



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar January 22, 2021



Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®], AEP[®]
Partner and Lead Analyst



Agenda

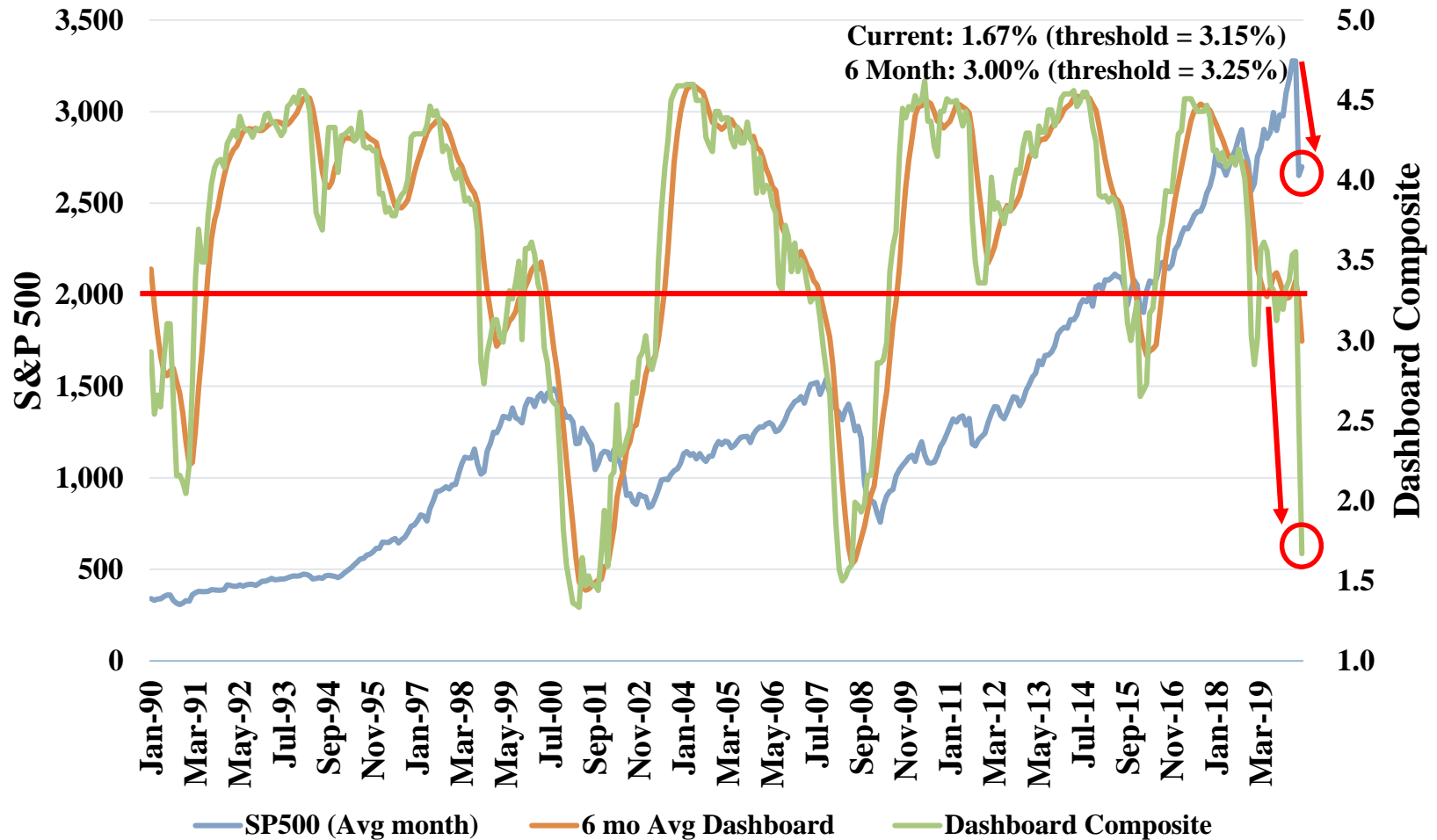
- Economic data
- Market data
- SilverOak's outlook
- Perspectives on current market trends
- SilverOak updates
- “New Year” planning tips
- Tax updates
- Biden's proposed stimulus package
- Questions



A Look Back at 1st Quarter 2020



Market Dashboard – April 2020



Economic Scorecard – April 2020

Positive

Fiscal Policy (+)

Monetary Policy (+)

Interest Rates (+)

Commodity Prices (+)

Neutral

Housing

Corporate Sector ↓

U.S. Politics ↑

U.S. Dollar

U.S. Inflation

Negative

Employment (-)

Consumer Confidence (-)

Credit Conditions (-)

Global Growth ↓

Eurozone ↓

China (-)

