



# SilverOak

WEALTH MANAGEMENT LLC

## Quarterly Webinar July 24, 2020



# Introduction

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Partner and Lead Analyst



# Agenda

- Economic Data
- Market Data
- SilverOak's Outlook
- A historical perspective of recent market and economic activities
- Other important updates
- Questions



*Economy:  
Signs of Early  
Improvement During  
the Second Quarter*



# Market Dashboard

	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																
Credit Markets																
Valuations																
Market Sentiment																
Composite 6mo. Avg.																



# Market Dashboard

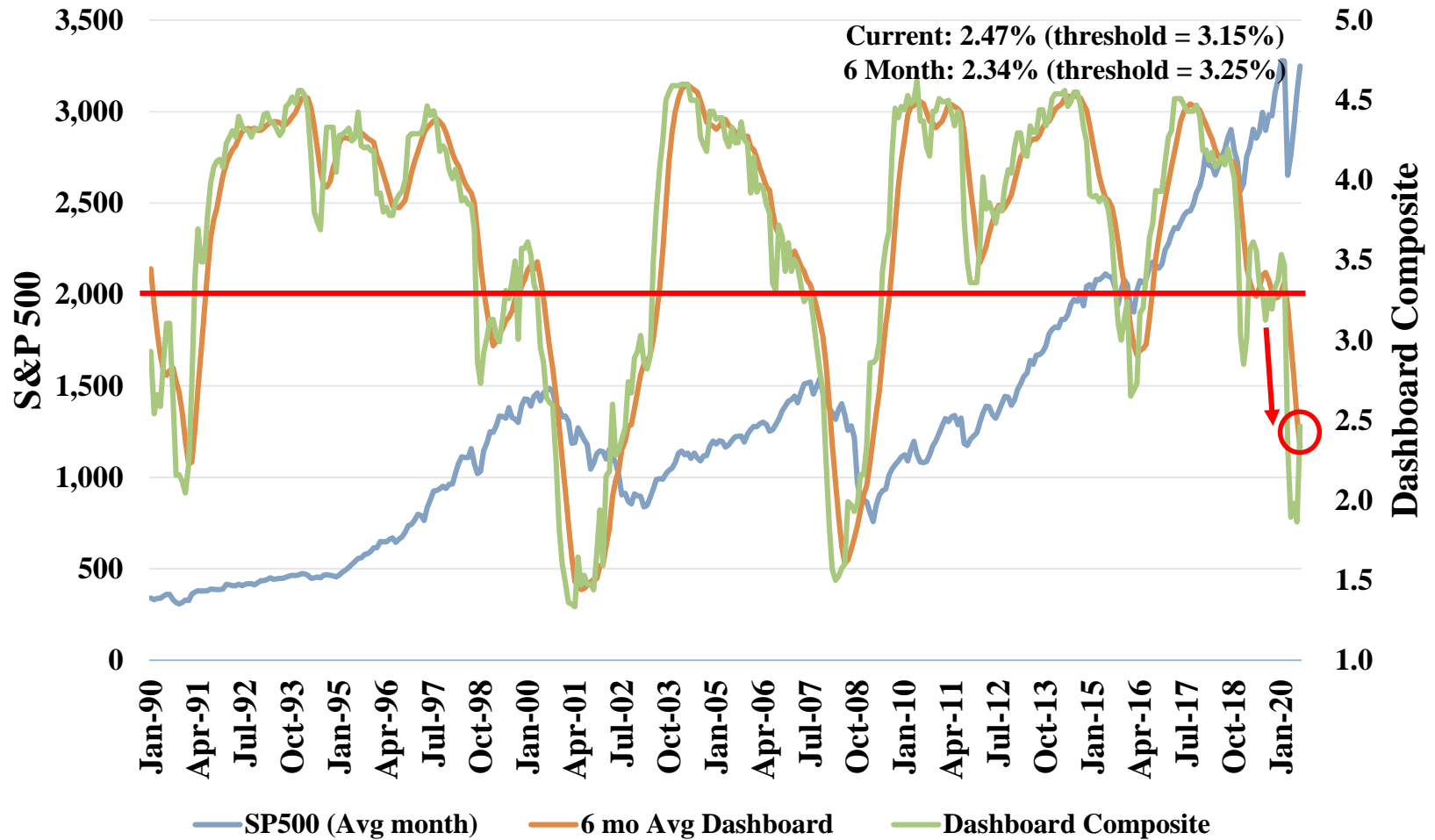
Projected



	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021
Economy	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Red	Red	Red	Red	Grey	Green
Credit Markets	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Grey	Red	Red	Grey	Grey	Grey	Green
Valuations	Red	Red	Red	Red	Red	Grey	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red
Market Sentiment	Green	Green	Green	Green	Green	Grey	Grey	Green	Green	Green	Grey	Red	Green	Green	Green	Green
Composite 6mo. Avg.	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Grey



# Market Dashboard



# Current Economic Factors Scorecard

## Positive

Fiscal Policy  
Monetary Policy  
Interest Rates  
U.S. Inflation

## Neutral

Commodity Prices (-)  
U.S. Politics  
U.S. Dollar  
Housing ↑

## Negative

Corporate Earnings (-)  
Employment  
Consumer Confidence  
Credit Conditions  
Global Growth ↑  
Eurozone  
China ↑  
Tariffs  
Geopolitics

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

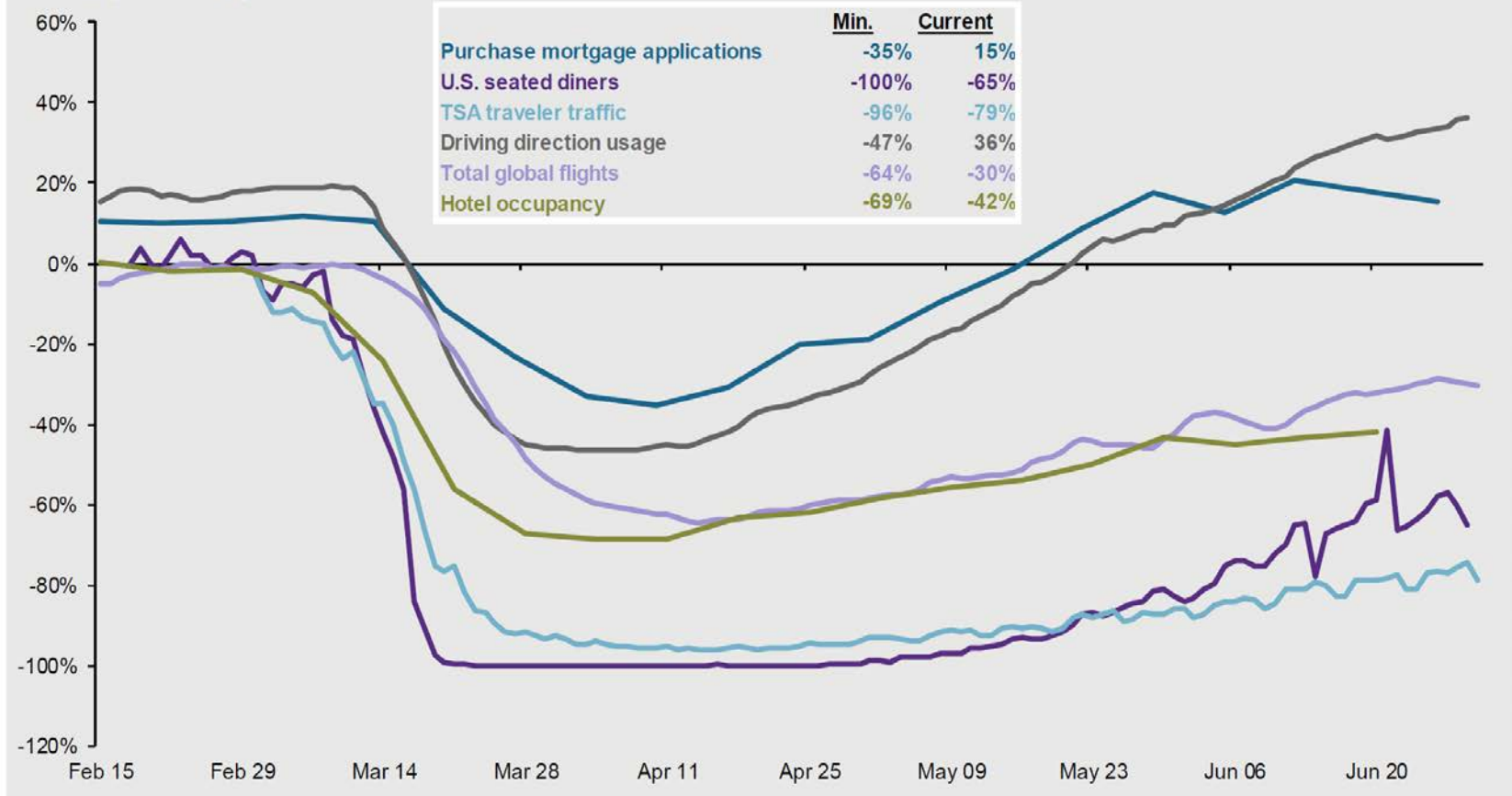




# Some Activity Has Started to Recover

## High frequency data

Year-over-year % change\*

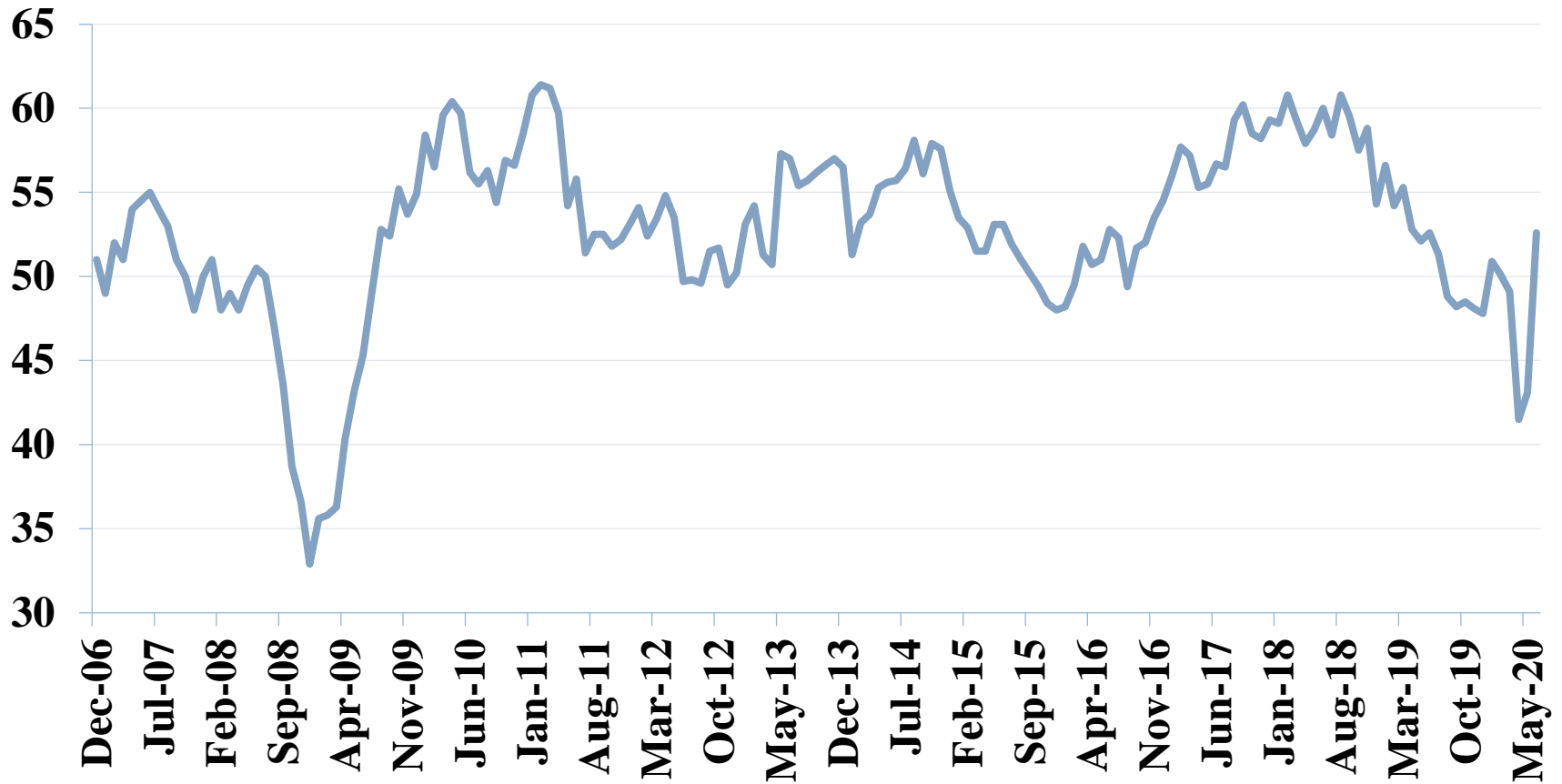


Source: JP Morgan Asset Management, Apple, Mortgage Banker's Association, Open Table, SCR, TSA. Data as of 6/30/20



