SilverOak

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Second Quarter 2022 Market Summary

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Second Quarter 2022 Market Summary

After three years of robust stock market performance, with the S&P 500 up 18%-32% in each of those years, markets shifted dramatically at the beginning of 2022. Falling from an all-time high in early January, the U.S. stock markets experienced their worst first half of the year since 1970. Unfortunately, bonds have not provided the protection typically expected during periods of drawdown in the stock markets. Although it is quite rare for both bonds and stocks to experience negative returns for such an extended period simultaneously, this has indeed been the case over the past six months.

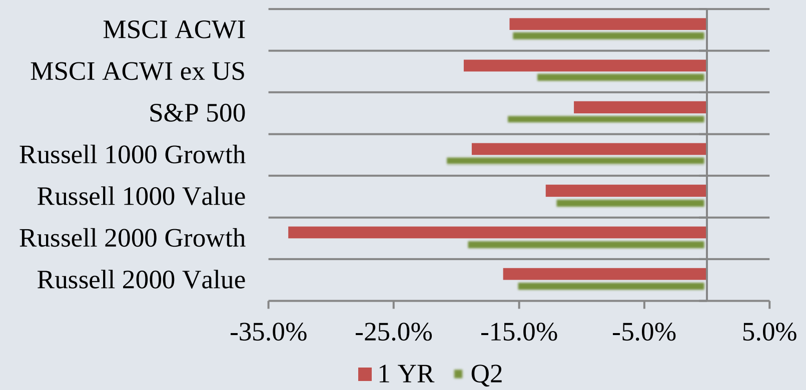
Commodities are the only asset class, excluding cash, with positive absolute performance for the first six months of 2022 as they benefitted from geopolitical dislocations. Nonetheless, even commodities have started to roll over as evidence mounts that economic growth is succumbing to potential recessionary forces. While the breadth and swiftness of the recent market action have been somewhat unique, market resets are common and ultimately provide opportunities for future growth.

During the second quarter, stock market returns were negative across the board, as shown in the chart below. The market officially entered “bear” territory, with an intra-period drawdown greater than 20%. Although international stocks significantly outperformed U.S. stocks in local currency terms, this performance was masked by the strong U.S. dollar. Thus far, the decline in equities is solely due to collapsing valuations, as corporate earnings remain positive. However, many now wonder if earnings will remain strong in the face of a recession or will the markets see yet another leg down.

Fixed income markets had a second consecutive quarter of negative returns. The Bloomberg U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 4.7% during the quarter as interest rates increased. Bonds with less interest rate risk performed better as the Federal Open Market Committee (FOMC) raised the federal funds rate 50bps in May and another 75bps in June. Provided the economy remains stable, the Fed is expected to raise rates aggressively until inflation begins to subside. Admittedly, it has been an uncomfortable phase for bonds. Nonetheless, the underlying premise for holding bonds has not changed. With stocks down twice as much as bonds on a year-to-date basis, they have mitigated some of the downside, though we recognize this may be of little consolation. However, given interest rates have risen dramatically in a short period of time, bonds are finally providing more attractive yields.

Coming into the year, it was expected inflation would remain higher than average. However, events such as the persistent COVID variants, continued supply chain pressures, and the Russian invasion of Ukraine, have only increased pressures on global inflation and economic growth. Although many market participants have been expecting inflation to peak more recently, prices remain elevated, leading to fears of sharper rate increases and weaker economic growth than previously forecasted. As a result, consumer sentiment has fallen precipitously even though consumer balance sheets and actual consumer spending have remained strong. Furthermore, the labor markets have also remained resilient.

Broad Market Index Returns
Second Quarter 2022



Given the concerns regarding inflation and the Federal Reserve’s actions meant to reduce demand, there is much speculation about whether a recession is on the horizon. We believe the answer will depend on how the economy fares over the next few months. Since the official definition of a recession incorporates much more than just the occurrence of two consecutive quarters of negative GDP, determining the start of a recession can only be done retrospectively. Regardless of timing, it is important to acknowledge recessions are a natural, albeit unpleasant, part of the economic cycle. In addition, they tend to be relatively short-lived.

Second Quarter 2022 Market Summary (continued)

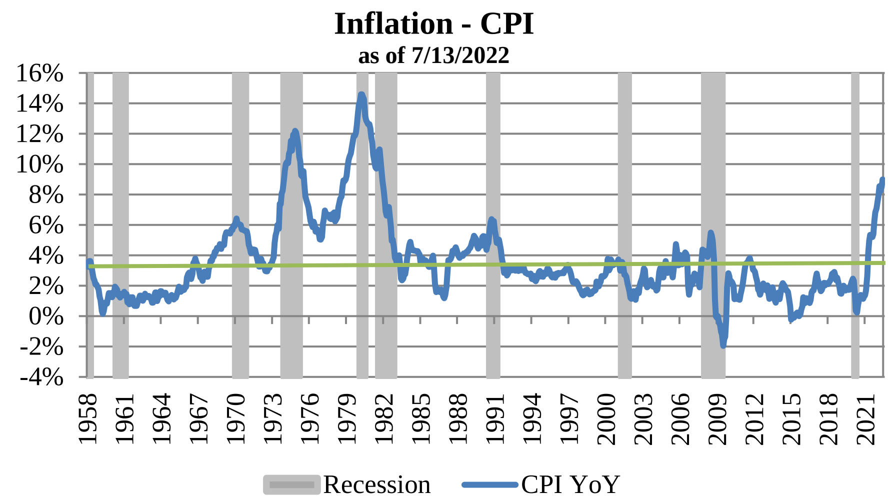
As noted above, consumer balance sheets, consumer spending, and employment are all encouraging. It is hard to imagine a deep and prolonged recession occurring without these rolling over. So, we will be closely watching these economic data points.