Tariffs

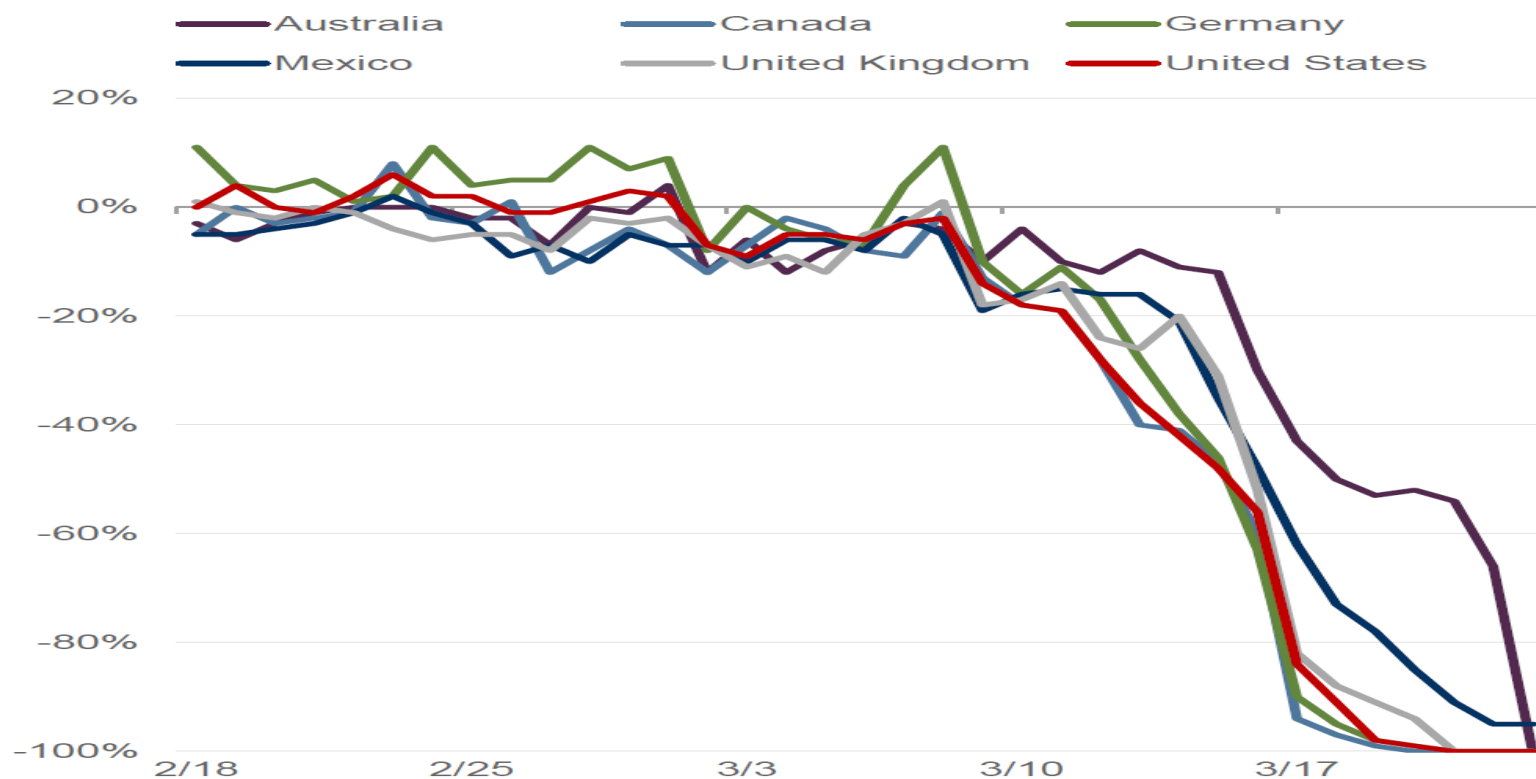
Geopolitics

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



Consumer Spending Fell Quickly – April 2020

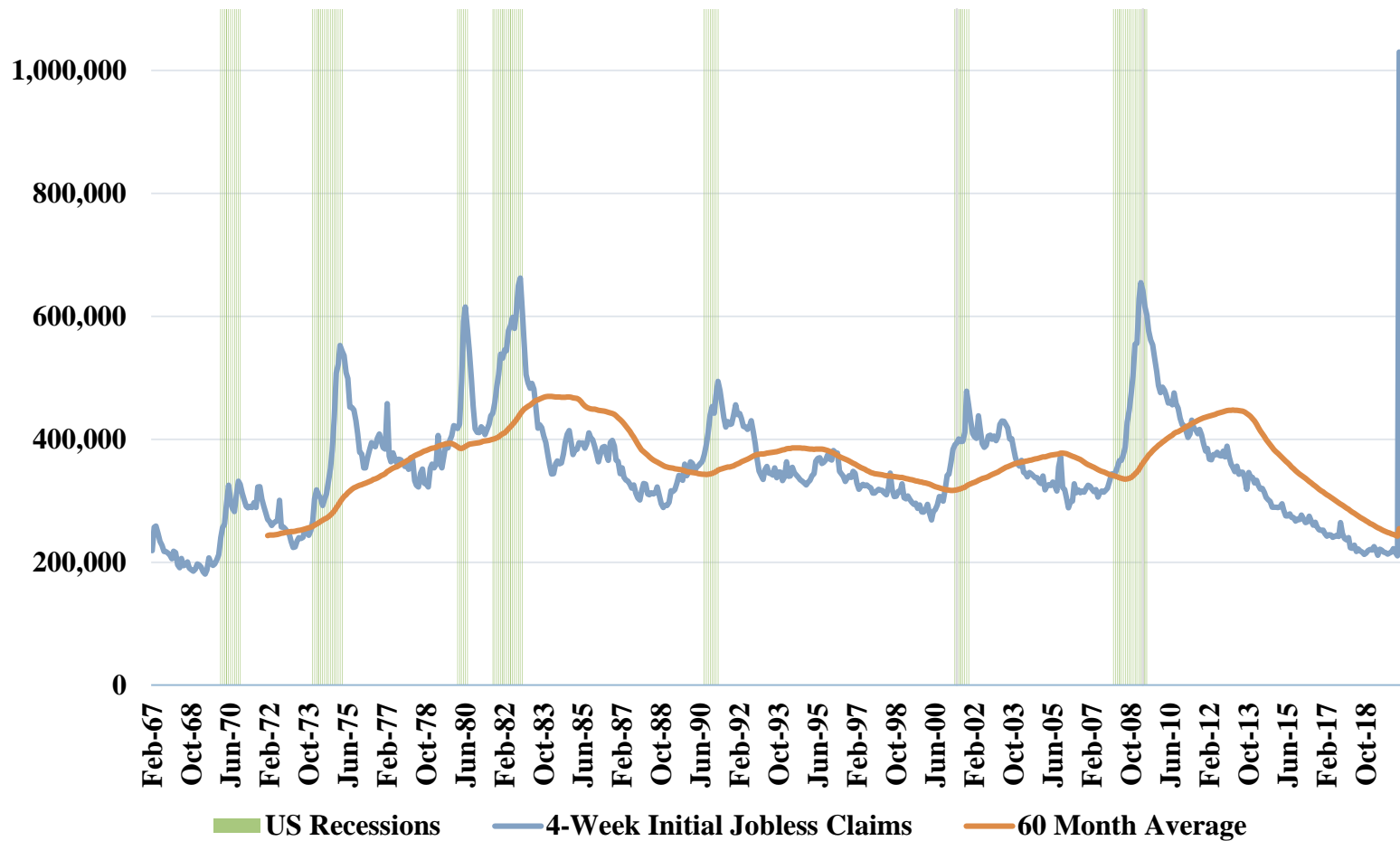
Seated Diners at OpenTable Network Restaurants, YoY% Change



Source: Guggenheim



Jobless Claims Surged – April 2020



2020 GDP Estimates Cut Substantially – April 2020

	Goldman	Bank of America	Morgan Stanley	JPMorgan	Barclays	DB	Avg	Min	Max
Q1	(6.0)	0.5	(2.4)	(4.0)	1.5	0.6	(1.6)	(6.0)	1.5
Q2	(24.0)	(12.0)	(30.1)	(14.0)	(7.0)	(12.9)	(16.7)	(30.1)	(7.0)
Q3	12.0	3.0	29.2	8.0	0.0	4.4	9.4	0.0	29.2
Q4	10.0	4.0	3.3	4.0	1.0	5.2	4.6	1.0	10.0
2020	(3.1)	(0.8)	(2.3)	(1.8)	(0.6)	(0.8)	(1.6)	(3.1)	(0.6)
Technical Recession	Yes	No	Yes	Yes	No	No	Yes		

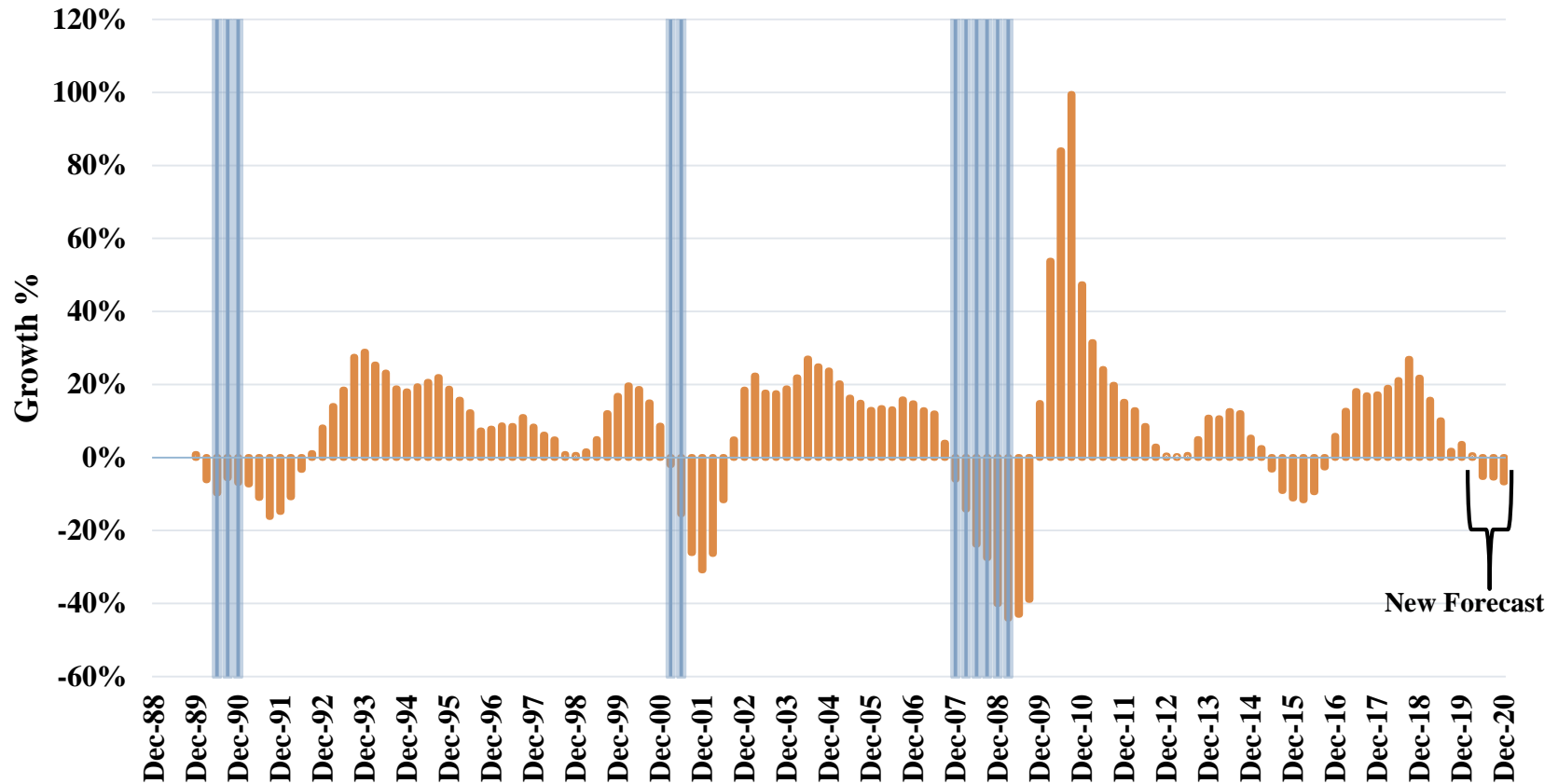
Source: Doubleline, Goldman Sachs, Bank of America, Morgan Stanley, JP Morgan, Barclays, Deutsche Bank and Bloomberg

Data as of 3/31/20



Earnings Expected to Contract – April 2020

S&P 500 Earnings Growth
Trailing 12-Month Operating Earnings Growth YOY



Monetary Policy – April 2020

The Federal Reserve is “All In”

- February 28th – Statement issued indicating, “The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity.”
- March 15th – Cut Fed Funds rate to 0.00% to 0.25%
- March 17th – Established Primary Dealer Credit Facility and Commercial Paper Funding Facility
- March 18th – Established Money Market Mutual Fund Liquidity Facility
- March 19th - 31st – Extensive measures announced to support economy
- March 31st – Established temporary Repo Facility



Monetary Policy – April 2020

The Federal Reserve is “All In”

- April 1st - April 3rd – Leverage ratio rules relaxed and other announcements regarding mortgage servicers working with homeowners
- April 6th – Establish facility for lending to small businesses via PPP (Payroll Protection Program)
- April 7th - 8th – Statement on loan modifications and growth restrictions on Wells Fargo adjusted
- April 9th – Announce additional \$2.3 trillion in loans



Monetary Policy – April 2020

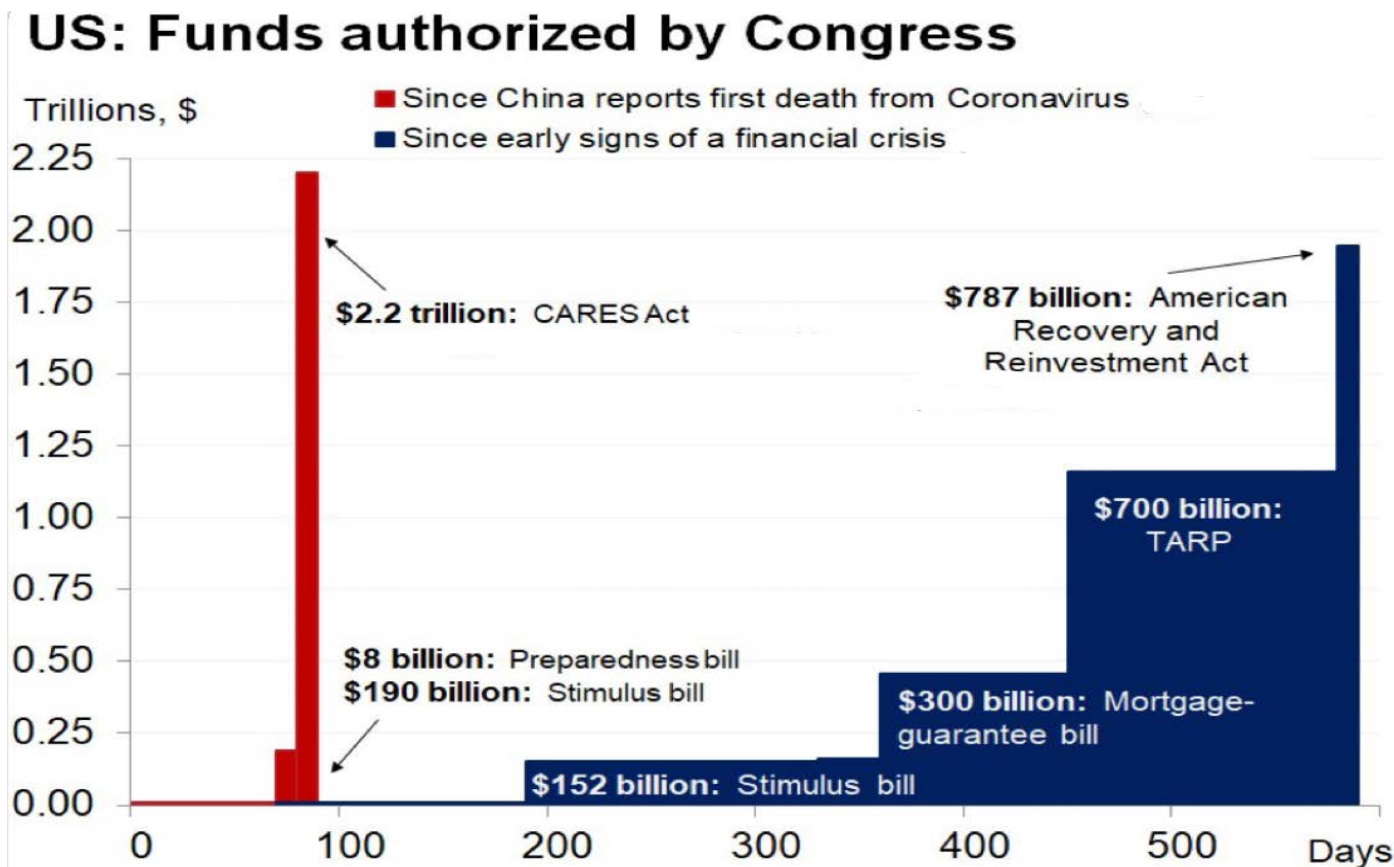
The Federal Reserve is “All In”

- Injected trillions of liquidity into the U.S. banking system
- Announced essentially unlimited Quantitative Easing
- No longer acting as lender of last resort to banks, but now doing so to companies

This could be a new Era in central banking!



