



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar  
October 21, 2022



SilverOak  
WEALTH MANAGEMENT LLC

# Introduction

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President, Partner and Chief Compliance Officer
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Partner and Lead Analyst



# Agenda

- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates and other items
- Insurance series – Travel insurance
- Questions





# *Economy: Slowing Down*



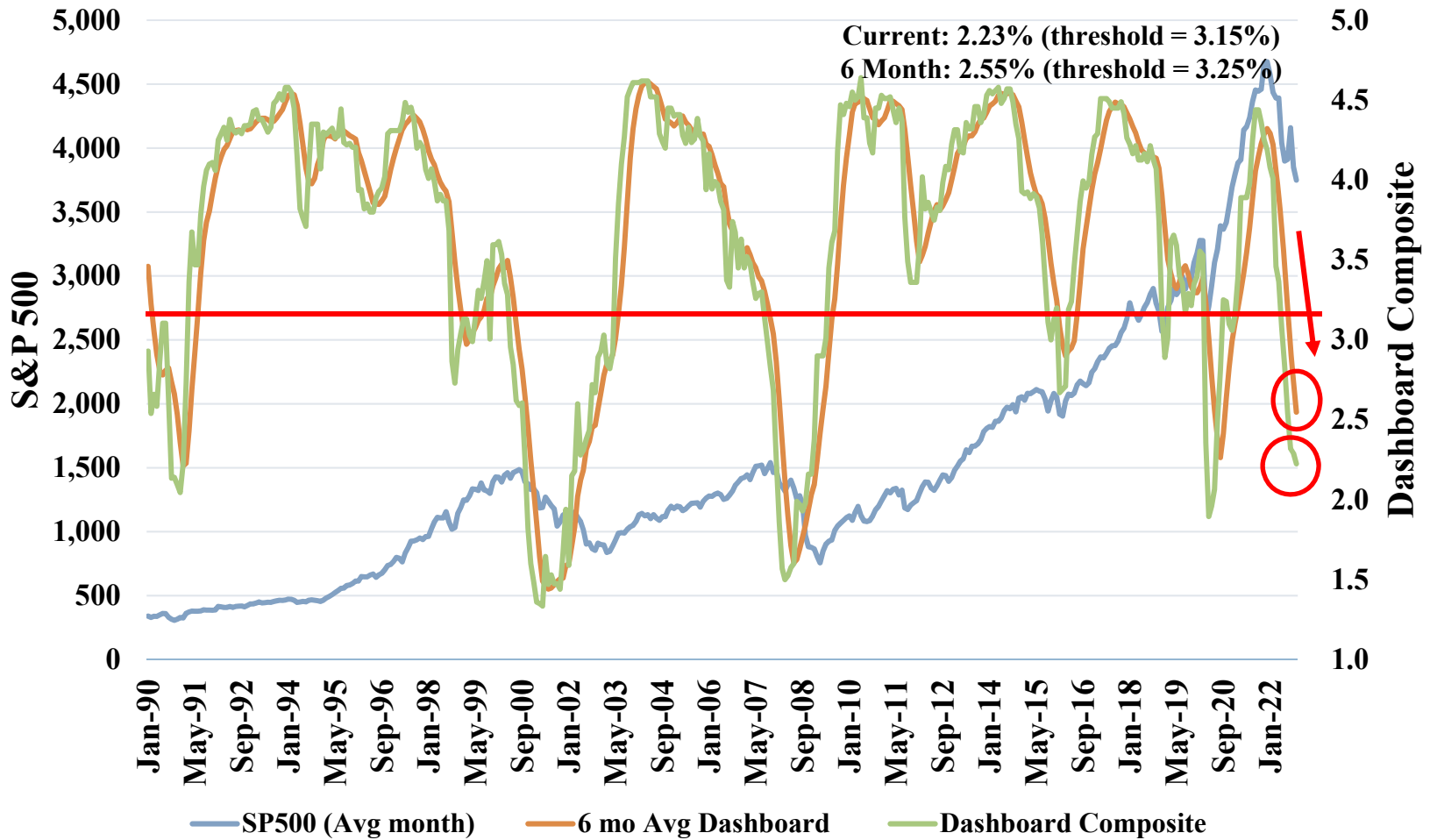
# Market Dashboard

Projected

	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	1Q 2022	2Q 2022	3Q 2022	4Q 2022
<b>Economy</b>	Grey	Grey	Red	Red	Red	Grey	Green	Green	Green	Green	Green	Green	Red	Red
<b>Credit Markets</b>	Grey	Grey	Red	Red	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Grey
<b>Valuations</b>	Grey	Grey	Grey	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Grey
<b>Market Sentiment</b>	Green	Green	Grey	Red	Green	Green	Green	Green	Green	Green	Grey	Red	Red	Red
<b>Composite 6mo. Avg.</b>	Grey	Grey	Red	Red	Red	Red	Grey	Grey	Green	Green	Green	Grey	Red	Red



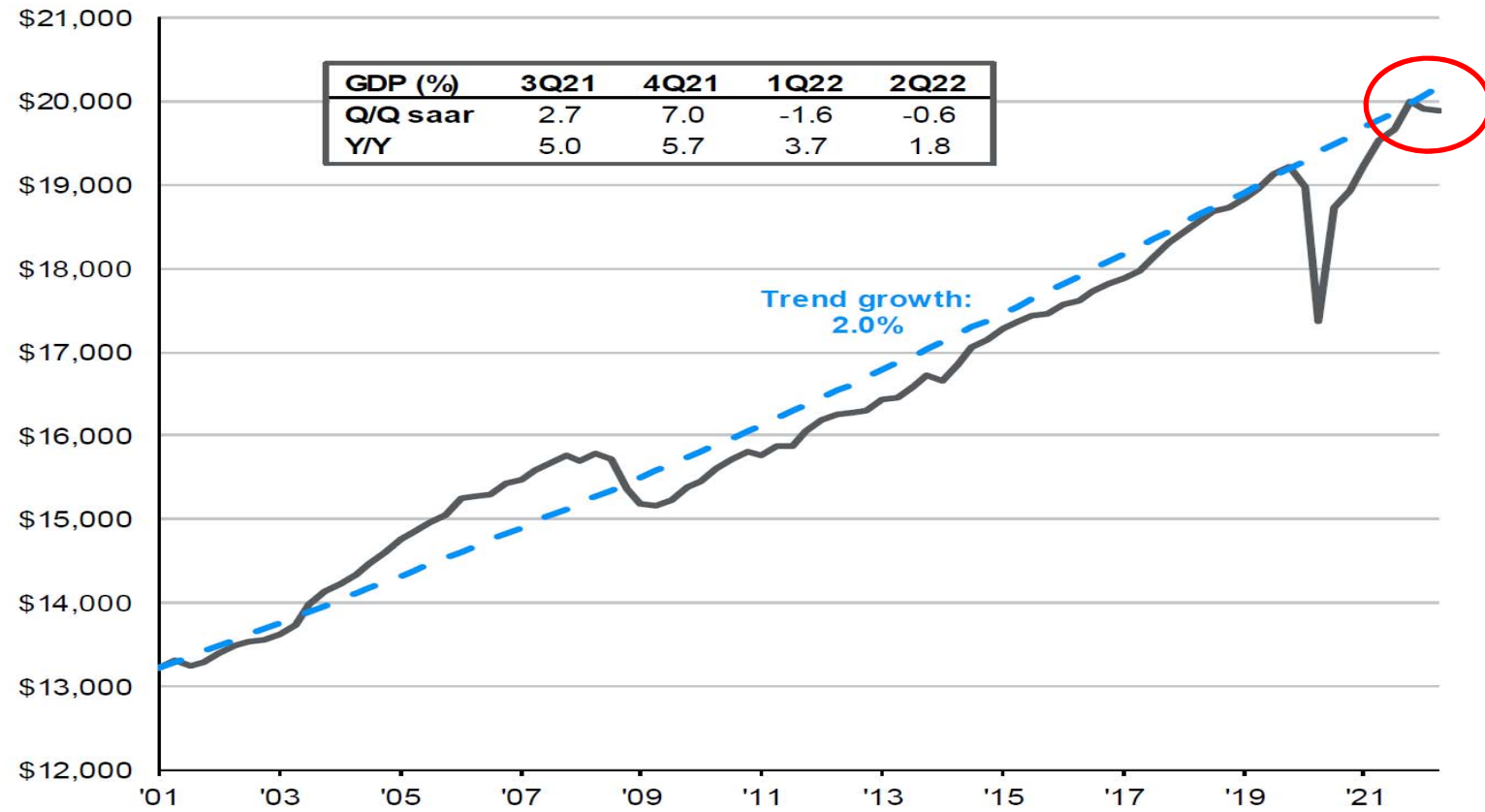
# Market Dashboard



# GDP Growth Has Stalled

## Real GDP

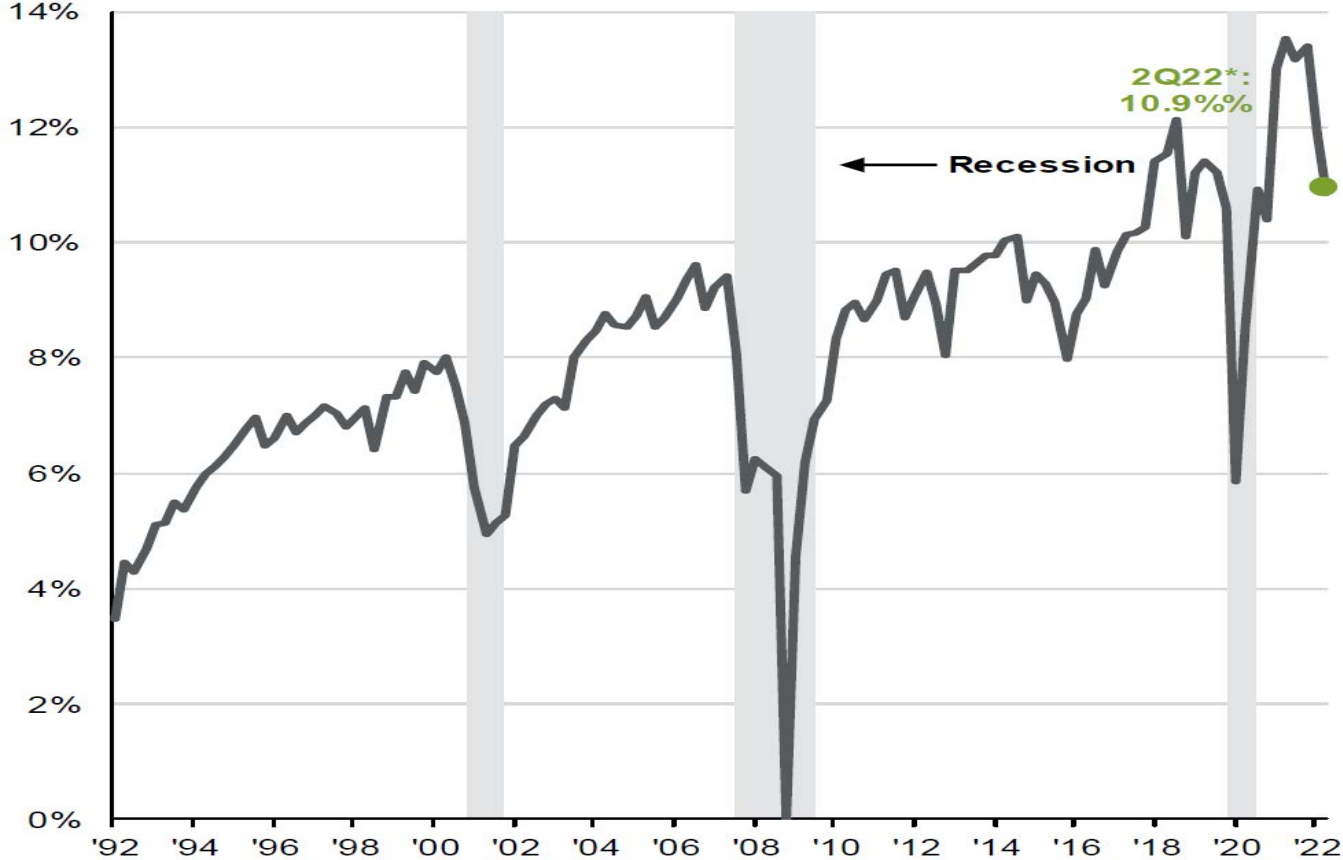
Billions of chained (2012) dollars, seasonally adjusted at annual rates



