SilverOak

WEALTH MANAGEMENT LLC

Third Quarter 2022 Market Summary

3600 Minnesota Drive
Suite 860
Edina, MN 55435

Phone: 952-896-5700

Visit us at
silveroakwealth.com

Third Quarter 2022 Market Summary

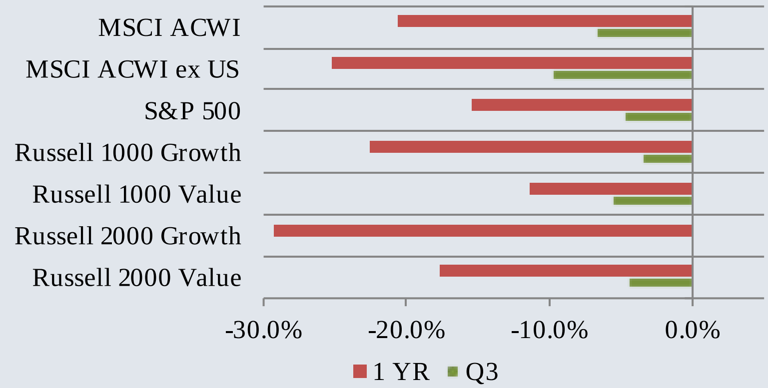
The impact of central bank monetary policy came to the forefront during the third quarter, with significant movement occurring across all financial asset classes. The Federal Open Market Committee (FOMC) raised the federal funds rate 75bps in July and another 75bps in September. In the last seven months, rates have increased 300bps, a rapid rise, especially relative to recent cycles. The magnitude of this move, which amounts to a 1,200% change, highlights the Fed's transition to a much more restrictive monetary policy spurred by its hyper-focus on reducing inflation. The Fed has sprinted from accommodative to neutral and now restrictive in very short order; much faster than the market had anticipated at the start of the year.

Not to be outdone, central banks around the world continue to raise their own interest rates. Restrictive monetary policy to combat inflation has had ramifications. This is evidenced by a recent string of monetary interventions by the central banks of England, Japan, and China to address instability in currency and asset prices in their respective markets. However, monetary policy lags and it will take time to ripple through the economy. Thus, macro data likely will continue to weaken. In many countries, including the U.S., economic indicators seem to suggest that, if an economic recession is not already upon us, it is certainly right around the corner. Growth has slowed, though just how soft or hard the landing will be remains to be seen. Likewise, the effect that any individual factor will have on the economy at large cannot be predicted with certainty. If the global economy were a machine, central bankers could simply pull the correct levers and push the right buttons to get growth and inflation back on track. However, with billions of individual consumers, unforeseeable macro events and ever-evolving government policy, the "machine" is unfathomably complex and difficult to operate with any confidence.

The summer saw a brief rebound in risk assets from their mid-June low, as the overall U.S. equity market appreciated roughly 20% through mid-August in anticipation of an inflation roll over and a subsequently less-aggressive Federal Reserve. However, after the Fed reiterated their commitment to current policy during their August summit in Jackson Hole, the market faded back to prior downward trends. Thus, the third quarter saw negative stock market returns across the board, as shown in the chart below. Fixed income markets had a third consecutive quarter of negative returns. The Bloomberg U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 4.8% during the quarter as interest rates increased.

Commodities and gold, diversifiers that people may gravitate toward while looking for inflation protection, are down roughly 20%+ from their peak earlier in the year. This actually could be a signal that inflation has peaked and may be turning down. The Consumer Price Index (CPI) has moved from 9.0% in June to 8.3% in August and could retreat faster than many expect if there is demand destruction due to a weak global economy. In a scenario where inflation falls, the Fed may look to be more accommodative and lower rates. This would likely lead to a reversal of many of the trends in assets classes over the past year. However, we do not anticipate the Fed changing course anytime soon without first seeing plenty of indicators pointing to prolonged lower inflation.

Broad Market Index Returns
Third Quarter 2022



The current year-to-date returns for diversified portfolios may have some investors revisiting the pains of the Great Financial Crisis and the dot-com bubble. More conservative portfolios may actually be feeling worse due to negative year-to-date performance bonds have experienced, which is in strong contrast to past recessionary periods when bonds have been protective, and in many cases additive, to returns.

Third Quarter 2022 Market Summary (continued)

The table below highlights this narrative:

Stock/Bond Portfolios	2022 YTD	Great Financial Crisis	Dot-Com Bubble
(Equities: S&P 500 TR, Fixed Income: Bloomberg U.S. Agg. Bond TR)	1/1/2022 to 9/30/2022	2008	2000-2002
100% Fixed Income	-14.6%	5.2%	33.5%
20% Equities, 80% Fixed Income	-16.5%	-3.2%	16.4%
40% Equities, 60% Fixed Income	-18.3%	-11.7%	0.9%
60% Equities, 40% Fixed Income	-20.2%	-20.1%	-13.3%
80% Equities, 20% Fixed Income	-22.0%	-28.6%	-26.1%
100% Equities	-23.9%	-37.0%	-37.6%

However, if we view the current numbers through a future-focused lens, a more encouraging vision can be seen. Fixed income managers are finding compelling value as bonds are more attractive now than they have been in years. Current yields should lead to positive returns over the coming years as interest rates are correlated with future returns. Many bonds trade at a discount to par, interest rates are higher and credit spreads are above historical averages.

On the equity side, the market has declined significantly year-to-date. When we look at past periods with similar declines, there is light at the end of the tunnel even if there is the potential for further downside in the short-term. Markets tend to look forward 6-12 months and they usually begin recovering in advance of the economy doing so. Below is a table that shows past periods when the market has declined 25%+, and the subsequent performance over different periods.