Strong Fiscal Policy Response – April 2020



Economy: Recovery Continues



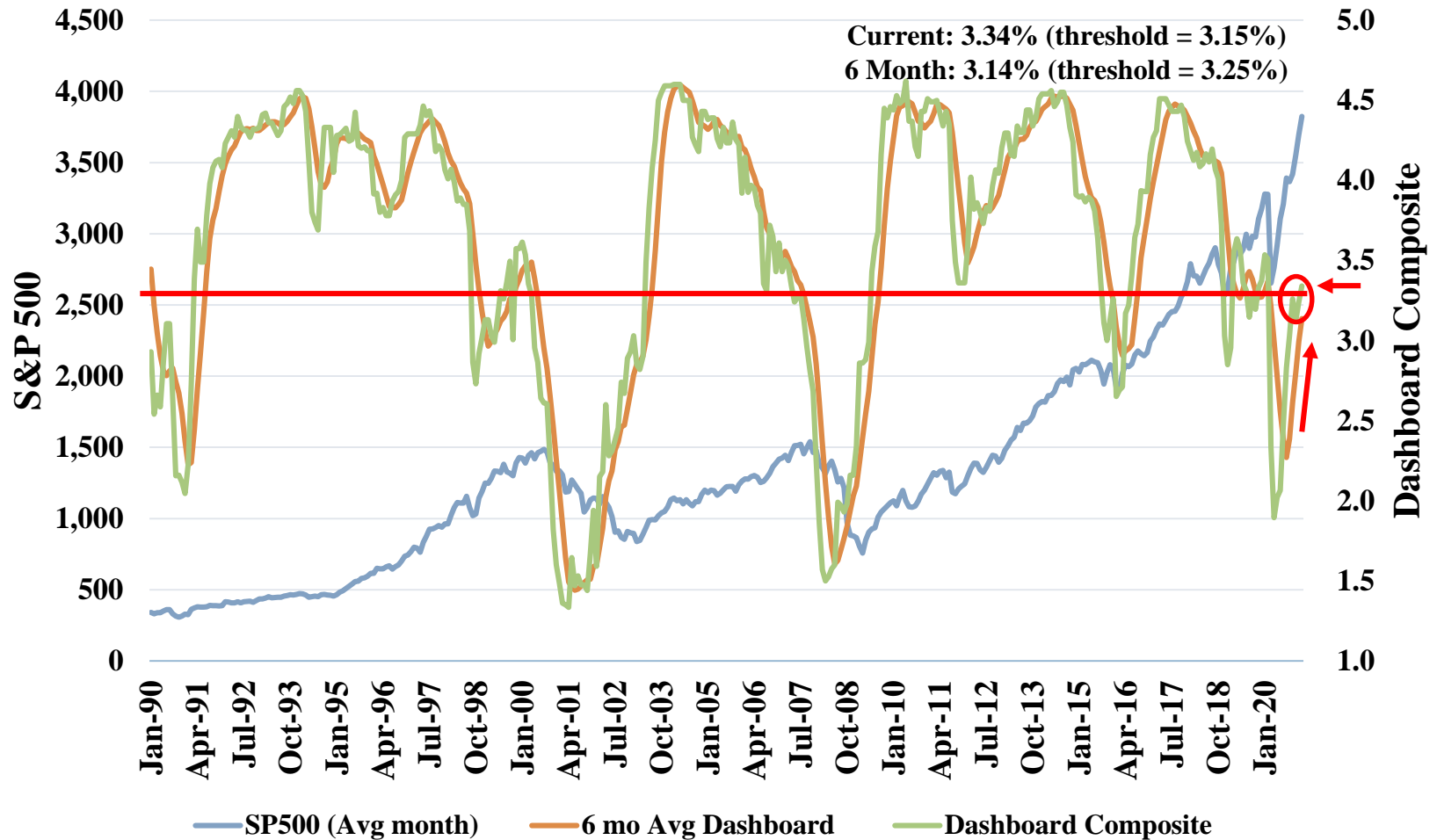
Market Dashboard

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	Grey	Green	Green
Credit Markets	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Grey	Red	Red	Grey	Grey	Green	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	Grey	Grey



Market Dashboard



Current Economic Factors Scorecard

Positive

Fiscal Policy ↑
Monetary Policy
Interest Rates
U.S. Inflation
Housing

Neutral

Commodity Prices ↑
U.S. Politics
U.S. Dollar

Negative

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

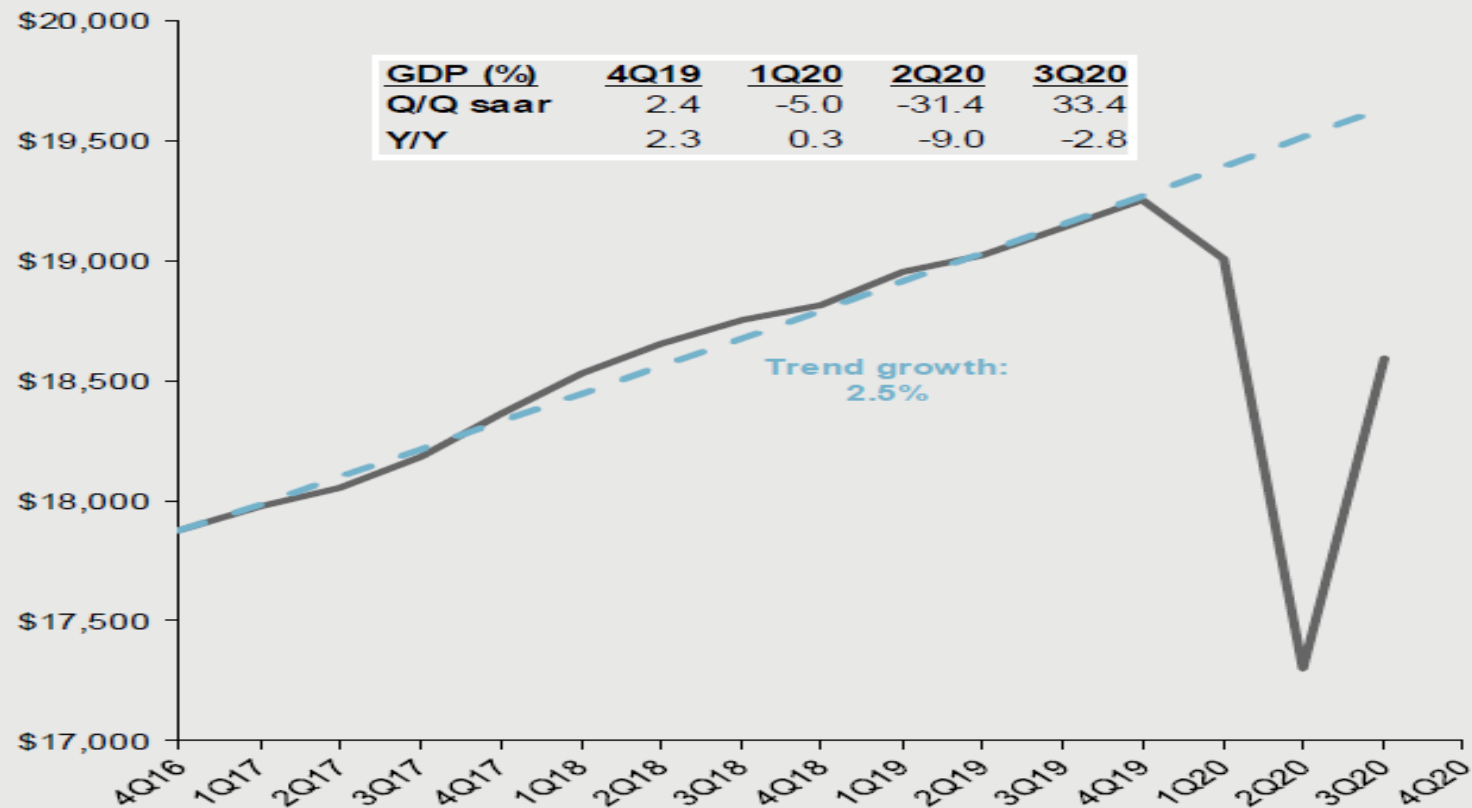
(+)/(-) signifies upgrades/downgrades in categories
↑ ↓ signifies sentiment shifts within a category



GDP Recovering

Real GDP

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



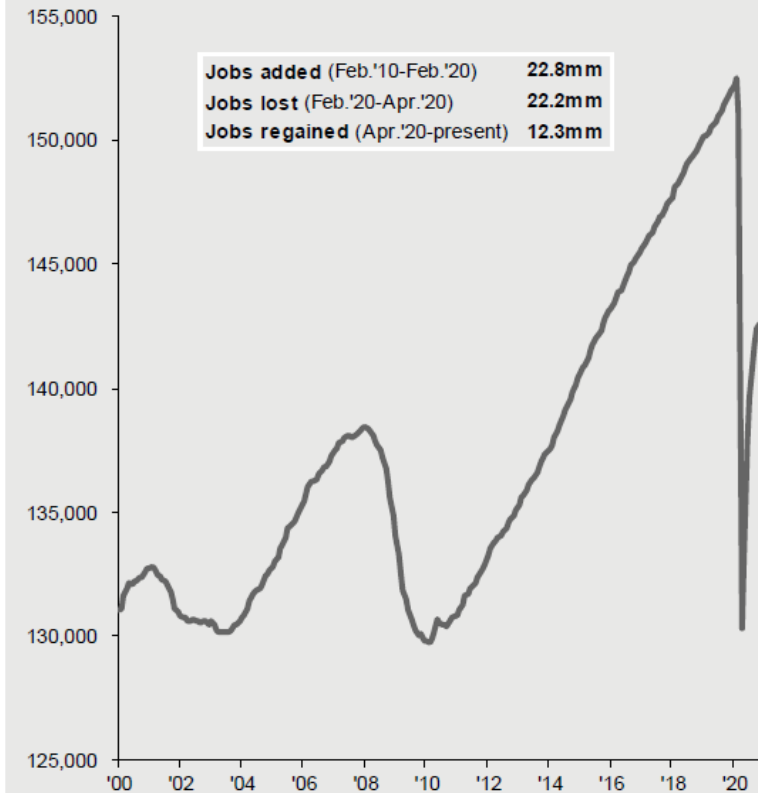
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding.
Guide to the Markets – U.S. Data are as of December 31, 2020.