Source: Bureau of Economic Analysis, Factset, J.P. Morgan Asset Management. Data as of 9/30/2022

# Profit Margins Are Declining

**S&P 500 profit margins**  
Quarterly operating earnings/sales

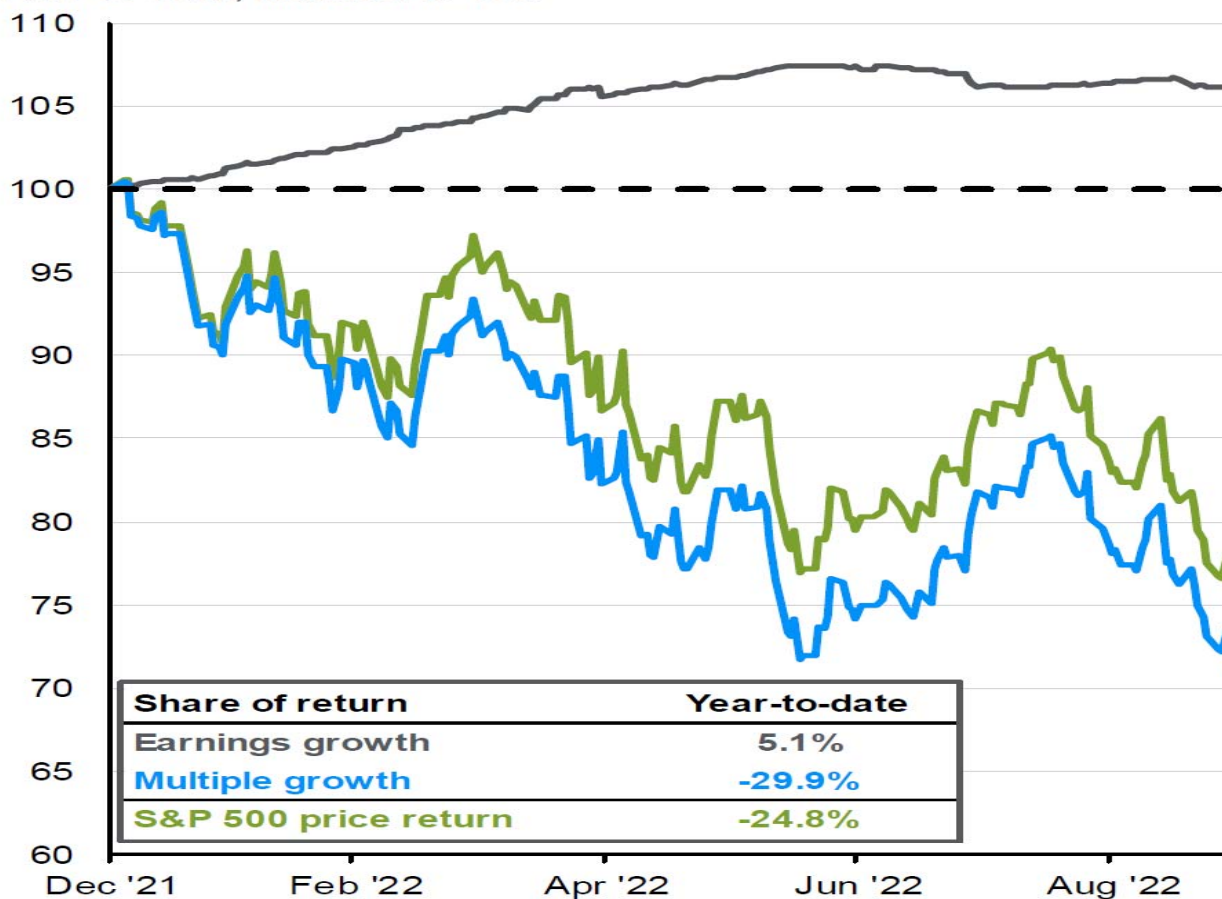


Source: BLS, Factset, JP Morgan Asset Management. Data as of 9/30/2022



# 2022 Earnings Growth Flattening

**Percent change in S&P 500, earnings and valuations\***  
Year-to-date, indexed to 100



Source: FactSet, Compustat, S&P, JP Morgan Asset Management. Data as of 9/30/2022

# Housing Market Weakening

## Housing affordability index\*

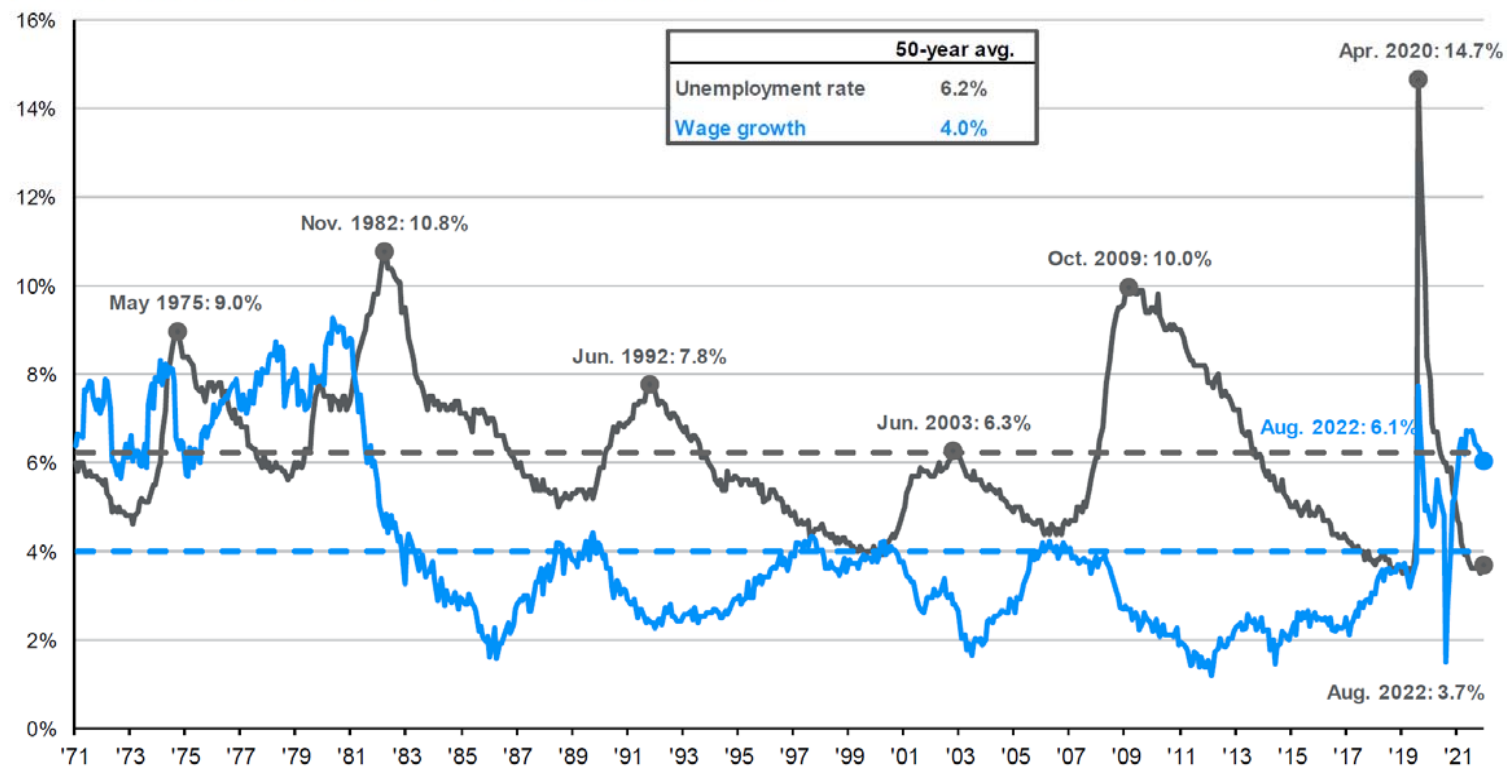


Source: National Association of Realtors. Data as of 7/30/2022

# Labor Market Strength Persistent

## Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent

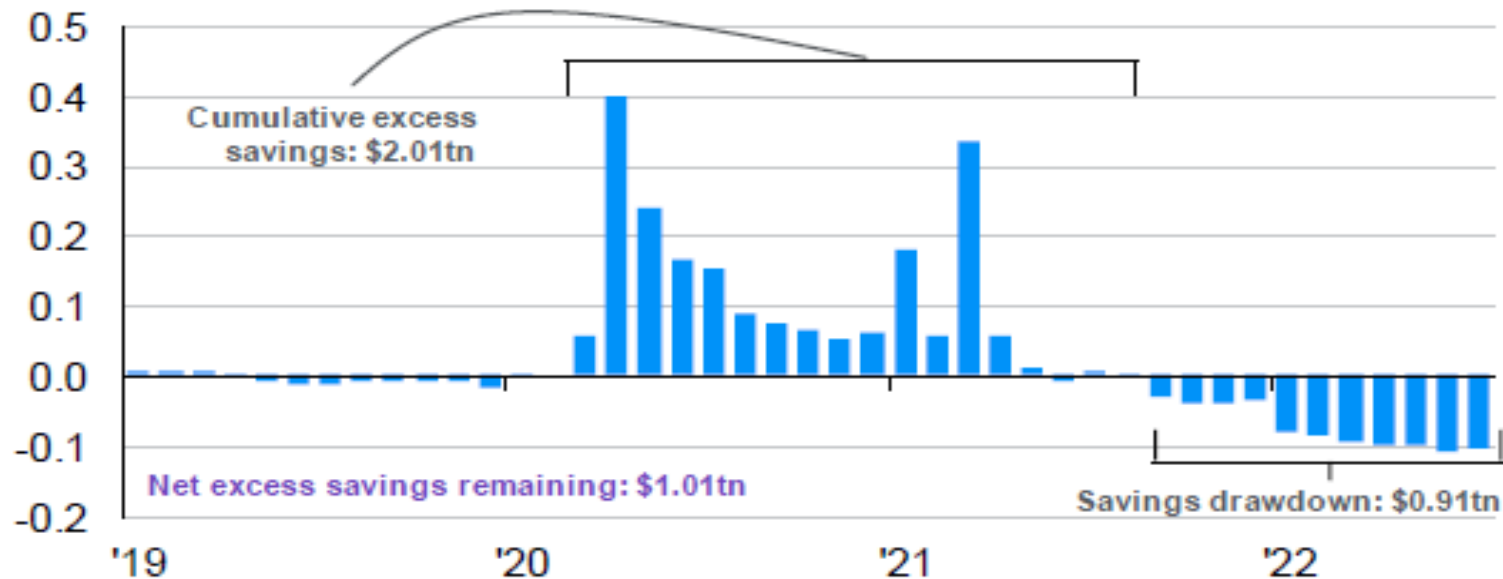


Source: BLS, Factset, JP Morgan Asset Management. Data as of 9/30/2022

# Consumers In Good Shape

## Excess personal savings relative to pre-pandemic trend

Disposable personal income less consumer outlays, minus pre-pandemic trend growth\*\*\*, \$ trillions, monthly