Start Date	End Date	S&P 500 Change	Date Passed Decline Of At Least 25%	Further Decline To Bottom	Forward Return From At Least 25% Down Date:			
					1 Year	3 Years	5 Years	10 Years
12/12/1961	6/26/1962	-28.0%	6/14/1962	-3.7%	29.3%	54.6%	70.1%	99.5%
11/29/1968	5/26/1970	-36.1%	4/28/1970	-13.7%	30.5%	33.3%	7.4%	31.6%
1/11/1973	10/3/1974	-48.2%	4/25/1974	-30.5%	-3.3%	8.5%	14.4%	77.1%
8/25/1987	12/4/1987	-33.5%	10/19/1987	-0.4%	23.2%	39.0%	84.6%	325.0%
3/24/2000	9/21/2001	-36.8%	3/20/2001	-15.5%	0.8%	-4.1%	14.2%	13.6%
1/4/2002	7/23/2002	-32.0%	7/19/2002	-5.9%	15.5%	45.0%	83.2%	62.4%
10/9/2007	3/9/2009	-56.8%	9/17/2008	-41.5%	-7.9%	4.1%	47.4%	149.8%
2/19/2020	3/23/2020	-33.9%	3/12/2020	-9.8%	59.0%	?	?	?
1/3/2022	?	?	9/30/2022	?	?	?	?	?

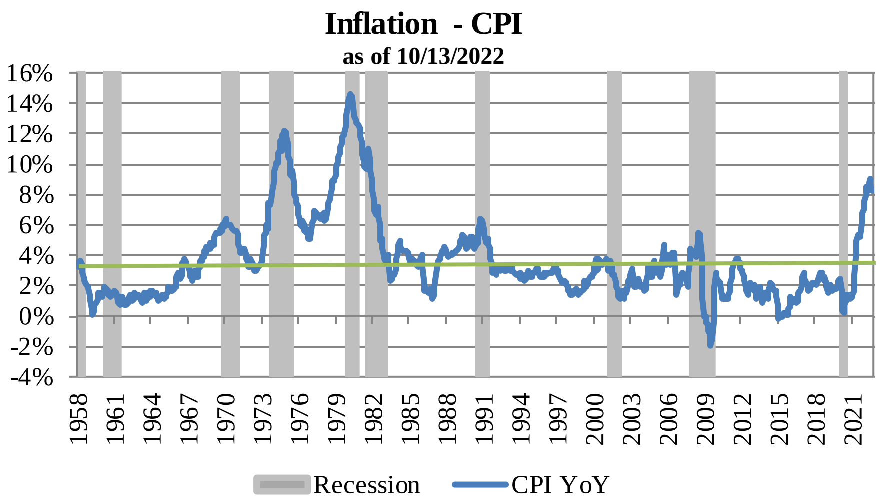
Past performance is not indicative of future results. Cumulative price change only. All returns are shown in U.S. dollars. Source: S&P Dow Jones

For as long as markets have existed, people have looked for secret patterns or insights that will allow them to predict future performance. Given the countless and ever-shifting variables at play, it's not possible for anyone to boil the data down into a single model that will generate consistently accurate predictions. For example, it is true, that historically, the stock market has never bottomed-out while the Fed was raising rates. However, there is nothing that guarantees the same thing will happen in the future. The market is not beholden to past patterns and relationships. We can only reasonably comment that market bottoms typically occur amidst negative headlines, fearful investors and weak lagging indicators. As the old Wall Street proverb goes, "Nobody rings a bell at the top or the bottom of a market."

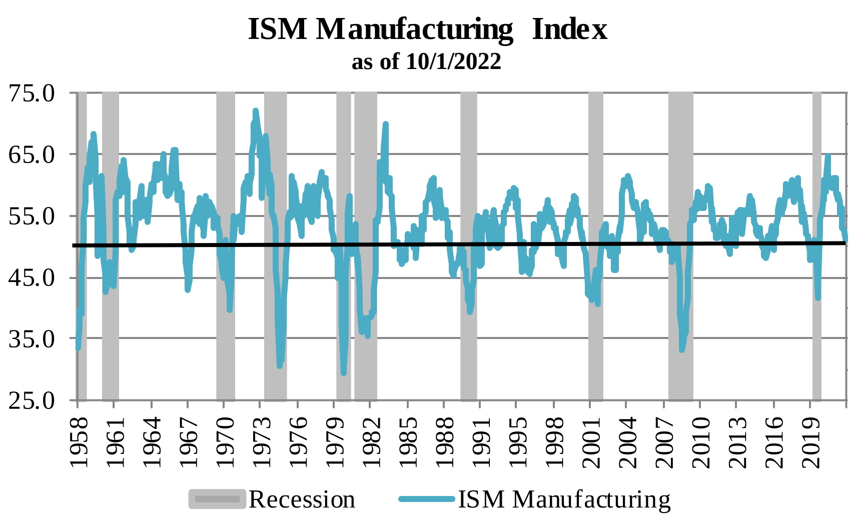
While many aspects of the market are unpredictable, investors can always control their own response to market changes. Volatility tends to rise and cluster during bear markets. Therefore, maintaining a long-term focus on investments is key. Remember, the market's best days often come closely after the market's worst days. Though it is natural to try and flee to safety during rough patches, in doing so, you will likely lock in losses and miss important accumulation days. Other tools such as tax-loss harvesting, portfolio rebalancing and maintaining cash reserves can help mitigate the sting of volatility. Above all, maintaining perspective is essential. The market is cyclical, so virtually everyone will experience multiple recessions and even severe bear markets during their investing time horizon, just as they will also see economic recoveries and bull markets that far exceed bear market losses. There are many risks in the markets and economy. However, one of the biggest risks is abandoning a long-term plan, especially during a bear market. Whether we are currently halfway or nearing the end of the pain – there will be more prosperous gains in a recovery.

MACROECONOMICS

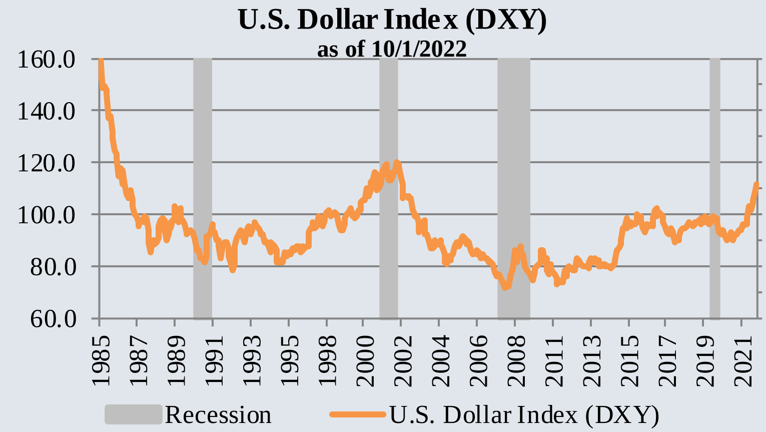
- The Bureau of Economic Analysis released the advanced estimate of third quarter 2022 real GDP, an annual rate increase of 2.6% from the preceding quarter.
- Inflation may be rolling over. In September, headline CPI increased 8.2% year-over-year, down from June. Core CPI, which excludes food and energy, had a 6.6% increase.