Employment Continues to Recover

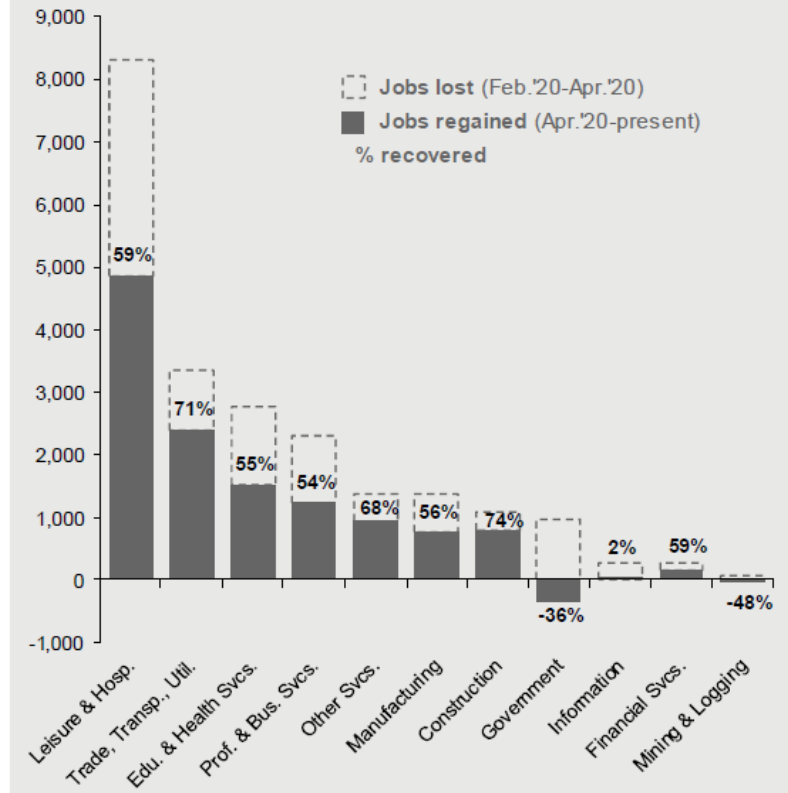
Employees on total nonfarm payrolls

Thousands



Payroll employment lost and regained by industry

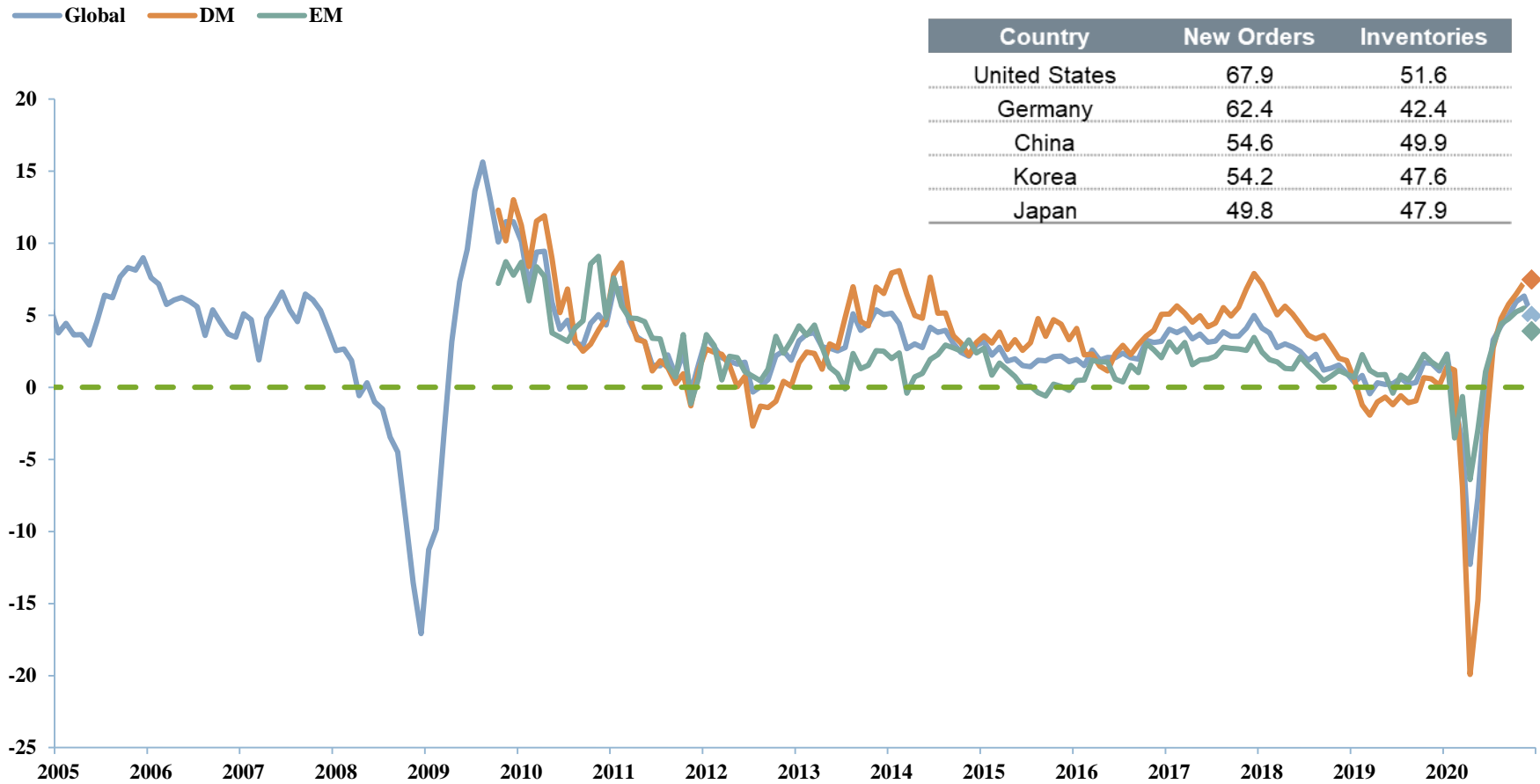
Thousands, % recovered



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

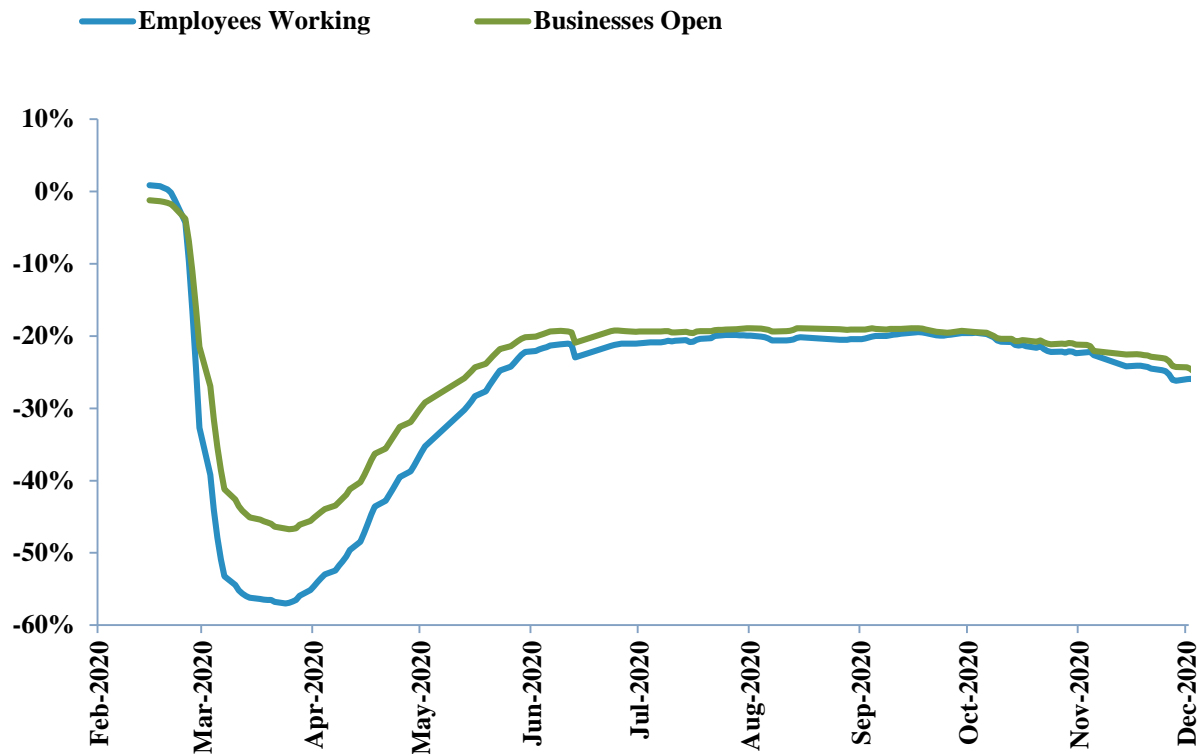


Manufacturing Activity Has Recovered



Source: Institute for Supply Management, HIS Markit, Haver Analytics, Fidelity Investments