Source: Factset, Federal Reserve, JP Morgan Asset Management. Data as of 9/30/2022

# Current Economic Factors Scorecard

## Positive

Corporate Earnings ↓  
Credit Conditions ↓

## Neutral

Employment ↑  
U.S. Politics  
Fiscal Policy  
Global Growth ↓  
Eurozone ↓  
Monetary Policy ↓

## Negative

China  
Tariffs  
Geopolitics  
U.S. Inflation  
Commodity Prices  
Consumer Confidence  
U.S. Dollar (-)  
Interest Rates (-)  
Housing (-)



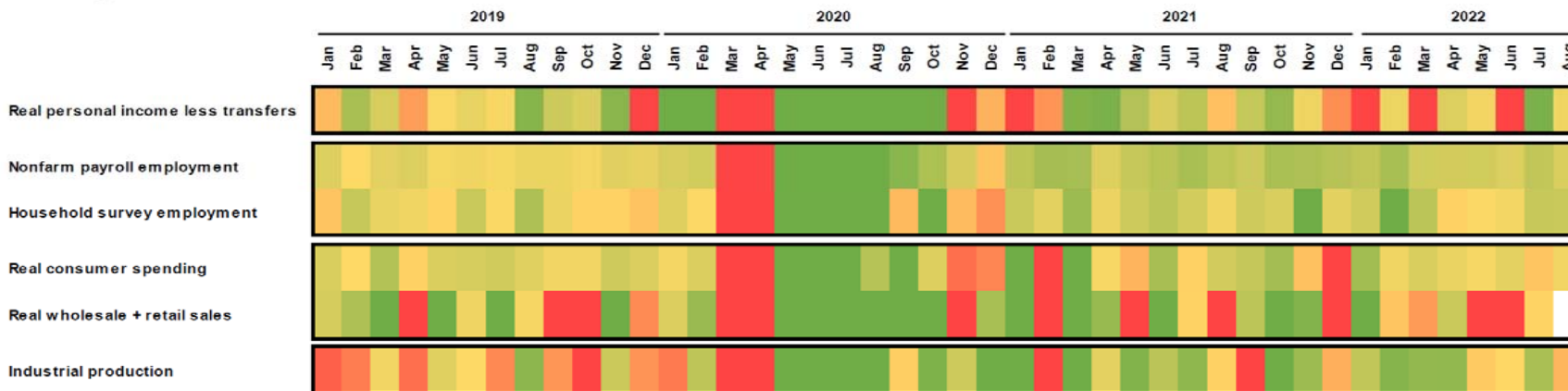
As of 9/30/2022

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

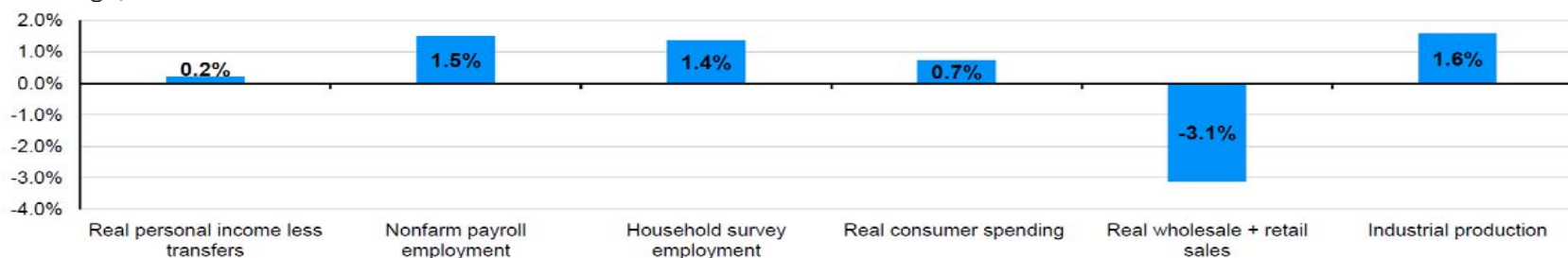
# Are We In a Recession?

## Variables used by the NBER in making recession determination\*

% change month-over-month



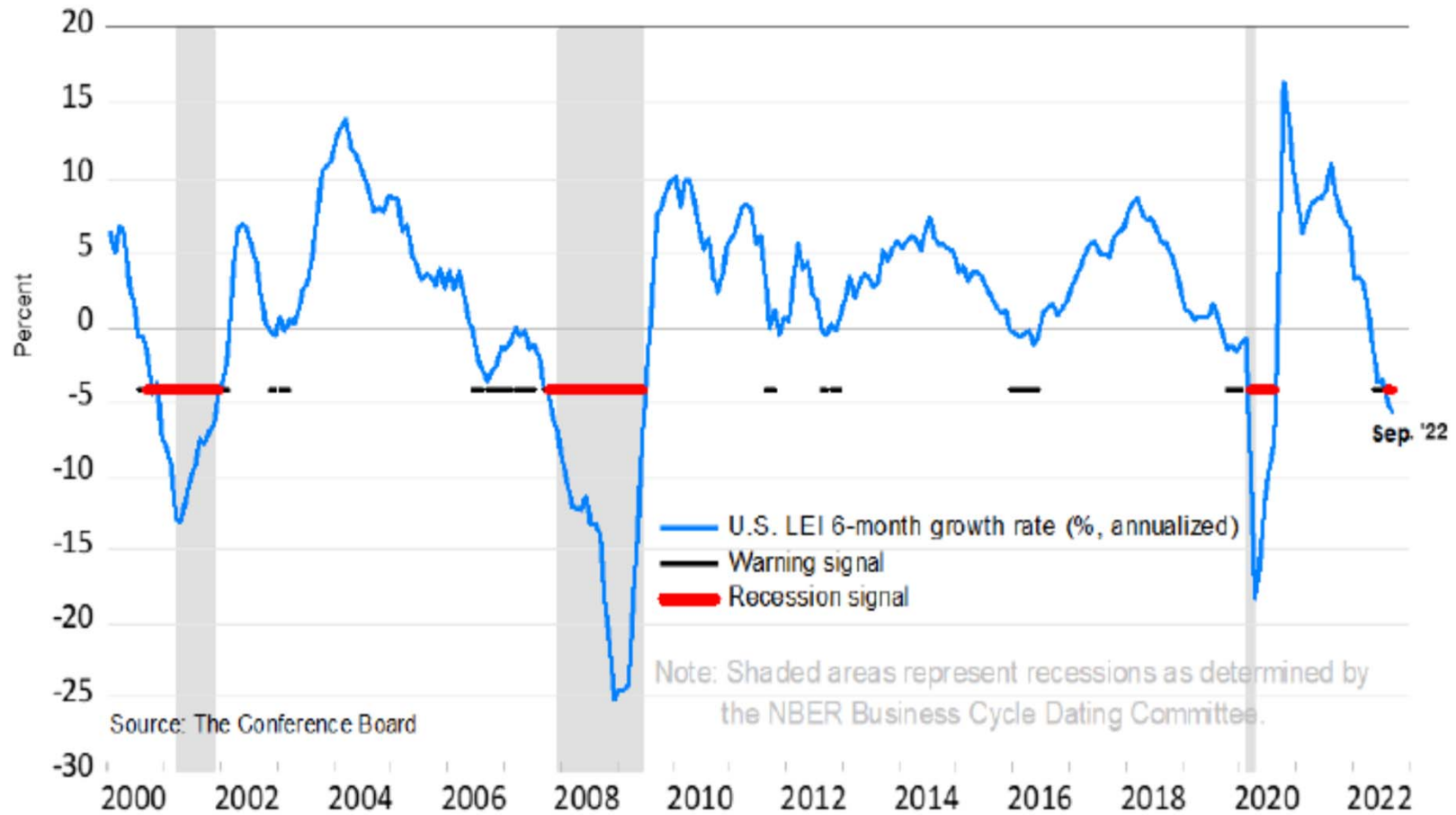
% change, last six months



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Federal Reserve of St. Louis, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. \*The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Because a recession must influence the economy broadly and not be confined to one sector, the committee emphasizes economy-wide measures of economic activity. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about what measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment." *Guide to the Markets - U.S.* Data are as of September 30, 2022.

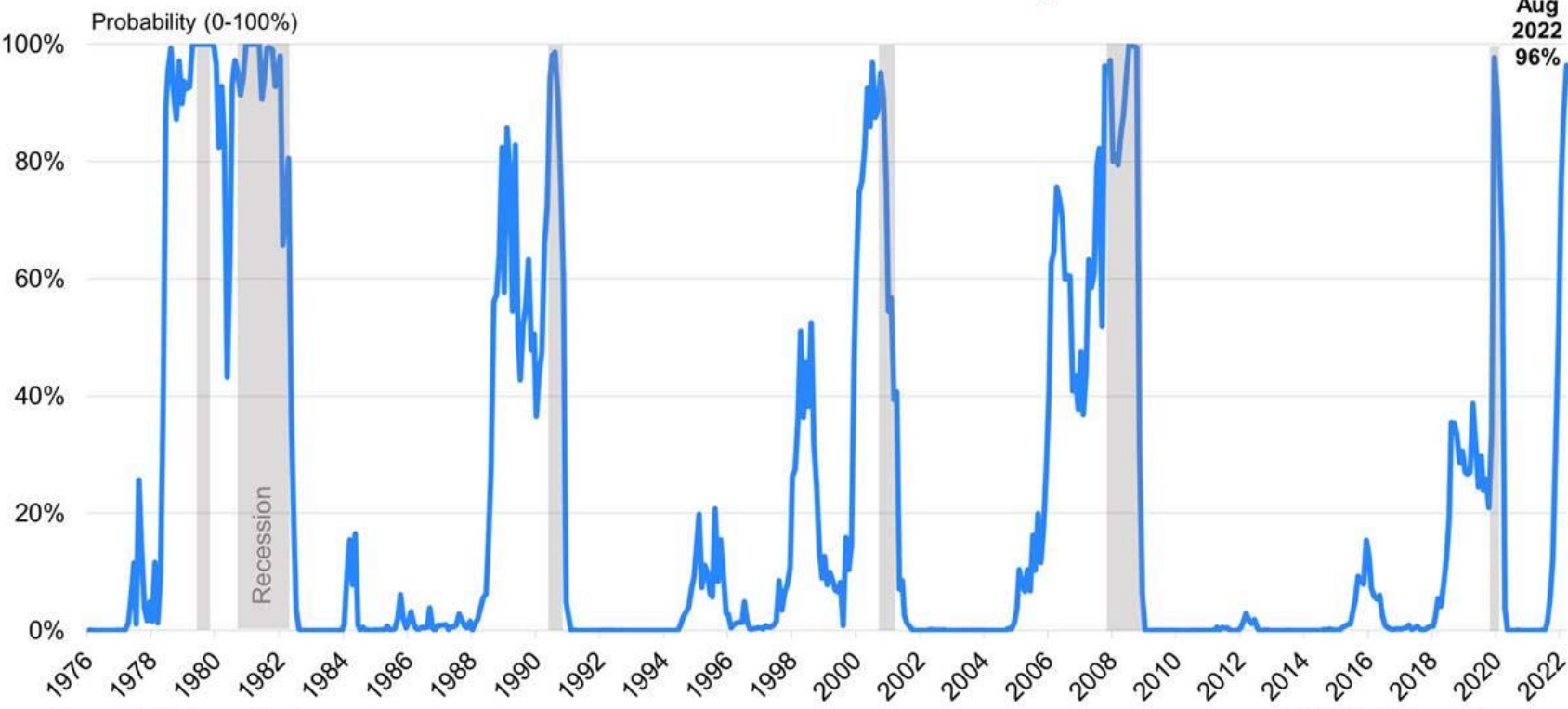


# Weakening LEI Suggesting A Recession Is Likely



# Conference Board Increased Probability of a Recession

## US Recession Probability Model



Source: The Conference Board

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# *Markets: Widespread Weakness*



