Utilities	2.5%	5.1%	0.0%	12.9%	17.7%	11.1%
S&P 500 Index	100.0%	100%	100%	11.0%	28.7%	16.6%

- During the quarter, all sectors had positive performance with large tech, materials, and real estate leading the way.



Russell 1000 Value TR vs. Russell 1000 Growth TR

- During the quarter, Value generally outperformed Growth except in the large-cap growth stocks. Growth has outperformed for five years in a row.

- Corporate earnings had an exceptionally strong year. Growth is expected to continue into 2022, but at a slower pace.

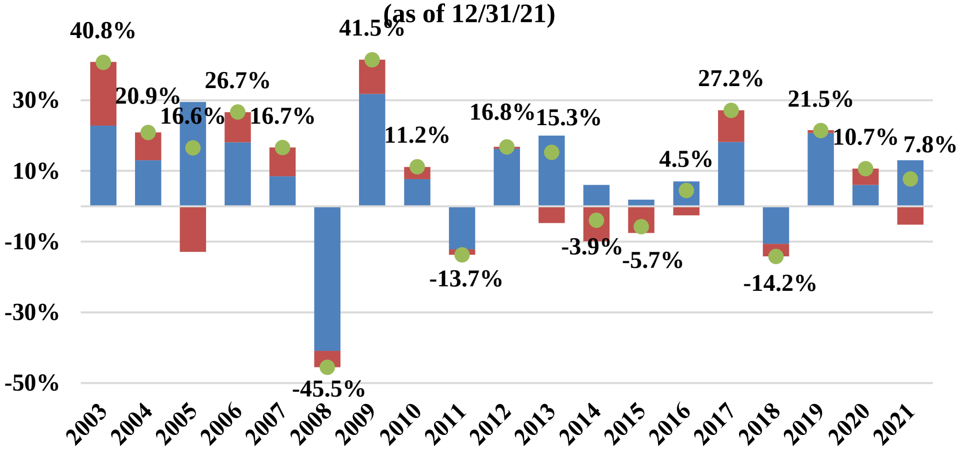
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were up 2.7% during the quarter and 11.3% on a year-over-year basis.
- Emerging market stocks underperformed developed markets during the fourth quarter as the MSCI Emerging Markets Index was down 1.3%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of negative 2.5%.

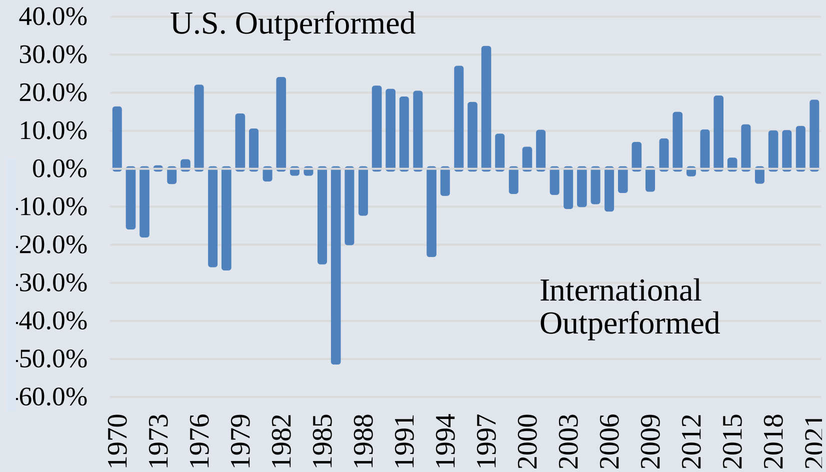
	4Q 21 Return	2021 Return	5-yr Return	10-yr Return
World	6.7%	18.5%	14.4%	11.9%
World Ex-US	1.8%	7.8%	9.6%	7.3%
EAFE	2.7%	11.3%	9.6%	8.0%
Europe	5.7%	16.3%	10.1%	8.2%
Japan	-4.0%	1.7%	8.5%	8.3%
Pacific Ex-Japan	-0.1%	4.7%	8.3%	6.8%
Emerging Markets	-1.3%	-2.5%	9.9%	5.5%
EM (Asia)	-1.0%	-5.1%	11.9%	8.1%
EM (Latin America)	-2.7%	-8.1%	1.5%	-2.2%
EM (Eastern Europe)	-7.7%	17.7%	9.3%	4.3%

- The U.S. dollar appreciating last year detracted from international equity returns. The dollar has been very strong the past ten years but currency trends tend to be cyclical.