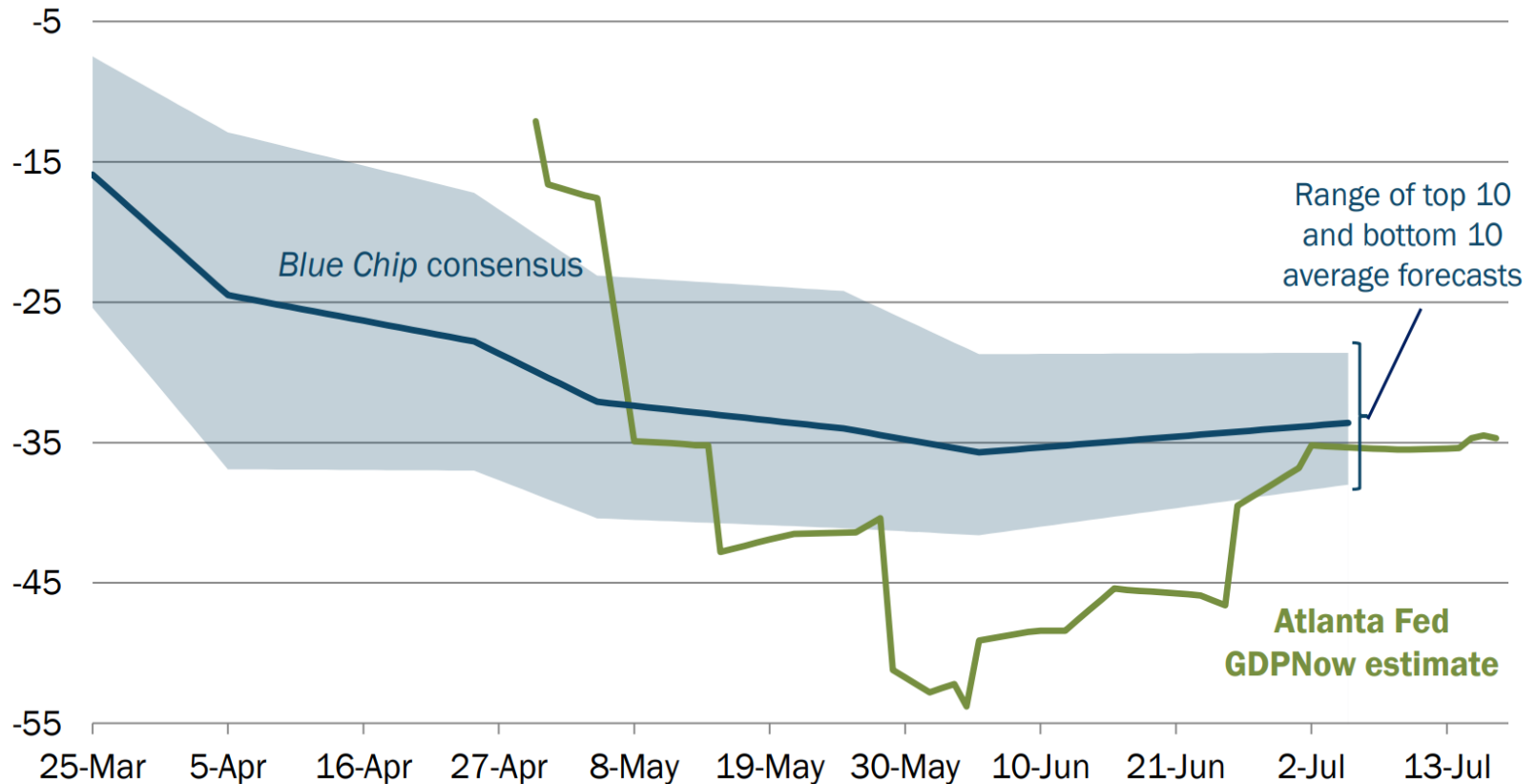
# Big Manufacturing Rebound in June

## Purchasing Managers Index (PMI)



Source: Institute for Supply Management

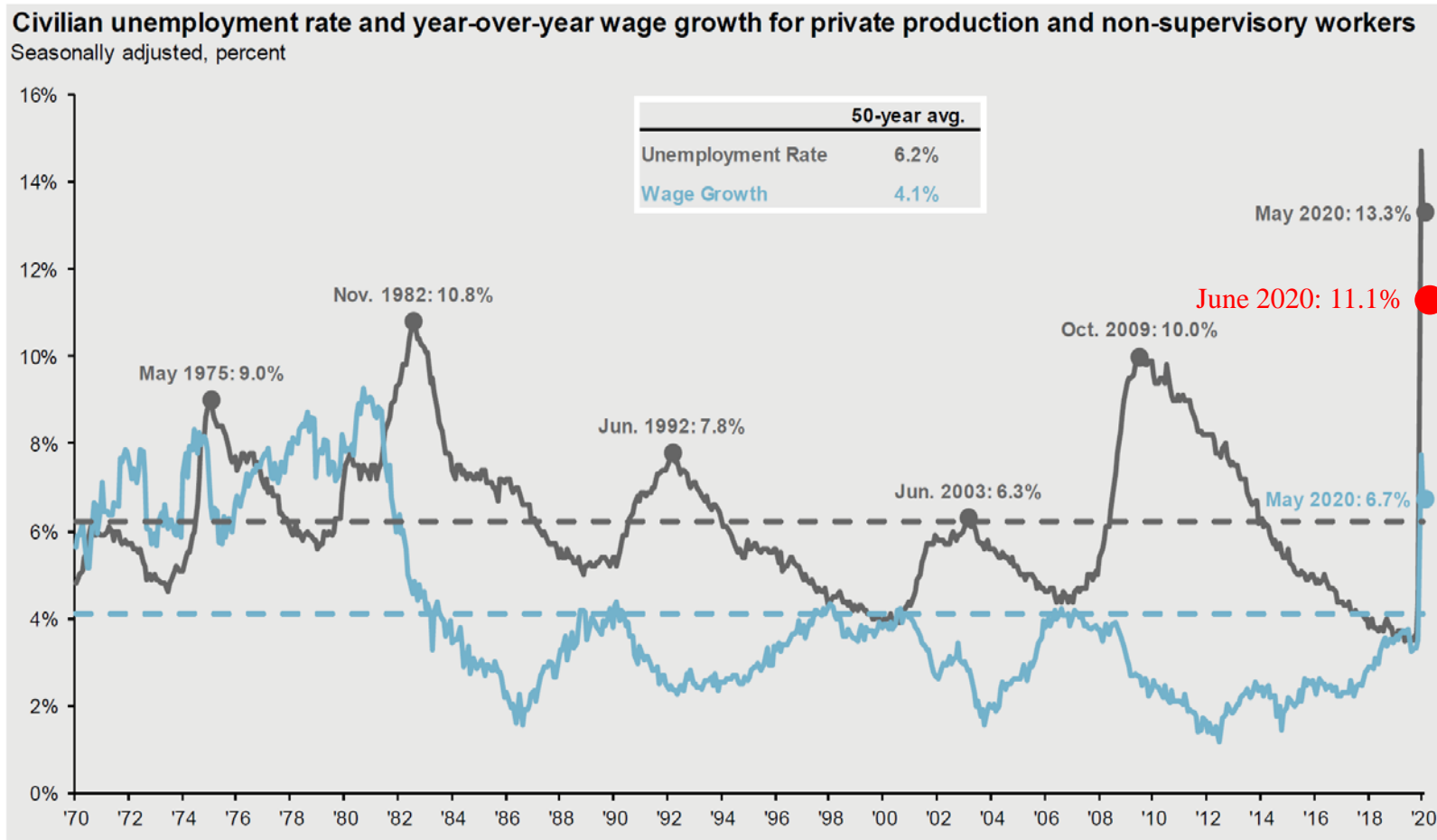
# Q2 GDP Likely To Be the Low Point



Source: Atlanta Federal Reserve GDP Now Report. Data as of 6/30/20



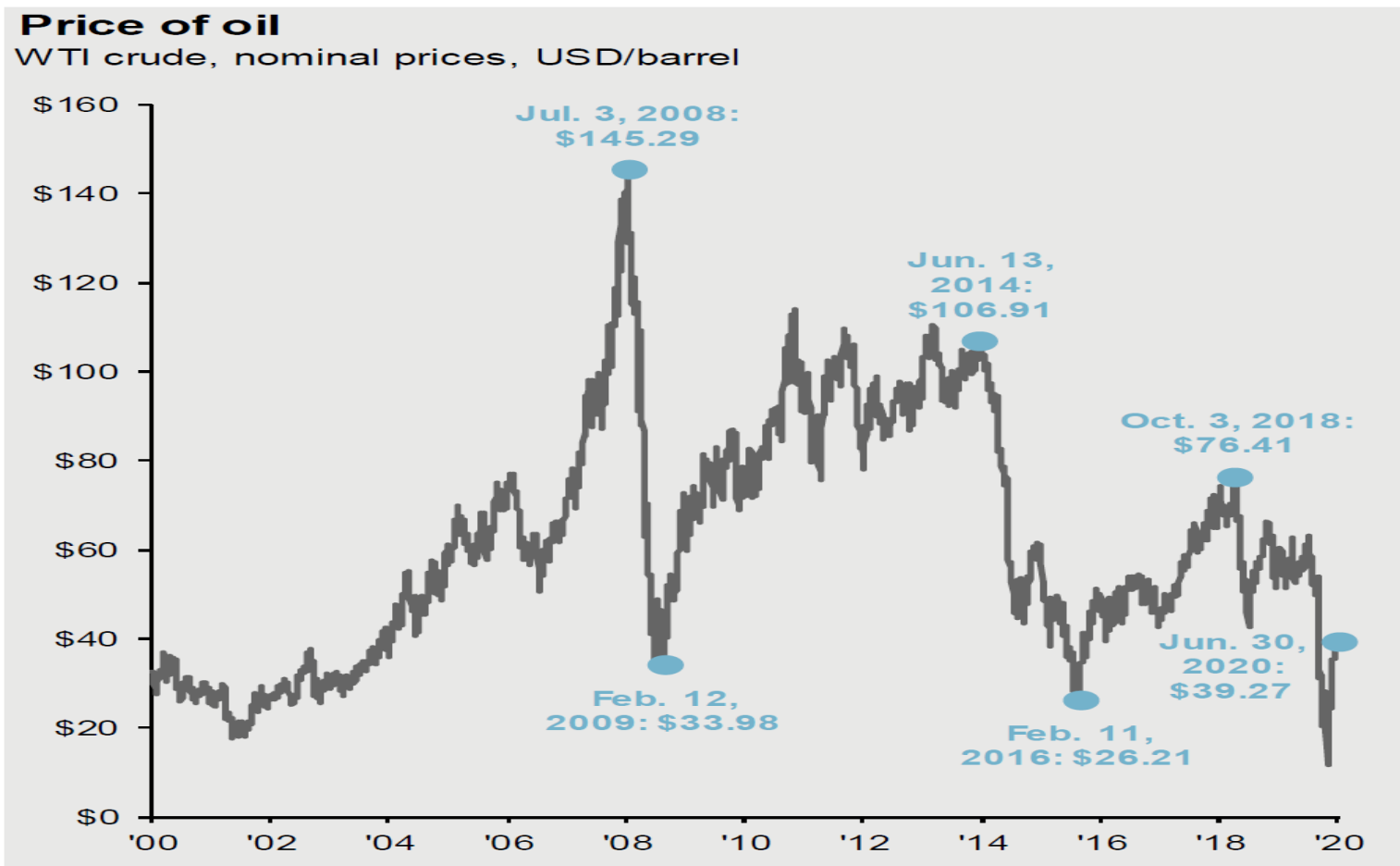
# Rate of Unemployment Beginning to Decline



