Second Quarter 2024 Market Summary

3600 Minnesota Drive
Suite 860
Edina, MN 55435

Phone: 952-896-5700

Visit us at
silveroakwealth.com

Second Quarter 2024 Market Summary

We hope you are enjoying the summer! Economic data over the past few months has been somewhat mixed, and while growth continues at a gradual pace, it is slowing. There are indications that consumers are scaling back on spending, or at least being more selective about what they purchase. However, that is being offset by increased corporate and government investments in AI (Artificial Intelligence) and infrastructure projects. Thus, the drivers of the economy may be undergoing a rotation.

Inflation has remained steady over the past year but remains higher than the 2 - 3% range targeted by the Federal Reserve. In April, after data came in higher than expected, both equity and fixed income markets experienced pullbacks due to investor concerns that inflation was ticking back up. These concerns were short-lived, as markets began rebounding in May when data showed inflation coming in below consensus. The expectation for rate cuts continues to decrease as the labor market remains resilient, economic growth continues and there is some progress on inflation.

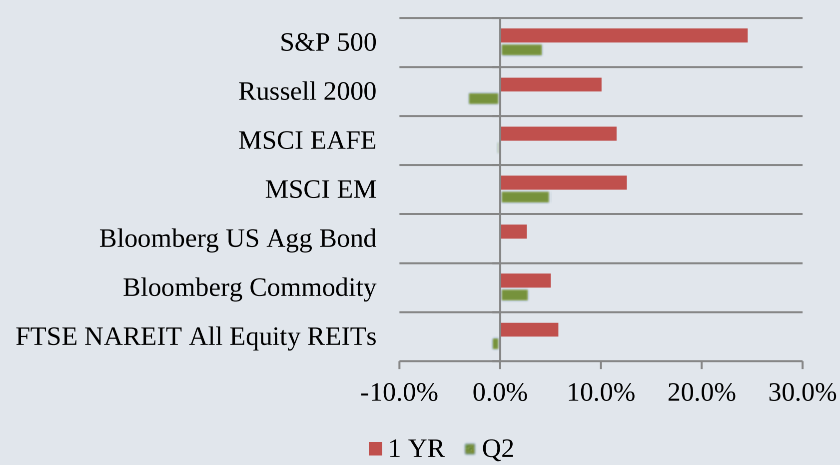
U.S. large company stocks (i.e., S&P 500 Index) were up 4.3% during the second quarter and have increased 15.3% year-to-date. U.S. small company stocks (i.e., Russell 2000 Index) were down 3.3% during the quarter but are still up 1.7% year-to-date. A handful of large-cap growth stocks continue to drive the U.S. equity markets, whereas the S&P 500 ex Magnificent 7 are up only 5% year-to-date. Furthermore, only five of the eleven S&P 500 sectors had a positive return. Looking ahead, earnings are expected to rebound in the back half of the year for sectors that have underperformed, such as healthcare, industrials, materials and energy, while technology will face tougher comparisons.

International stocks, represented by the MSCI ACWI ex US Index, gained 1.0% during the quarter and are up 5.7% year-to-date. During the quarter, emerging markets performed better than developed international markets and now lead for the year as well. In local currency terms, international stocks are up 11.0% year-to-date. Japan and Europe have notably performed well, with local currency returns of 21.5% and 10.3%, respectively. The strong underlying performance of international companies should be seen as a positive, despite currency headwinds. International has its own performance concentration with a handful of stocks that have had even better performance than the Magnificent 7 over the past 3 years.

The Bloomberg Barclays U.S. Aggregate Bond Index, representing a broad basket of bonds, was essentially flat for the quarter but is down 0.7% year-to-date. Interest rates increased during the quarter, which caused income earned to be offset by price declines. The risk-reward in fixed income remains favorable despite the higher than historical average volatility. Bonds currently provide income, have the potential for capital appreciation, and provide stability if there is a surprise downturn in economic growth.

As we approach the second half of the year, several topics continue to develop. One prominent discussion centered on the recent strong performance of major U.S. technology stocks, prompting some investors to question their asset allocation and the inclusion of certain assets in their portfolios. However, markets are inherently cyclical, and diversification often offers investors a stable portfolio they can sustain over the long term.

Broad Market Index Returns
Second Quarter 2024



Second Quarter 2024 Market Summary (continued)

For example, in 2010, many investors focused on trailing returns and favored international equities, commodities, small-cap stocks, and fixed income, only to see those categories have lower returns during the next decade. The shifting leadership in asset classes underscores the importance of maintaining a diversified portfolio.

		2000-2009 Returns	2010-2019 Returns	2020-2024 Returns
S&P 500 TR	**U.S. Large Cap**	-0.95%	13.56%	14.19%
Russell 200 TR	**U.S. Small Cap**	3.51%	11.83%	6.07%
MSCI EAFE GR	**International**	1.58%	6.00%	6.15%
MSCI EM GR	**Emerging Markets**	10.11%	4.04%	2.26%
Bloomberg U.S. Agg Bond TR	**Fixed Income**	6.33%	3.75%	-0.79%
Bloomberg Commodity TR	**Commodities**	7.13%	-4.73%	7.49%

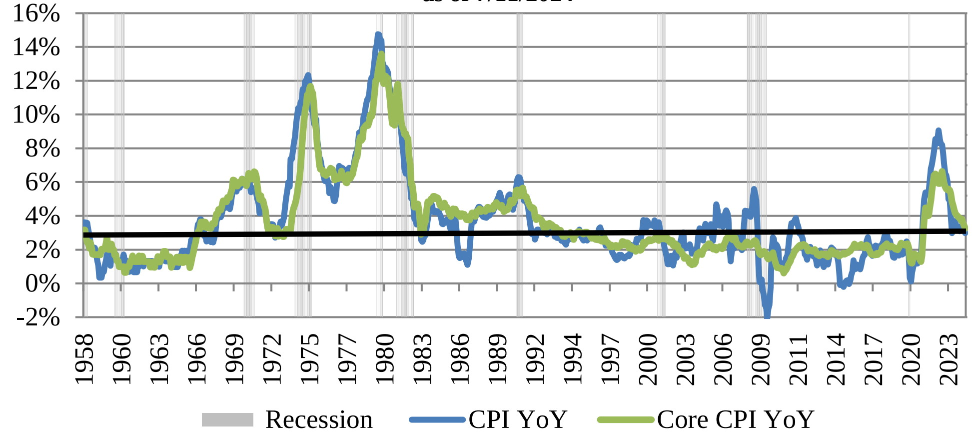
The strong performance of tech companies has led to an unprecedented concentration in the top 5 to 10 firms within the U.S. equity market. While these companies have excellent fundamentals and a strong outlook, this concentration inherently increases the potential for greater volatility, as these firms have a more significant impact on the broader market's returns. Valuations in large-cap U.S. equities remain above average, primarily driven by tech stocks. Although valuations may not predict short-term returns, they tend to be more relevant over the long term, with higher valuations often leading to lower future returns. Additionally, if inflation and the labor market continue to cool, we may see easing interest rates, which could benefit underperforming market segments such as small caps and fixed income.