- The ISM Manufacturing Index declined during the quarter, finishing at 50.9 versus 53.0 in June. 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 slightly rose during the quarter and finished at 56.7 in September.

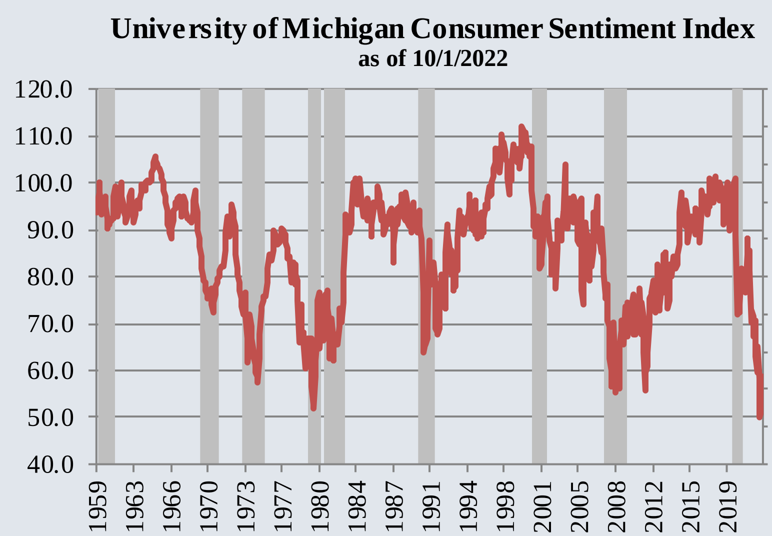


- In September, the Conference Board Leading Economic Index decreased 0.4% month-over-month to 115.9. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has declined over the past seven months.
- The U.S. dollar appreciated over the quarter and the past year.



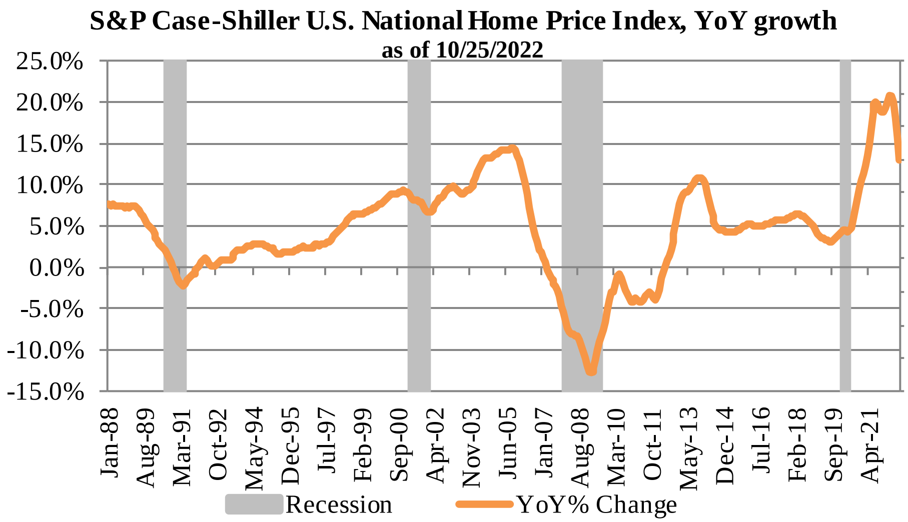
CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index September reading was 108.0, up slightly from 98.4 in June.
- The University of Michigan Consumer Sentiment Index final reading for September was 58.6, down significantly since the beginning of the year.

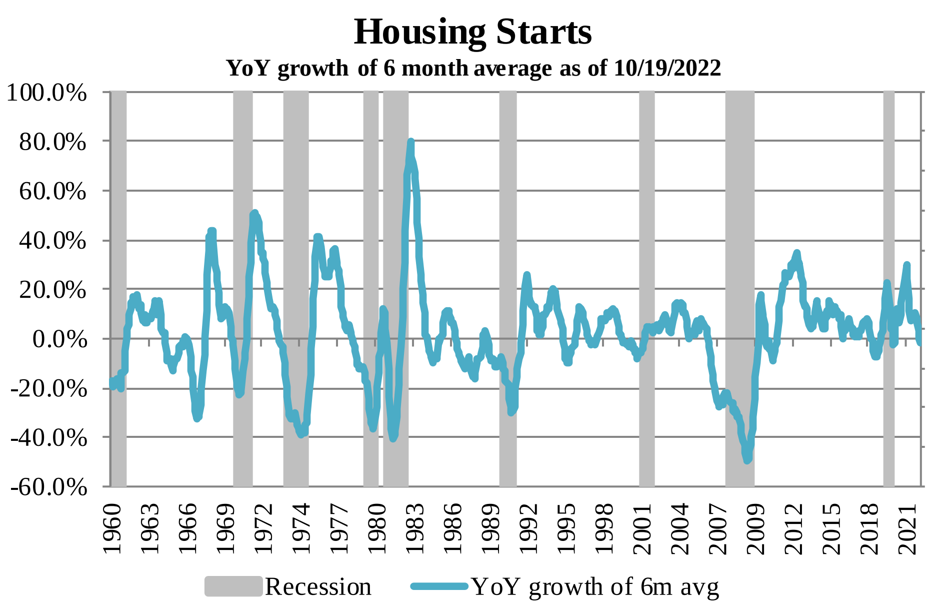


HOUSING

- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices rose 13.0% year/year in August. But, price growth has slowed in recent months.