Source: JP Morgan Asset Management, BLS, Factset. Data as of 6/30/20



# Oil Price Off of Its Low

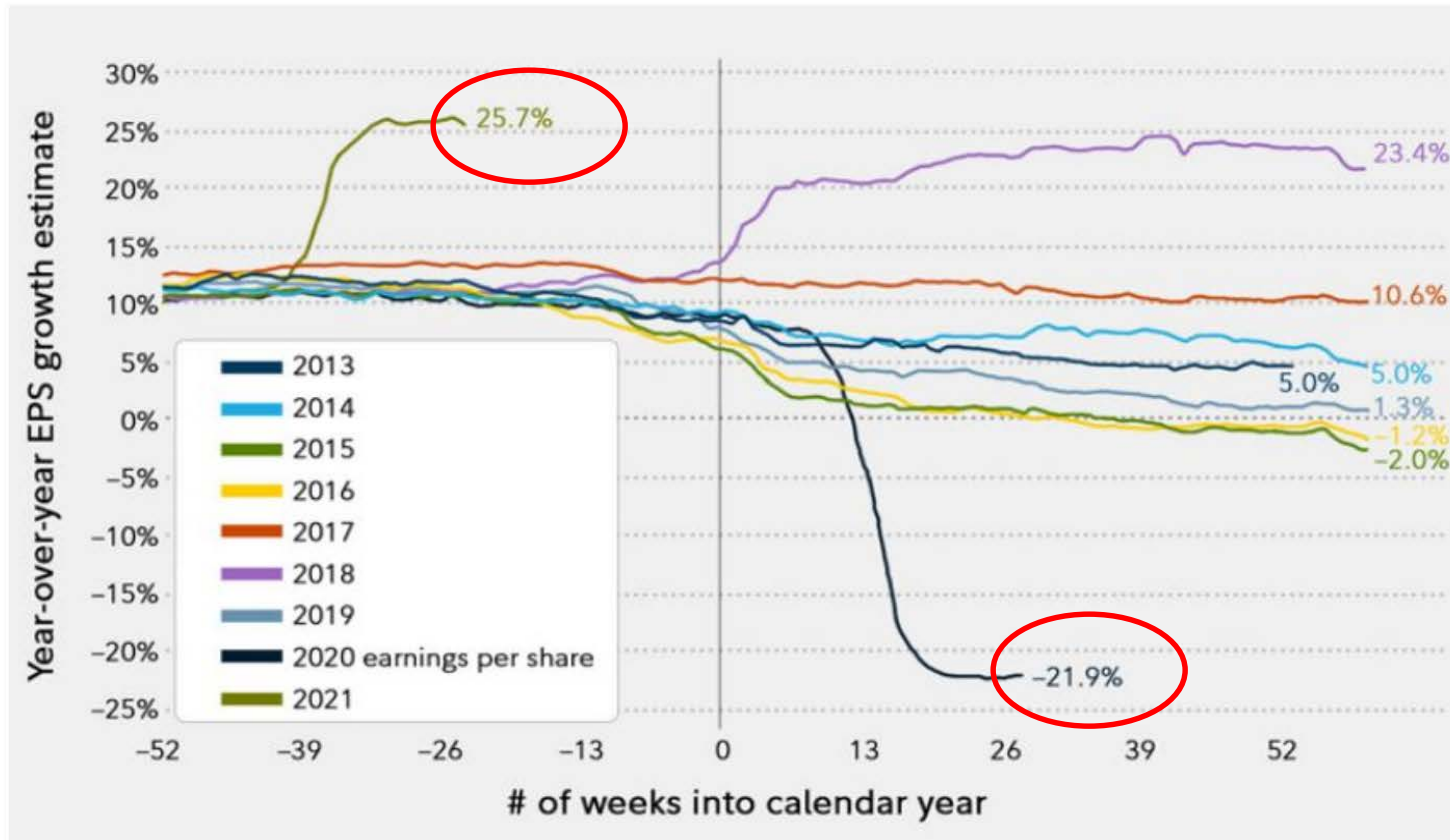


Source: JP Morgan Asset Management. Data as of 6/30/20



# S&P Earnings To Contract in 2020

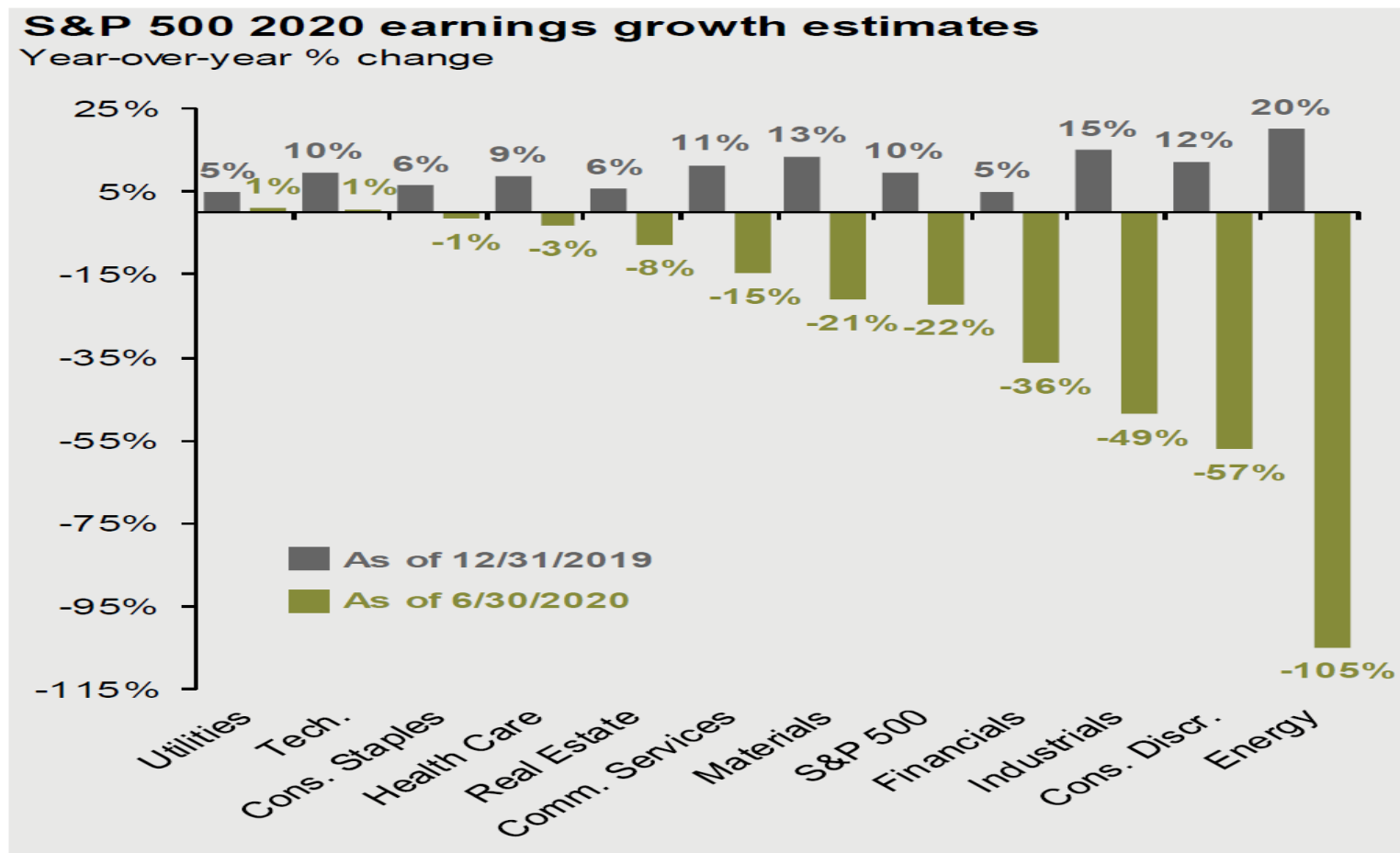
Earnings estimate progression: Fiscal year



Source: Fidelity. Data as of 7/10/20



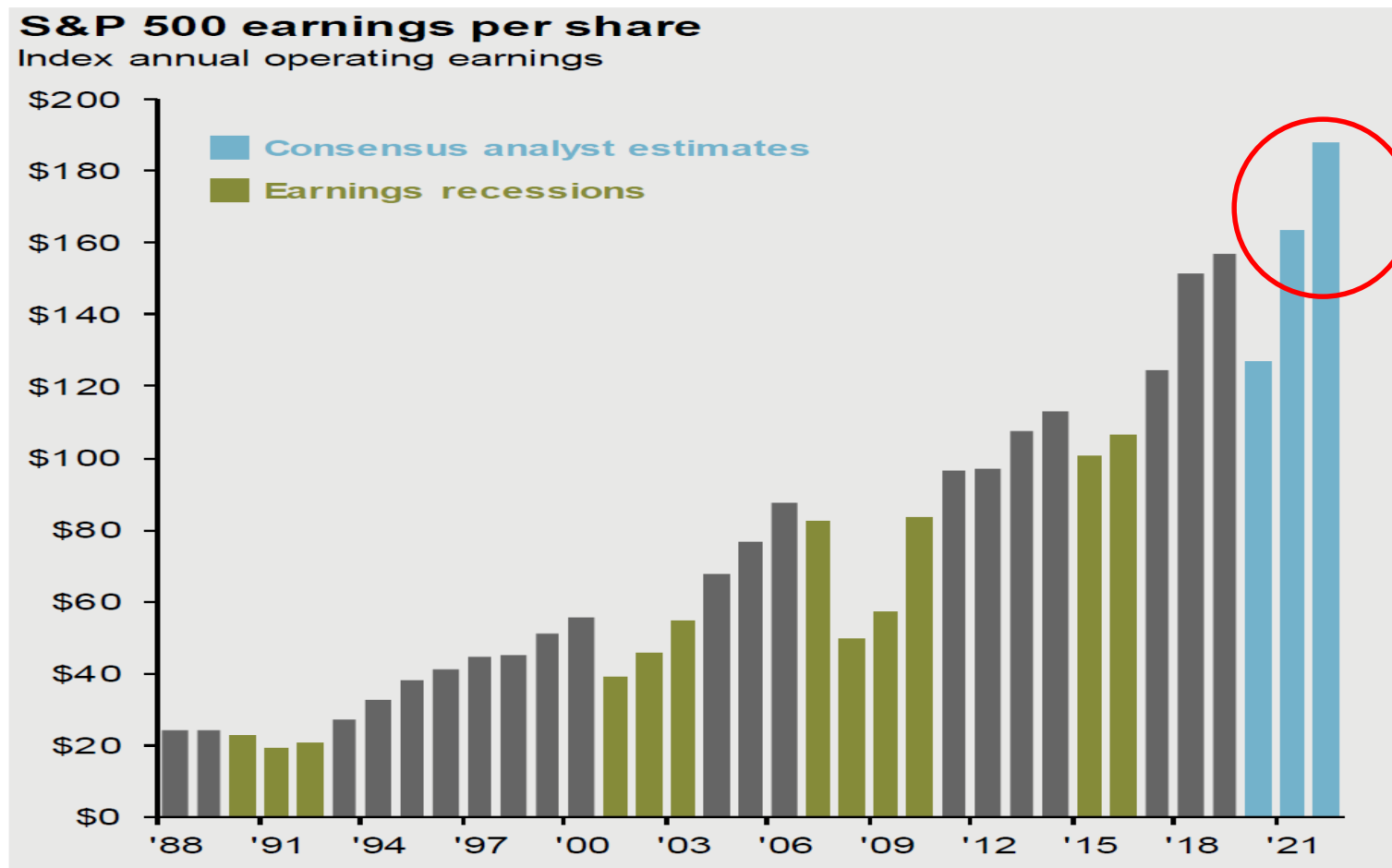
# 2020 EPS Decline by Sector



Source: JP Morgan Asset Management, Compustat, Factset, S&P. Data as of 6/30/20



# Historical EPS Patterns



Source: JP Morgan Asset Management, Compustat, Factset, S&P. Data as of 6/30/20





# *Markets: Dramatic Rebound in Risk Assets*



# Market Summary

## ■ Equity market performance

	<u>Q2 2020</u>	<u>YTD</u>
– US large cap		
• S&P 500	+20.5%	-3.1%
– US mid cap		
• Russell Midcap	+24.6%	-9.1%
– US small cap		
• Russell Smallcap	+25.4%	-13.0%
– International equities		
• MSCI ACWI ex US	+16.1%	-11.0%
– Emerging markets		
• MSCI Emerging Markets	+18.1%	-9.8%



# Market Summary

## ■ Bonds and other asset class performance

	<u>Q2 2020</u>	<u>YTD</u>
– US fixed income		
• Barclay's Aggregate	+2.9%	+6.1%
– Global fixed income		
• Barclay's Global ex US	+3.4%	+0.6%
– Commodities		
• Bloomberg Commodity TR	+5.1%	-19.4%
– REITS		
• MSCI US REIT NR	+11.7%	-18.5%



# Equity Market Conditions

## ■ Second Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+11.1%	+20.5%	+24.4%
Mid	+19.9%	+24.6%	+30.3%
Small	+18.9%	+25.4%	+30.6%

## ■ YTD

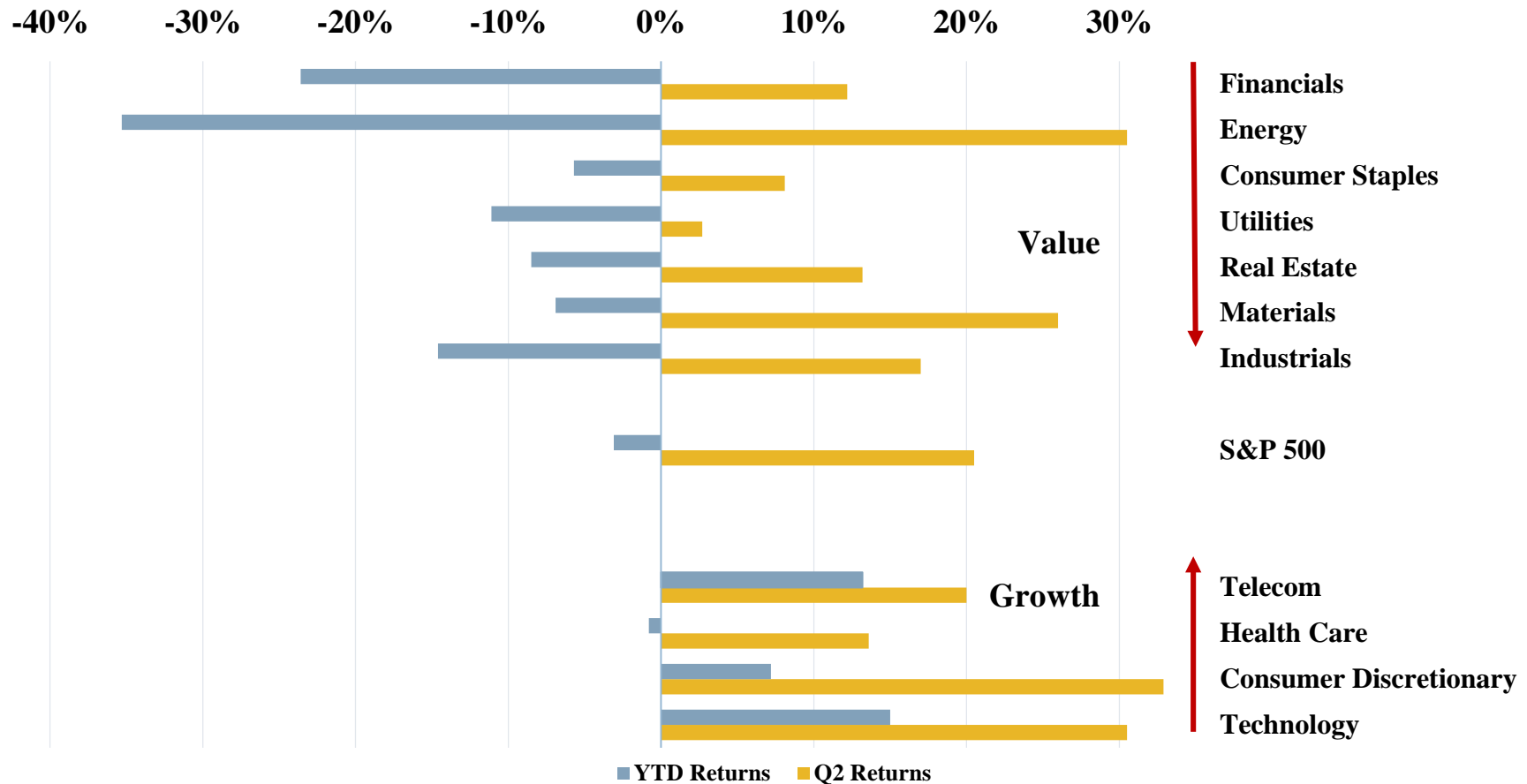
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	-15.5%	-3.1%	+7.9%
Mid	-18.1%	-9.1%	+4.2%
Small	-23.5%	-13.0%	-3.1%

Source: Morningstar. All calculations are cumulative total return as of 6/30/2020.