During the quarter, the U.S. equity market, along with some European and Asian markets, continued to set new all-time highs. Historically, markets have trended upward, driven by earnings growth, despite persistent concerns over geopolitics, the economy, or valuations. In real-time, these trepidations may feel like wobbling on the edge of a cliff, but in retrospect, they can resemble steps upward. Refrain from attempting to sidestep events or predict the future; shortcuts make for long delays, often taking us further from our intended goal and worse for the wear. Rather, allow compounding to work for you and trust in your long-term strategy. The choice to let your plan work uninterrupted may be one of the more positively impactful choices you can make!

MACROECONOMICS

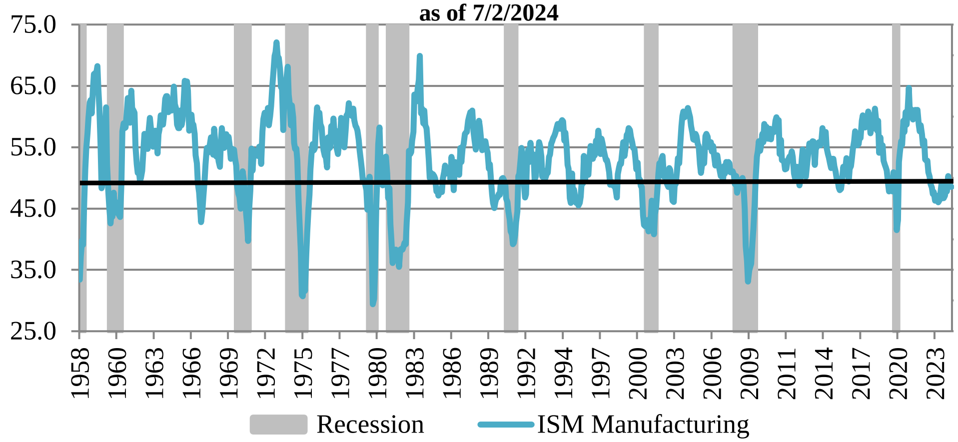
- The Bureau of Economic Analysis released the advanced estimate of second quarter 2024 real GDP, an annual rate increase of 2.8% from the preceding quarter.
- Inflation is down from the highs in 2022 but progress has slowed in the past year as inflation remains above the Federal Reserve's target. In June, headline CPI increased 3.0% year-over-year. Core CPI, which excludes food and energy, had a 3.3% increase.

Inflation - Consumer Price Index (CPI)
as of 7/11/2024



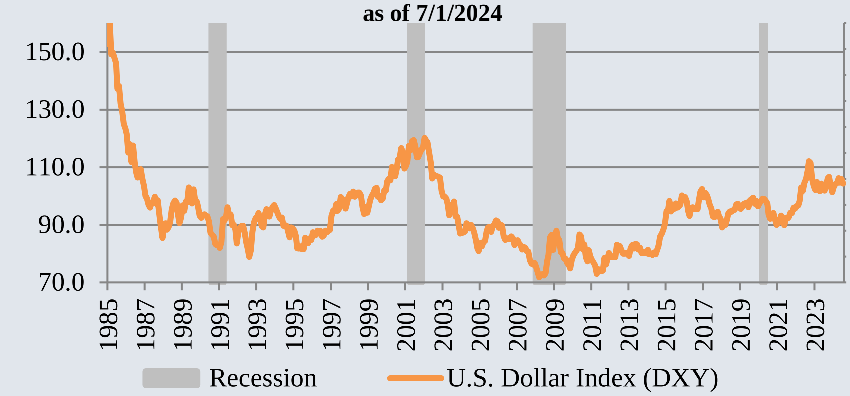
- The ISM Manufacturing Index decreased during the quarter, finishing at 48.5 versus 50.3 in March. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index was lower during the quarter and finished at 48.8 in June.

ISM Manufacturing Index
as of 7/2/2024



- In June, the Conference Board Leading Economic Index decreased 0.2% month-over-month to 101.1. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, remains at a contractionary level but the trend is improving.
- The U.S. dollar was essentially flat over the past quarter.