Lull in Small Business Recovery

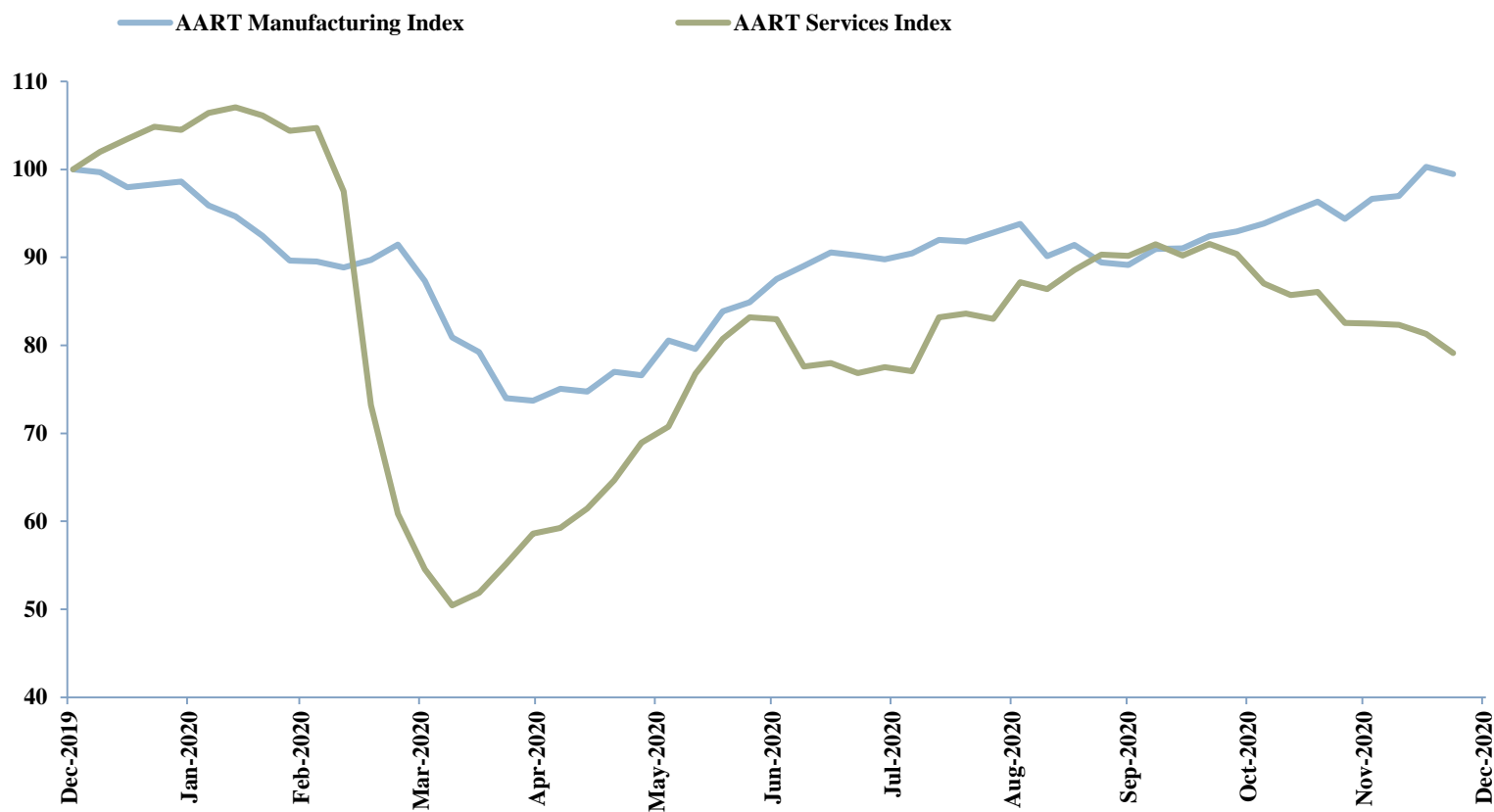


Source: Fidelity, Homebase. Five day moving average data through 12/31/2020.



Pause in the Consumer Rebound

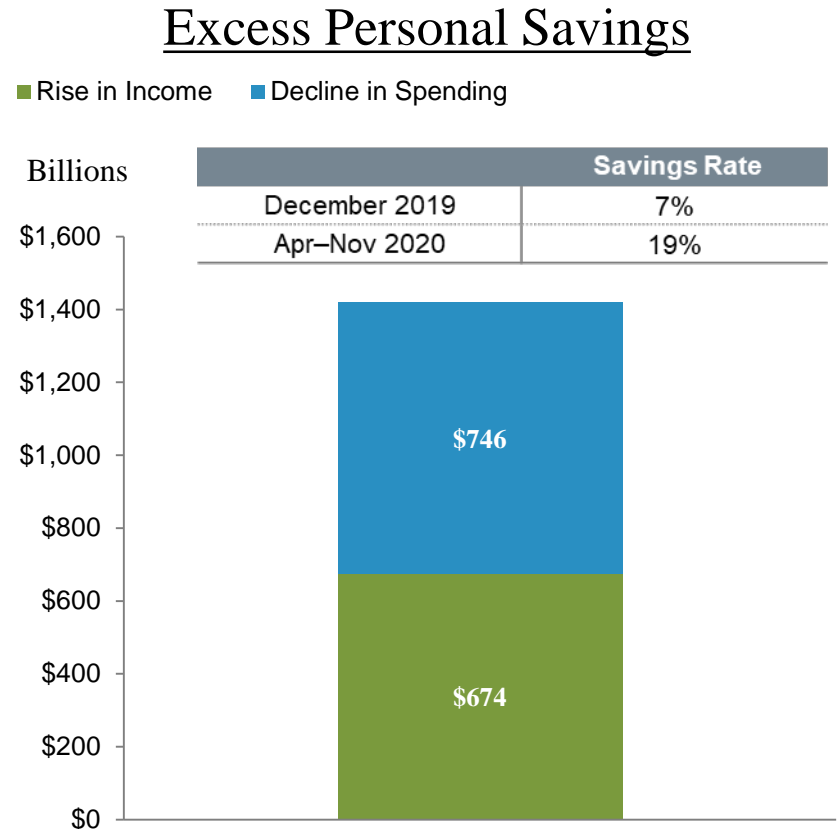
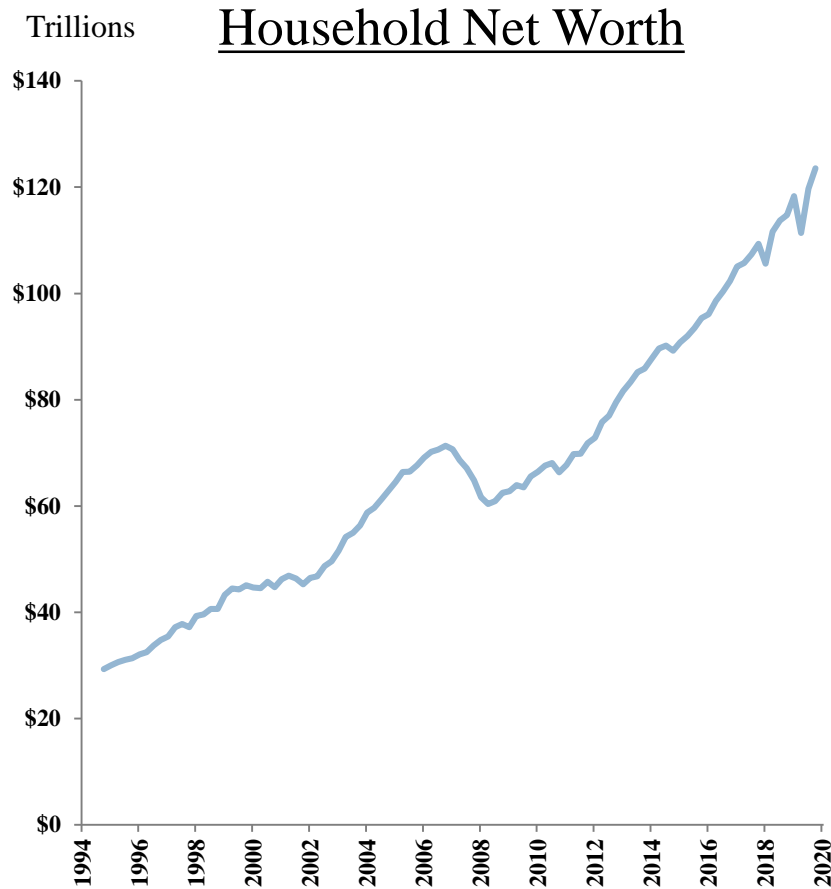
U.S. High-Frequency Economic Indicators



Source: Haver Analytics, Fidelity Investments.



Households in Good Shape



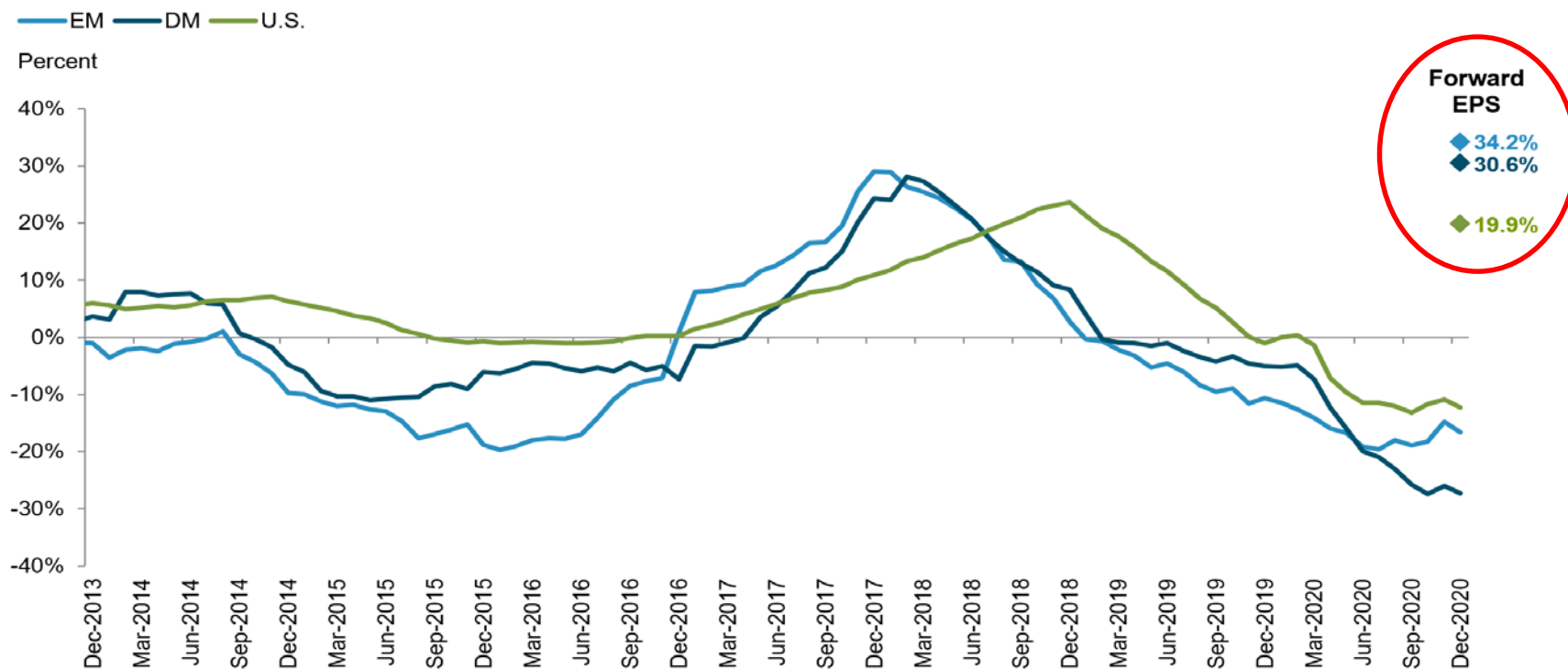
LEFT: Households and nonprofit organizations. Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 11/30/20.