MSCI ACWI ex US Index, total return and currency impact (as of 12/31/21)



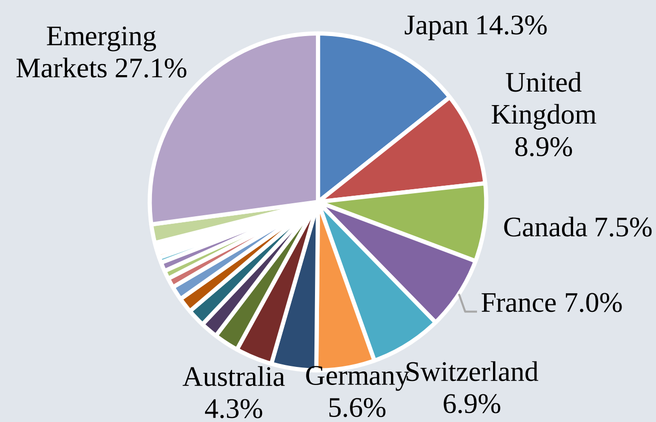
U.S. vs. International Equity Performance (as of 12/31/21)



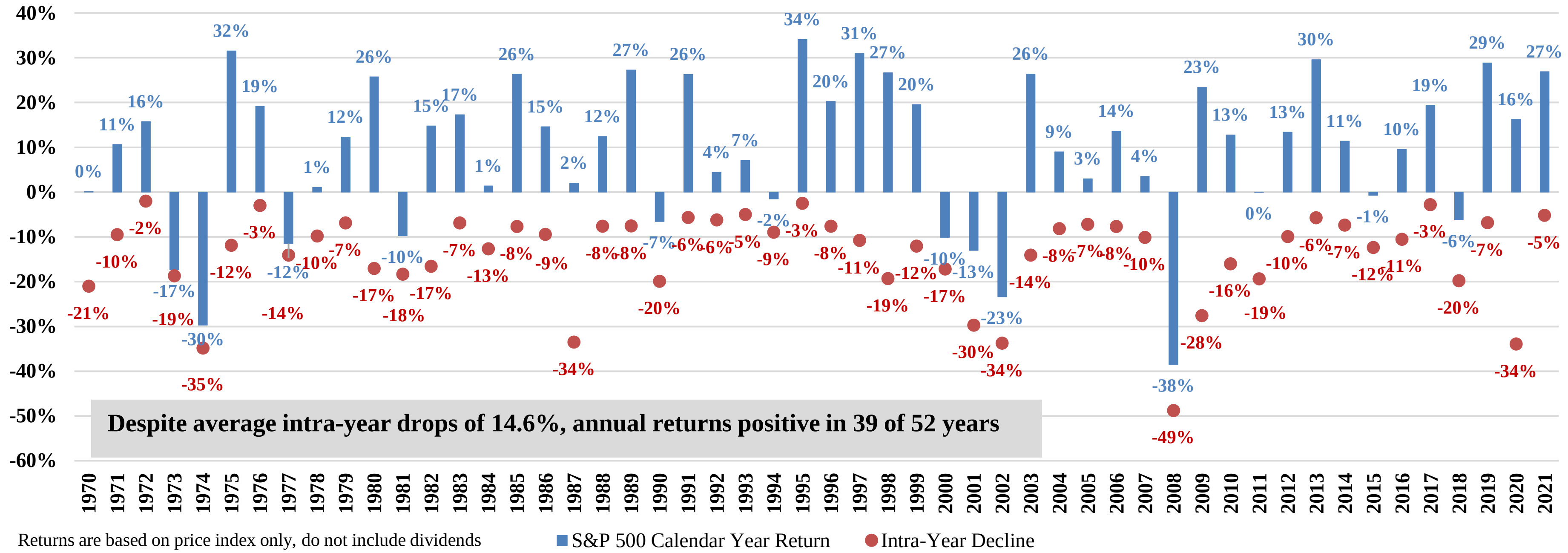
S&P 500 TR vs. MSCI EAFE NR

- During the quarter, International equities lagged behind U.S. equities. International equities have underperformed U.S. equities in ten out of the last twelve years; however, performance is cyclical as evidenced by the chart above.

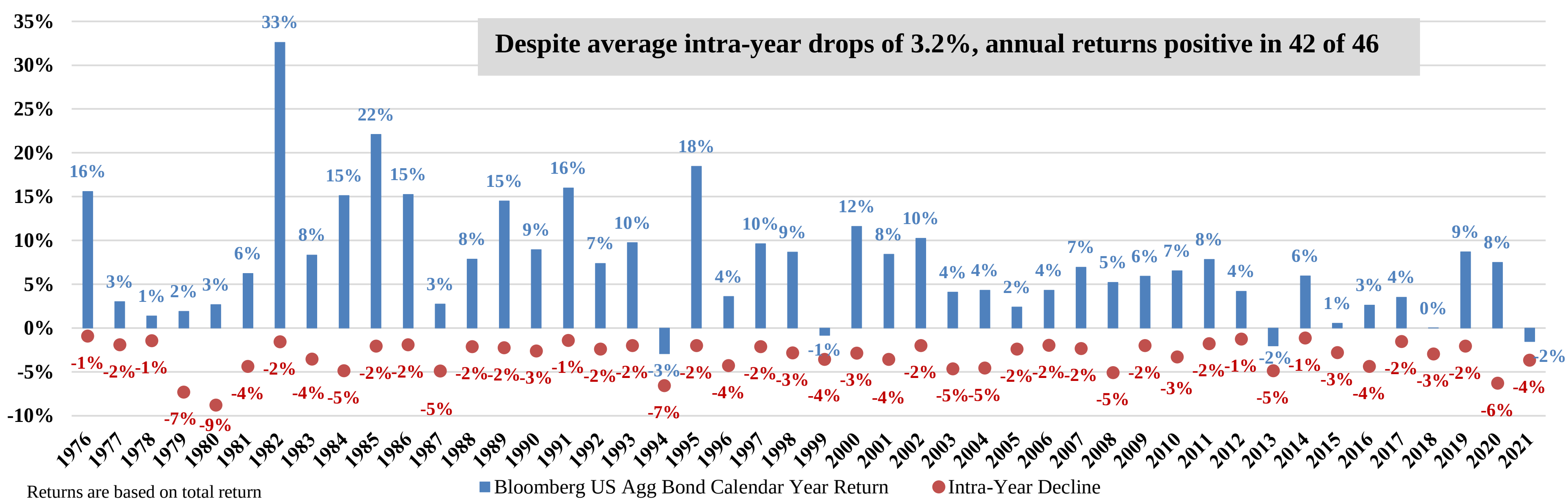
Country Weighting in MSCI ACWI ex US (as of 12/31/2021)