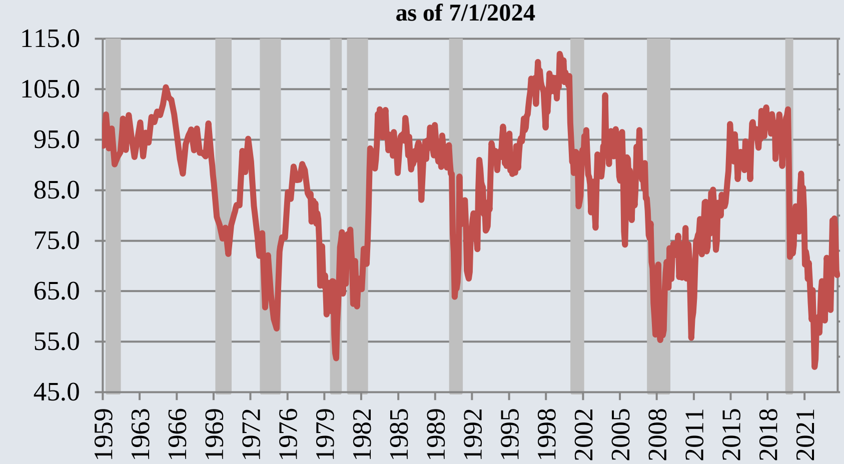
U.S. Dollar Index (DXY)
as of 7/1/2024



CONFIDENCE METRICS

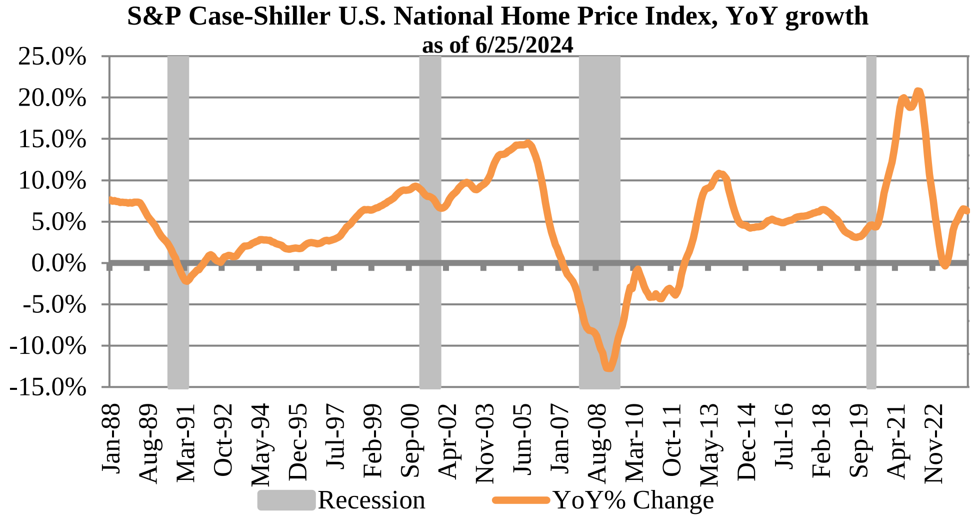
- The Conference Board's Consumer Confidence Index June reading was 100.4, down from 103.1 in March. Consumers are concerned with inflation but have a positive view on the labor market.
- The University of Michigan Consumer Sentiment Index final reading for June was 68.2, which is lower than the first quarter.

University of Michigan Consumer Sentiment Index
as of 7/1/2024

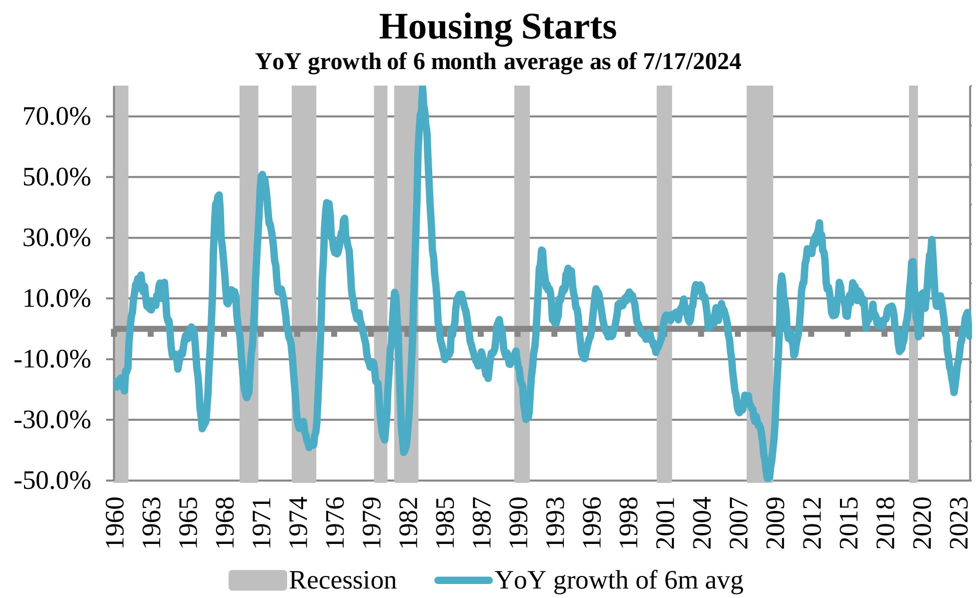


HOUSING

- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices increased 6.3% year/year in April. Prices continue to rebound.

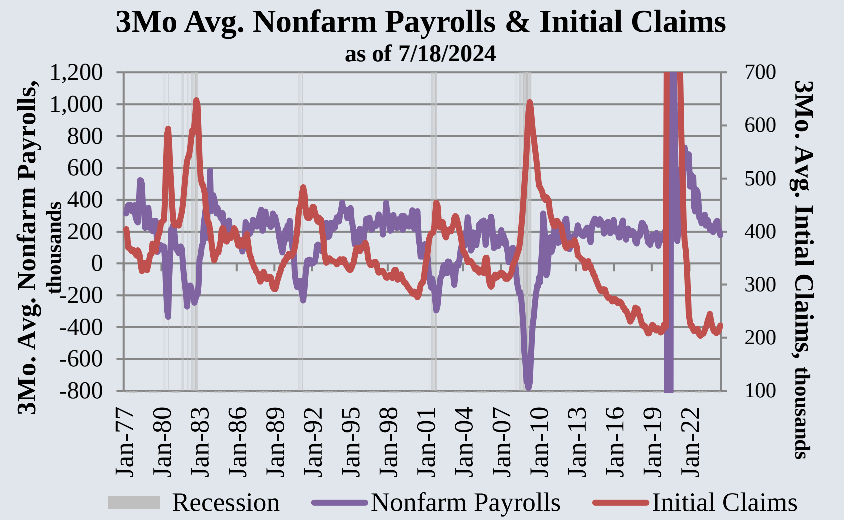


- Housing starts declined during 2023, in part, due to higher financing costs. But, in the past few months starts have leveled. The housing market remains supply-challenged.

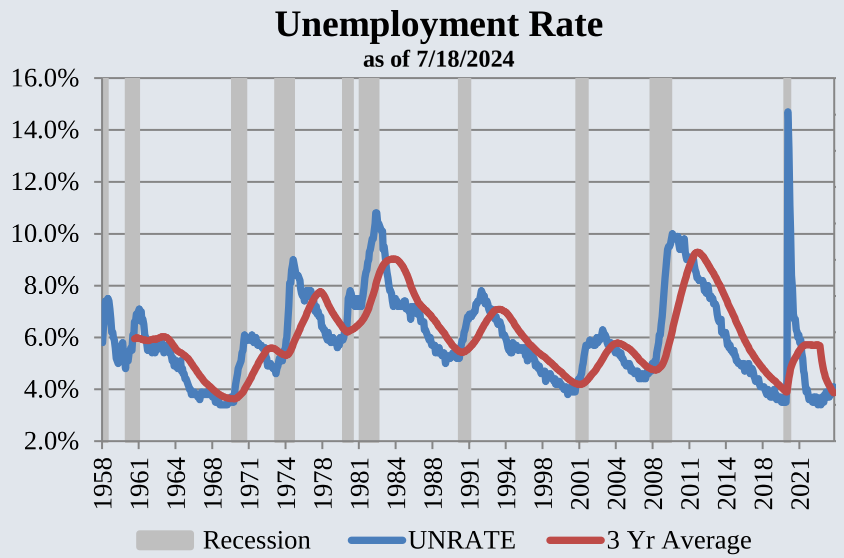


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 177,333 jobs added per month, while initial claims remain low.