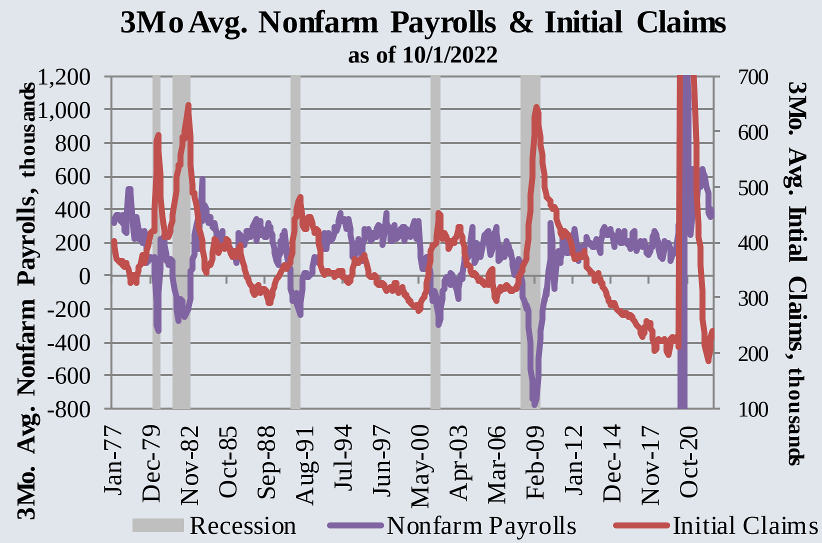


- Housing starts have stalled, in part, due to high commodity prices and short labor supply. Mortgage rates and home prices have increased significantly over the past year.

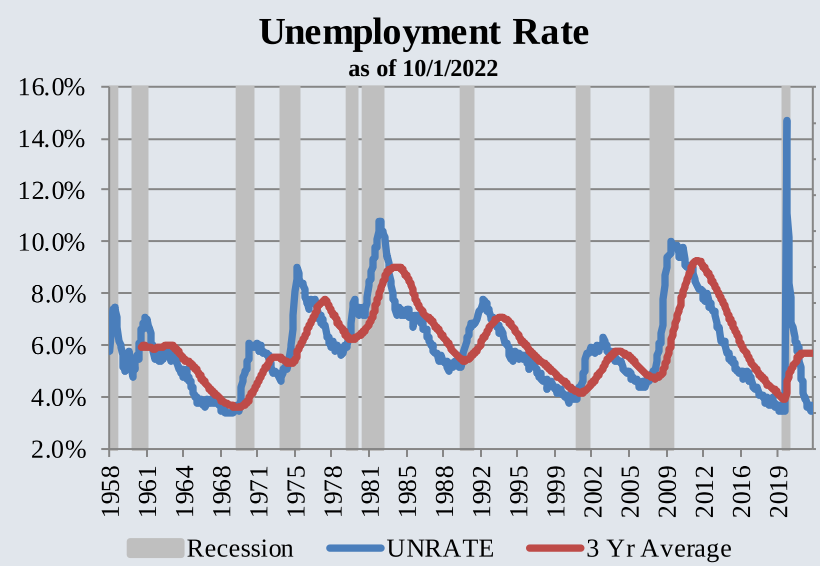


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 317,667 jobs added per month, while initial claims remain low.



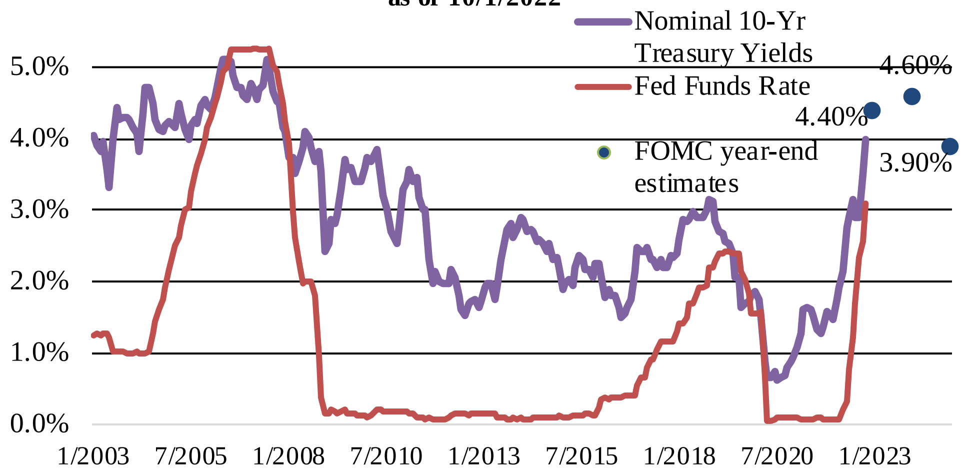
- The unemployment rate was roughly flat during the quarter at 3.5%.



FED POLICY

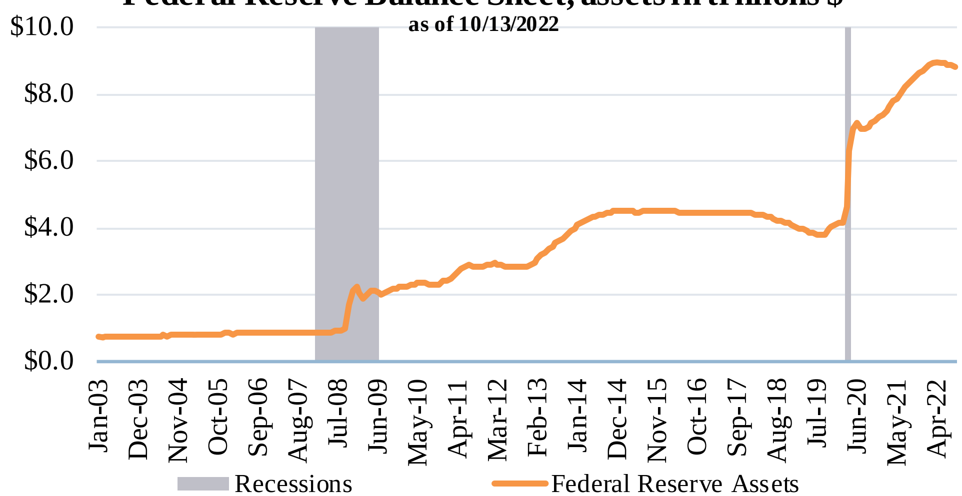
- The Federal Open Market Committee (FOMC) raised the federal funds rate 0.75% in July and another 0.75% in September. The Fed is expected to continue to raise rates throughout 2022 in an attempt to contain inflation.

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



- The Fed has started to reduce its holdings of Treasuries and agency MBS.