Another important item to consider is markets are typically leading indicators, with their trough usually occurring in advance of improving economic data. Therefore, we encourage investors not to allow backward-looking data, or past performance, to overly influence current investment strategy. The good news is that equity valuations have retreated to long-term historical averages, making future expected returns more attractive than previously expected. Fixed income markets have also already priced in inflation and Fed hikes, and the resulting yields are among the highest recorded in the past ten years. Furthermore, if a recession occurs, we can expect inflation and interest rates to fall, likely leading to positive bond returns.

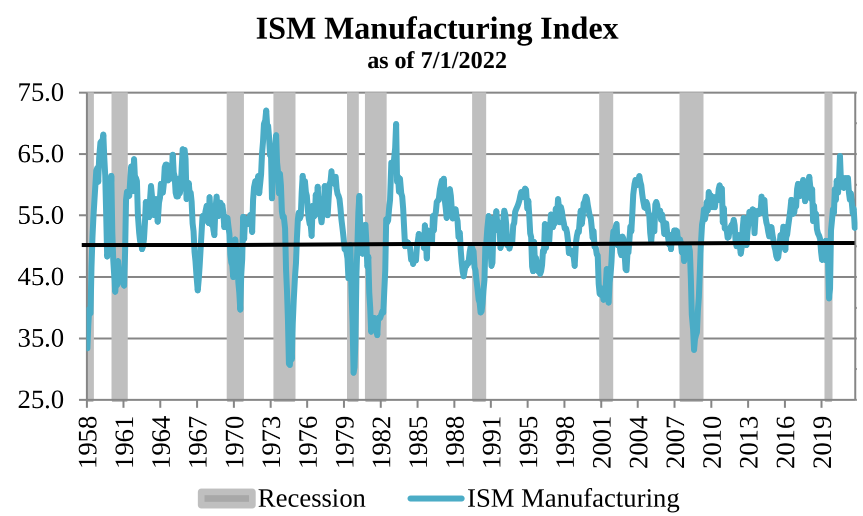
Regardless of the exact trajectory of the markets and economy, this downturn will ultimately garner-in the next growth phase. In the meantime, continued volatility and swings in asset prices are to be expected. We should also anticipate that economic data will worsen, remembering that markets are forward-looking and tend to bottom out before the sky clears. Therefore, we encourage and guide our clients to stay focused on the long-term while avoiding short-term trading tendencies, which typically negatively impact performance. By implementing a sound investment strategy across market cycles and keeping an eye focused on long-term goals, investors can make positive decisions that will seed future performance.

MACROECONOMICS

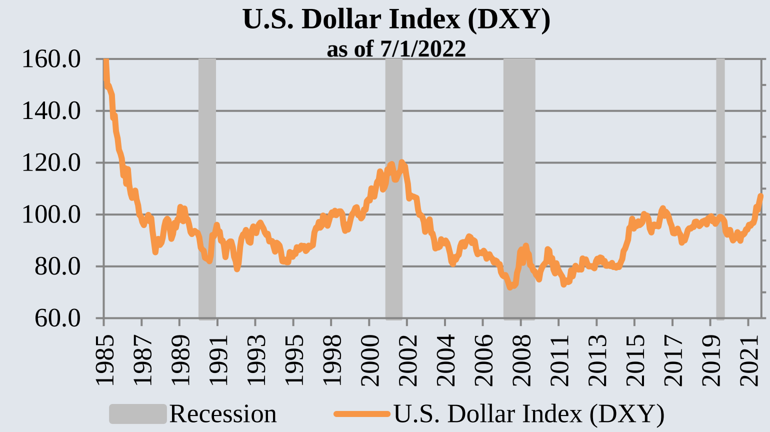
- The Bureau of Economic Analysis released the advanced estimate of second quarter 2022 real GDP, an annual rate increase of 0.9% from the preceding quarter.
- Inflation continues to increase. In June, headline CPI increased 9.1% year-over-year. Core CPI, which does not include food and energy, had a 5.9% increase.



- The ISM Manufacturing Index declined during the quarter, finishing at 53.0 versus 57.1 in March. 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 also declined during the quarter and finished at 55.3 in June.

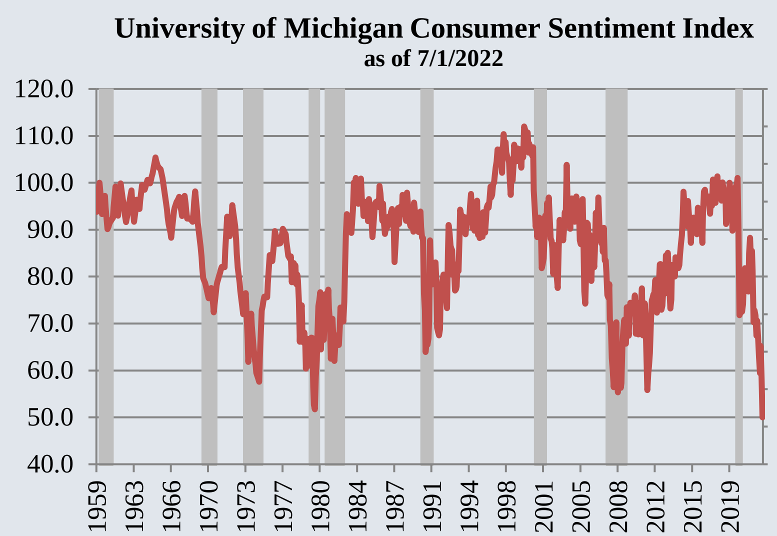


- In June, the Conference Board Leading Economic Index decreased 0.8% month-over-month to 117.1. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has declined for four months in a row.
- The U.S. dollar appreciated over the quarter and the past year.