RIGHT: Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART), as of 11/30/20.



Sharp Earnings Recovery Expected

Global EPS Growth (Trailing 12 Months)



DM: Developed Markets. EM: Emerging Markets. EPS: Earnings per share. Forward EPS: Next 12 months expectations. Source: MSCI, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

Past performance is no guarantee of future results.



Markets: Strong Q4 Returns



Market Summary

■ Equity market performance

	<u>Q4 2020</u>	<u>2020</u>
– US large cap		
• S&P 500	+12.2%	+18.4%
– US mid cap		
• Russell Midcap	+19.9%	+17.1%
– US small cap		
• Russell Smallcap	+31.4%	+20.0%
– International equities		
• MSCI ACWI ex US	+17.0%	+10.7%
– Emerging markets		
• MSCI Emerging Markets	+19.7%	+18.3%

Source: Morningstar



Market Summary

■ Bonds and other asset class performance

	<u>Q4 2020</u>	<u>2020</u>
– US fixed income		
• Barclay's Aggregate	+0.7%	+7.5%
– Global fixed income		
• Barclay's Global ex US	+5.1%	+10.1%
– Commodities		
• Bloomberg Commodity TR	+10.2%	-3.1%
– REITS		
• MSCI US REIT NR	+11.2%	-8.7%

Source: Morningstar



Equity Market Conditions

■ Fourth Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+14.5%	+12.2%	+10.7%
Mid	+20.4%	+20.0%	+19.0%
Small	+33.4%	+31.4%	+29.6%

■ 2020

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+1.4%	+18.4%	+33.5%
Mid	+5.0%	+17.1%	+35.6%
Small	+4.6%	+20.0%	+34.6%

Source: Morningstar. All calculations are cumulative total return as of 12/31/2020.

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.



Since Market Low (March 2020)

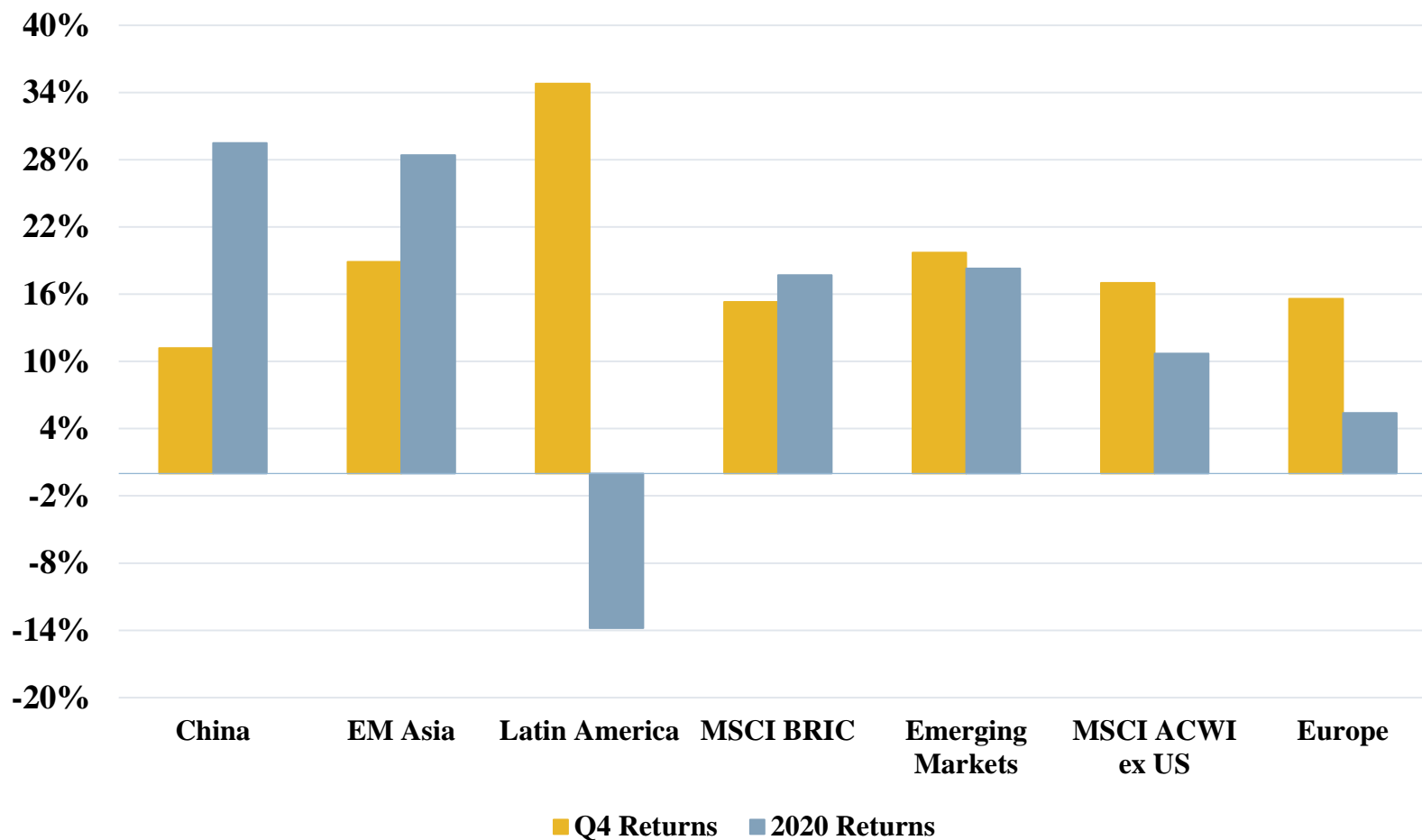
- **Since March low**

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+64.2%	+70.2%	+84.9%
Mid	+82.4%	+88.8%	+97.1%
Small	+87.9%	+99.0%	+108.2%

Source: Morningstar. All calculations are cumulative total return as of 12/31/2020.
Russell style indices utilized for all performance with the exception of large cap blend.
Past performance is no guarantee of future success.



Strong International Returns

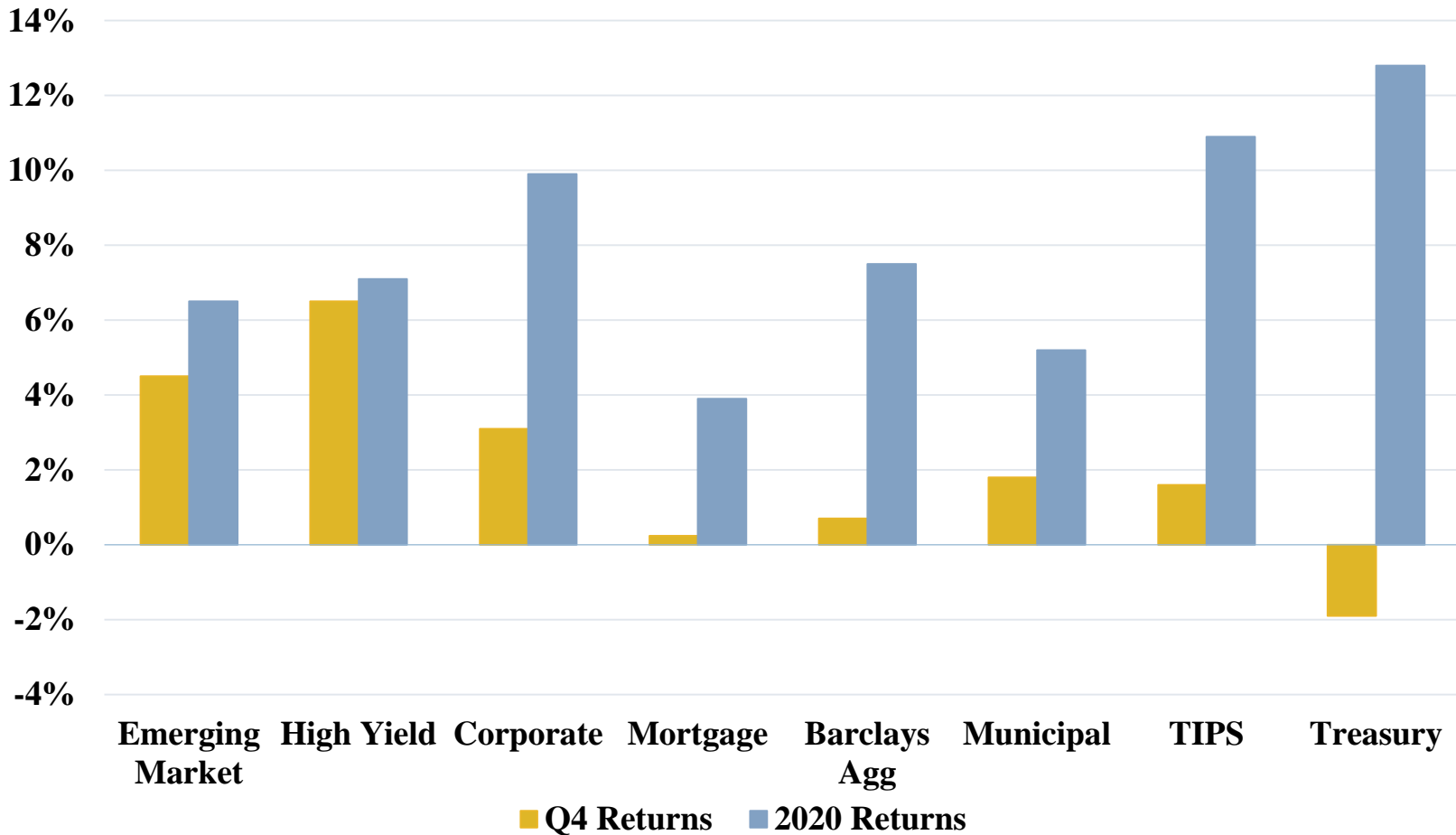


Past performance is no guarantee of future success. As of 12/31/2020

Returns in US dollars.