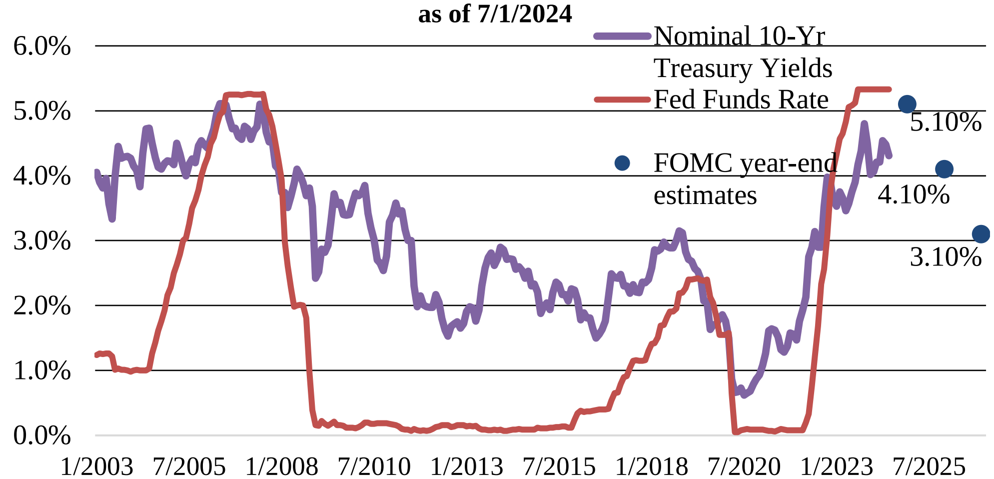
- The unemployment rate increased during the quarter to 4.1% and is now above its three-year average, showing potential weakness.



FED POLICY

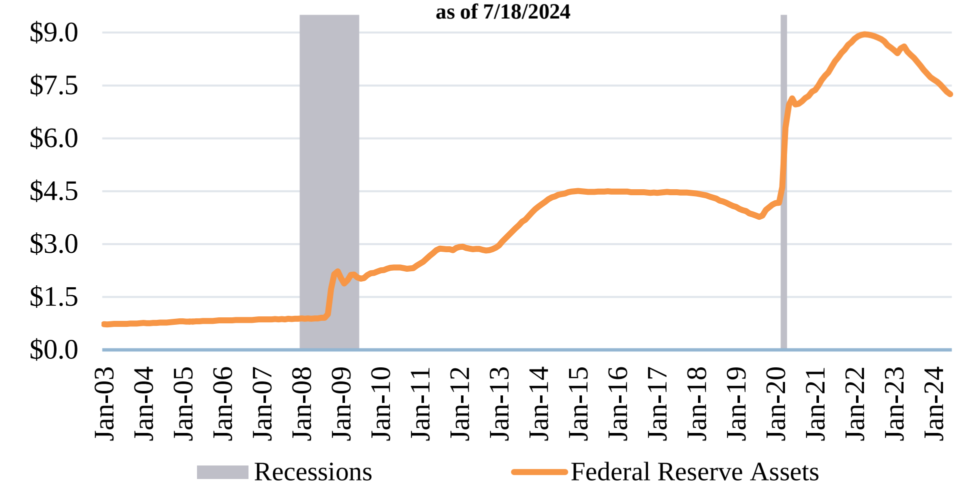
- The Federal Open Market Committee (FOMC) maintained the federal funds rate at 5.25%-5.5% during the past few meetings. In June, the Fed noted progress on easing inflation and reduced their projected rate cuts for 2024.

U.S. 10-Year Treasury Yield vs. Fed Funds Rate
as of 7/1/2024



- In 2022, the Fed started to reduce its holdings of Treasuries and agency MBS. Other central banks have been reducing their balance sheets as well.

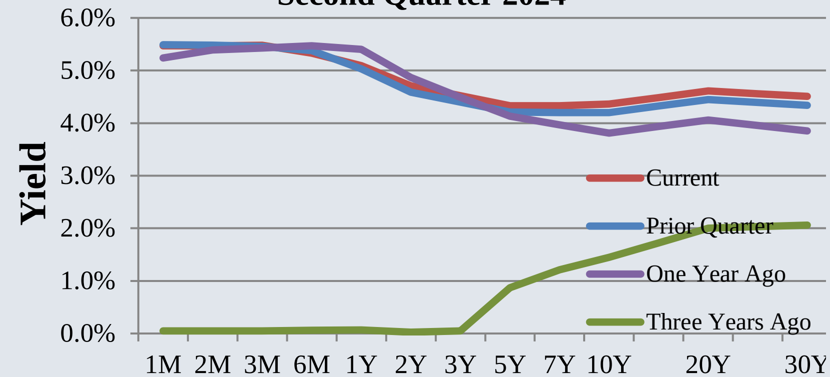
Federal Reserve Balance Sheet, assets in trillions $
as of 7/18/2024



FIXED INCOME

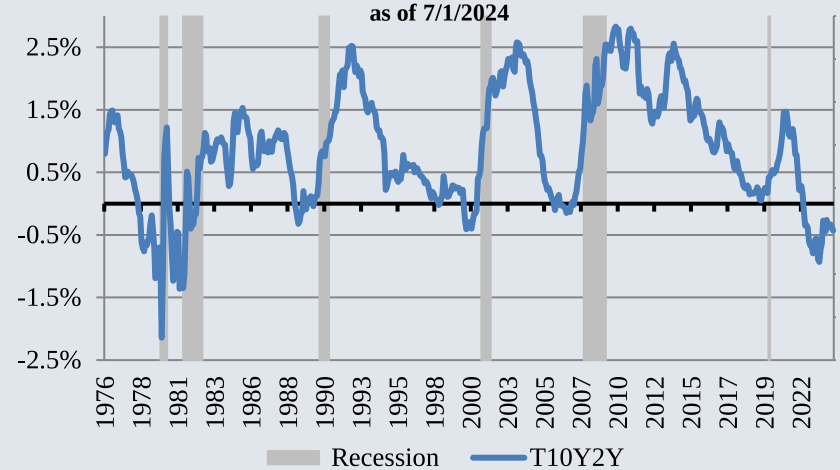
- Yields across the U.S. Treasury curve slightly increased during the quarter as the market adjusted their expectations for less rate cuts by the Fed in 2024. Short-term interest rates are controlled or heavily influenced by central banks, whereas long-term interest rates are affected by market forces and economic growth.