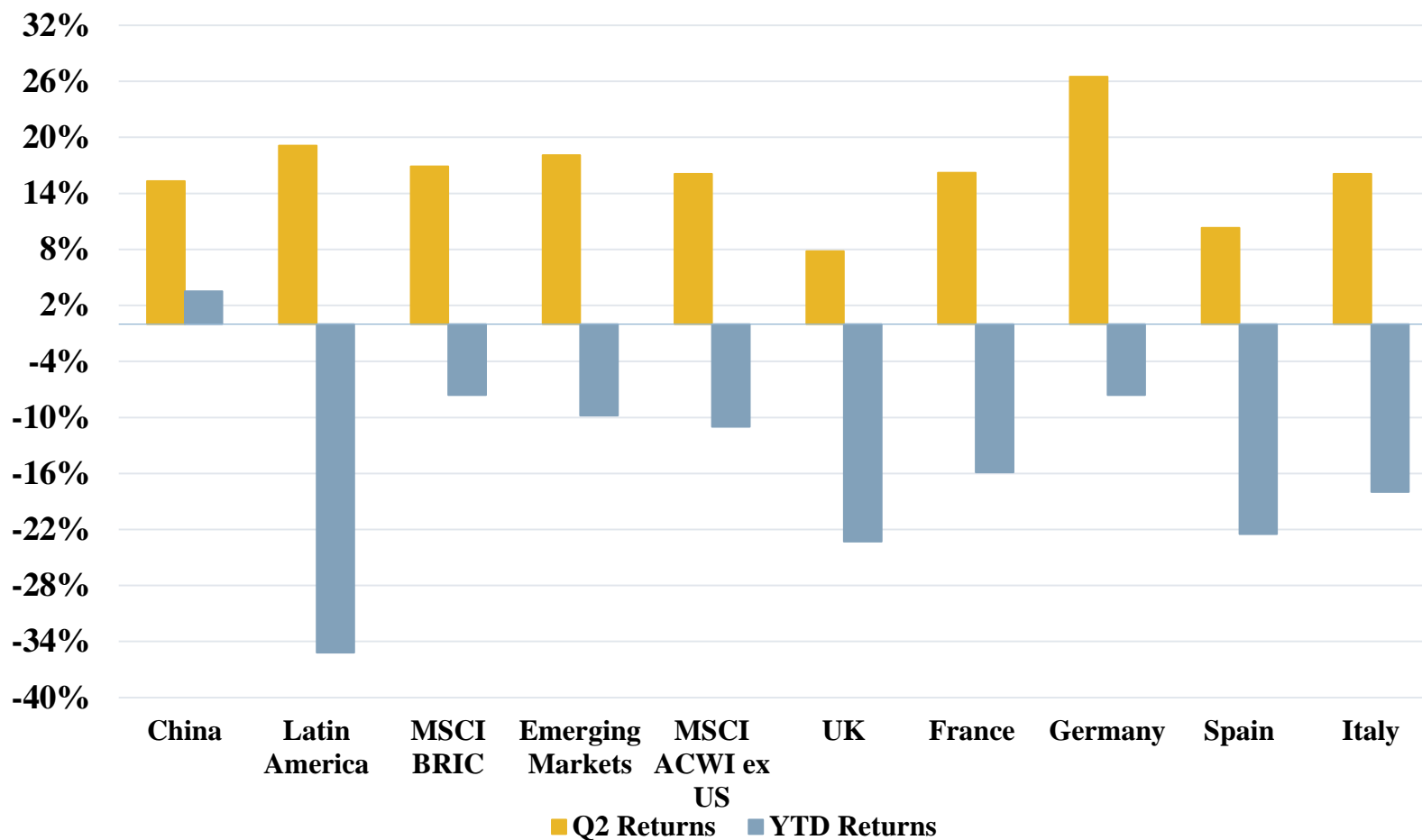
Russell style indices utilized for all performance with the exception of large cap, which reflects the S&P 500 Index and its Value and Growth sub-components. Past performance is no guarantee of future success.



# Growth Continues To Lead



# Rebound in International Returns

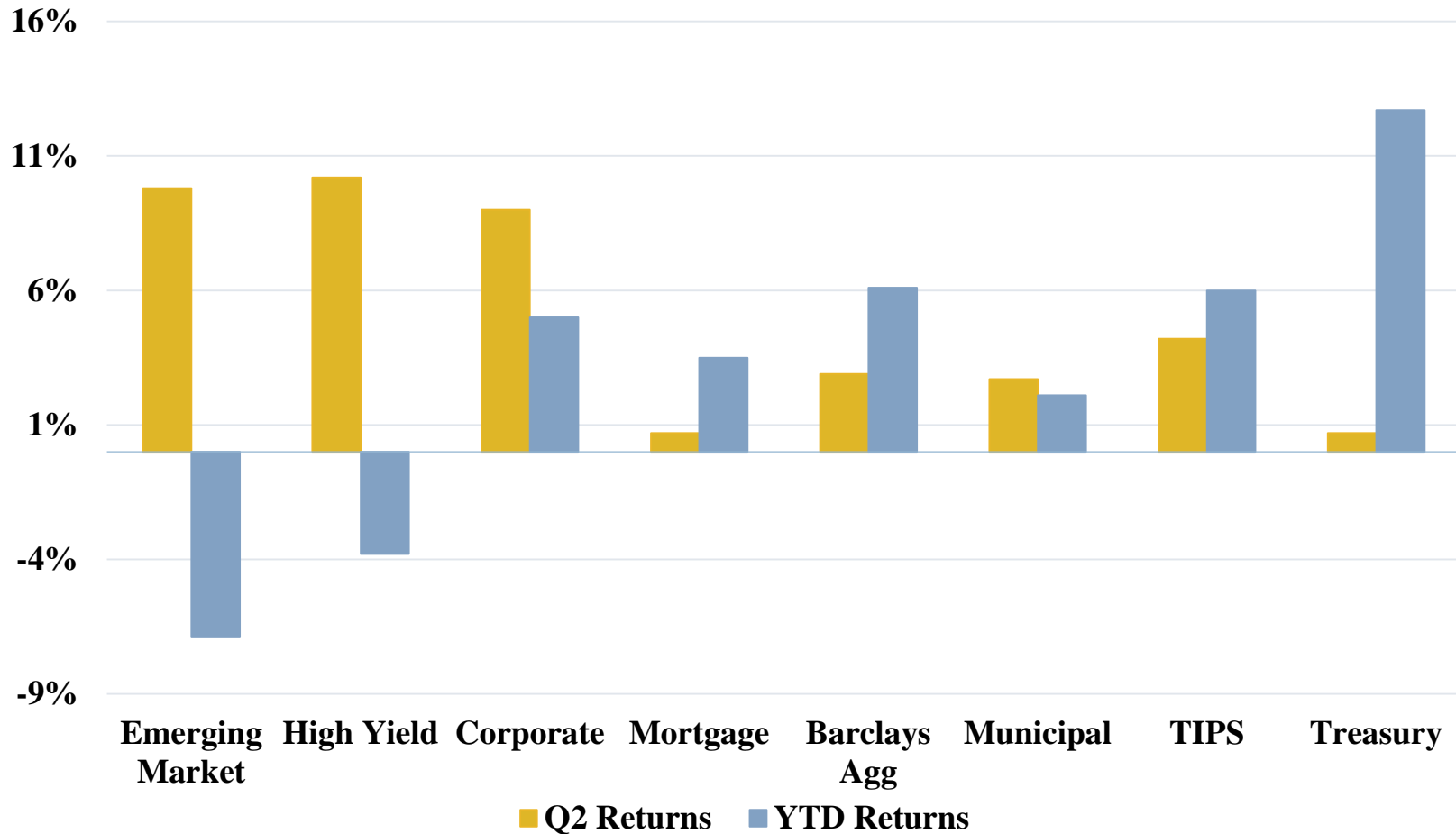


Past performance is no guarantee of future success. As of 6/30/2020

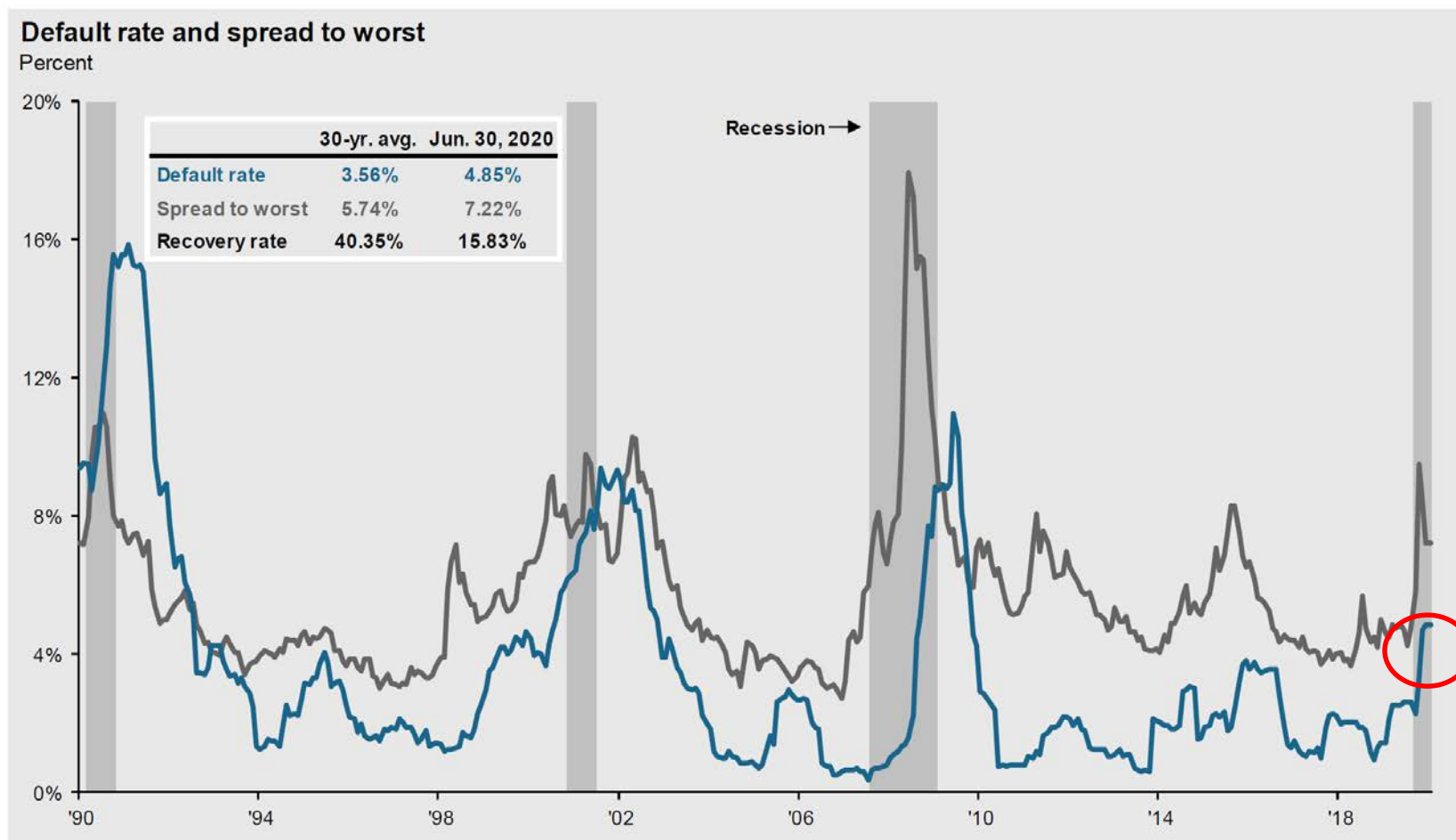
Returns in US dollars.



# Narrowing of Credit Spreads Fuels Bonds



# Default Rates Are Increasing



Source: JP Morgan Asset Management. Data as of 5/30/20





# *SilverOak's Outlook*



# SilverOak's Outlook

## ■ U.S. Economy

- The US is recovering from an exceptionally sharp, but likely brief recession
- Both monumental fiscal and monetary stimulus likely to continue to support the recovery
  - More fiscal stimulus could be on the way
  - Will policy response be inflationary?
- The future is largely dependent upon progression of COVID-19, including therapeutic treatments and a vaccine
  - Will economic activity slow due to the recent resurgence?
  - Will this be a V-shaped, U-shaped, W-shaped or L-shaped recovery?