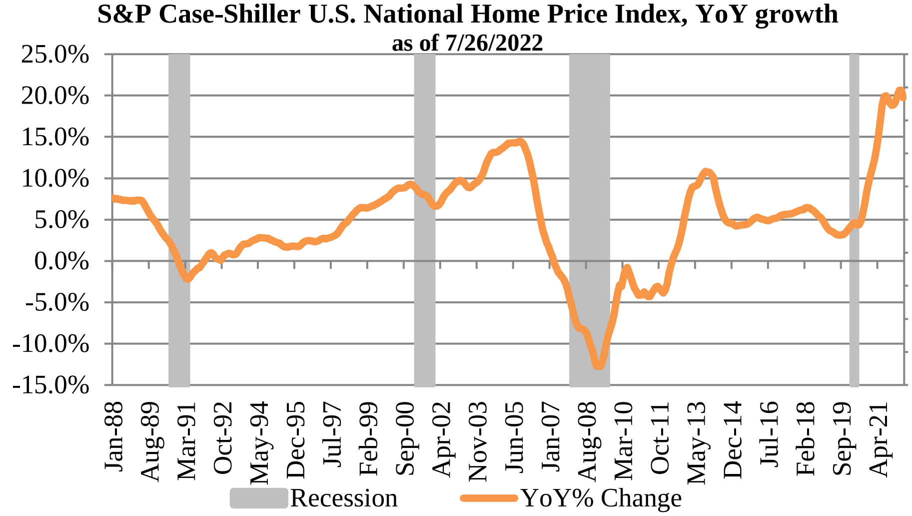
CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index June reading was 98.7, down significantly from 107.6 in March.
- The University of Michigan Consumer Sentiment Index final reading for June was 50.0, down significantly since the beginning of the year.

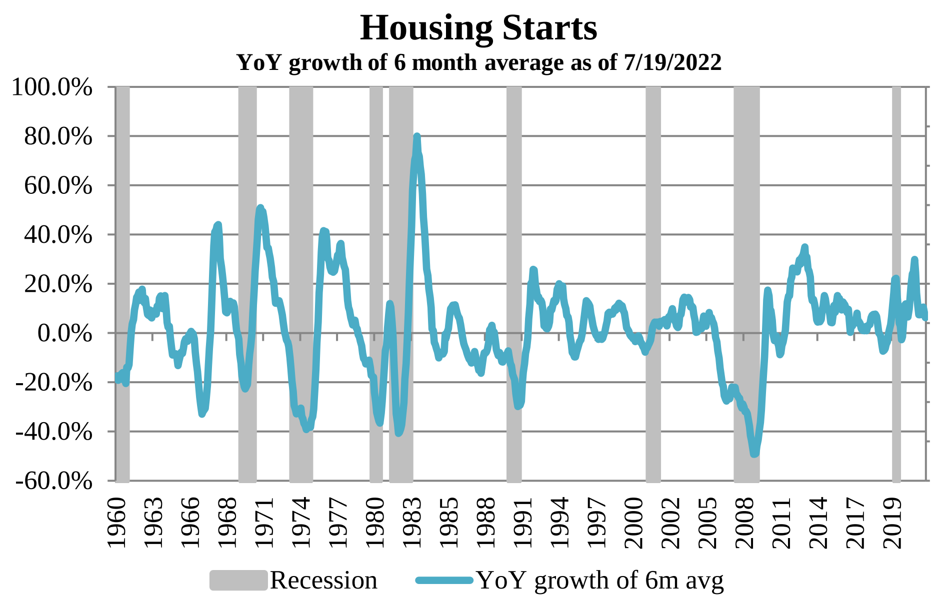


HOUSING

- Home prices continue to rise. S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices rose over 19.7% year-over-year in May.

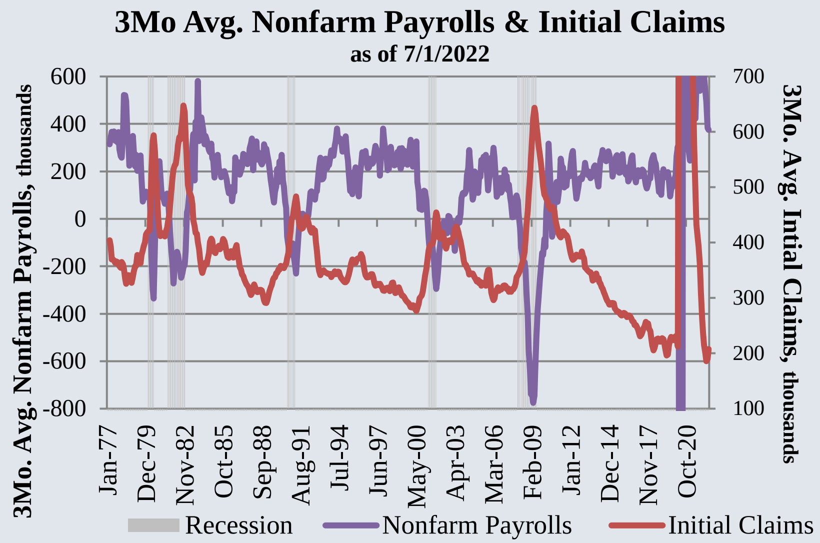


- Housing starts have stalled, in part, due to high commodity prices and short labor supply. Mortgage rates and home prices have increased significantly over the past year.