U.S. Treasuries Yield Curve
Second Quarter 2024



- The spread between short and intermediate-term Treasuries has remained inverted since July 2022 (the past 24 months) and finished at negative 43bps 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
as of 7/1/2024



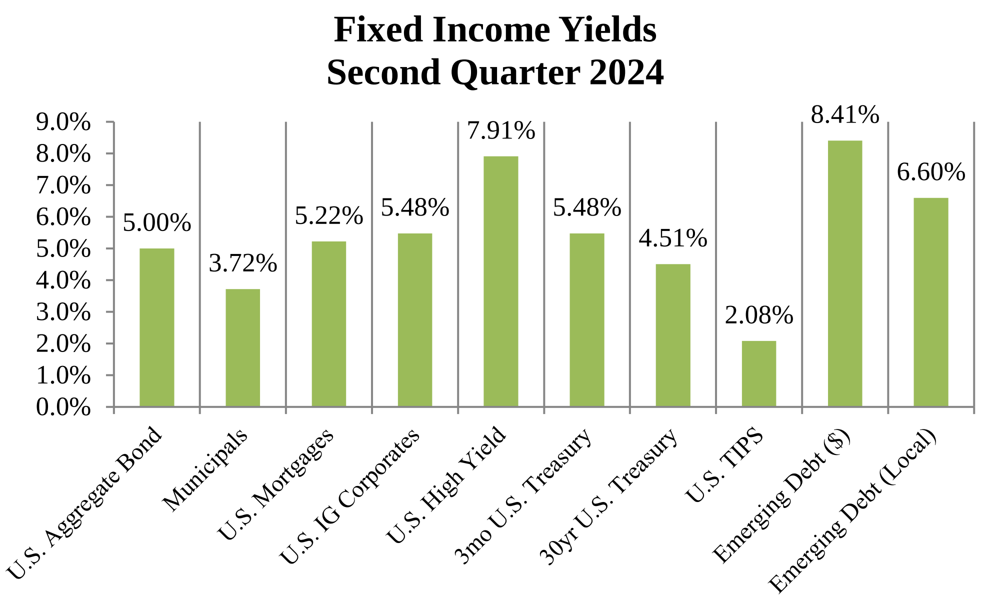
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was up 0.07%. Bonds with less interest rate sensitivity, generally, performed better as rates rose.

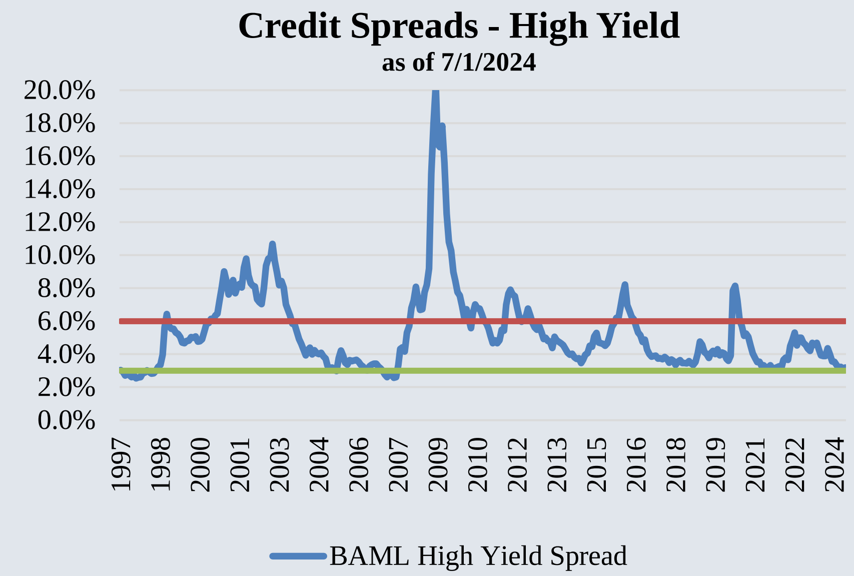
	2Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	0.07%	2.63%	-0.23%	1.35%
Municipals	-0.02%	3.21%	1.16%	2.39%
U.S. Mortgages	0.07%	2.12%	-0.76%	0.89%
U.S IG Corporates	-0.09%	4.63%	0.62%	2.34%
U.S. High Yield	1.09%	10.44%	3.92%	4.31%
3mo U.S. Treasury	1.33%	5.46%	2.20%	1.54%
30yr U.S. Treasury	-2.23%	-7.60%	-5.58%	-0.08%
U.S. TIPS	0.79%	2.71%	2.07%	1.91%
Emerging Debt ($)	0.30%	9.00%	-0.20%	2.50%
Emerging Debt (LCL)	-1.40%	-0.70%	-1.70%	-1.10%

Bloomberg and JPMorgan Indices

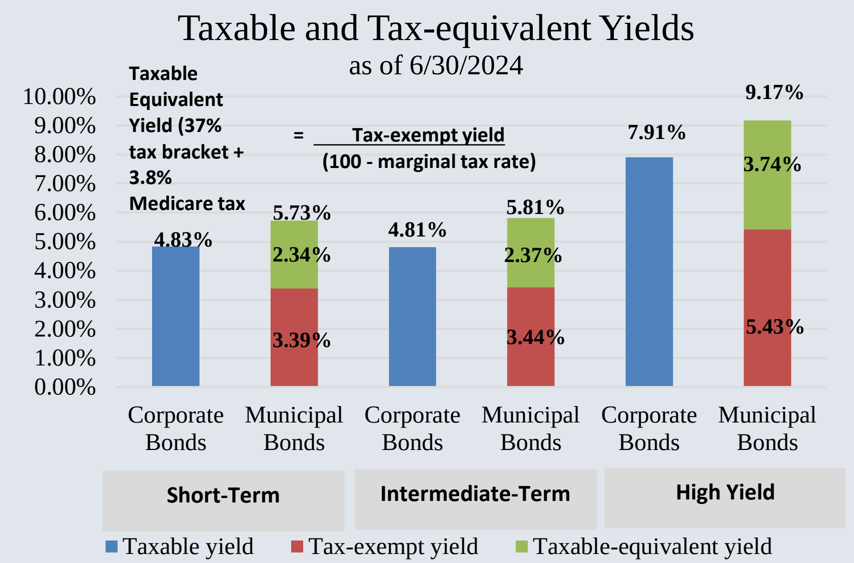
- Yields increased during the second quarter and remain at attractive levels.