# SilverOak's Outlook

## ■ International Economy

- Appears to be recovering from COVID-19
  - Parts of Europe and Asia are not seeing a significant resurgence in cases
  - China's economic recovery is leading the world
- Central bank support and country-level fiscal stimulus packages in Europe and Asia remain supportive



# SilverOak's Outlook

## ■ Equities

- Fiscal and monetary policy likely to continue to influence asset returns
- With earnings impacted, market valuations remain elevated
- Uncertainty remains
  - Covid-19 treatment and vaccine developments
  - Variability in growth recovery as economy comes back on-line
  - 2020 Election
- Growth valuation is stretched
  - At some point, value and international will be compelling
  - Small caps likely provide a long-term opportunity
  - Real assets well positioned if deficit spending spurs inflation
- With a wide dispersion of potential outcomes, diversification continues to be important!



# SilverOak's Outlook

## ■ Bonds

- Fed providing unprecedented liquidity and support for a wide range of bonds
- Treasury yields likely in a trading range based on expectations of the growth recovery
  - Federal Reserve unlikely to institute negative interest rates in U.S.
- Bonds continue to offer protection from equity volatility and potential downside risks
- Continue to focus on credit quality
  - Covid-19 resurgence could impact recovery which could cause credit spreads to widen again
  - Some select opportunities in credit if spreads do widen, but only for those more risk tolerant investors



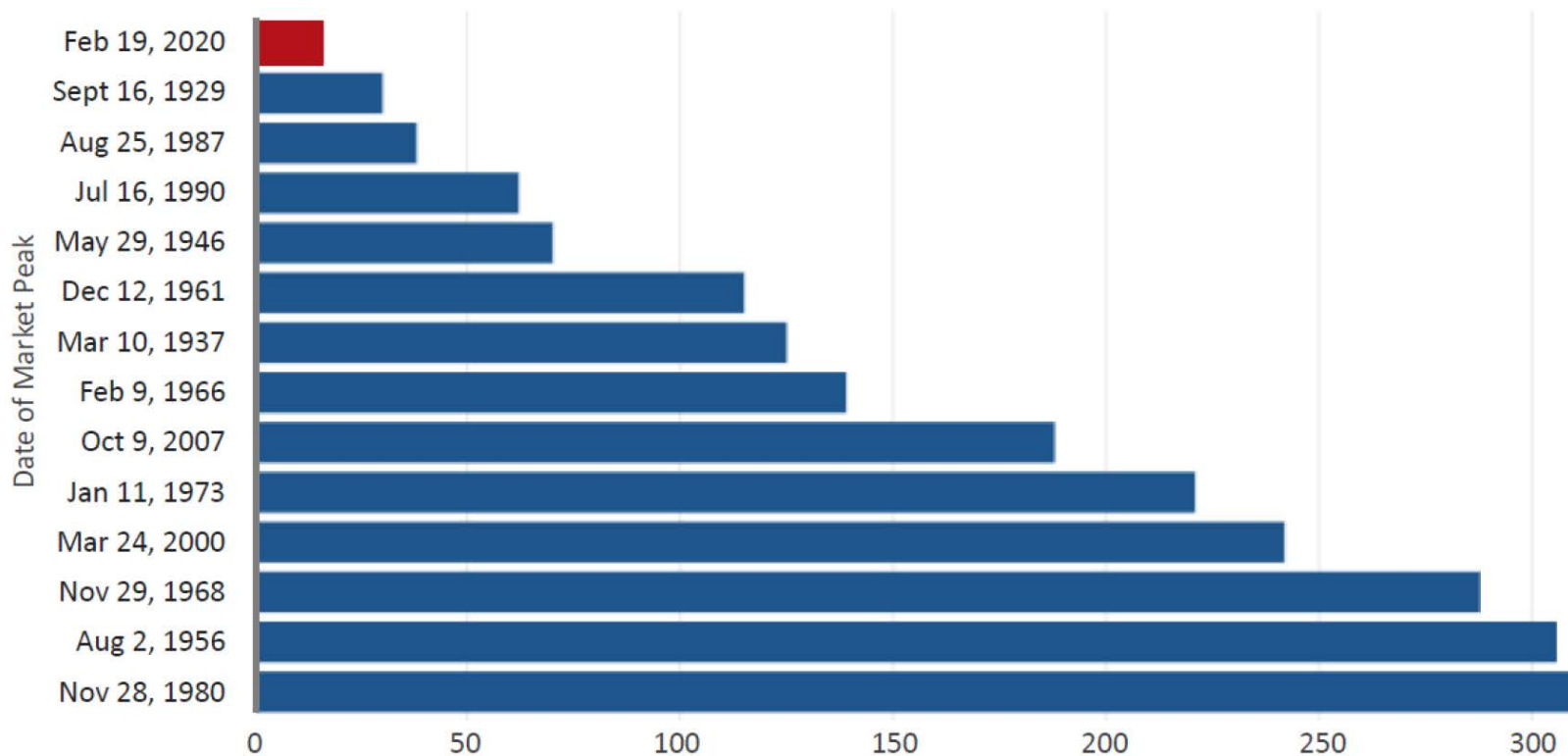
# *A Historical Perspective on Recent Market and Economic Activities*



# Fastest Market Decline on Record

## FROM BULL TO BEAR IN ONLY 16 DAYS

Number of trading sessions to close down 20% or more from a peak



# What a Rebound!

<b>Market Performance From March 23 through July 20</b>	
<b>US Large Cap S&amp;P 500</b>	<b>+42.0%</b>
<b>US Large Cap Nasdaq Composite</b>	<b>+57.0%</b>
<b>US Mid Cap Russell Midcap</b>	<b>+47.6%</b>
<b>US Small Cap Russell 2000</b>	<b>+45.6%</b>
<b>International Equities MSCI ACWI ex US</b>	<b>+35.4%</b>