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



Bloomberg U.S. Agg Bond intra-year declines vs. calendar year returns



Market leadership changes. Focus on asset allocation and diversification.

Asset Class Performance: Best (top) to Worst (bottom)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10-yrs '12-'21 Return	10-yrs '12-'21 Volatility
Real Estate 27.9%	Real Estate 8.3%	Real Estate 19.7%	Small Cap 38.8%	Real Estate 28.0%	Real Estate 2.8%	Small Cap 21.3%	Emerging Markets 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Real Estate 41.3%	Large Cap 16.6%	Small Cap 17.8%
Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	International 25.6%	Fixed Income 0.0%	Real Estate 28.7%	Emerging Markets 18.7%	Large Cap 28.7%	Small Cap 13.2%	Emerging Markets 16.4%
Emerging Markets 19.2%	High Yield 3.1%	Emerging Markets 18.6%	International 23.3%	Fixed Income 6.0%	Fixed Income 0.6%	Large Cap 12.0%	Large Cap 21.83%	Real Estate -4.0%	Small Cap 25.5%	Large Cap 18.4%	Commodities 27.1%	Real Estate 12.2%	Real Estate 14.9%
Commodities 16.8%	Large Cap 2.1%	International 17.9%	Asset Allocation 14.9%	Asset Allocation 5.3%	Cash 0.0%	Commodities 11.8%	Small Cap 14.7%	High Yield -4.1%	International 22.7%	Asset Allocation 10.5%	Small Cap 14.8%	Asset Allocation 8.8%	International 14.1%
Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	International -0.4%	Emerging Markets 11.6%	Asset Allocation 14.5%	Large Cap -4.4%	Asset Allocation 19.4%	International 8.3%	Asset Allocation 13.5%	International 8.5%	Commodities 13.3%
High Yield 14.8%	Asset Allocation -0.7%	Large Cap 16.0%	Real Estate 2.9%	Cash 0.0%	Asset Allocation -2.0%	Real Estate 8.6%	High Yield 10.4%	Asset Allocation -5.8%	Emerging Markets 18.9%	Fixed Income 7.5%	International 11.8%	High Yield 6.3%	Large Cap 13.1%
Asset Allocation 13.3%	Small Cap -4.2%	Asset Allocation 12.1%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allocation 8.3%	Real Estate 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Emerging Markets 5.9%	Asset Allocation 8.6%
International 8.2%	International -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -1.8%	Small Cap -4.4%	Fixed Income 2.7%	Fixed Income 3.5%	Commodities -11.3%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 2.9%	High Yield 7.6%
Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.3%	International -4.5%	Emerging Markets -14.6%	International 1.5%	Commodities 1.7%	International -13.4%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.5%	Cash 0.6%	Fixed Income 3.0%
Cash 0.1%	Emerging Markets -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.3%	Cash 2.2%	Real Estate -5.1%	Emerging Markets -2.2%	Commodities -2.9%	Cash 0.2%

Performance of all sited indices is calculated on a total return basis and includes dividend reimbursement. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent in any investment and there is no assurance that any asset class or index will provide positive performance over time.

* Large Cap – S&P 500 Index
* Small Cap – Russell 2000 Index
* International – MSCI EAFE GR Index
* Emerging Markets – MSCI EM GR Index
* Fixed Income – Barclays Capital Aggregate Bond Index
* Real Estate – FTSE NAREIT All Equity REIT Index
* Commodities – Bloomberg Commodity Index
* High Yield – Barclays Global High Yield Index
*Cash – Barclays 1-3m Treasury Index

The "Asset Allocation" portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays Agg, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield Index, 5% Bloomberg Commodity Index, 5% FTSE NAREIT All Equity REIT Index

Source: Morningstar, through 12/31/2021

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