Credit Outperformed



SilverOak's Outlook



SilverOak's Outlook

■ U.S. Economy

- Continued recovery from brief, but exceptionally sharp, economic contraction due to COVID-19
- Economic activity levels remain well below normal
 - More stimulus coming
 - Interest rates likely to remain low
- Future largely dependent upon progression of COVID-19, including therapeutic treatments and a vaccine
 - While rate of recovery slowed in 4th quarter, GDP growth likely to continue to rebound in 2021
 - More vaccine approvals likely within the next couple of months
 - Shape of the recovery will likely be driven by the ramp-up and pace of vaccinations



SilverOak's Outlook

■ International Economy

- Recovery also dependent on COVID-19
 - The recent surge in cases and the spread of new virus variants not expected to lead to a double-dip recession
- Global monetary policy remains highly accommodative
 - Will more fiscal support be needed?
- Global business cycle likely to enter early-cycle recovery mode in 2021
 - China is leading the way due to recovery in manufacturing



SilverOak's Outlook

■ Equities

- Fiscal and monetary policy likely to continue to influence asset returns in 2021
- With earnings impacted, market valuations remain elevated
 - Strong earnings rebound expected in second half of 2021
- Uncertainty remains, but markets remain optimistic
 - Covid-19 vaccine developments and vaccine roll-out supportive
- Growth valuation is stretched
 - Rotation into value and international appears to be in early stage
 - Small caps likely to continue to do well
 - 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

- More modest bond returns expected in 2021
- Fed willing to provide unprecedented liquidity and support
- Treasury yields likely to stay within a trading range
- Bonds continue to offer protection from equity volatility and potential downside risks
- Continue to focus on credit quality
 - Credit spreads could be volatile this year
 - Despite possibility that credit offers opportunity, for most investors it does not pay to take on more credit risk

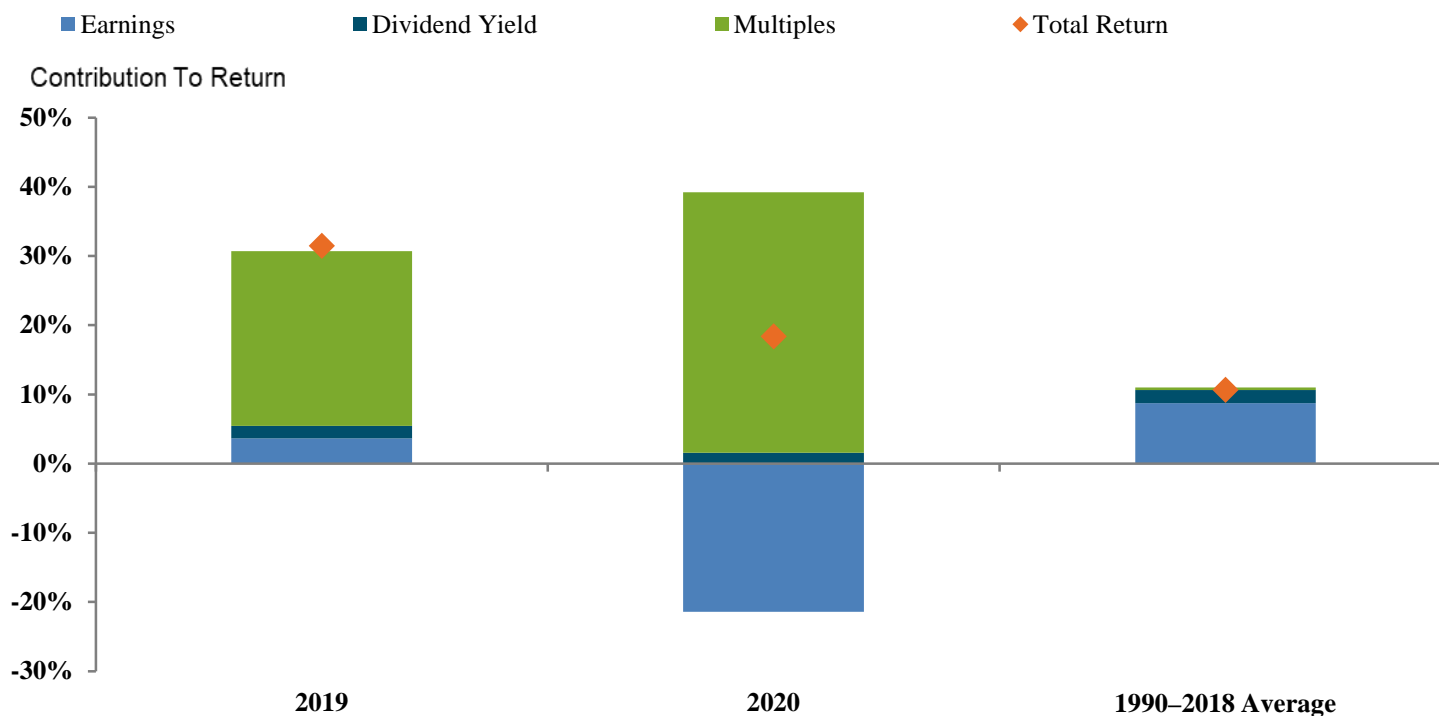


Perspective on Recent Market Trends



Lofty Market Valuation

Decomposition of S&P 500 Total Return



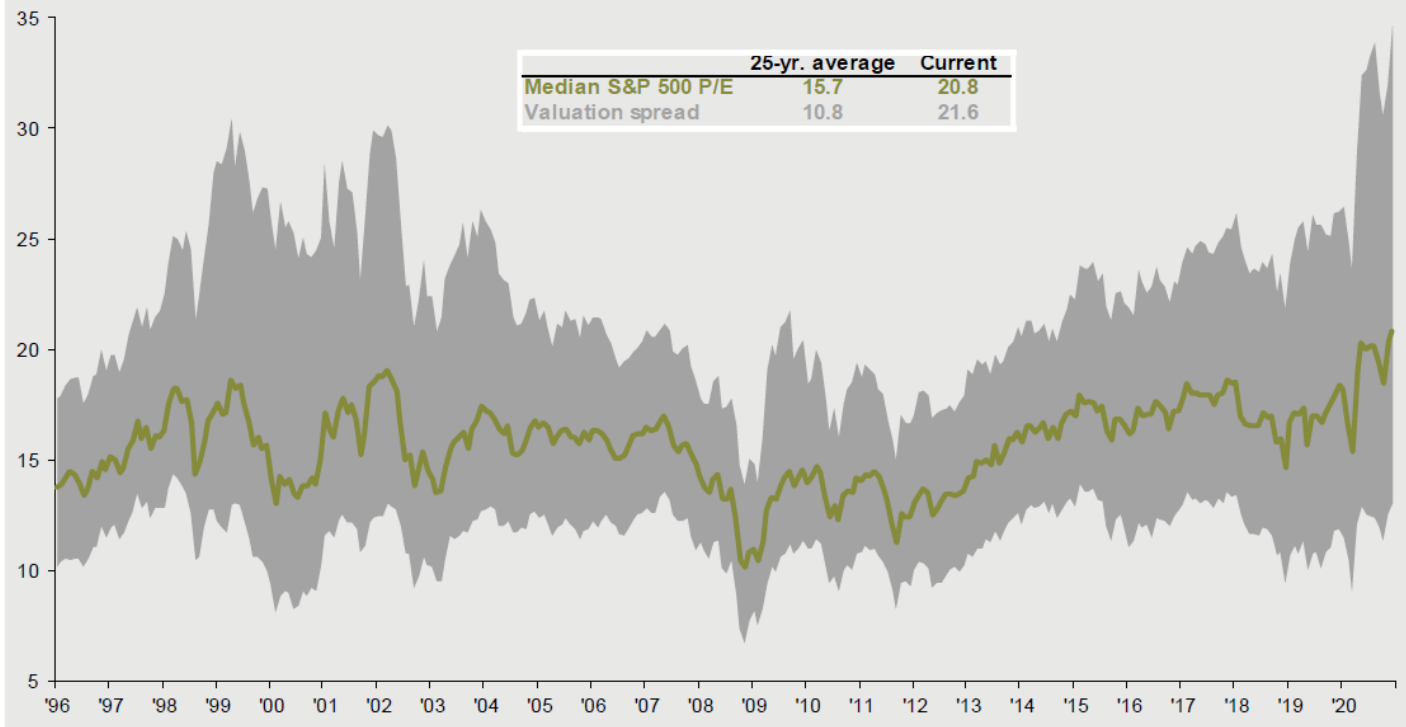
Source: Standard & Poor's, Haver Analytics, Fidelity Investments (AART) as of 12/31/20.