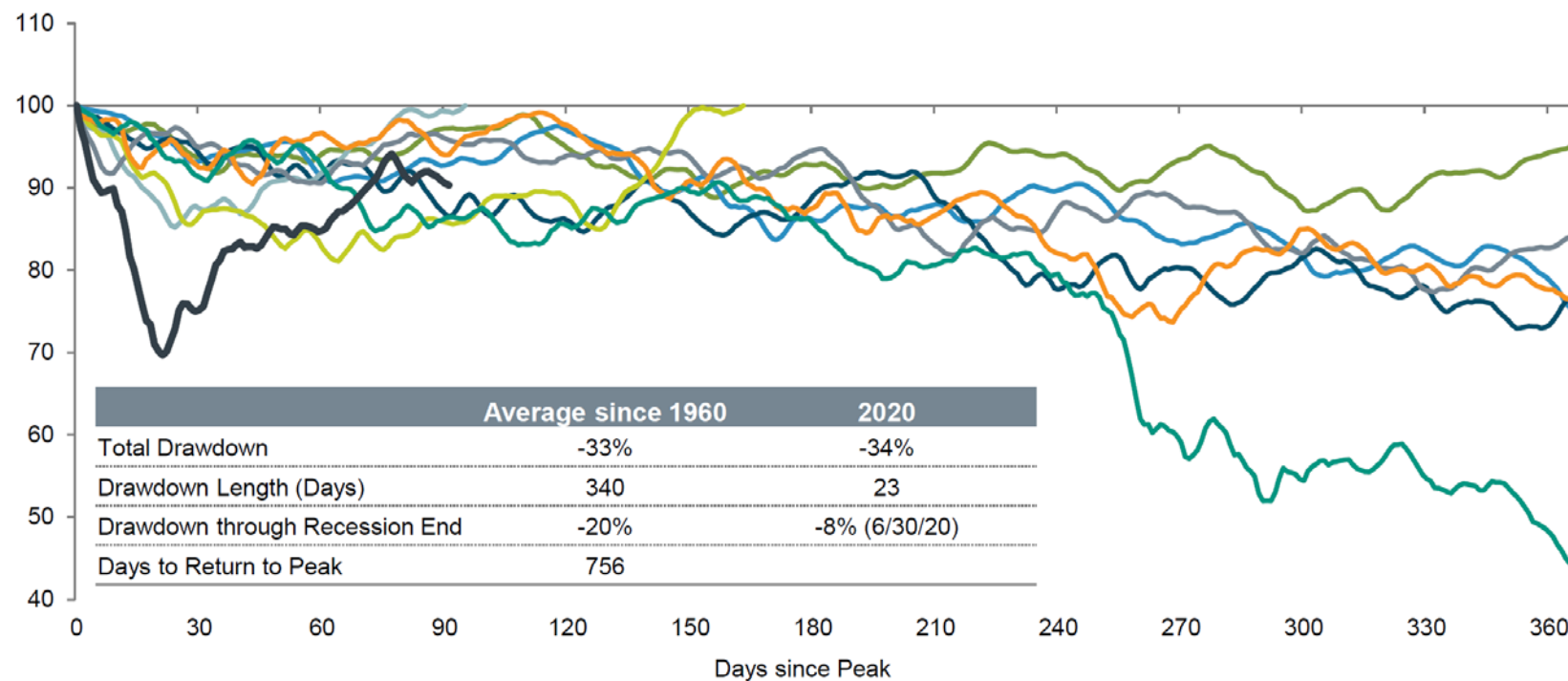


# Too Fast, Too Soon?

## Stock Market Drawdowns during Recessions (1960–2020)

1960 1970 1973 1980\* 1981 1990 2001 2008 2020

Index: Peak = 100



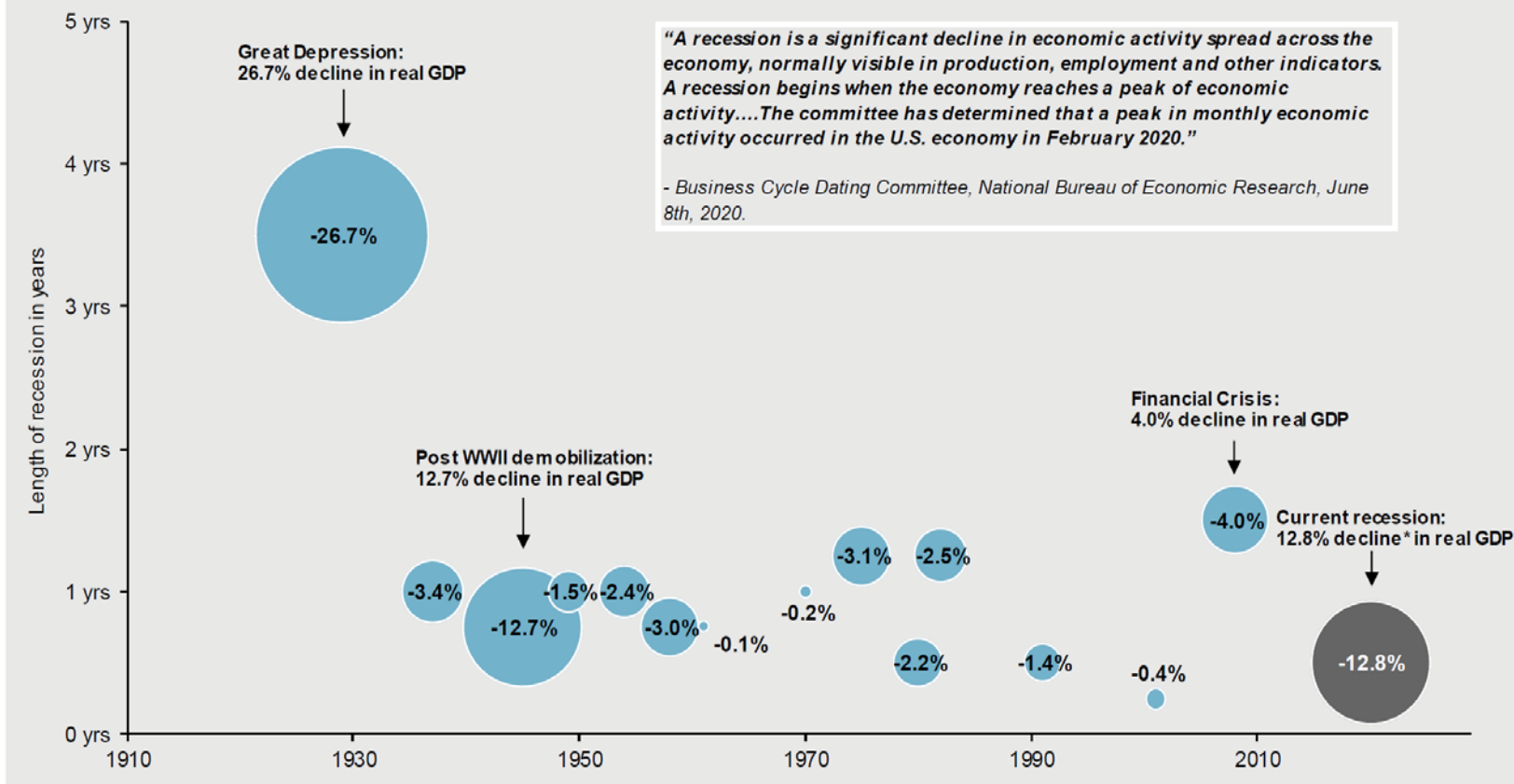
Source: Fidelity, S&P, Bloomberg



# Recessions in Perspective

## The Great Depression and post-war recessions

Length and severity of recession



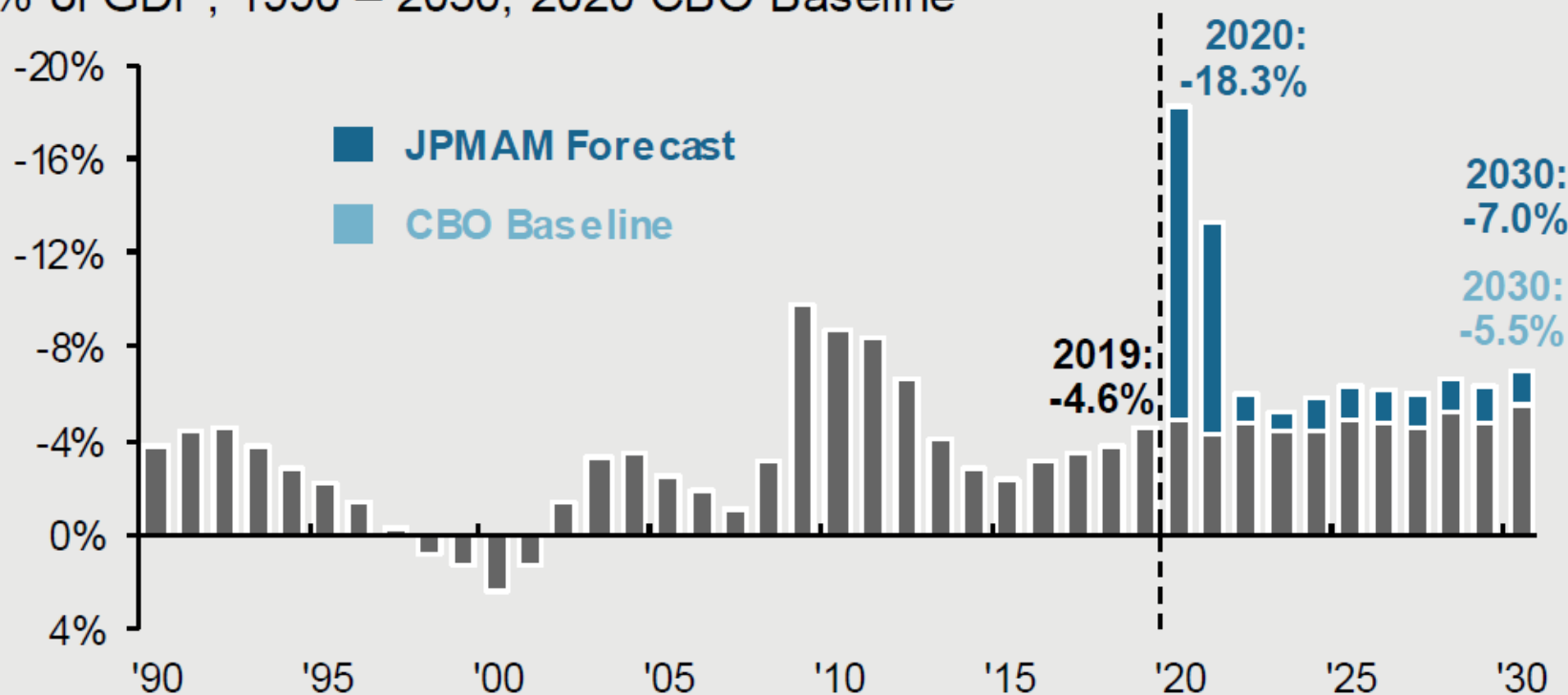
Source: JP Morgan Asset Management, BEA, NBER. Data as of 6/30/20



# Unprecedented Fiscal Support in U.S.

## Federal budget surplus/deficit

% of GDP, 1990 – 2030, 2020 CBO Baseline



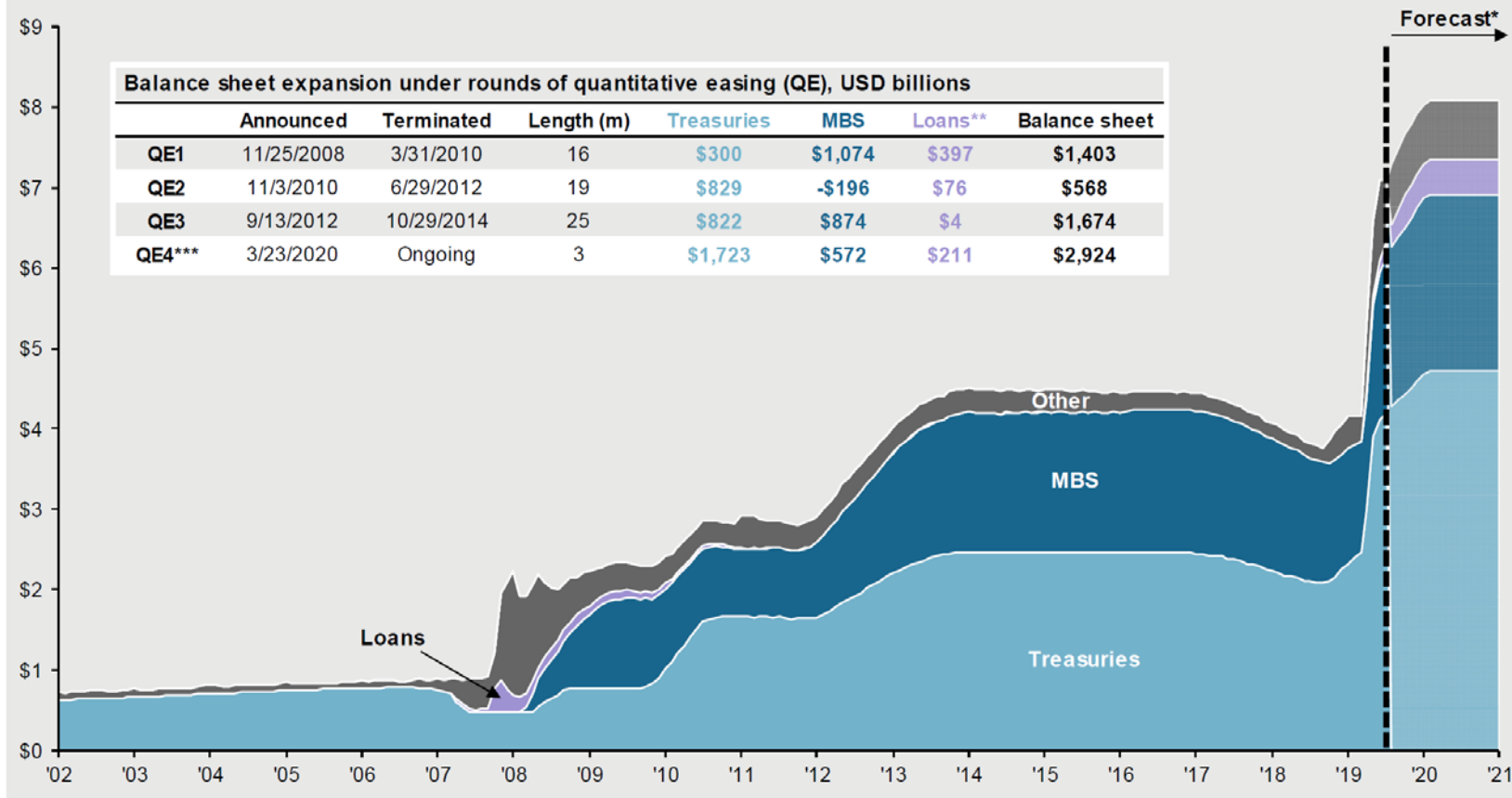
Source: JP Morgan Asset Management, CBO. Data as of 6/30/20



# Unprecedented Fed Support

## The Federal Reserve balance sheet

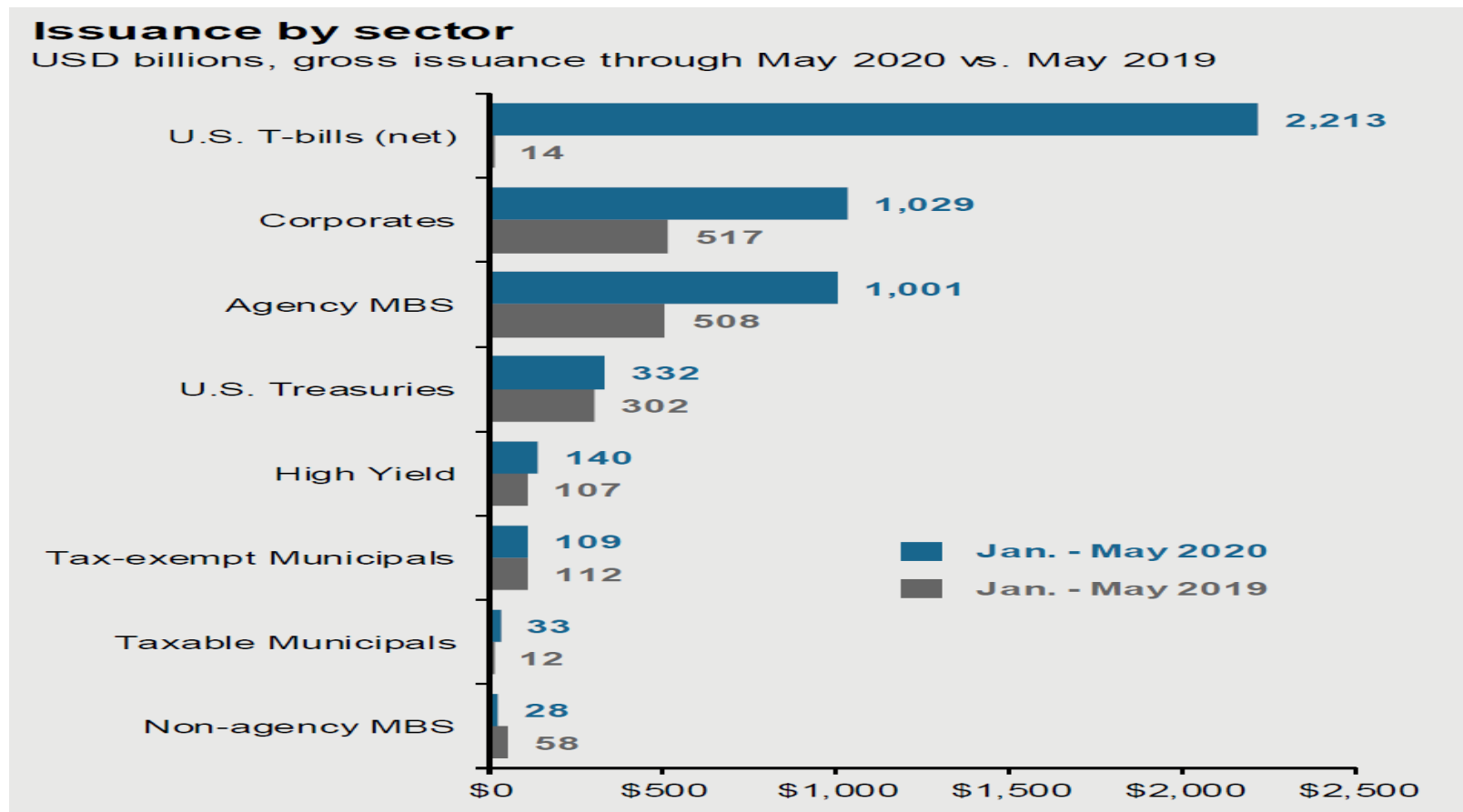
USD trillions



Source: JP Morgan Asset Management, Federal Reserve. Data as of 6/30/20



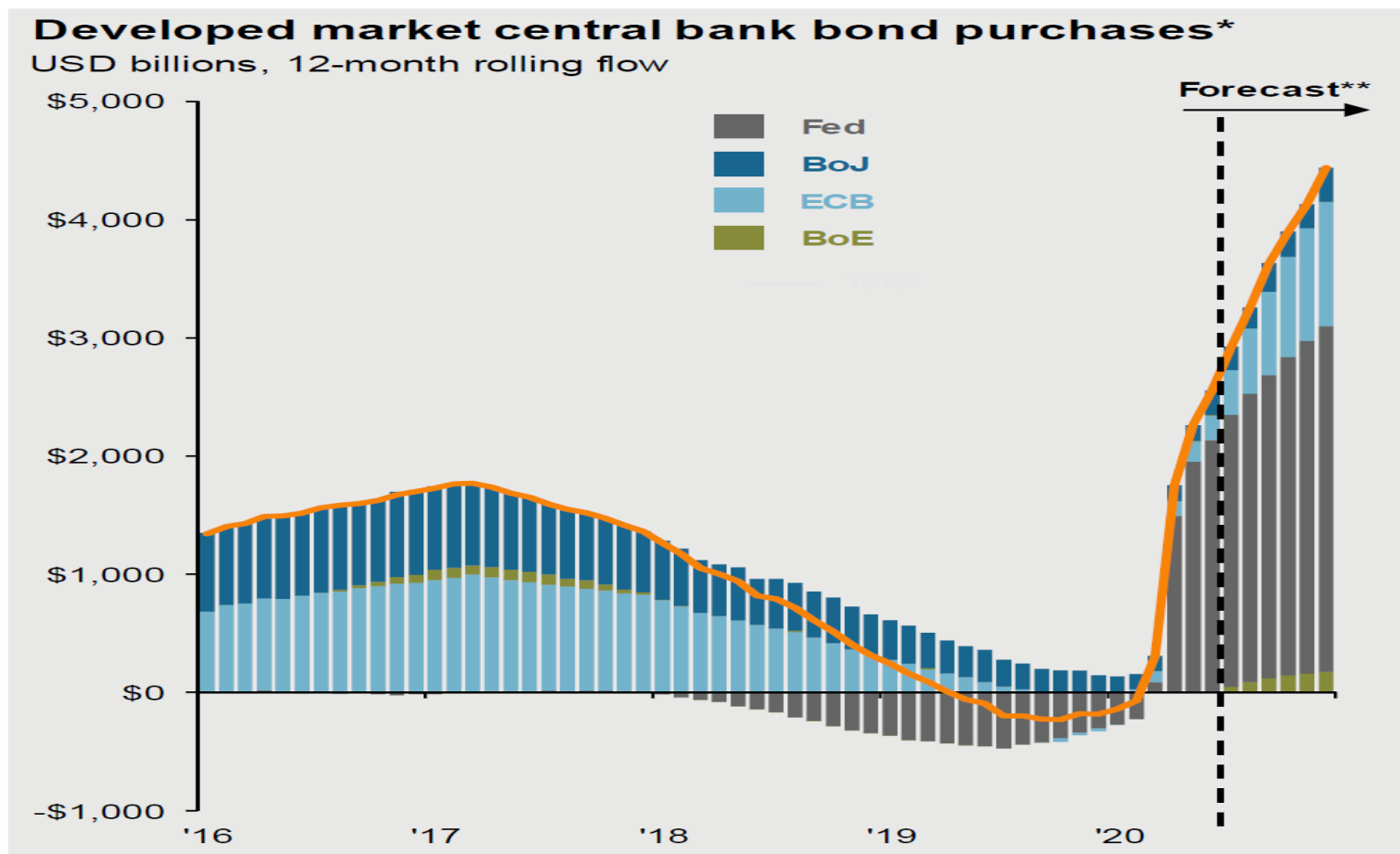
# Massive Debt Issuance in U.S.