# Terrible Start to the Year

## STOCK AND BOND RETURNS

### Worst start to a year for bonds and 4th worst start for stocks

#### Worst ever start to a year for U.S. bonds

Since 1926, total return for 1/1 - 9/30 each calendar year, 10 worst periods

Year	First 9 months	Next 12 months
2022	-14.6	?
1981	-3.9	35.2
1994	-3.2	14.1
1987	-2.9	13.3
1958	-2.0	-0.3
2013	-1.9	4.0
2018	-1.6	10.3
1969	-1.6	11.1
2021	-1.6	-14.6
1959	-1.0	11.0
Avg.	-3.4	9.3

#### 4<sup>th</sup> worst ever start to a year for U.S. stocks

Since 1926, total return for 1/1 - 9/30 each calendar year, 10 worst periods

Year	First 9 months	Next 12 months
1931	-34.3	-9.6
1974	-32.8	38.1
2002	-28.2	24.4
2022	-23.9	?
2001	-20.4	-20.5
1962	-19.4	31.7
2008	-19.3	-6.9
1937	-17.3	-5.5
1966	-15.1	30.6
1946	-11.3	6.5
Avg.	-22.2	9.9

Source: Morningstar as of 9/30/22. U.S. bonds represented by the IA SBBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 9/30/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 9/30/22 and the IA SBBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Market Summary

## Equity market performance

	<u>Q3 2022</u>	<u>YTD</u>	<u>2019-2021 Total Return</u>
– US large cap			
• S&P 500	-4.9%	-23.9%	+100.4%
– US mid cap			
• Russell Midcap	-3.4%	-24.3%	+87.4%
– US small cap			
• Russell 2000	-2.2%	-25.1%	+72.9%
– International equities			
• MSCI ACWI ex US	-9.9%	-26.5%	+45.0%
– Emerging markets			
• MSCI Emerging Markets	-11.6%	-27.2%	+36.6%

Source: Morningstar

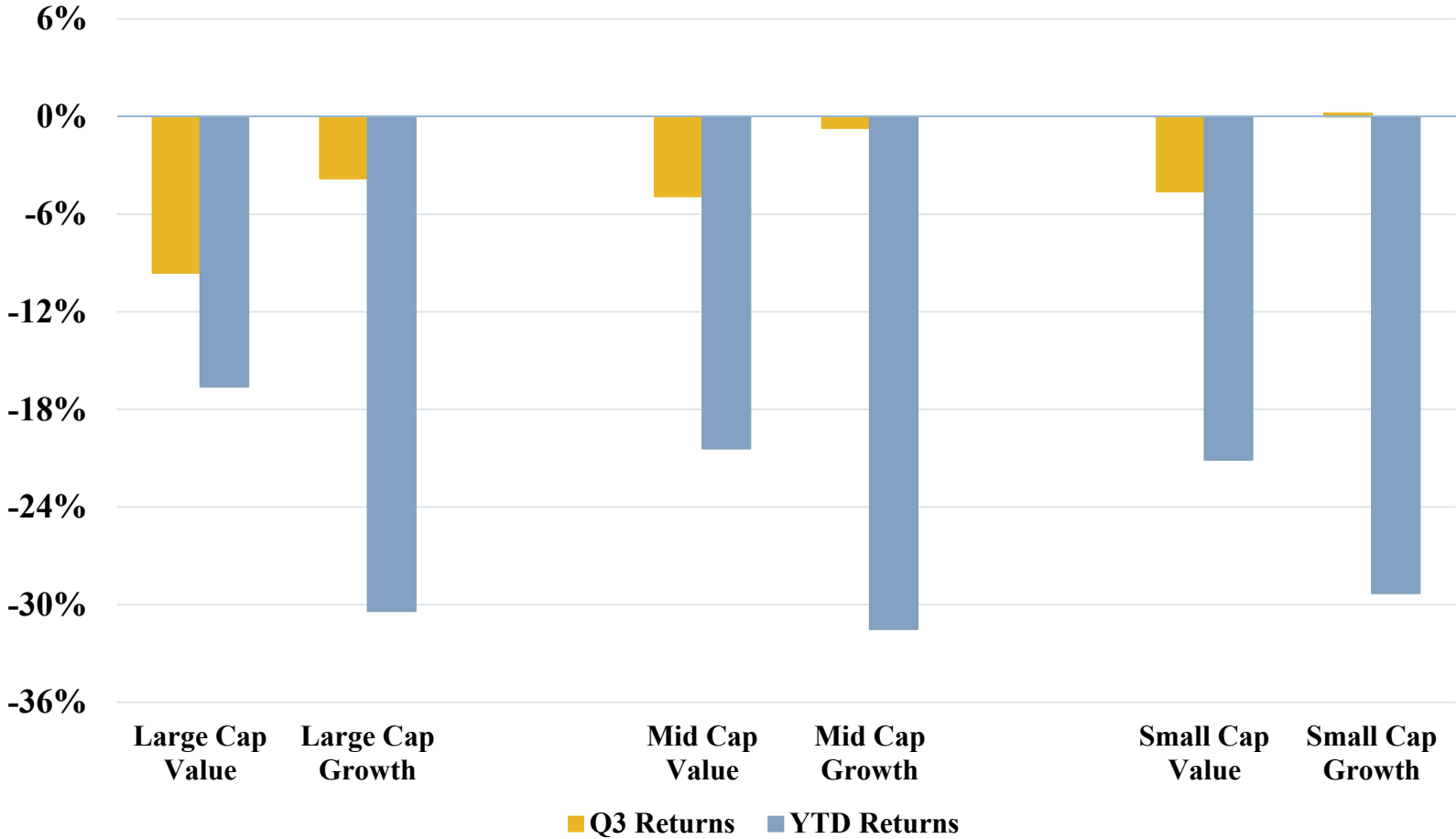
# Market Summary

## ■ Bonds and other asset class performance

	<u>Q3 2022</u>	<u>YTD</u>	<u>2019-2021 Total Return</u>
– US fixed income			
• Bloomberg U.S. Aggregate	-4.8%	-14.6%	+15.1%
– Global fixed income			
• Bloomberg Barclay’s Global ex US	-8.9%	-23.9%	+7.6%
– Commodities			
• Bloomberg Commodity TR	-4.1%	+13.6%	+32.6%
– REITS			
• MSCI US REIT NR	-10.3%	-28.9%	+60.9%

Source: Morningstar

# Value versus Growth

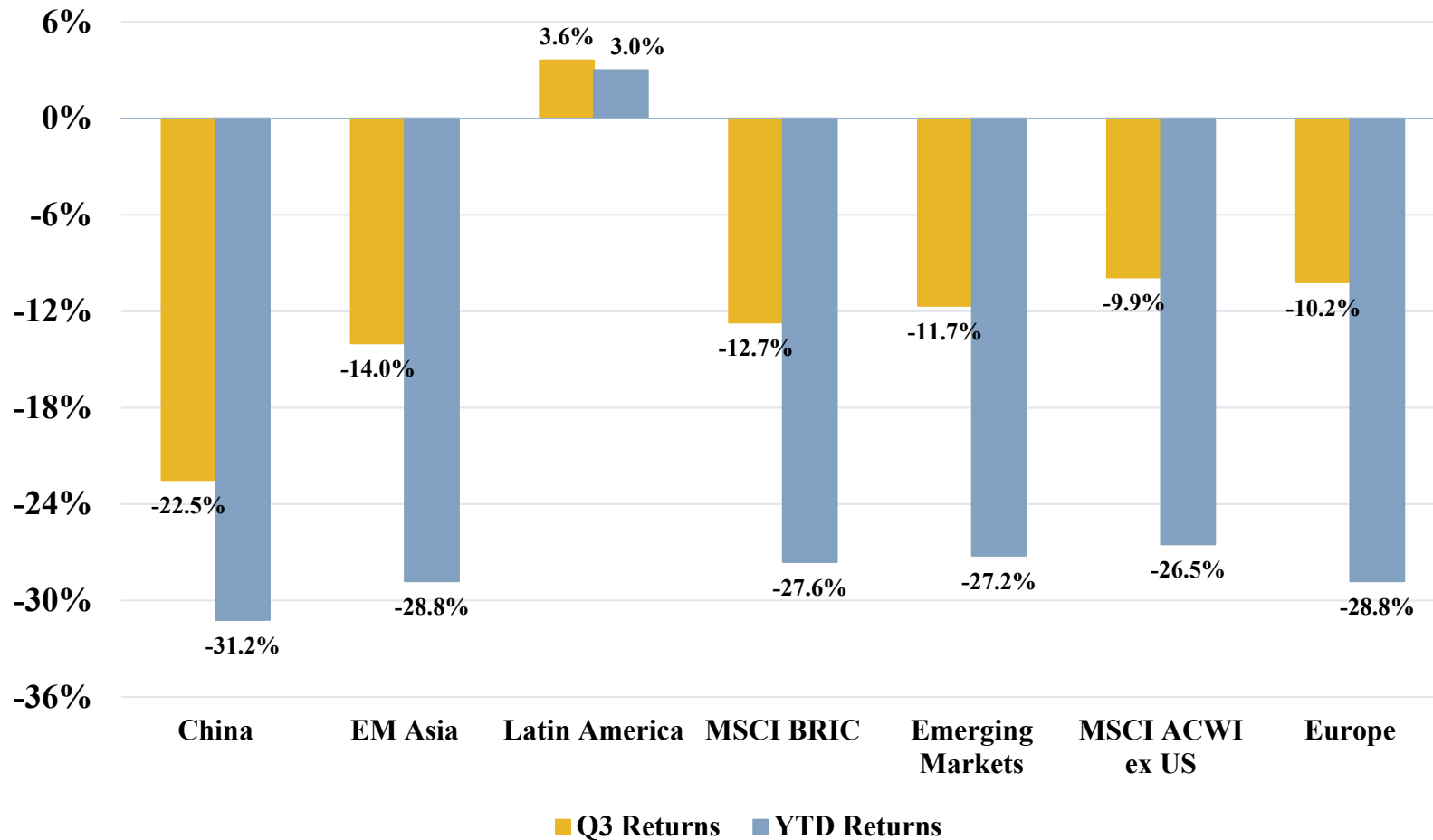


Past performance is no guarantee of future success. As of 9/30/2022

Returns in US dollars.