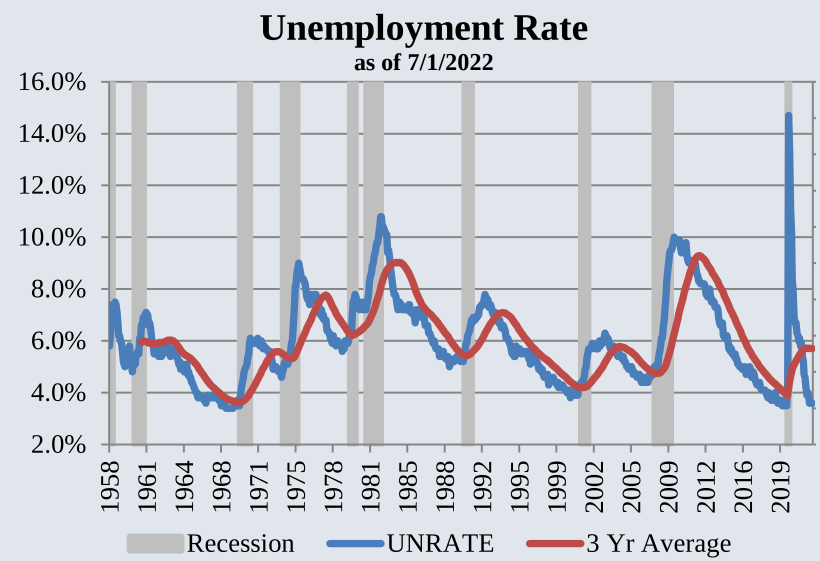


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 417,000 jobs added per month, while initial claims remain low.



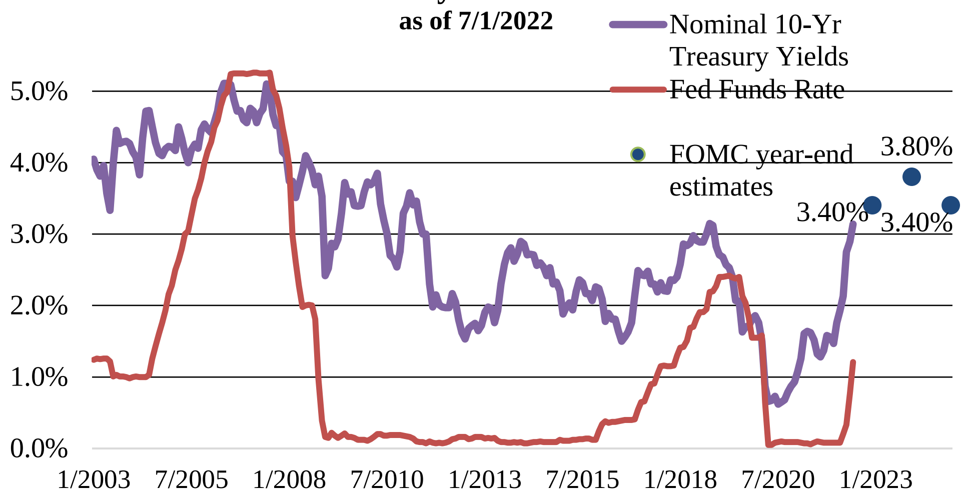
- The unemployment rate was flat during the quarter at 3.6%.



FED POLICY

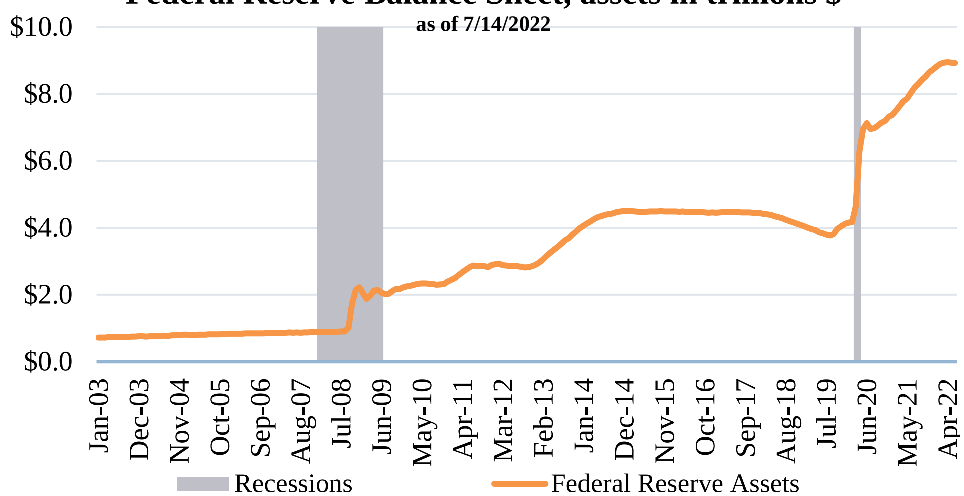
- The Federal Open Market Committee (FOMC) raised the federal funds rate 0.50% in May and another 0.75% in June. The Fed is expected to continue to raise rates throughout 2022 in an attempt to contain inflation.