- Credit spreads remained stable during the quarter, indicating no current signs of stress in the financial system.



- Municipals are currently more attractive relative to taxable bonds on an after-tax basis for investors in the highest marginal tax bracket.



DOMESTIC EQUITIES

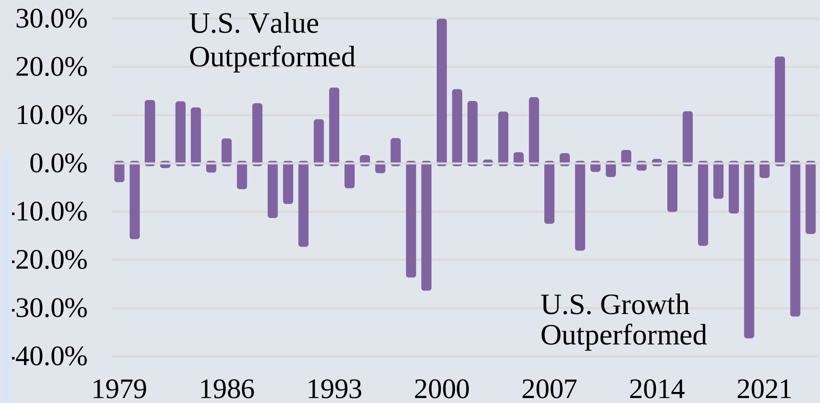
Second Quarter 2024 Returns			
	Value	Core	Growth
Mega Cap		9.1%	
Large Cap	-2.2%	3.6%	8.3%
Mid Cap	-3.4%	-3.4%	-3.2%
Small Cap	-3.6%	-3.3%	-2.9%
Micro Cap	-5.1%	-5.3%	-5.6%

- The Russell 1000 Index, comprising of large and mid-capitalization stocks, posted a positive total return of 3.6% during the second quarter. On a year-over-year basis, the Russell 1000 Index has increased 23.9%.
- Small capitalization stocks, as represented by the Russell 2000 Index, decreased 3.3% during the second quarter. On a year-over-year basis, the index has increased 10.1%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	2Q 24 Return	1-Yr Return	10-Yr Return
Energy	3.6%	8.0%	0.5%	-2.4%	15.9%	3.3%
Materials	2.2%	4.7%	0.6%	-4.5%	8.7%	8.1%
Financials	12.4%	22.9%	5.7%	-2.0%	24.2%	10.6%
Industrials	8.1%	14.3%	5.1%	-2.9%	15.5%	10.4%
Cons. Disc.	10.0%	4.7%	14.1%	0.6%	13.1%	12.2%
Technology	32.4%	9.5%	46.8%	13.8%	41.8%	22.8%
Comm. Services	9.3%	4.5%	12.7%	9.4%	44.9%	9.9%
Real Estate	2.2%	4.6%	0.7%	-1.9%	5.6%	7.0%
Health Care	11.7%	13.9%	10.1%	-1.0%	11.7%	11.1%
Cons. Staples	5.8%	7.9%	3.8%	1.4%	8.2%	8.9%
Utilities	2.3%	5.0%	0.1%	4.7%	7.8%	8.0%
S&P 500 Index	100.0%	100.0%	100.0%	4.3%	24.6%	12.9%

- During the quarter, technology remained strong, while other sectors were weak. Six of the eleven sectors had negative returns. If interest rates decline there could be a rotation in performance across the equity market.

U.S. Value vs. Growth Relative Equity Performance (as of 6/30/24)



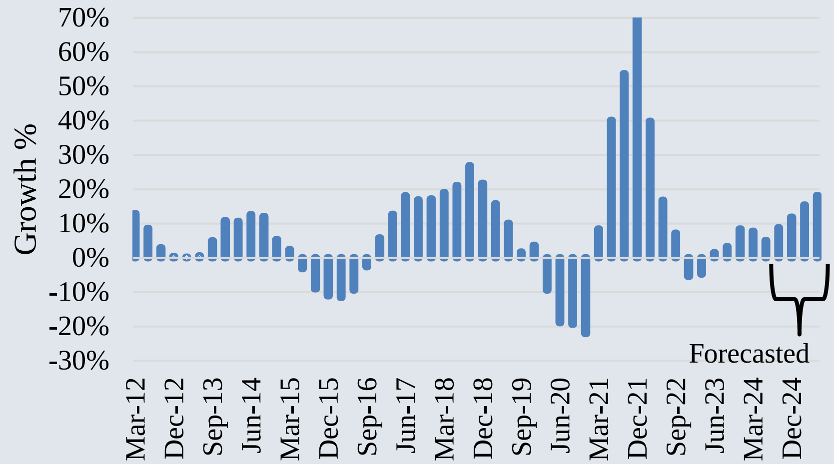
Russell 1000 Value TR vs. Russell 1000 Growth TR

- Growth outperformed Value year-to-date and significantly for 2023. Growth has outperformed for twelve out of the past seventeen years.

S&P 500 Earnings Growth

Trailing 12-Month Operating Earnings Growth YoY

(as of 7/17/2024)



- Corporate earnings growth has slowed over the past year, earnings are expected to rebound over the next year. Technology firms have seen a strong growth in earnings the past few quarters.