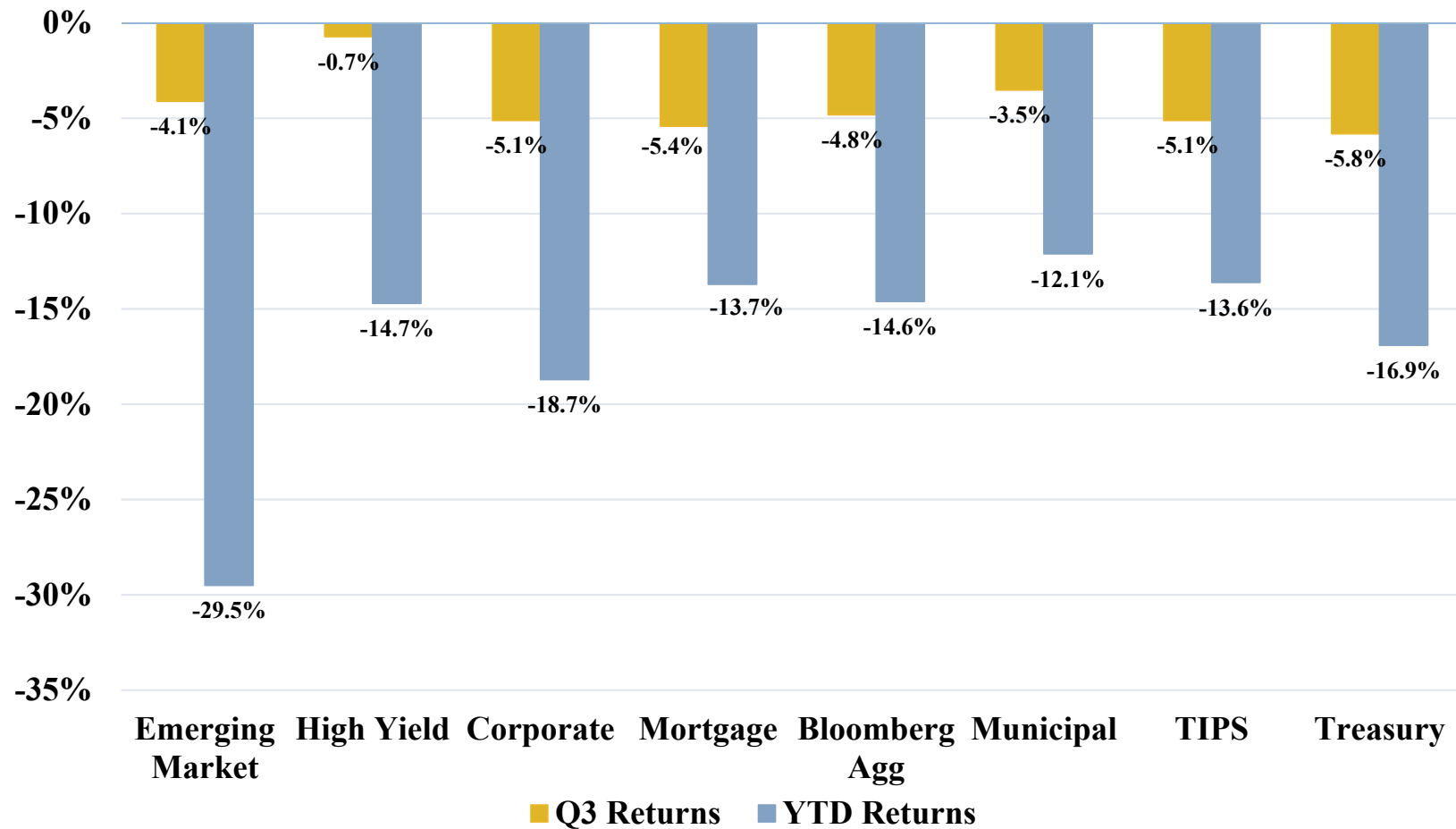
# Strong Dollar Hit Q3 International Returns



Past performance is no guarantee of future success. As of 9/30/2022

Returns in US dollars.

# Higher Interest Rates Hit Bonds in Q3



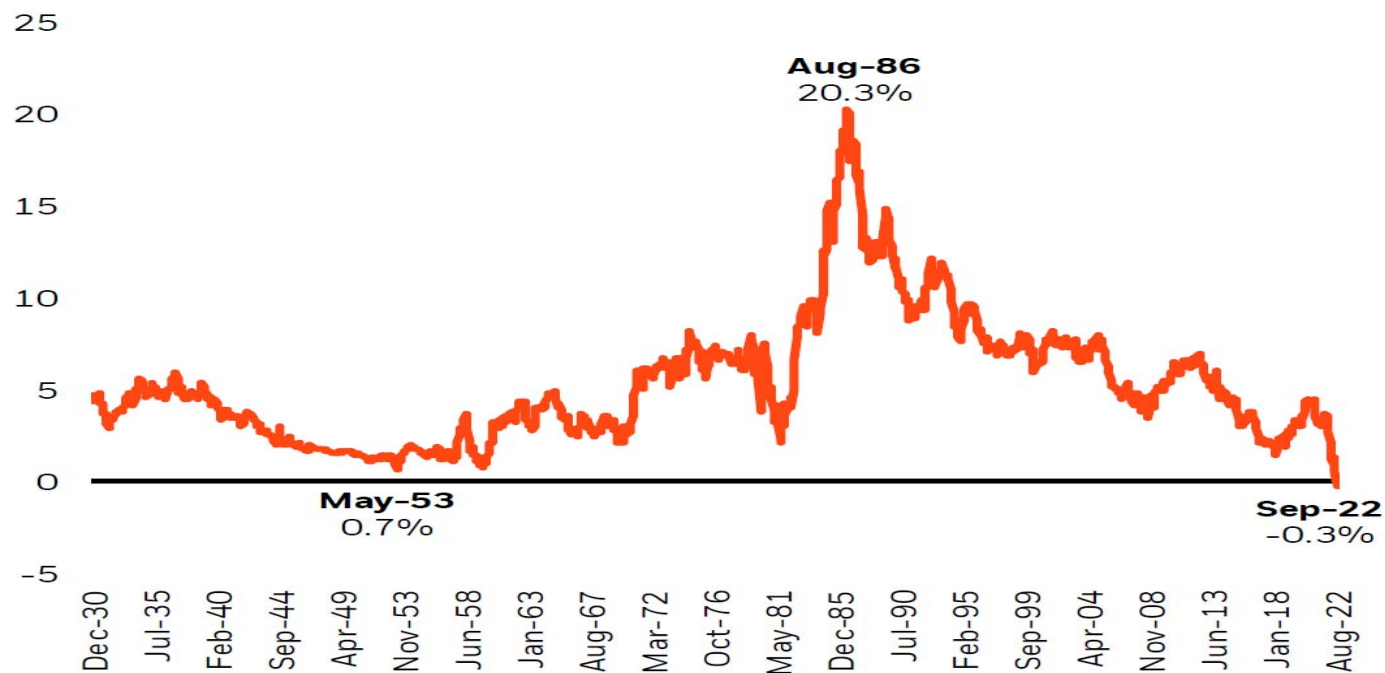
Past performance is no guarantee of future success. As of 9/30/2022

Source: Morningstar. Returns in US dollars.

# Bond Returns At a Historical Low

**Core bonds have lost money over the last 5 years for the first time in history**

Since 1926, 5-year average annual rolling return



Source: Morningstar, Blackrock. Data as of 9/30/2022



# Bond Returns Have Impacted Portfolio Returns

		Great Financial Crisis	Dot-Com Bubble
Stock/Bond Portfolios	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%

Source: Morningstar. Data as of 9/30/2022



Equities = S&P 500 TR

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Fixed Income = Bloomberg U.S. Agg. Bond TR



# *SilverOak's Outlook*

# SilverOak's Economic Outlook

## ■ U.S. Economy

- Fed will maintain hiking rates
- Increasing probability of a recession
  - Watch consumer spending trends
  - Earnings growth and job growth trends likely to weaken
- Inflation to eventually moderate

## ■ International Economy

- Global growth challenged
  - Recession risk in Europe rising with high energy prices
- China may provide some support to global growth
- Global fiscal and monetary policy likely to become more of a headwind

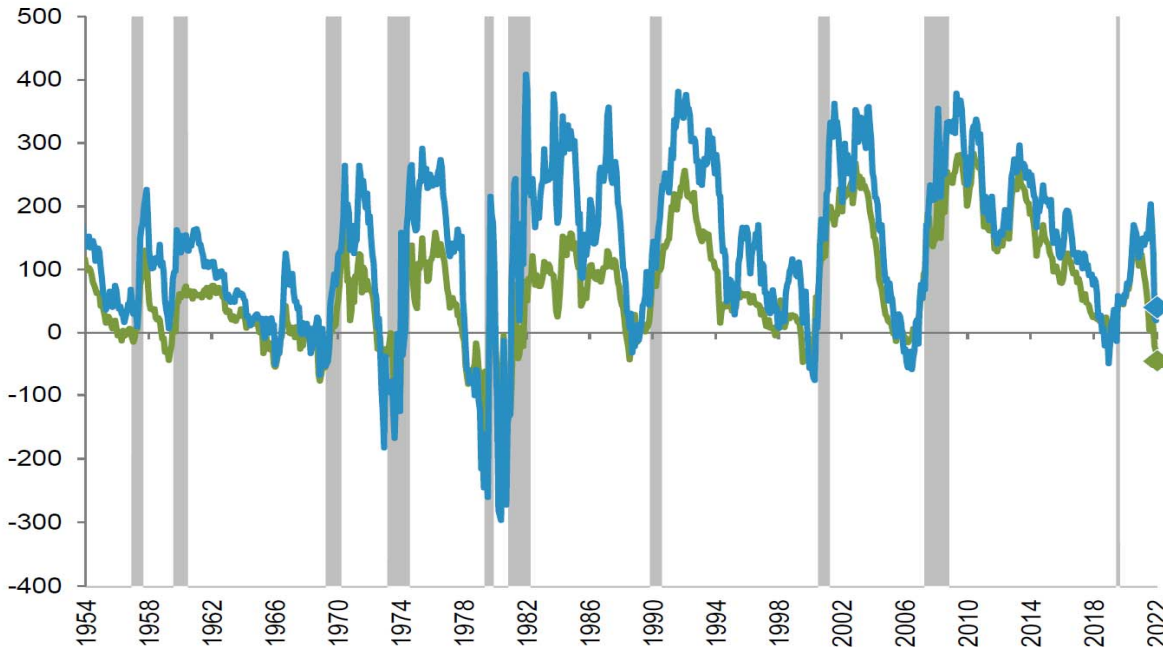


# Yield Curve Update

## Treasury Yield-Curve Spreads

— 10-Year minus 2-Year — 10-Year minus 3-Month

Basis Points



## Yield-Curve Inversions since 1950 (10-year minus 3-month)\*

Occurred before the last 8 recessions

Occurred twice without a recession  
(1966, 1998)