U.S. 10-Year Treasury Yield vs. Fed Funds Rate



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

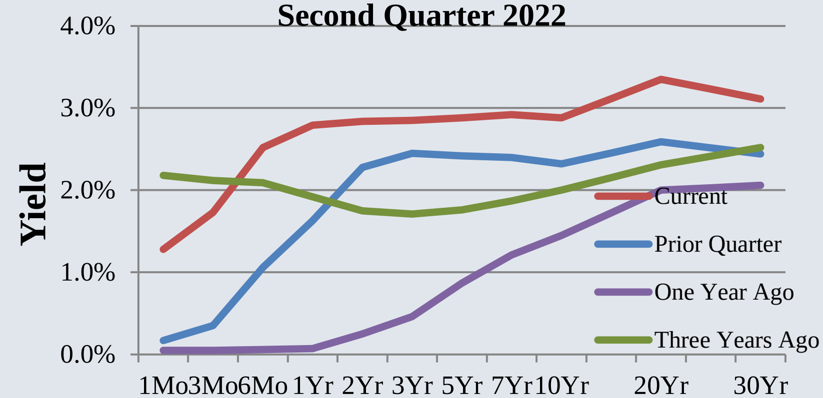
Federal Reserve Balance Sheet, assets in trillions $



FIXED INCOME

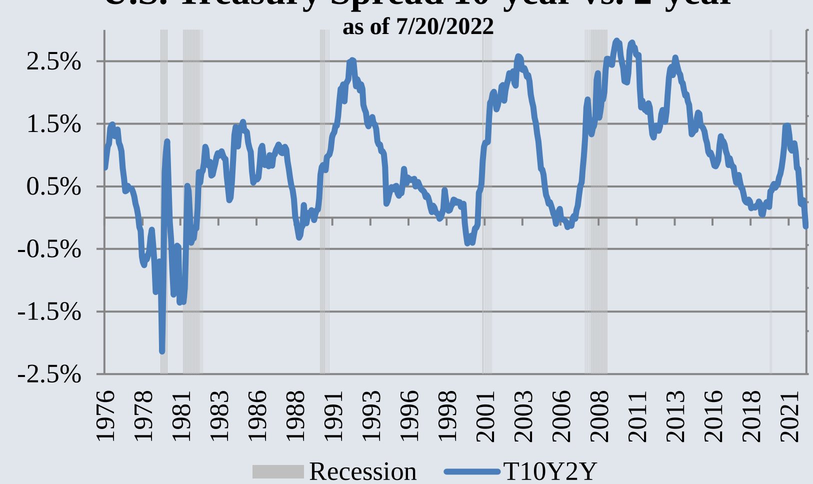
- Yields across the U.S. Treasury curve increased significantly during the quarter. Short-term rates rose more than long-term rates causing a flattening of the curve. Short-term interest rates are controlled or heavily influenced by central banks, where-as long term interest rates are affected by market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

U.S. Treasuries Yield Curve Second Quarter 2022



- The spread between short and intermediate-term Treasuries fell during the quarter to 15bps in June. 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



FIXED INCOME (continued)

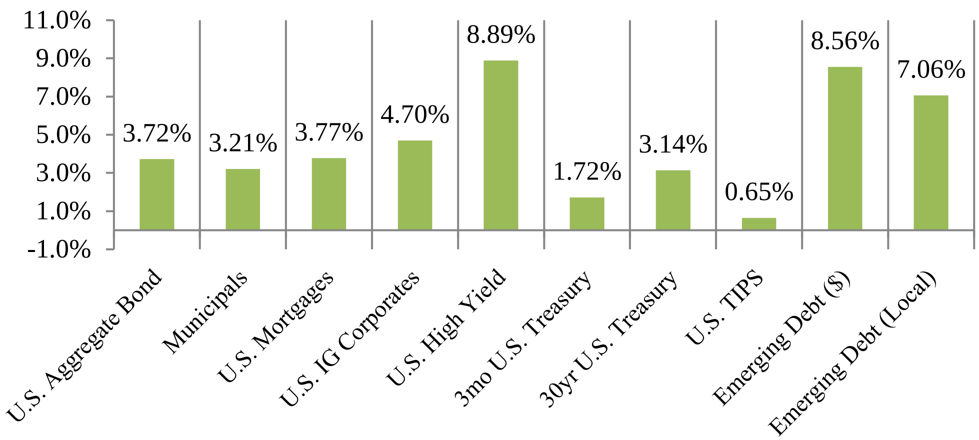
- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 4.69%. U.S. high yield, emerging market debt and longer-dated bonds saw larger drawdowns. Bonds with less interest rate risk, generally, performed better.

	2Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	-4.69%	-10.29%	0.88%	1.54%
Municipals	-2.94%	-8.57%	1.51%	2.38%
U.S. Mortgages	-4.01%	-9.03%	0.36%	1.18%
U.S IG Corporates	-7.26%	-14.19%	1.28%	2.62%
U.S. High Yield	-9.83%	-12.81%	2.10%	4.47%
3mo U.S. Treasury	0.11%	0.17%	1.12%	0.65%
30yr U.S. Treasury	-13.73%	-19.67%	0.26%	1.24%
U.S. TIPS	-6.08%	-5.14%	3.21%	1.73%
Emerging Debt ($)	-11.43%	-21.22%	-1.19%	2.21%
Emerging Debt (LCL)	-8.63%	-19.28%	-2.31%	-1.49%

Bloomberg and JPMorgan Indices

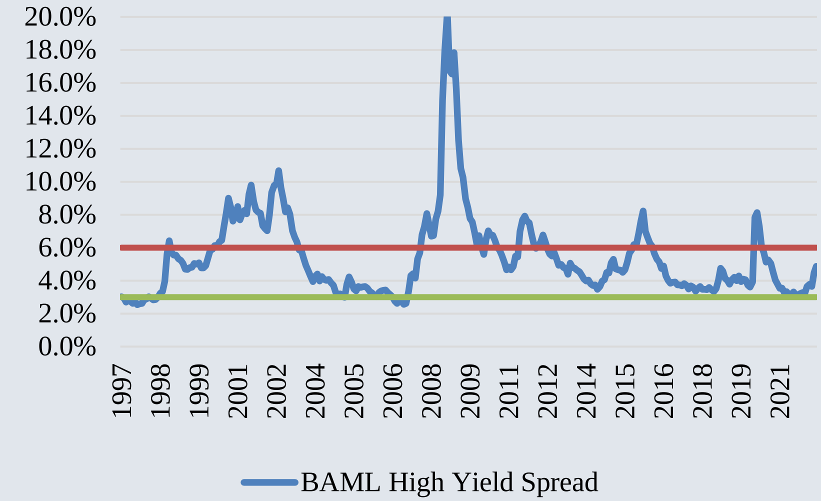
- Yields rose significantly in the second quarter and now are at more attractive levels.