Source: JP Morgan Asset Management, Bloomberg. Data as of 5/30/20



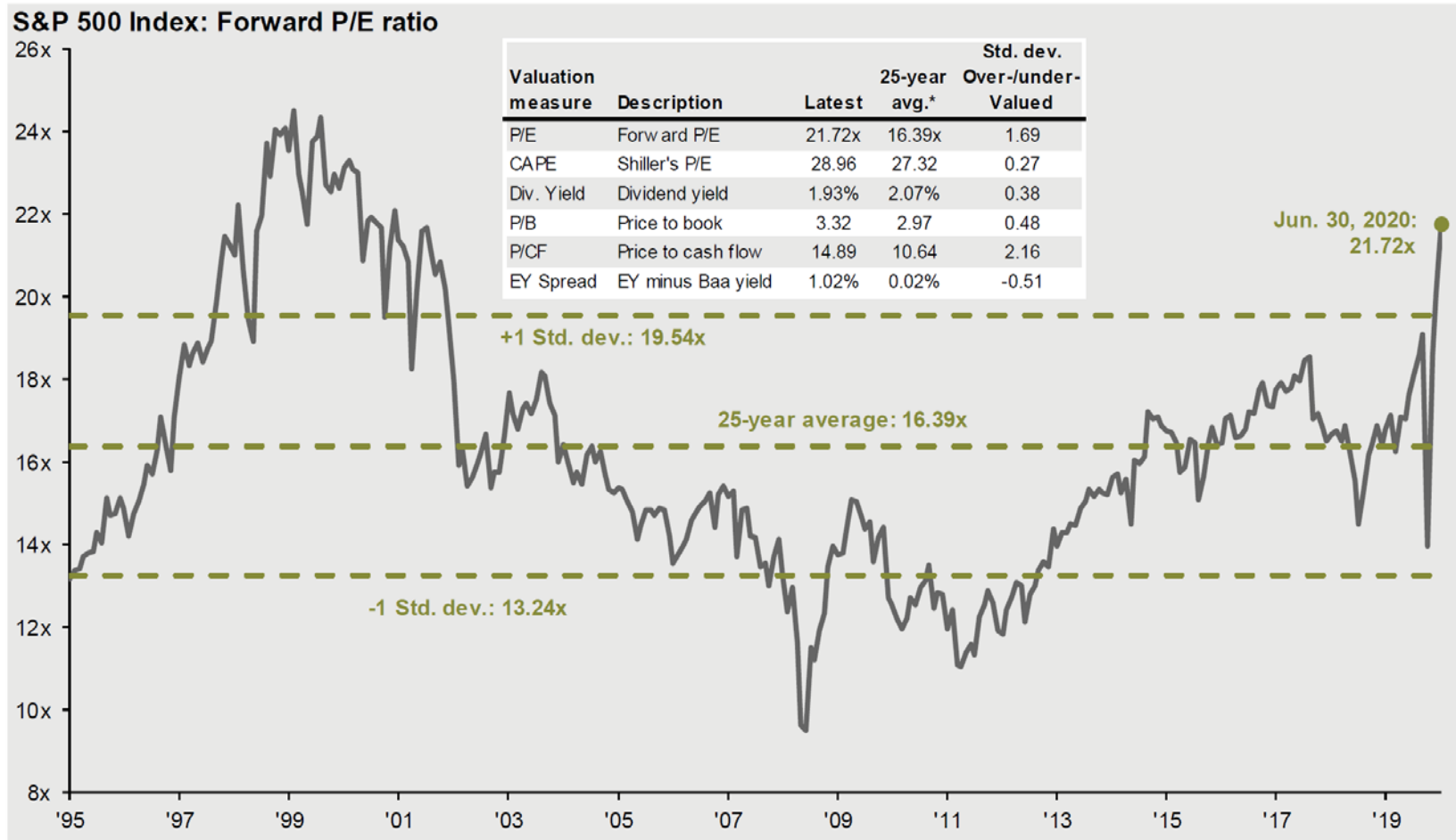
# Massive Coordinated Central Bank Purchases



Source: JP Morgan Asset Management, Federal Reserve, Bank of Japan, European Central Bank, Bank of England. Data as of 6/30/20



# Historically High Valuation



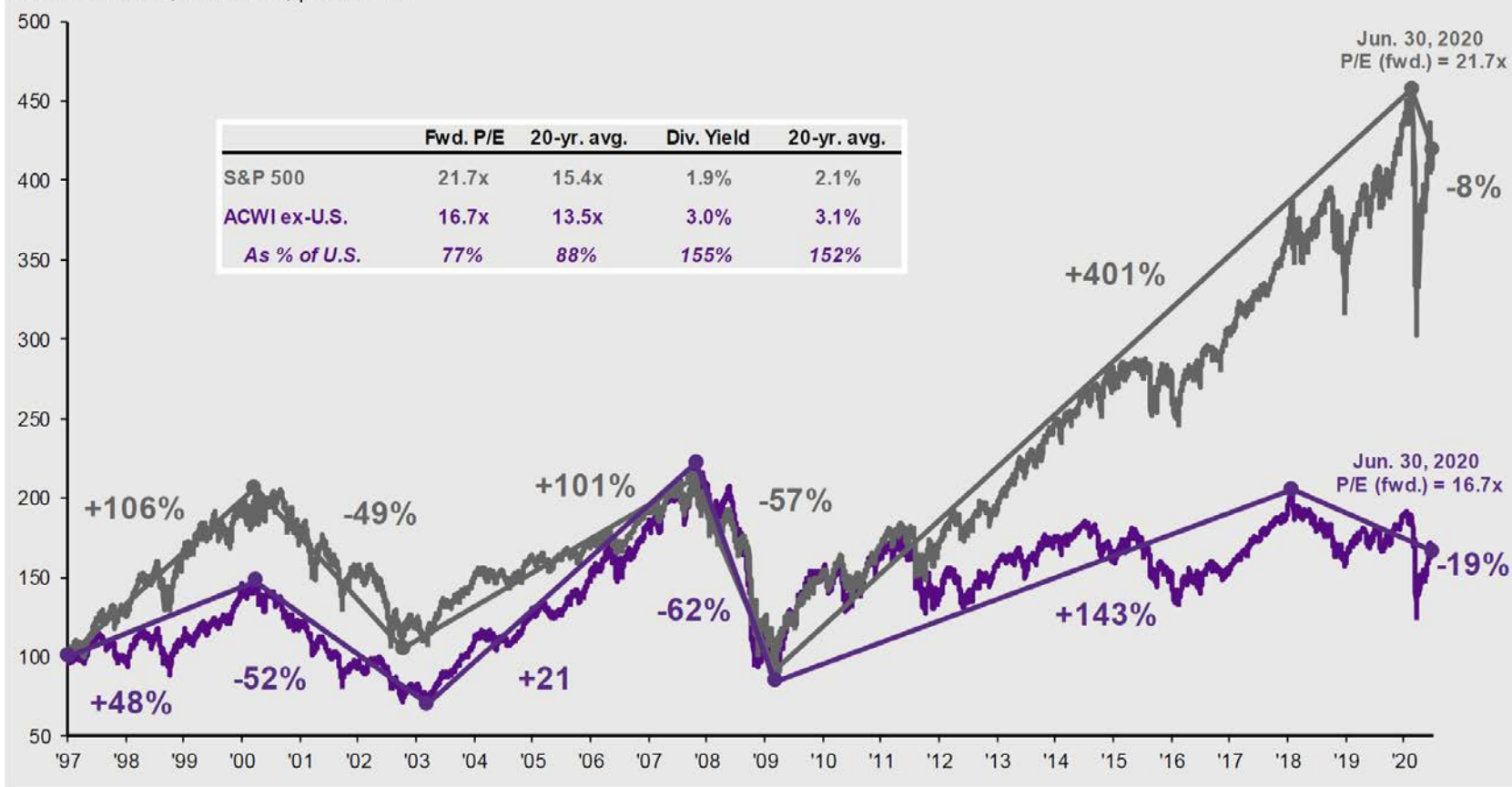
Source: JP Morgan Asset Management, Thomson Reuters, Federal Reserve Bank, S&P, Robert Schiller. Data as of 6/30/20



# Historically High Performance Gap

## MSCI All Country World ex-U.S. and S&P 500 Indices

Dec. 1996 = 100, U.S. dollar, price return

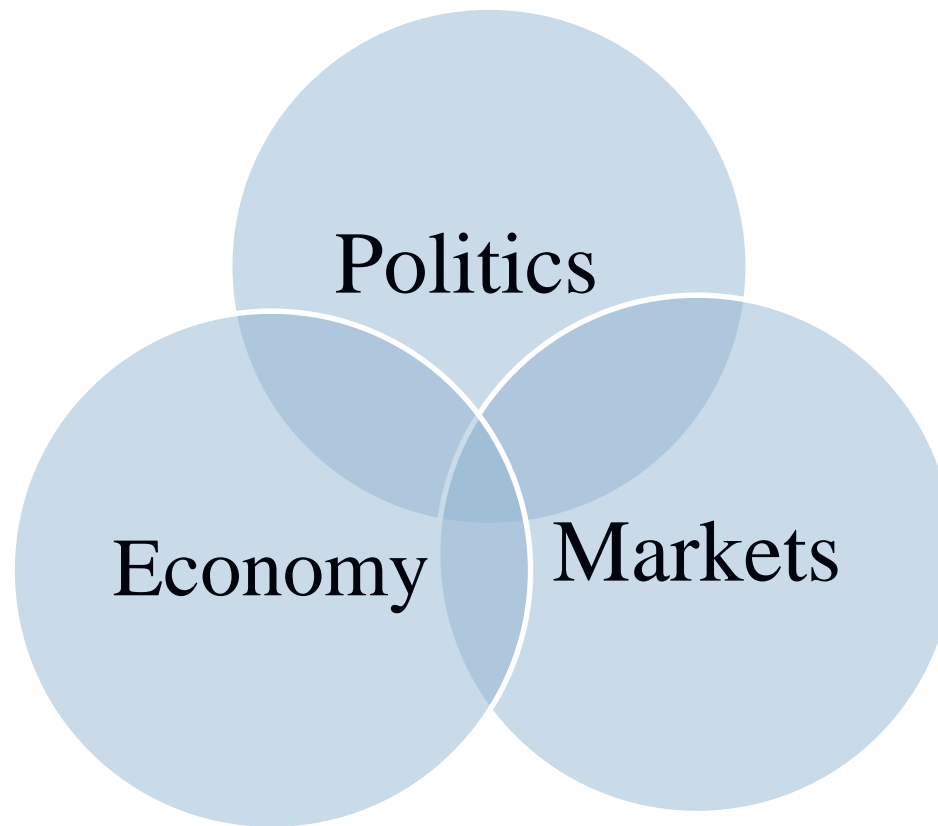


Source: JP Morgan Asset Management, Compustat, Factset Federal Reserve, S&P. Data as of 6/30/20