Peak inversion ranged from  
35 to 373 basis points

Recessions started 4 to 21 months  
after, averaging ~1 year

**+53 bps  
as of 9/30/22**

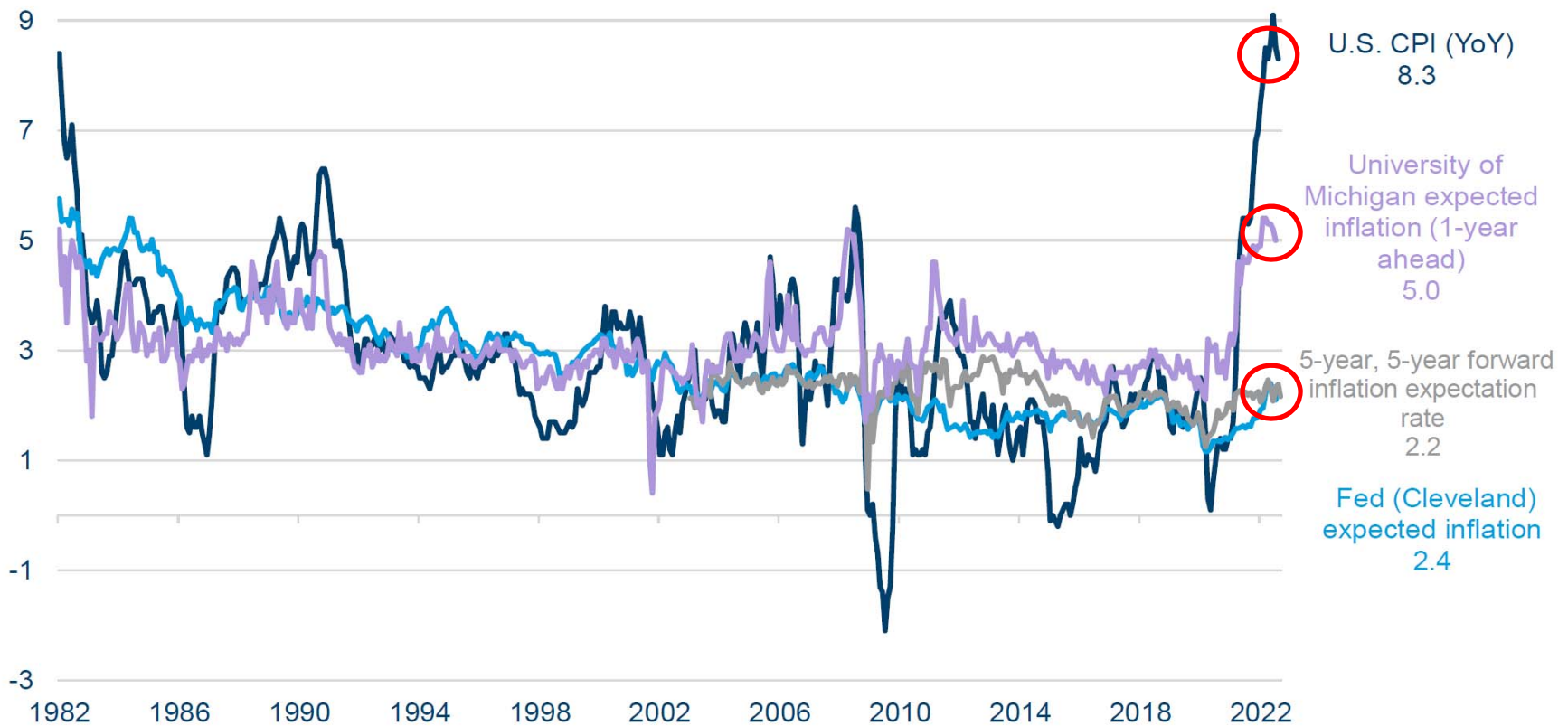
Source: US Federal Reserve, Bloomberg, Fidelity Investments. Data as of 9/30/2022



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# Inflation Update

► **CPI and consumer 1-year expected inflation is still high, but the outlook for future inflation (e.g., Cleveland Fed and 5-year futures) remains low (Inflation, %)**



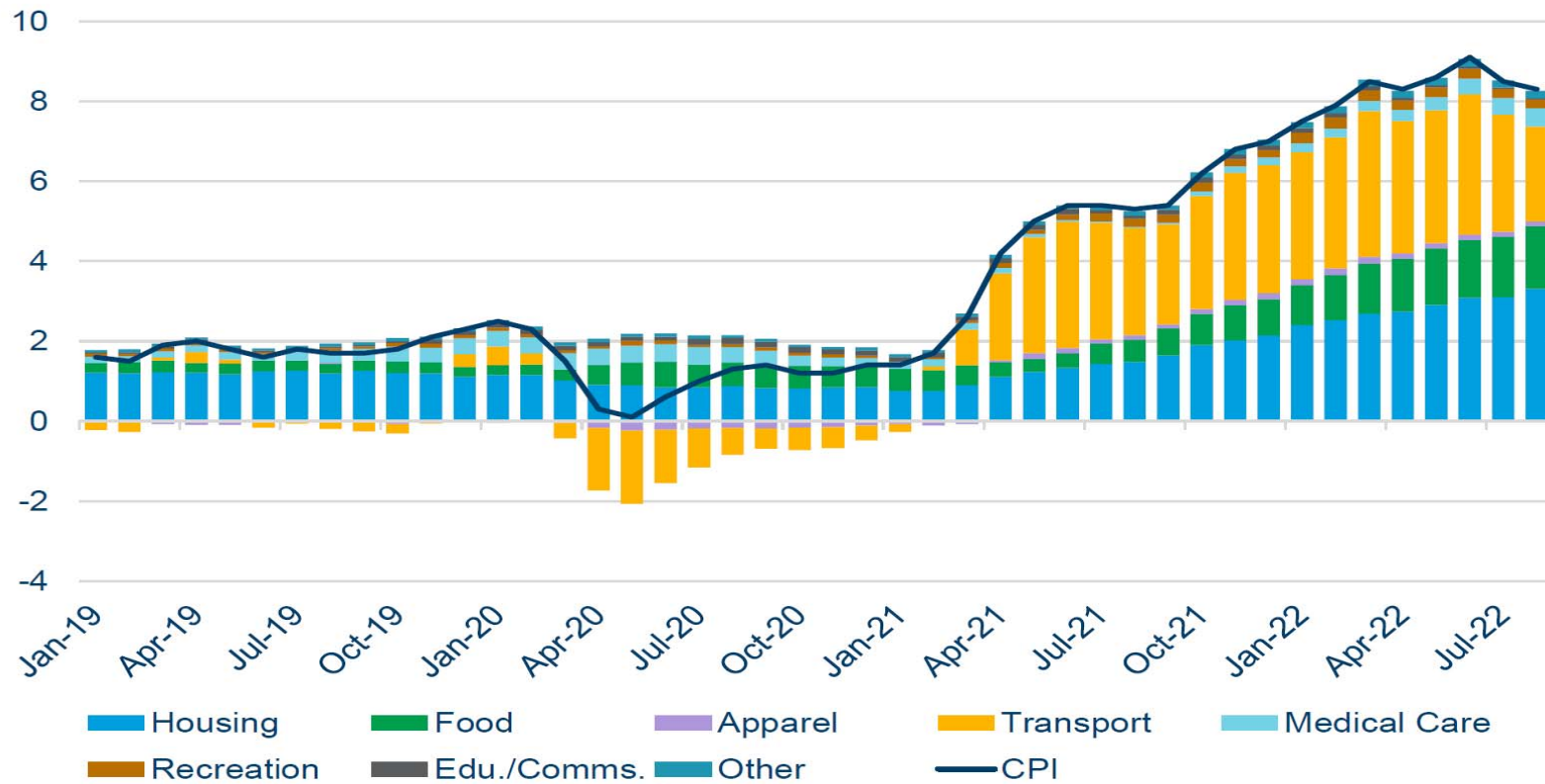
Source: Morningstar. Data as of 9/30/2022



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# Inflation Update

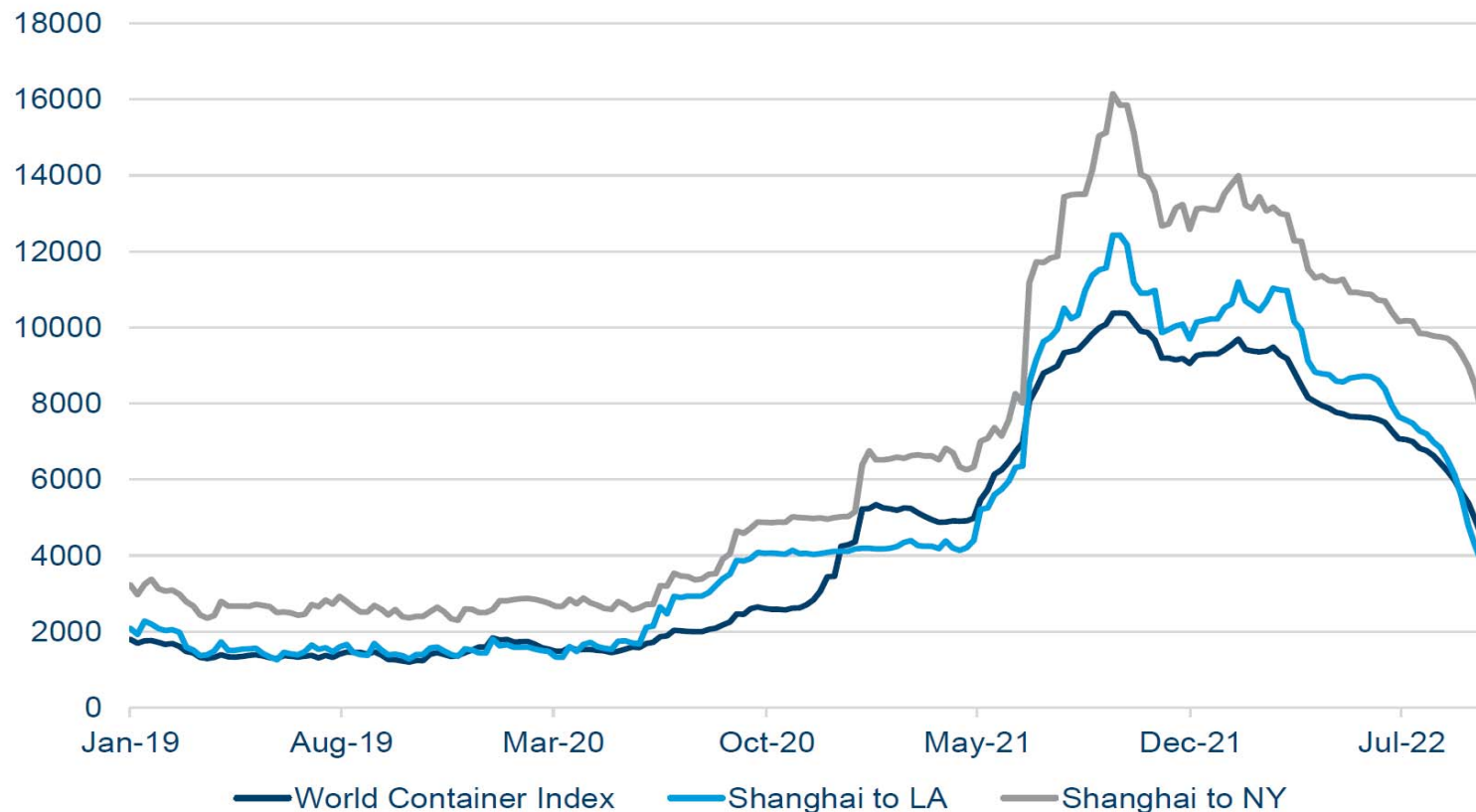
► **The cost of transportation has been the biggest factor driving inflation higher**  
(CPI by product type, %)



Source: Bureau of Labor Statistics, Columbia Threadneedle Investments. Data as of 8/31/2022

# Inflation Update

► The World Container Index is down 61% from the September 2021 peak, Shanghai to LA is down 74% and Shanghai to NY is down 55%\* (Shipping costs, \$ per 40ft container)



Source: Bloomberg, Drewry, Columbia Threadneedle Investments. Data as of 9/29/2022

# SilverOak's Market Outlook

## ■ Equities

- Volatility likely to continue, especially around Fed announcements
- Earnings growth could be a swing factor
- Valuations beginning to look better, particularly value and international stocks
- Markets are forward looking