Fixed Income Yields
Second Quarter 2022



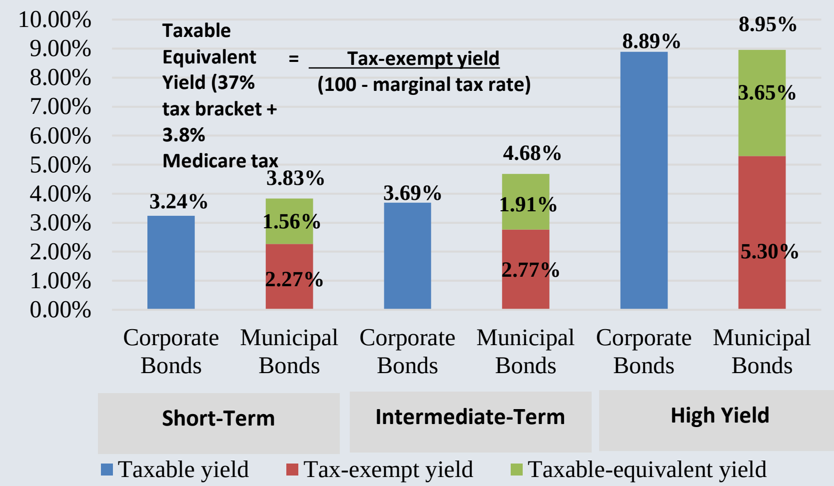
- Credit spreads widened materially off lows during the quarter.

Credit Spreads - High Yield
as of 7/1/2022



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

Taxable and tax-equivalent yields
as of 6/30/2022



DOMESTIC EQUITIES

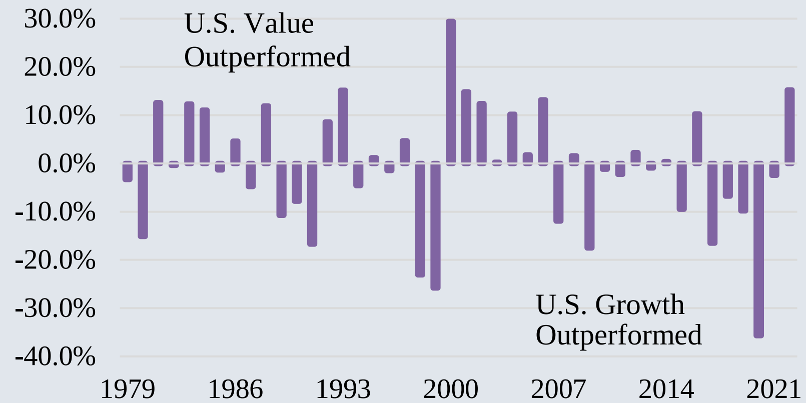
Second Quarter 2022 Returns			
	Value	Core	Growth
Mega Cap		-18.1%	
Large Cap	-12.2%	-16.7%	-20.9%
Mid Cap	-14.7%	-16.9%	-21.1%
Small Cap	-15.3%	-17.2%	-19.3%
Micro Cap	-16.8%	-19.0%	-22.4%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a negative total return of 16.7% during the second quarter. On a year-over-year basis, the Russell 1000 Index has decrease 13.0%.
- Small capitalization stocks, as represented by the Russell 2000 Index, decreased 17.2% during the second quarter. On a year-over-year basis, the index has decreased 25.2%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	2Q 22 Return	1-Yr Return	10-Yr Return
Energy	4.4%	7.2%	1.5%	-5.2%	40.0%	4.3%
Materials	2.6%	4.2%	1.4%	-15.9%	-8.7%	9.9%
Financials	10.8%	19.5%	3.0%	-17.5%	-12.7%	12.5%
Industrials	7.8%	9.9%	7.1%	-14.8%	-13.4%	11.3%
Cons. Disc.	10.5%	5.7%	15.5%	-26.2%	-24.2%	13.5%
Technology	26.8%	9.0%	43.6%	-20.2%	-13.6%	18.7%
Comm. Services	8.9%	8.8%	8.1%	-20.7%	-29.1%	6.0%
Real Estate	2.9%	5.1%	1.8%	-14.7%	-5.2%	9.1%
Health Care	15.1%	17.2%	12.3%	-5.9%	3.4%	15.0%
Cons. Staples	7.0%	7.3%	5.9%	-4.6%	6.7%	10.7%
Utilities	3.1%	6.0%	0.0%	-5.1%	14.3%	10.5%
S&P 500 Index	100.0%	100.0%	100.0%	-16.1%	-10.6%	13.0%

- During the quarter, all sectors had negative performance. Over the past year, there has been more dispersion of returns, with Energy having the strongest performance.