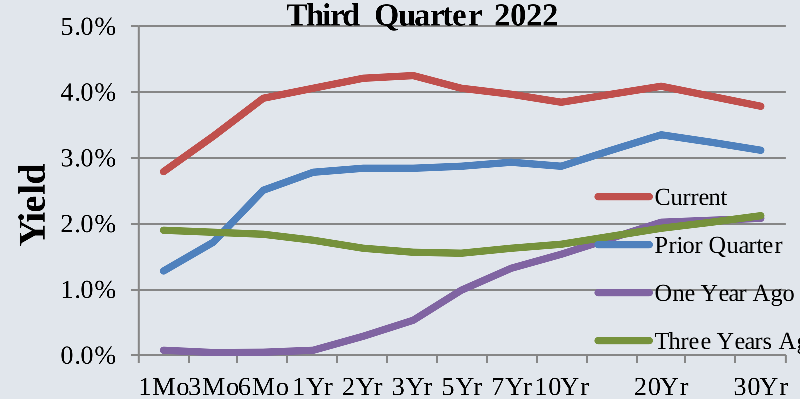
Federal Reserve Balance Sheet, assets in trillions $
as of 10/13/2022



FIXED INCOME

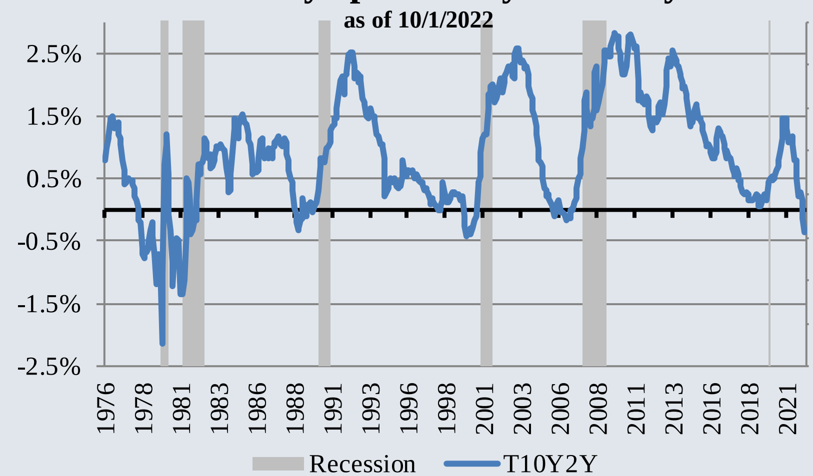
- Yields across the U.S. Treasury curve increased significantly during the quarter. Short-term rates rose more than long-term rates causing a flattening of the curve. Short-term interest rates are controlled or heavily influenced by central banks, where-as long term interest rates are affected by market forces and economic growth.

U.S. Treasuries Yield Curve
Third Quarter 2022



- The spread between short and intermediate-term Treasuries fell during the quarter to negative 34bps in September. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.

U.S. Treasury Spread 10-year vs. 2-year
as of 10/1/2022



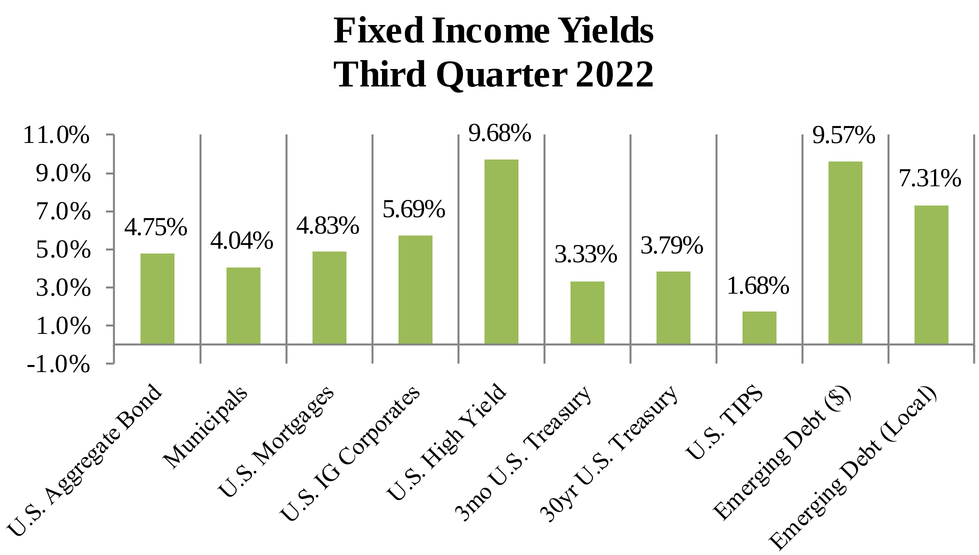
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 4.75%. Bonds with less interest rate risk, generally, performed better.

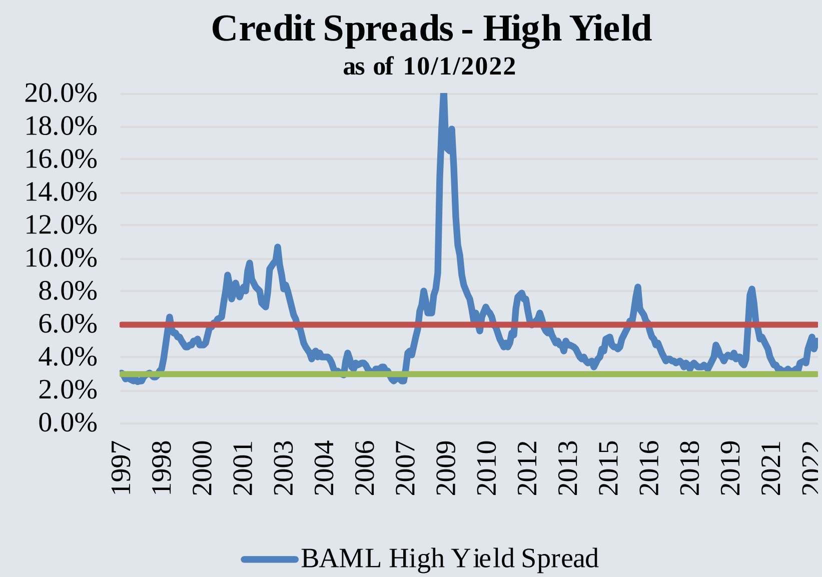
	3Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	-4.75%	-14.60%	-0.27%	0.89%
Municipals	-3.46%	-11.50%	0.59%	1.79%
U.S. Mortgages	-5.35%	-13.98%	-0.92%	0.51%
U.S IG Corporates	-5.06%	-18.53%	-0.03%	1.70%
U.S. High Yield	-0.65%	-14.14%	1.57%	3.94%
3mo U.S. Treasury	0.46%	0.62%	1.16%	0.70%
30yr U.S. Treasury	-10.36%	-28.27%	-1.98%	0.17%
U.S. TIPS	-5.14%	-11.57%	1.95%	0.98%
Emerging Debt ($)	-4.57%	-24.28%	-2.62%	1.08%
Emerging Debt (LCL)	-4.73%	-20.63%	-3.92%	-2.43%