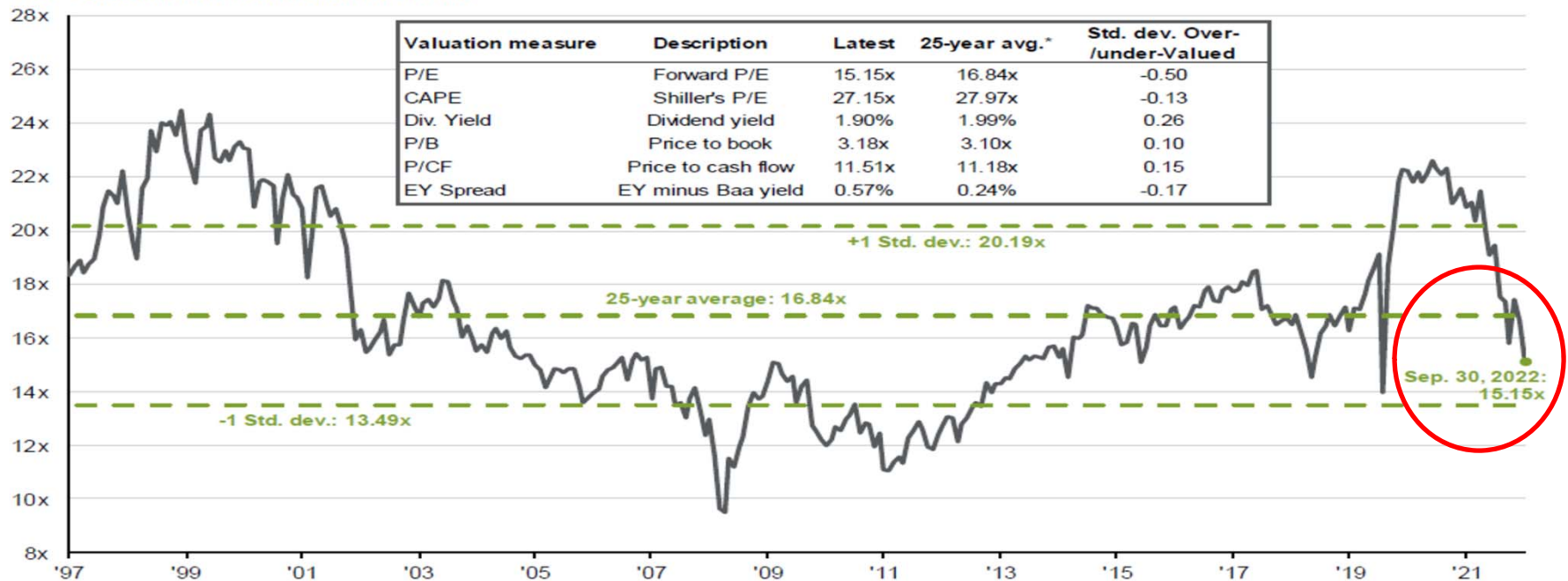


# Stock Valuations More Reasonable

## S&P 500 valuation measures

GTM | U.S. | 5

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

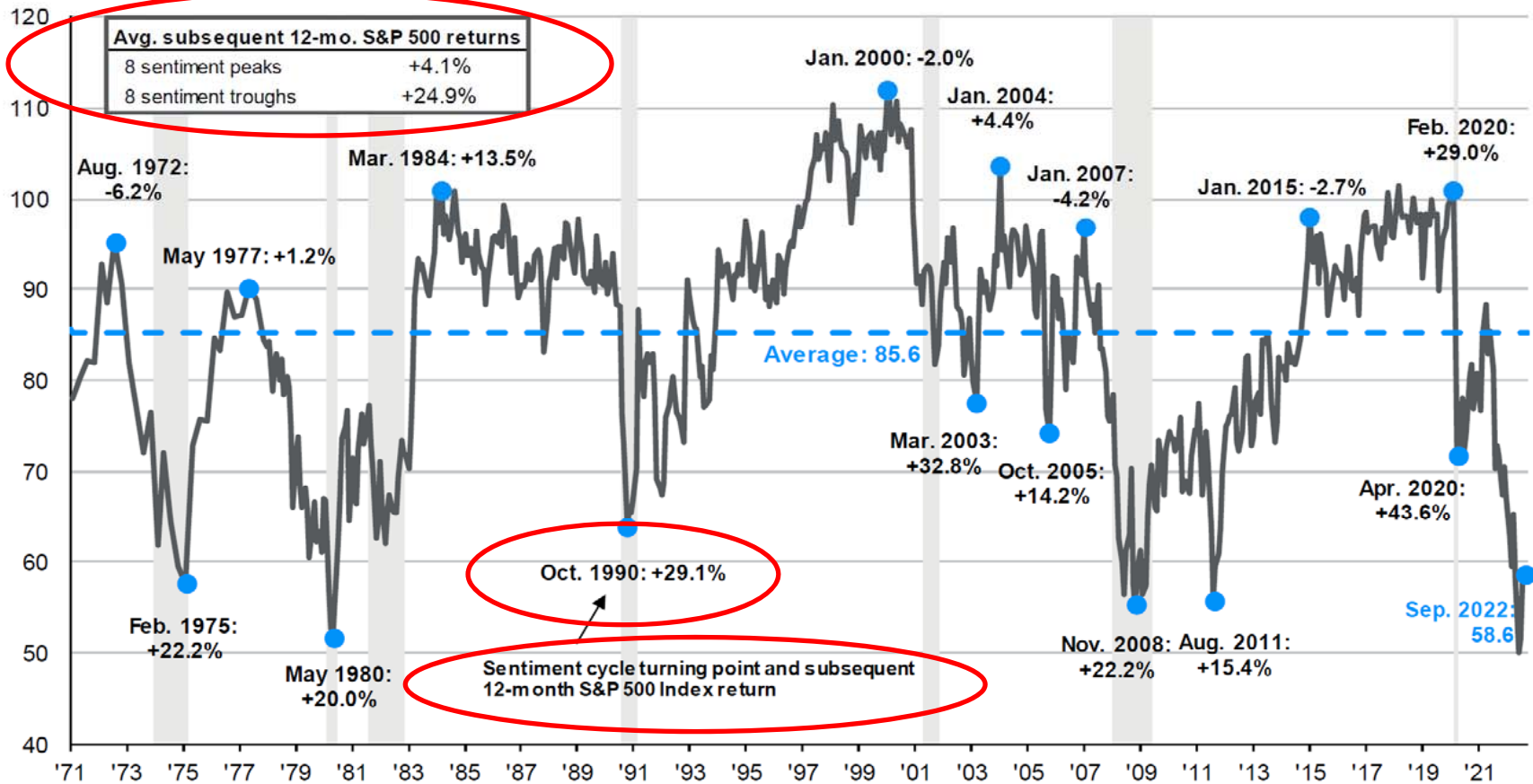


Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since August 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are \$241. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. \*P/CF is a 20-year average due to cash flow availability. *Guide to the Markets - U.S.* Data are as of September 30, 2022.

**J.P.Morgan**  
ASSET MANAGEMENT

# Consumer Sentiment is a Contrarian Indicator

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: Factset, University of Michigan, Standard & Poor's, JP Morgan. Data as of 9/30/2022

# Strong Bounce Likely Following Inflation Peak

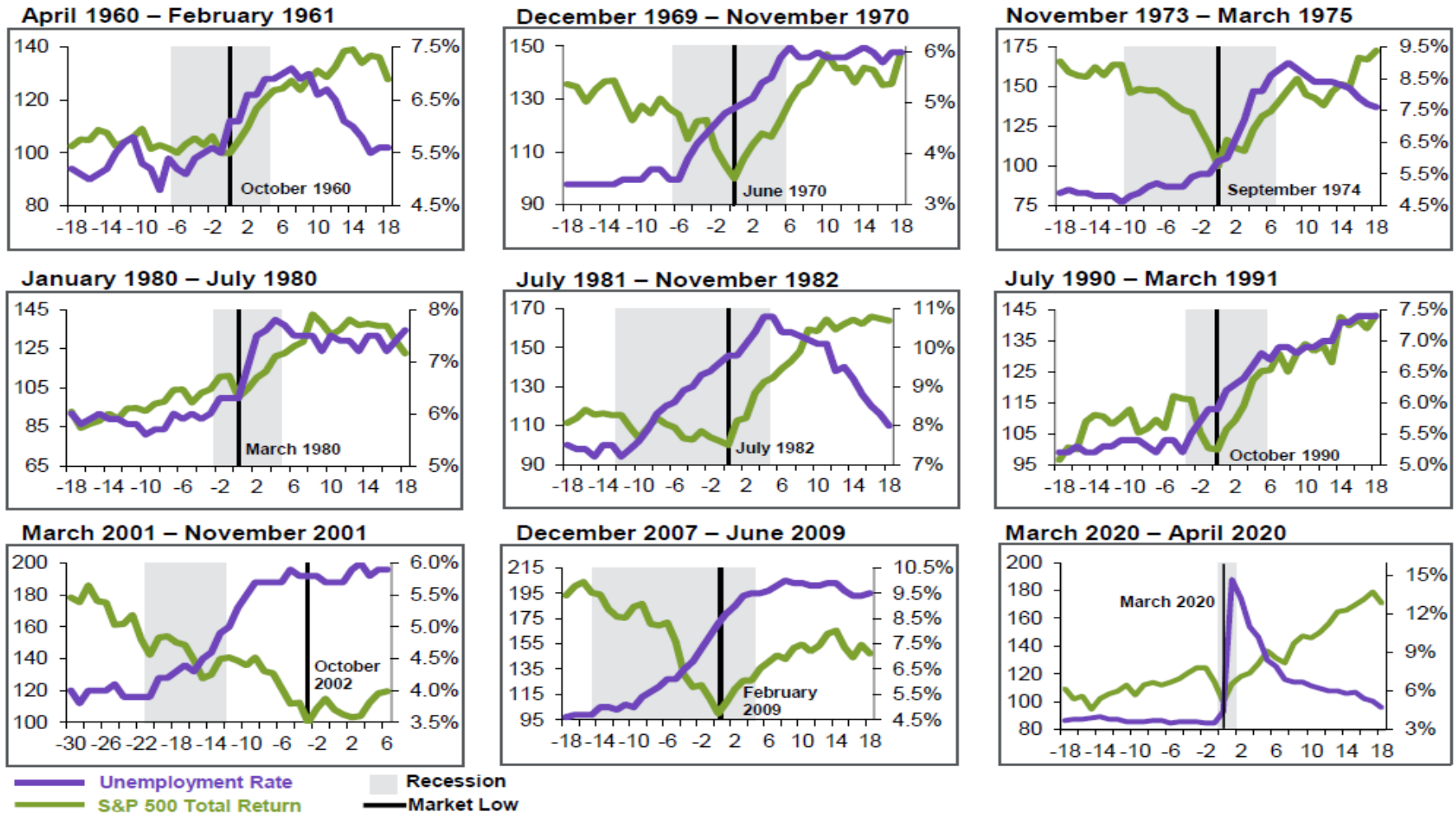
## Returns following “peak” inflation rates

Since 1926, returns for the next 12 months

Peak Inflation	Next 12 months	
	Stocks	Bonds
May 1932	4.8%	6.3%
May 1942	57.6%	2.0%
Apr 1947	12.4%	1.2%
February 1951	13.6%	0.3%
July 1970	26.6%	10.4%
November 1974	36.2%	7.7%
March 1980	40.1%	13.1%
November 1990	20.3%	14.4%
July 2008	-20.0%	7.9%
June 2022	?	?
<b>Avg.</b>	<b>21.3%</b>	<b>7.0%</b>

Source: Morningstar, Blackrock. Past Performance does not guarantee future results

# Market Bottoms vs. Unemployment



Source: BLS, Ibbotson, JP Morgan Asset Management. Past Performance does not guarantee future results