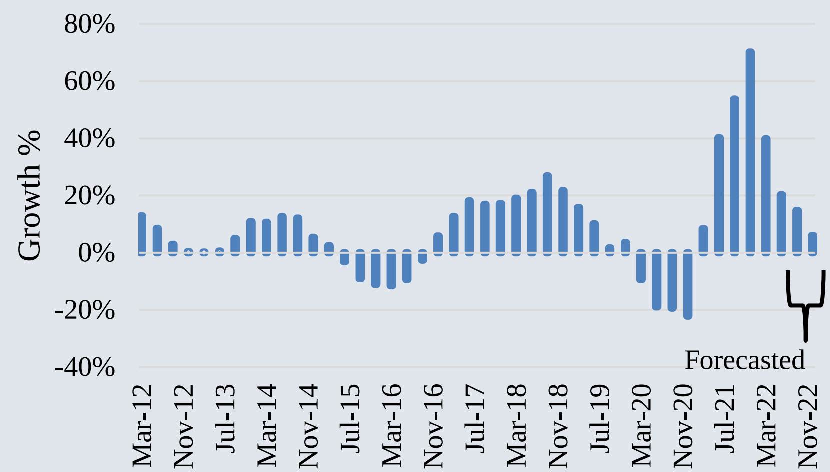
U.S. Value vs. Growth Relative Equity Performance (as of 6/30/22)



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 6/30/2022)



- Corporate earnings growth is expected to continue into 2022, but at a slower pace than 2021.

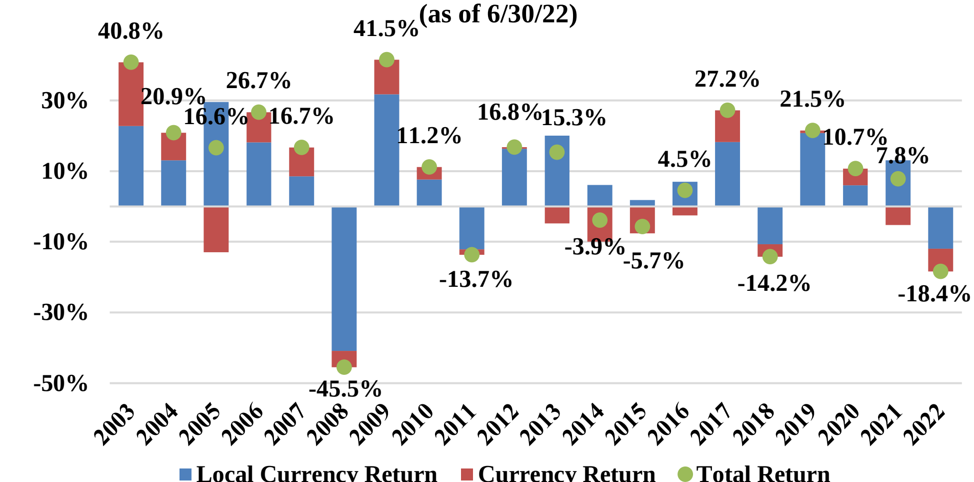
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were down 14.5% during the quarter and down 17.8% on a year-over-year basis.
- Emerging market stocks outperformed developed markets during the second quarter as the MSCI Emerging Markets Index was down 11.4%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of negative 25.3%.

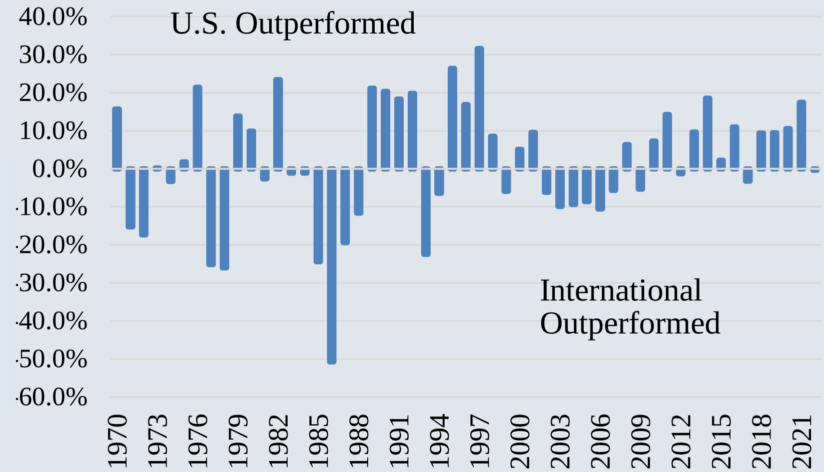
	2Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	-15.7%	-15.8%	7.0%	8.8%
World Ex-US	-13.7%	-19.4%	2.5%	4.8%
EAFE	-14.5%	-17.8%	2.2%	5.4%
Europe	-14.5%	-17.6%	2.2%	5.4%
Japan	-14.6%	-19.9%	1.8%	5.6%
Pacific Ex-Japan	-14.1%	-14.9%	3.2%	5.0%
Emerging Markets	-11.4%	-25.3%	2.2%	3.1%
EM (Asia)	-9.3%	-25.9%	3.4%	5.5%
EM (Latin America)	-21.9%	-16.1%	-0.6%	-2.2%
EM (Eastern Europe)	-23.7%	-83.5%	-23.3%	-13.2%

- 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 6/30/22)



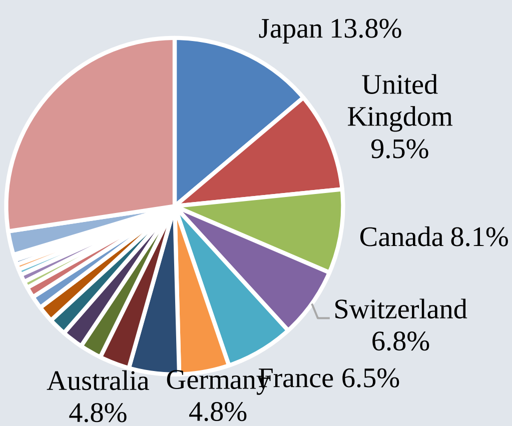
U.S. vs. International Equity Performance (as of 6/30/22)