Bloomberg and JP Morgan Indices

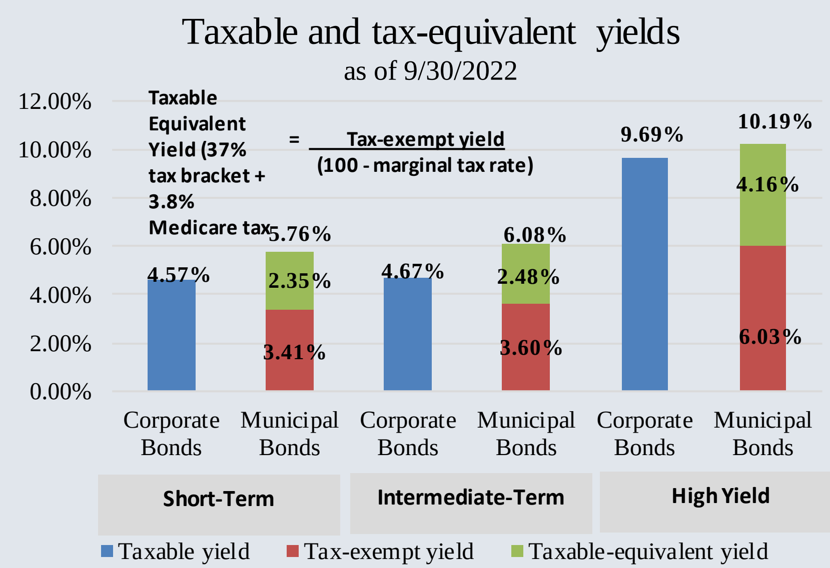
- Yields rose significantly in the third quarter and now are at more attractive levels.



- Credit spreads remained near historical averages during the quarter.



- Municipals have become more attractive relative to taxable bonds on an after-tax basis over the past few months.



DOMESTIC EQUITIES

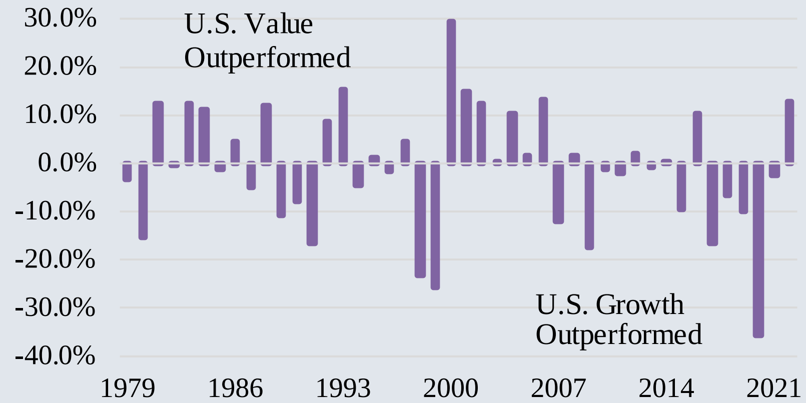
Third Quarter 2022 Returns			
	Value	**Core**	**Growth**
Mega Cap		-5.5%	
Large Cap	-5.6%	-4.6%	-3.6%
Mid Cap	-4.9%	-3.4%	-0.7%
Small Cap	-4.6%	-2.2%	0.2%
Micro Cap	-2.2%	-0.5%	2.1%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a negative total return of 4.6% during the third quarter. On a year-over-year basis, the Russell 1000 Index has decreased 17.2%.
- Small capitalization stocks, as represented by the Russell 2000 Index, decreased 2.2% during the third quarter. On a year-over-year basis, the index has decreased 23.5%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	3Q 22 Return	1-Yr Return	10-Yr Return
Energy	4.5%	7.8%	1.6%	2.3%	45.7%	3.5%
Materials	2.5%	4.1%	1.4%	-7.1%	-12.1%	8.6%
Financials	11.0%	20.0%	3.0%	-3.1%	-17.6%	11.4%
Industrials	7.9%	10.0%	7.2%	-4.7%	-13.9%	10.4%
Cons. Disc.	11.7%	6.0%	17.1%	4.4%	-20.9%	13.2%
Technology	26.4%	8.8%	42.9%	-6.2%	-20.0%	17.1%
Comm. Services	8.1%	8.0%	7.4%	-12.7%	-39.1%	3.8%
Real Estate	2.8%	4.8%	1.6%	-11.0%	-16.4%	7.8%
Health Care	15.1%	17.3%	12.2%	-5.2%	-3.4%	13.7%
Cons. Staples	6.9%	7.2%	5.7%	-6.6%	-0.1%	9.5%
Utilities	3.1%	6.0%	0.0%	-6.0%	5.6%	9.8%
S&P 500 Index	100.0%	100.0%	100.0%	-4.9%	-15.5%	11.7%

- During the quarter, Energy and Consumer Discretionary were the only sectors with positive performance. Over the past year, there has been more dispersion of returns.