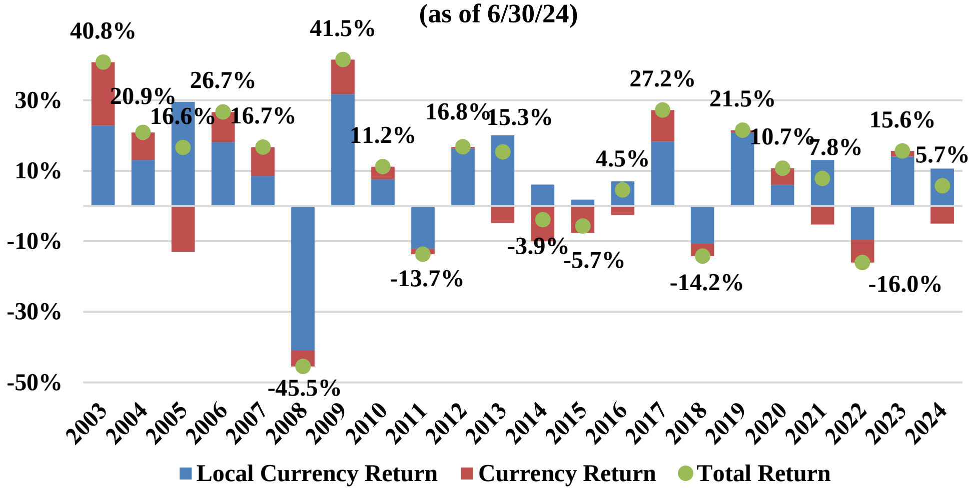
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were down 0.4% during the quarter, but were up 11.5% on a year-over-year basis.
- Emerging market stocks outperformed developed markets during the second quarter as the MSCI Emerging Markets Index was up 5.0%. On a year-over-year basis, emerging market stocks are beating developed markets with a return of 12.6%.

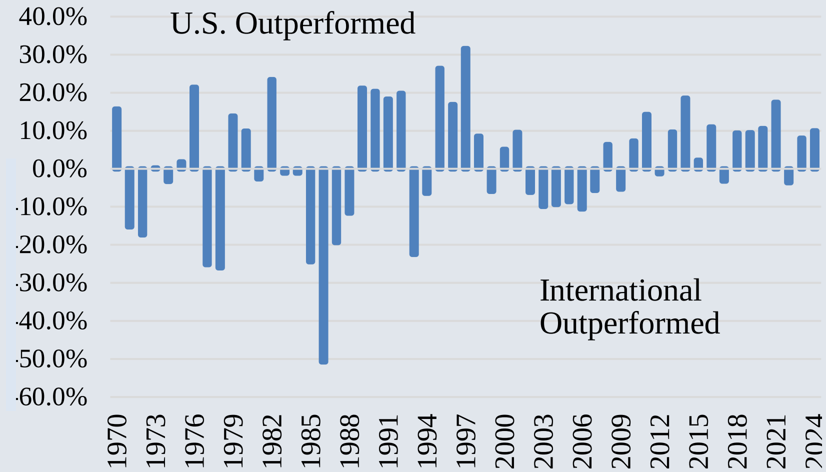
	2Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	2.9%	19.4%	10.8%	8.4%
World Ex-US	1.0%	11.6%	5.5%	3.8%
EAFE	-0.4%	11.5%	6.5%	4.3%
Europe	0.5%	11.7%	7.1%	4.2%
Japan	-4.3%	13.1%	6.6%	5.5%
Pacific Ex-Japan	2.5%	6.8%	2.4%	3.2%
Emerging Markets	5.0%	12.5%	3.1%	2.8%
EM (Asia)	7.4%	15.1%	4.6%	4.5%
EM (Latin America)	-12.2%	-5.6%	0.1%	-0.3%
EM (Eastern Europe)	6.7%	28.2%	-20.2%	-9.3%

- Currency detracted from international equity returns. The U.S. 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 6/30/24)



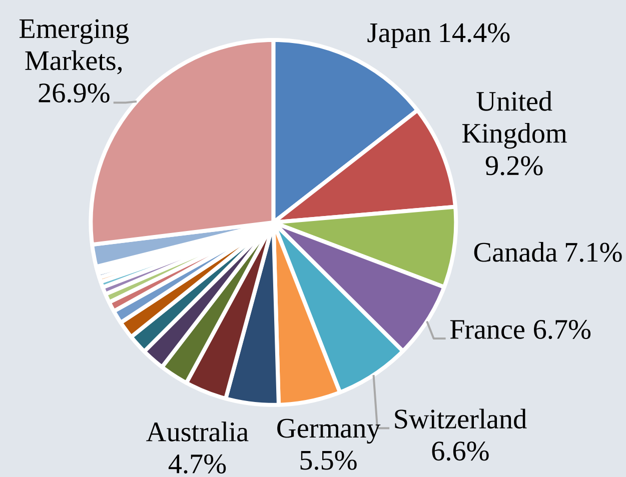
U.S. vs. International Equity Performance (as of 6/30/24)