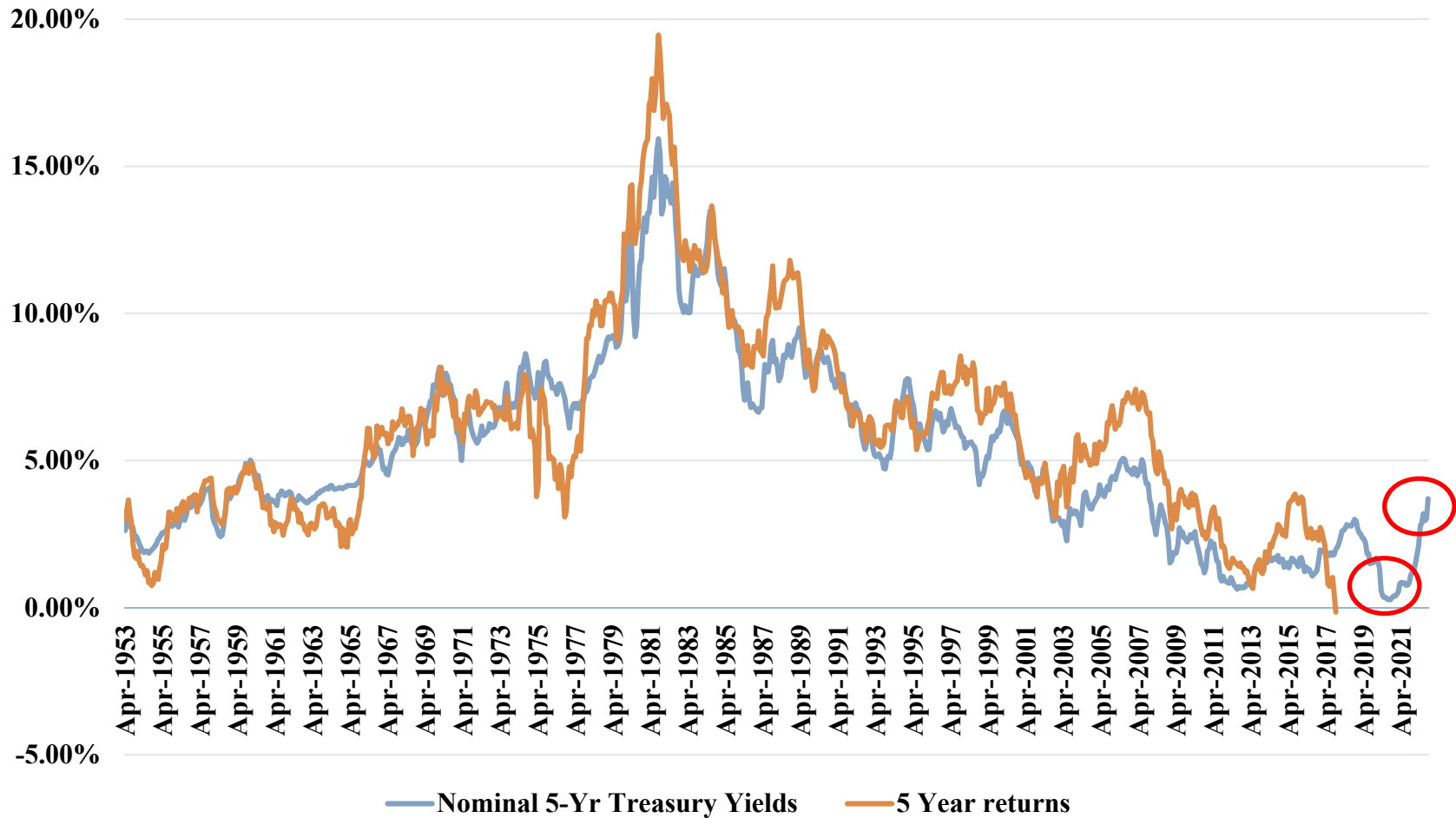
# SilverOak's Market Outlook

- **Bonds**

- If recession occurs, be cognizant of credit risk
- Future total returns expected to improve
- Yields have become much more attractive



# Returns Tend To Follow Yields



# Benefits of Higher Yields

► Higher yields should provide some “cushion” now from further rate increases and larger gains should rates decline (U.S. 10-year bond returns assuming change in yield)

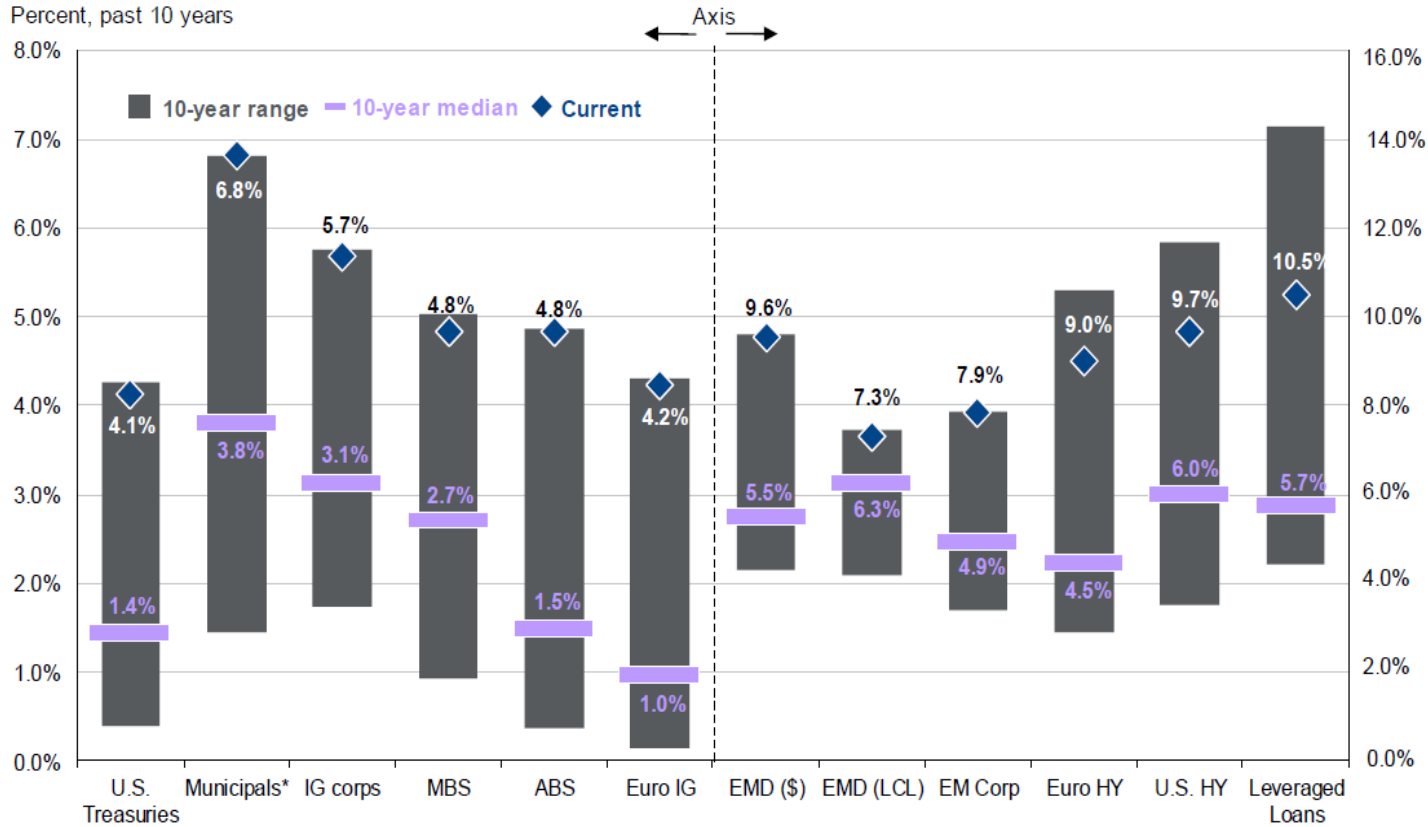
10-year bond starting yield (%)	1-year return (%) assuming change in yield of . . .				
	-50 bp	-25 bp	No change	+25 bp	+50 bp
→ 0.00	5.1%	2.5%	0.0%	-2.5%	-4.9%
0.50	5.5%	3.0%	0.5%	-1.9%	-4.2%
1.00	5.9%	3.4%	1.0%	-1.3%	-3.6%
1.50	6.2%	3.8%	1.5%	-0.8%	-3.0%
2.00	6.6%	4.3%	2.0%	-0.2%	-2.4%
2.50	7.0%	4.7%	2.5%	0.4%	-1.7%
3.00	7.3%	5.1%	3.0%	0.9%	-1.1%
3.50	7.7%	5.6%	3.5%	1.5%	-0.5%
→ 4.00	8.1%	6.0%	4.0%	2.0%	0.1%
4.50	8.5%	6.5%	4.5%	2.6%	0.7%
5.00	8.9%	6.9%	5.0%	3.1%	1.3%

Source: Columbia Threadneedle Investments. Data as of 9/30/2022. Past Performance does not guarantee future results

# Comparison of Bond Yields

## Yield-to-worst across fixed income sectors

Percent, past 10 years



Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for emerging market debt and leveraged loans: EMD (\$): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%.

Guide to the Markets – U.S. Data are as of September 30, 2022.





*SilverOak Updates*  
*and*  
*Other Important Items*

# SilverOak Updates

- 2021 tax season is officially over!
- IQSS<sup>tm</sup> (Investment Quality Scoring System<sup>tm</sup>)
  - Performance update
- SilverOak personnel update
  - New Associate Paraplanner
  - New Tax Manager

# Year-end Reminders

- Keep good tax records for 2022
- Complete a year-end tax projection
- Watch for year-end capital gains distributions
  - Likely significantly less than 2021, which was abnormally high
- Consider tax loss harvesting
- Process year-end charitable donations
  - Utilize low basis stock or IRA RMDs (Required Minimum Distributions)

# Other Noteworthy Items

- Annual gifting limit for 2023 increased to \$17,000
  - 2022 = \$16,000
- Federal estate tax exemption increased to \$12,920,000
  - 2022 = \$12,060,000
- Social Security updates
  - COLA increase of 8.7% for 2023!
  - Wage base increased from \$147,000 to \$160,200
  - Maximum monthly benefit increased from \$3,345 to \$3,636



# Other Noteworthy Items

- HSA updates
  - Family contribution increased by \$450 to \$7,750
  - Individual contribution increased by \$200 to \$3,850
  - Catch-up contribution unchanged at \$1,000
- Other annual limits not yet announced
  - 401(k) contributions
  - IRA contributions
  - Etc.



# *Insurance Series*

## *Travel Insurance*

# Travel Insurance

- **Covers expenses, such as the following:**
  - Trip cancellation, interruption and delay
  - “Cancel for any reason”
  - Baggage and personal belongings
  - 24-hour assistance
  - Travel medical
  - Emergency evacuation and repatriation
  - Accidental death and dismemberment



# Travel Insurance

## ■ Premiums

- Typically impacted by the following items:
  - Length and cost of trip
  - Location you are traveling to
  - Medical conditions you want covered
  - Amount and breadth of coverage
  - Age
  - State of residency

## ■ Types of policies

- Single trip
  - Usual premiums are 4% - 7% of the trip cost
- Long-term travel
  - Some carriers, such as Chubb, offer policies that provide coverage for a full year
  - Unlimited travel to any location during coverage period





# Travel Insurance

## ■ Securing coverage

- Some premium credit cards offer basic trip cancellation and interruption coverage when you pay with the credit card
- Typically offered as an option for purchase on travel websites
- Examples of carriers offering coverage:
  - Chubb
  - AXA Travel Insurance
  - COVAC Global
    - COVID evacuation and repatriation: <https://covacglobal.com/>
  - Berkshire
  - World Nomads
  - International Medical Group
  - AIG Travel Guard



*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)