U.S. Value vs. Growth Relative Equity Performance (as of 9/30/22)

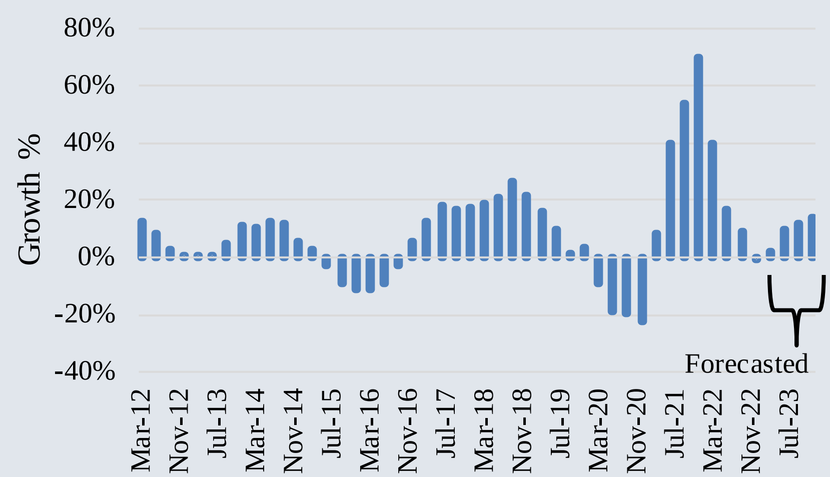


Russell 1000 Value TR vs. Russell 1000 Growth TR

- During the quarter, Value outperformed Growth. Growth has outperformed for eleven out of the past fifteen years during which interest rates and inflation were generally low.

S&P 500 Earnings Growth

Trailing 12-Month Operating Earnings Growth YoY
(as of 9/30/2022)



- Corporate earnings growth has slowed in 2022, but analysts are expecting growth to rebound in 2023.

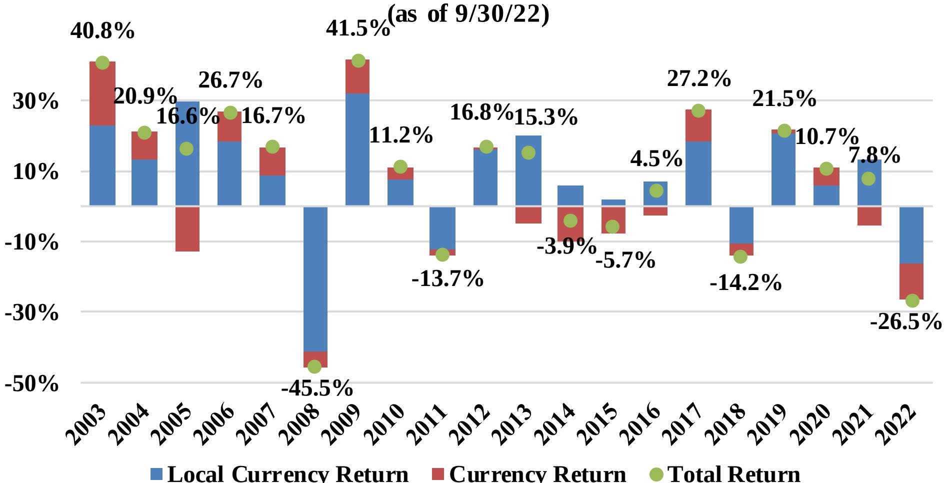
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were down 9.4% during the quarter and down 25.1% on a year-over-year basis.
- Emerging market stocks outperformed developed markets during the third quarter as the MSCI Emerging Markets Index was down 11.6%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of negative 28.1%.

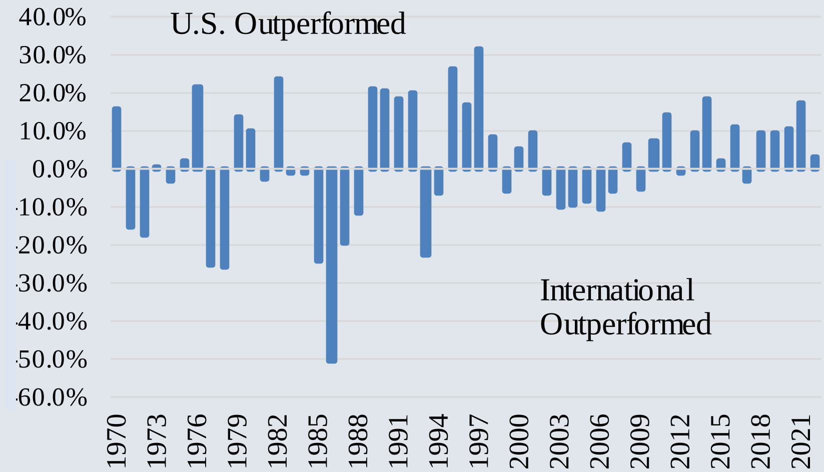
	3Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	-6.8%	-20.7%	4.4%	7.3%
World Ex-US	-9.9%	-25.2%	-0.8%	3.0%
EAFE	-9.4%	-25.1%	-0.8%	3.7%
Europe	-10.1%	-24.8%	-1.2%	3.4%
Japan	-7.7%	-29.3%	-0.6%	4.8%
Pacific Ex-Japan	-8.8%	-18.8%	0.6%	2.9%
Emerging Markets	-11.6%	-28.1%	-1.8%	1.0%
EM (Asia)	-14.0%	-29.5%	-1.1%	3.1%
EM (Latin America)	3.6%	0.2%	-2.6%	-2.3%
EM (Eastern Europe)	-22.3%	-88.1%	-29.1%	-16.1%

- The U.S. dollar appreciated the past year, detracting 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 9/30/22)



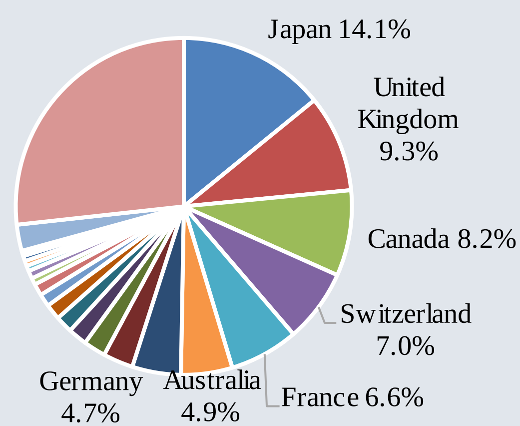
U.S. vs. International Equity Performance (as of 9/30/22)