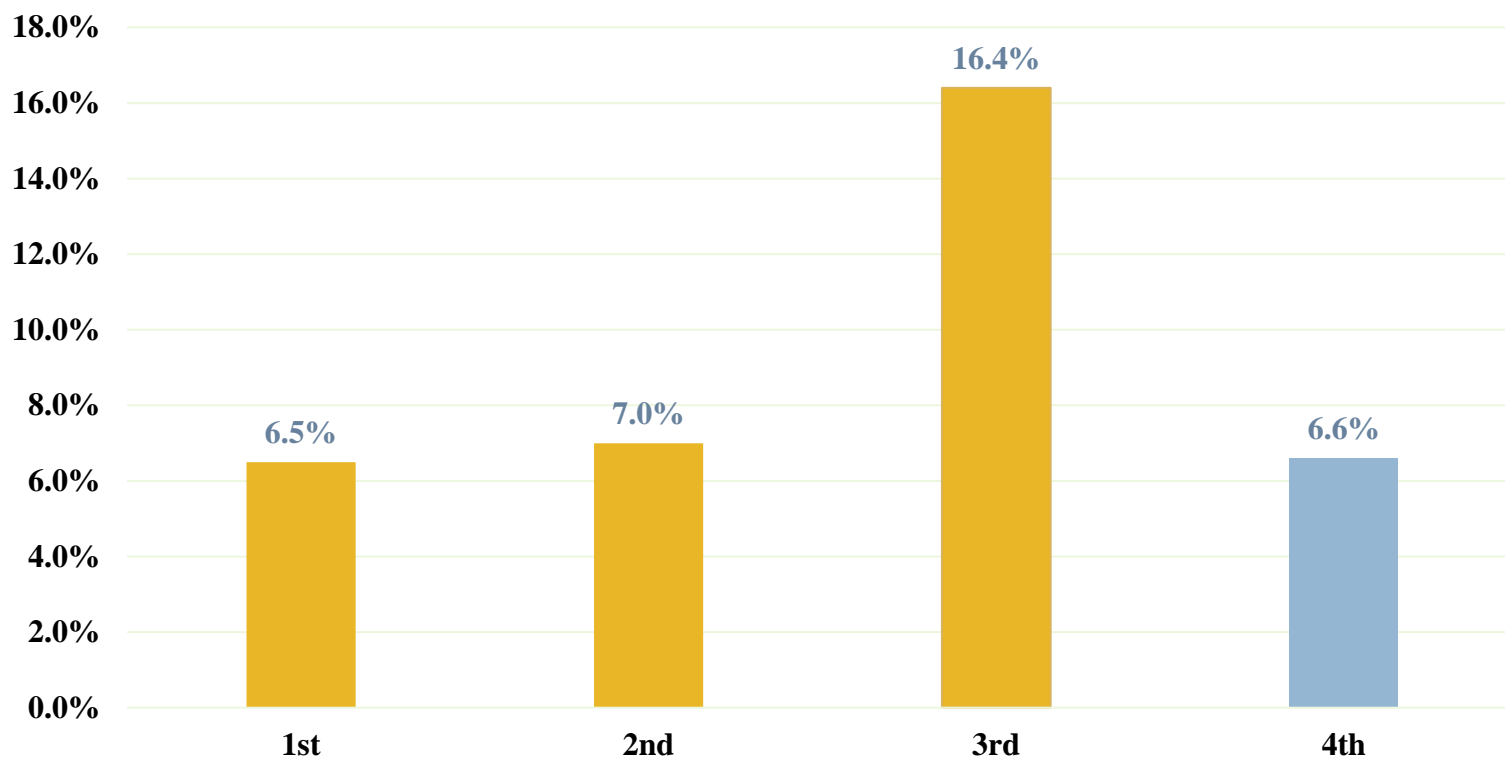


# Allow History To Help Guide Your Investment Strategy - - - Not Current Politics or Economic Data



# The Presidential Cycle and Stock Returns

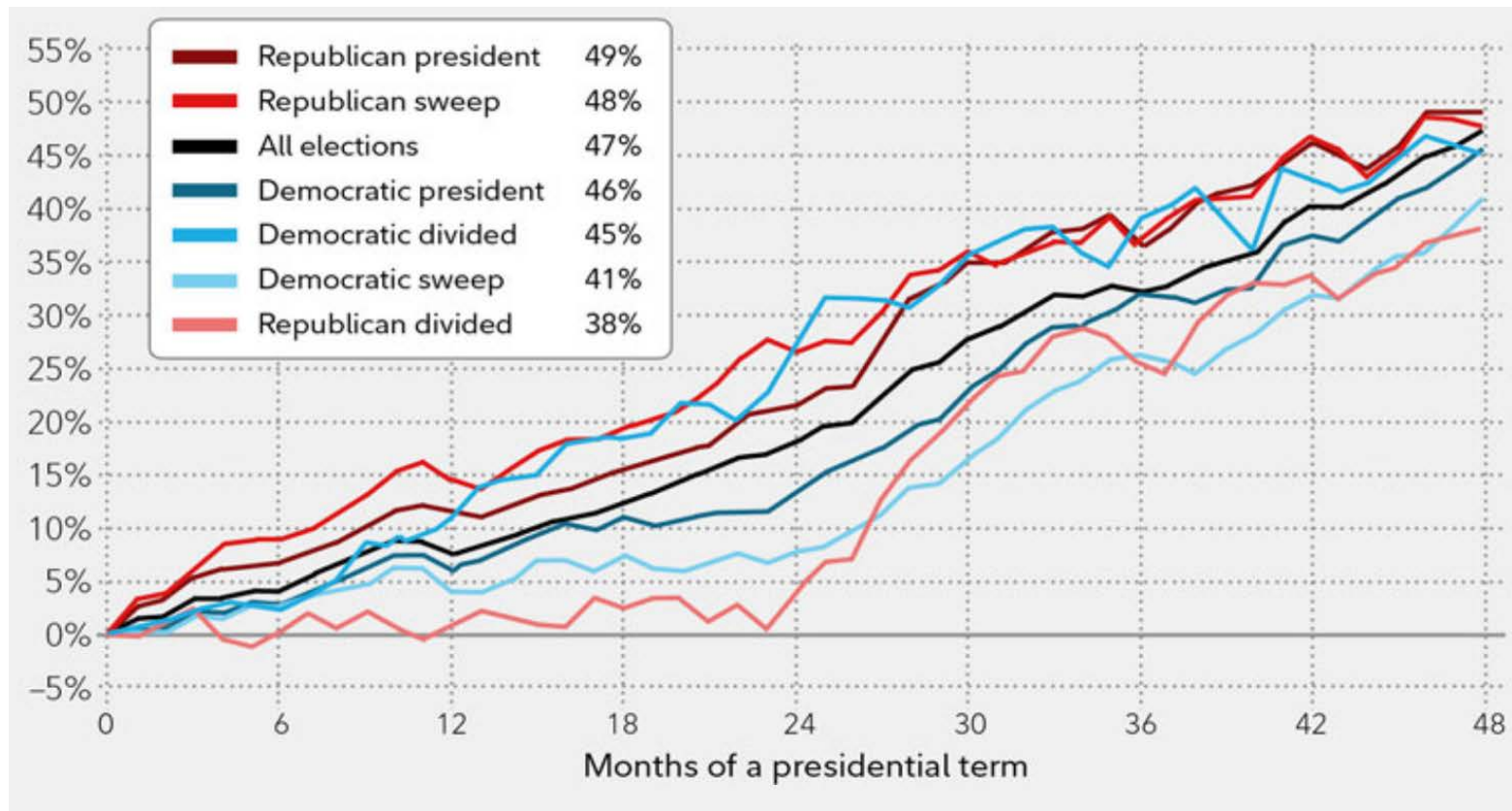
## Years of a Presidential Cycle



Source: Charles Schwab. Data goes back to 1950.



# All Presidential Elections



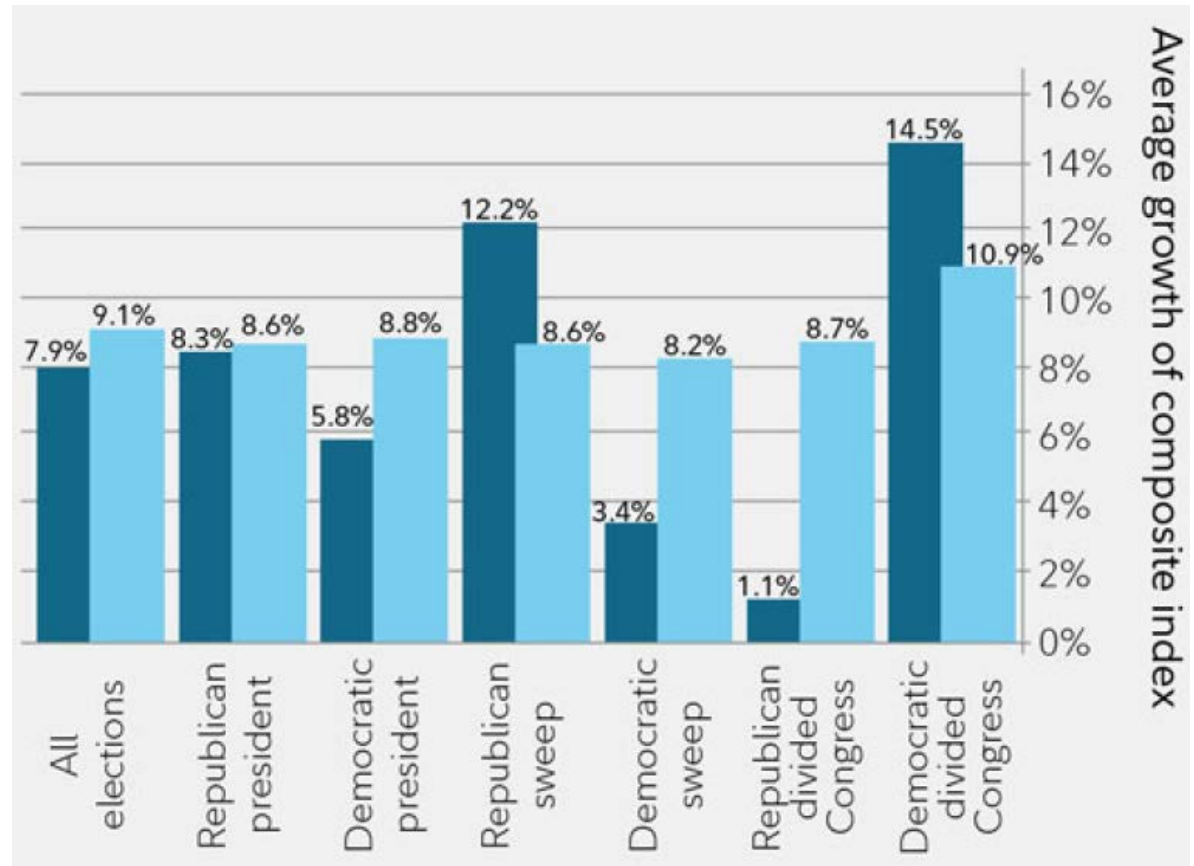
Source: Fidelity. Data goes back to 1789.



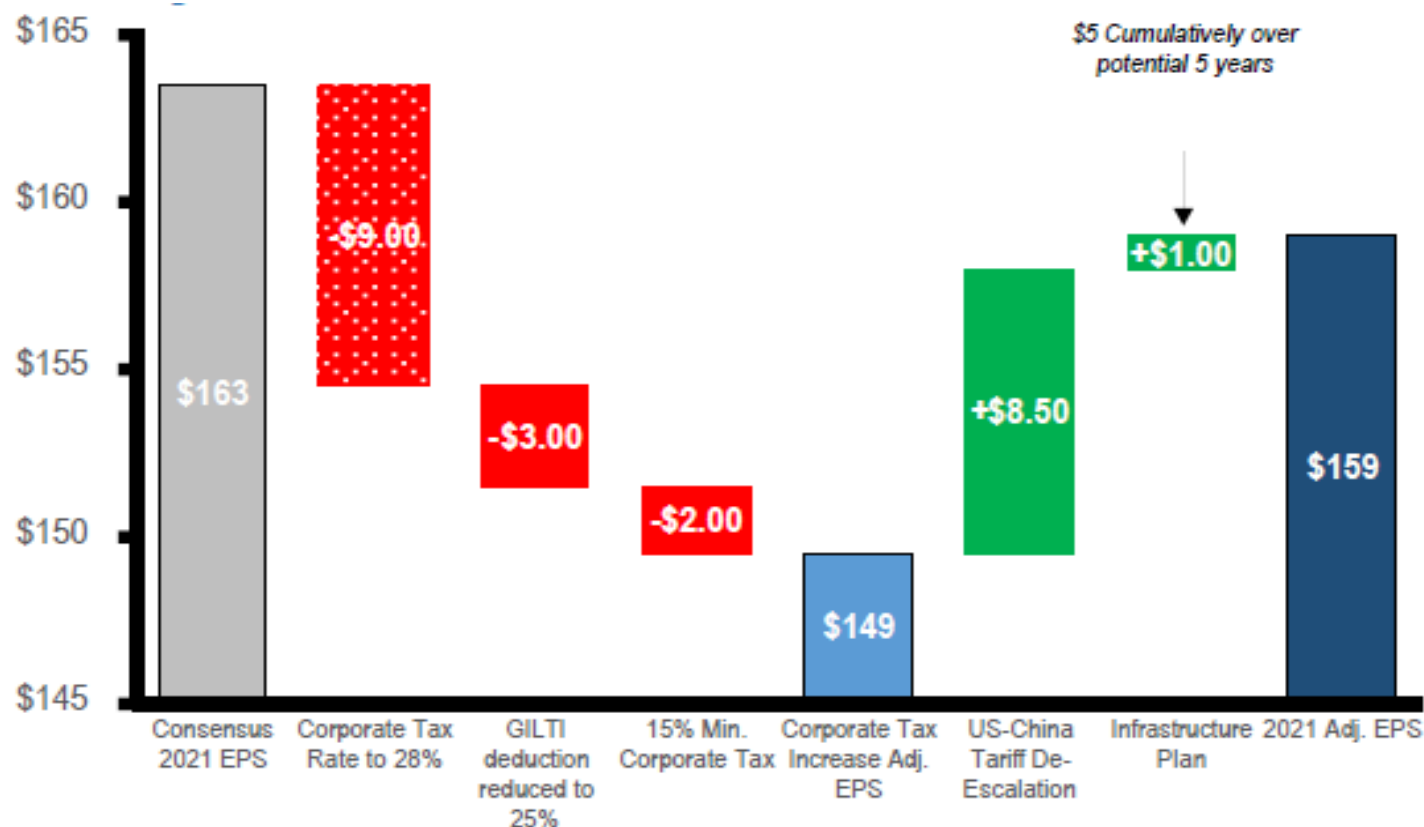
# Election Scenarios and Stock Returns

**Dark Blue –**  
returns 2 years  
after presidential  
election

**Light Blue –**  
returns for 4 years  
after presidential  
election



# Estimated Affect of Biden Tax Policy on S&P Earnings



Source: JP Morgan



# *SilverOak Updates and Important Reminders*



# SilverOak Updates

- **Tax season has been completed!**
- **Continuing to work under our business continuity plan**
- **SilverOak's global optimization project completed**
- **Several adjustments being made to IQSS<sup>tm</sup> list**
- **Behavioral finance white paper to be released soon**



# Reminders

- **Review your estate planning documents**
- **Compile mid-year tax projections**
- **2020 RMDs are not required**
  - RMDs processed earlier in the year can be reversed, if completed by August 30<sup>th</sup>

**Wear Your Face Mask!**





*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)