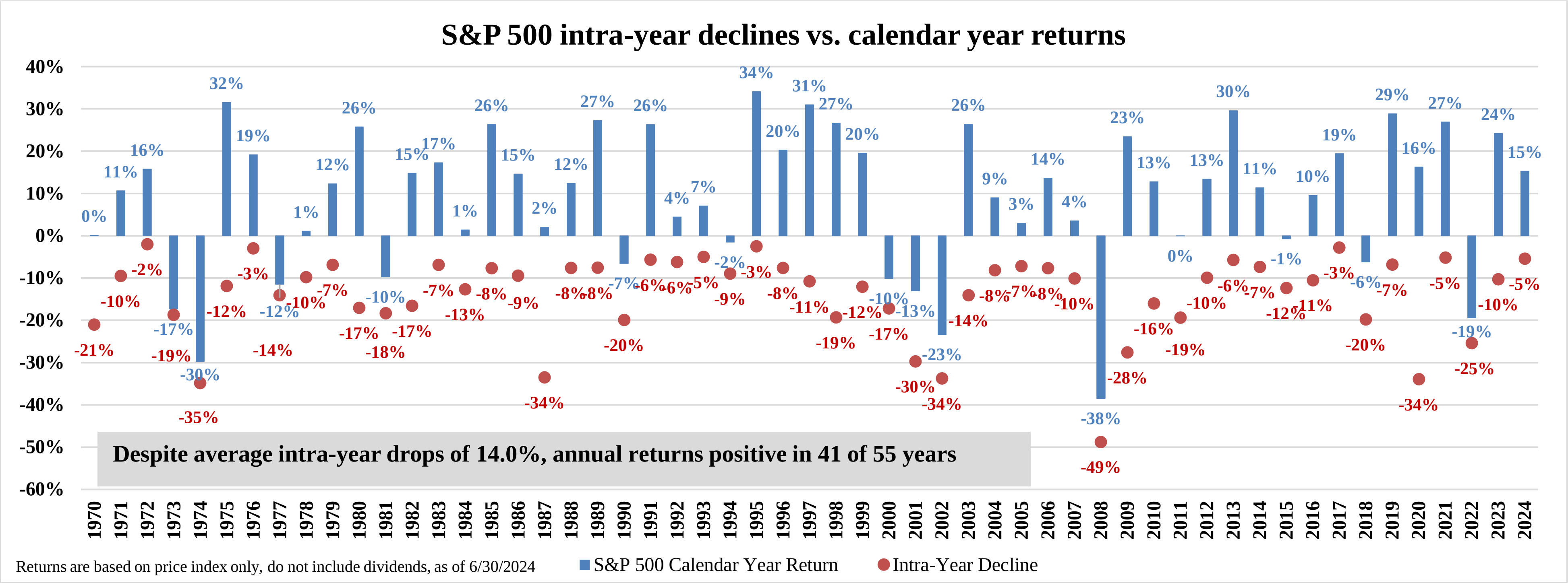


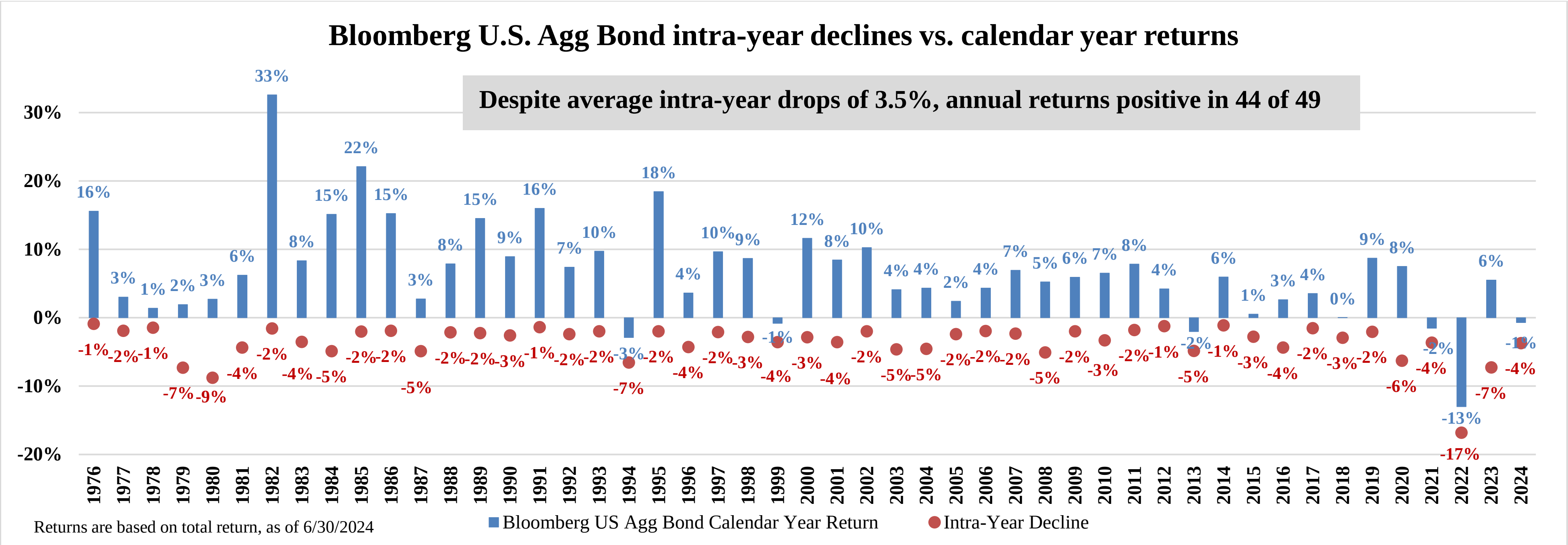
S&P 500 TR vs. MSCI EAFE NR

- International equities performed worse than U.S. equities during the quarter. International equities have underperformed U.S. equities in eleven out of the last fourteen years. Performance is cyclical as shown in the chart above.

Country Weighting in MSCI ACWI ex US (as of 6/30/2024)




S&P 500 intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.0%, annual returns positive in 41 of 55 years
Returns are based on price index only, do not include dividends, as of 6/30/2024
S&P 500 Calendar Year Return
Intra-Year Decline


Bloomberg U.S. Agg Bond intra-year declines vs. calendar year returns
Despite average intra-year drops of 3.5%, annual returns positive in 44 of 49
Returns are based on total return, as of 6/30/2024
Bloomberg US Agg Bond Calendar Year Return
Intra-Year Decline

Market leadership changes. Focus on asset allocation and diversification.

Asset Class Performance

Best

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	10-yrs '14-'23 Return	10-yrs '14-'23 Volatility
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 16.1%	Large Cap 26.3%	Large Cap 15.3%	Large Cap 12.0%	Small Cap 20.2%
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 1.5%	International 18.9%	Emerging Markets 7.7%	Real Estate 8.0%	Real Estate 17.3%
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%	High Yield -12.7%	Small Cap 16.9%	International 5.8%	Small Cap 7.2%	Emerging Markets 17.2%
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%	Fixed Income -13.0%	Asset Allocation 14.2%	Asset Allocation 5.6%	Asset Allocation 5.9%	International 15.2%
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%	Asset Allocation -13.9%	High Yield 14.0%	Commodities 5.1%	International 4.8%	Large Cap 15.2%
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%	International -14.0%	Real Estate 11.4%	High Yield 3.2%	High Yield 3.6%	Commodities 14.3%
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%	Large Cap -18.1%	Emerging Markets 10.3%	Cash 2.7%	Emerging Markets 3.1%	Asset Allocation 10.2%
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%	Emerging Markets -19.7%	Fixed Income 5.5%	Small Cap 1.7%	Fixed Income 1.8%	High Yield 8.6%
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%	Small Cap -20.4%	Cash 5.1%	Fixed Income -0.7%	Cash 1.2%	Fixed Income 4.8%
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 -25.0%	Commodities -7.9%	Real Estate -2.2%	Commodities -1.1%	Cash 0.5%

Worst

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 6/30/2024

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