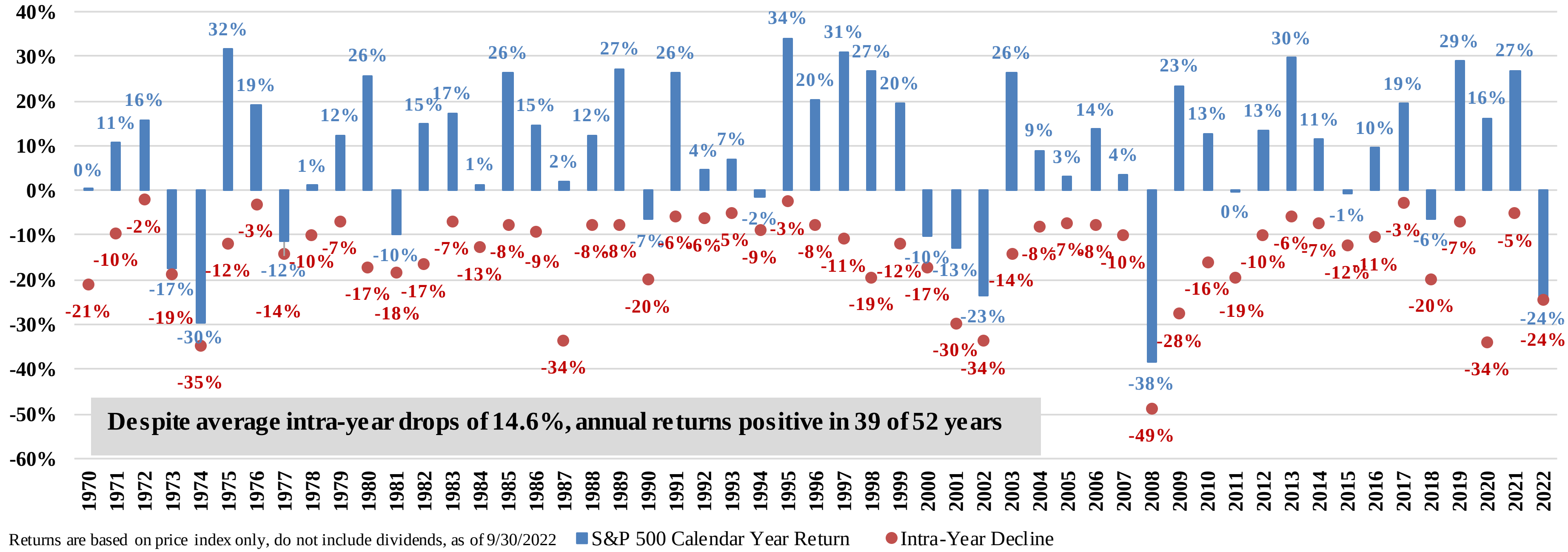
S&P 500 TR vs. MSCI EAFE NR

- During the quarter, International equities performed worse than 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 9/30/2022)

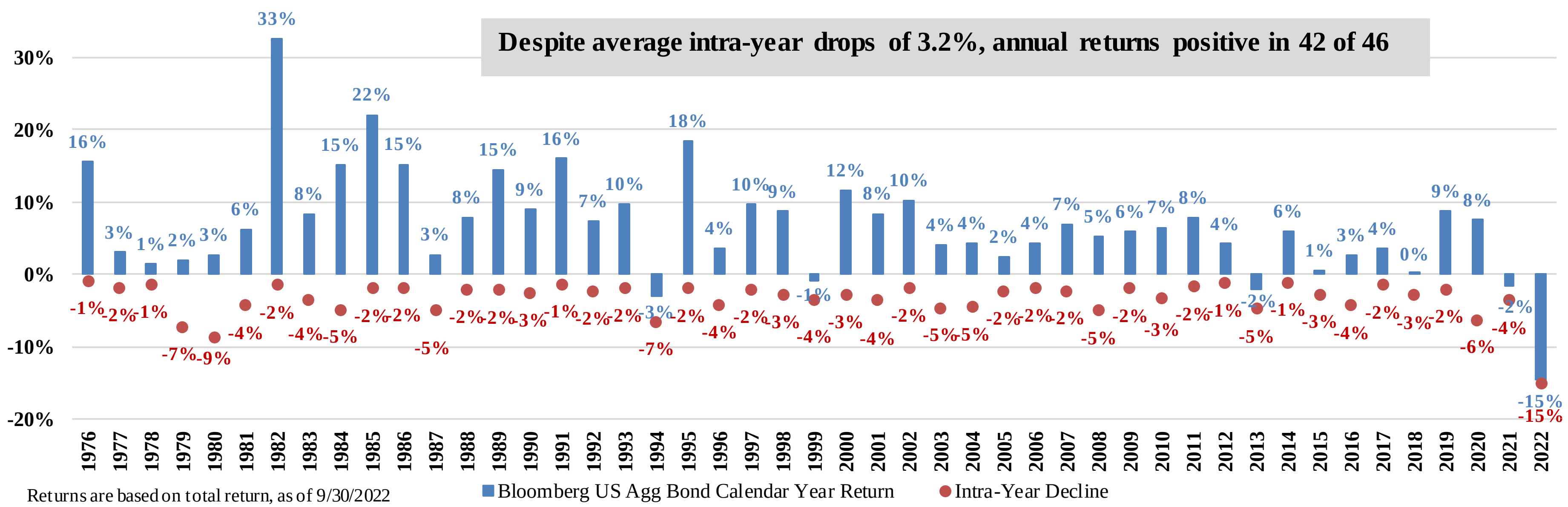


S&P 500 intra-year declines vs. calendar year returns



Returns are based on price index only, do not include dividends, as of 9/30/2022

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



Returns are based on total return, as of 9/30/2022

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD	10-yrs '12-'21 Return	10-yrs '12-'21 Volatility
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%	Commodities 13.6%	Large Cap 16.6%	Small Cap 17.8%
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%	Cash 0.6%	Small Cap 13.2%	Emerging Markets 16.4%
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%	Fixed Income -14.6%	Real Estate 12.2%	Real Estate 14.9%
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 -19.1%	Asset Allocation 8.8%	International 14.1%
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%	High Yield -19.1%	International 8.5%	Commodities 13.3%
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%	Large Cap -23.9%	High Yield 6.3%	Large Cap 13.1%
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%	Small Cap -25.1%	Emerging Markets 5.9%	Asset Allocation 8.6%
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%	International -26.8%	Fixed Income 2.9%	High Yield 7.6%
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%	Emerging Markets -26.9%	Cash 0.6%	Fixed Income 3.0%
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%	Real Estate -27.9%	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 9/30/2022

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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.