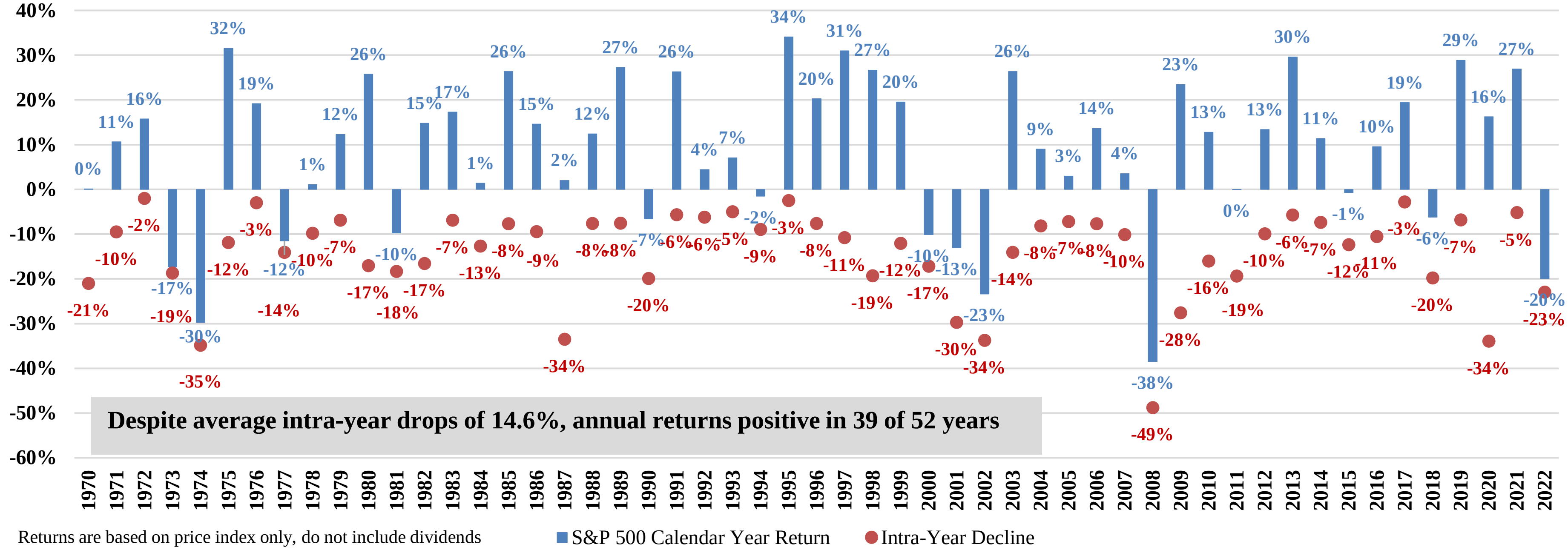
S&P 500 TR vs. MSCI EAFE NR

- During the quarter, International equities slightly performed better 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 6/30/2022)

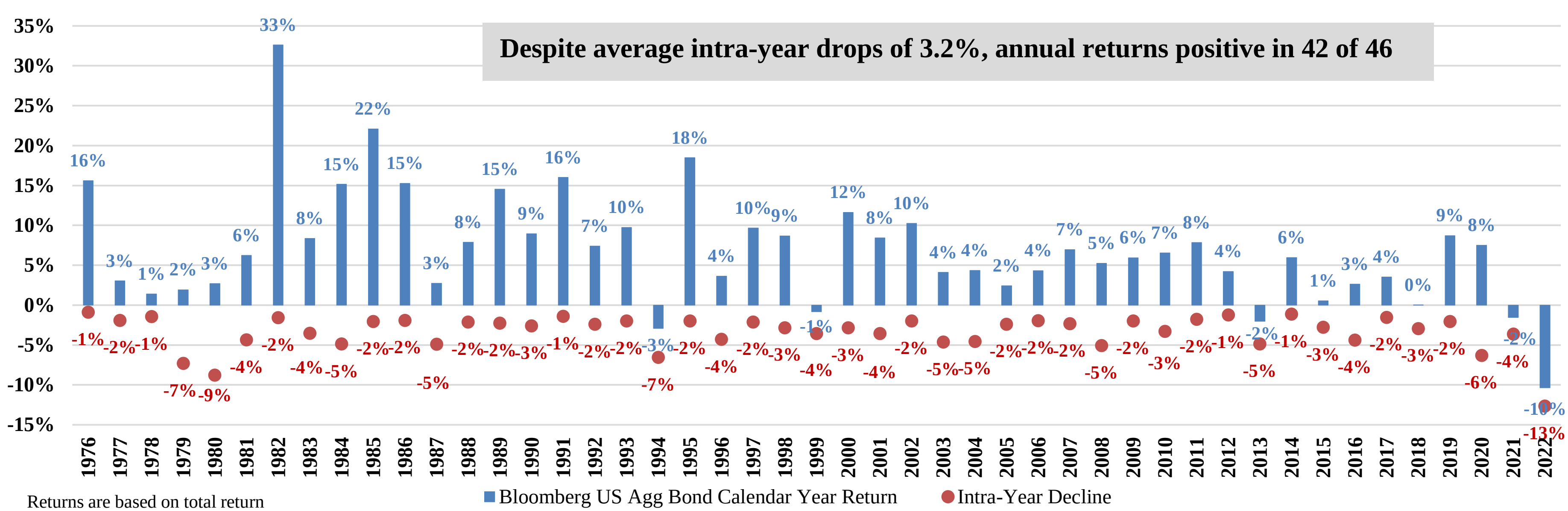


S&P 500 intra-year declines vs. calendar year returns



Returns are based on price index only, do not include dividends

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



Returns are based on total return

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

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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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.