Wide Spread in Stock Valuation

S&P 500 valuation dispersion

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks



Sources: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

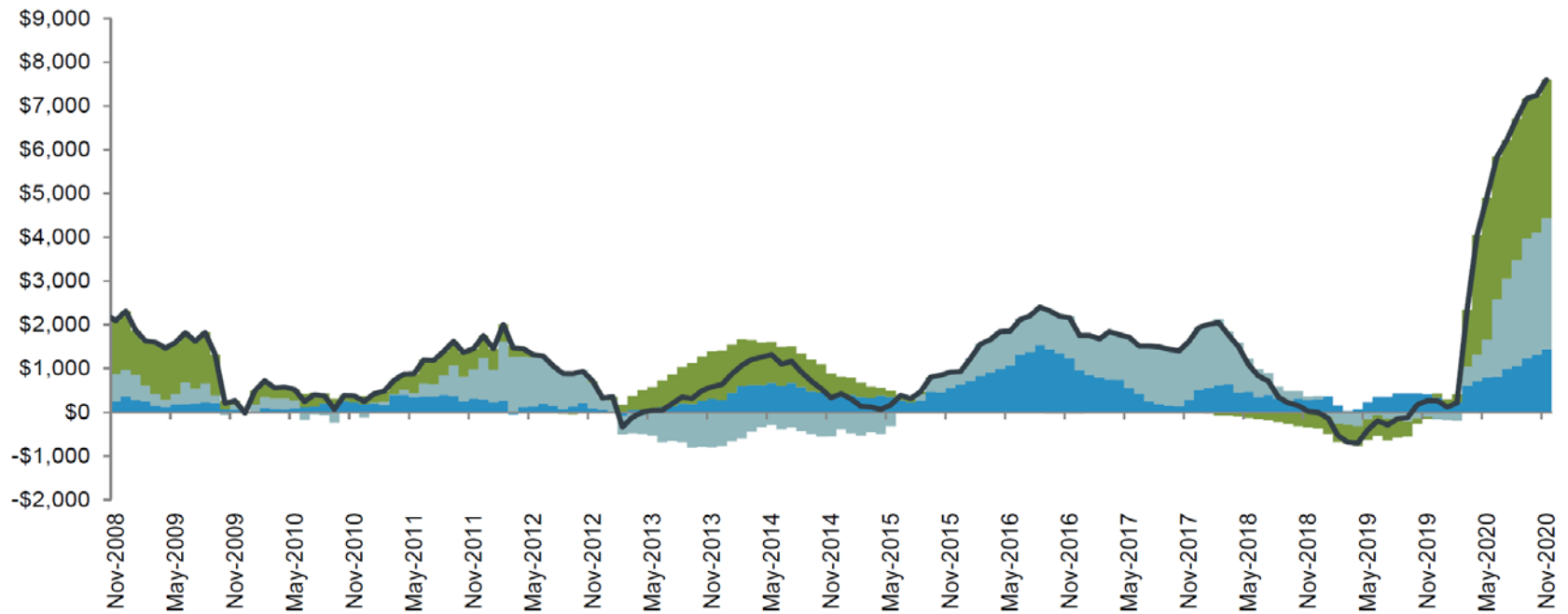


Monetary and Fiscal Policies Remain Supportive

Central Bank Balance Sheets

■ U.S. ■ Eurozone ■ Japan — Total

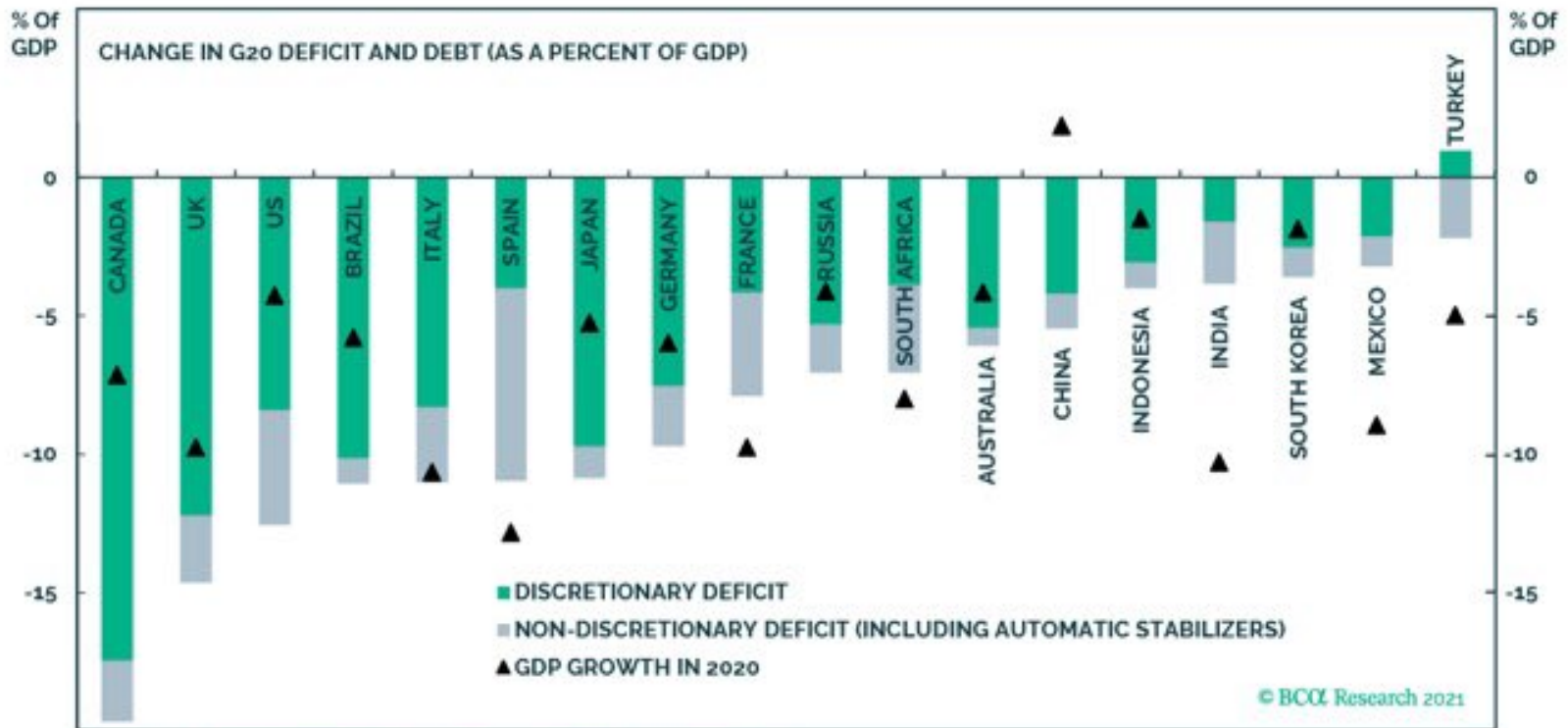
Billions (12-Month Change)



Source: Federal Reserve, Bank of Japan, European Central Bank, Haver Analytics, Fidelity Investments (AART), as of 11/30/20.



Global Deficits and Debt Rising

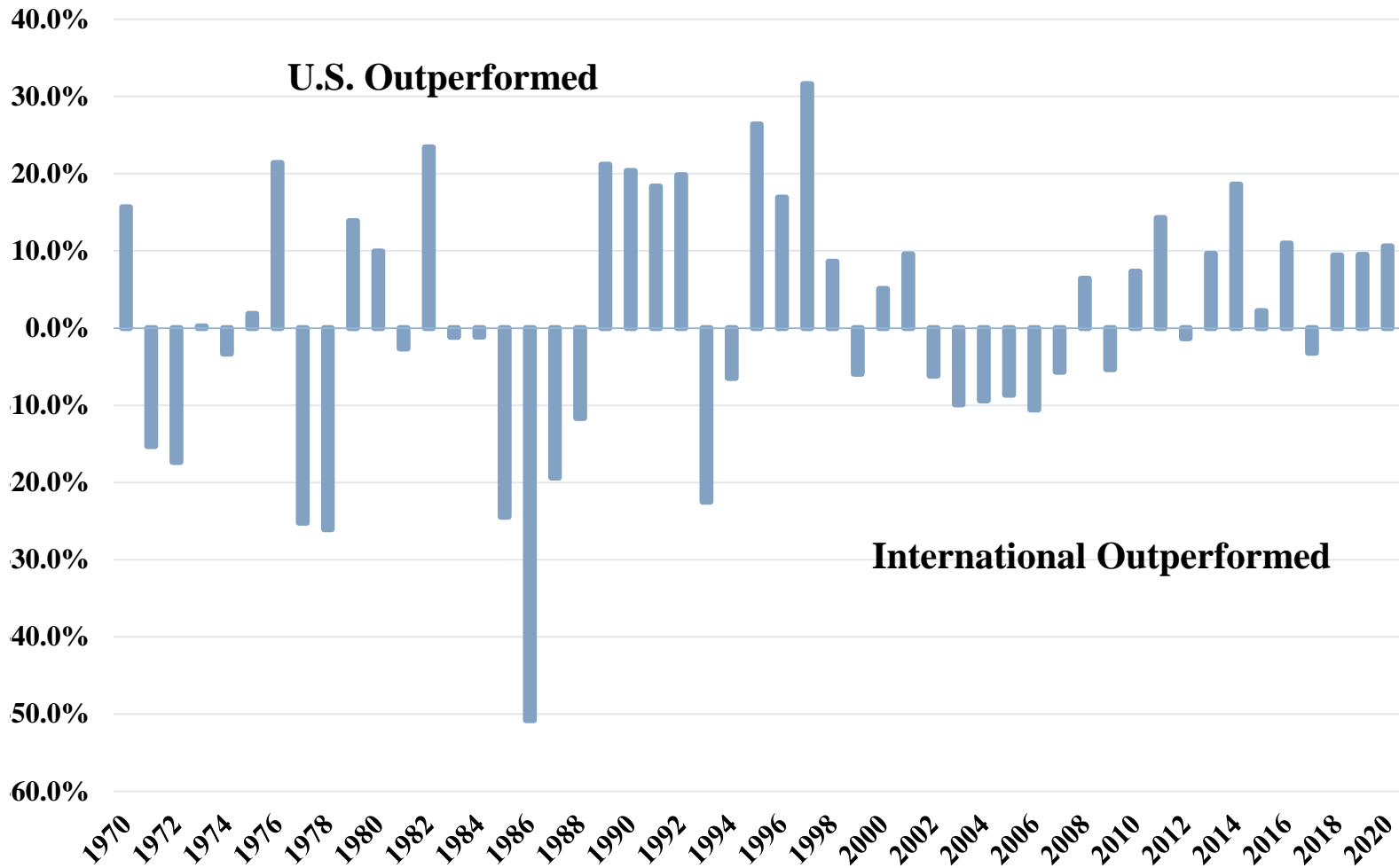


SOURCE: IMF, WORLD ECONOMIC OUTLOOK DATABASE; AND IMF STAFF ESTIMATES.

NOTE: THE IMF DEFINES DISCRETIONARY FISCAL SUPPORT AS THE CHANGE IN THE CYCLICALLY-ADJUSTED PRIMARY BALANCE (CAPB); NON-DISCRETIONARY FISCAL SUPPORT IS THE RESIDUAL.



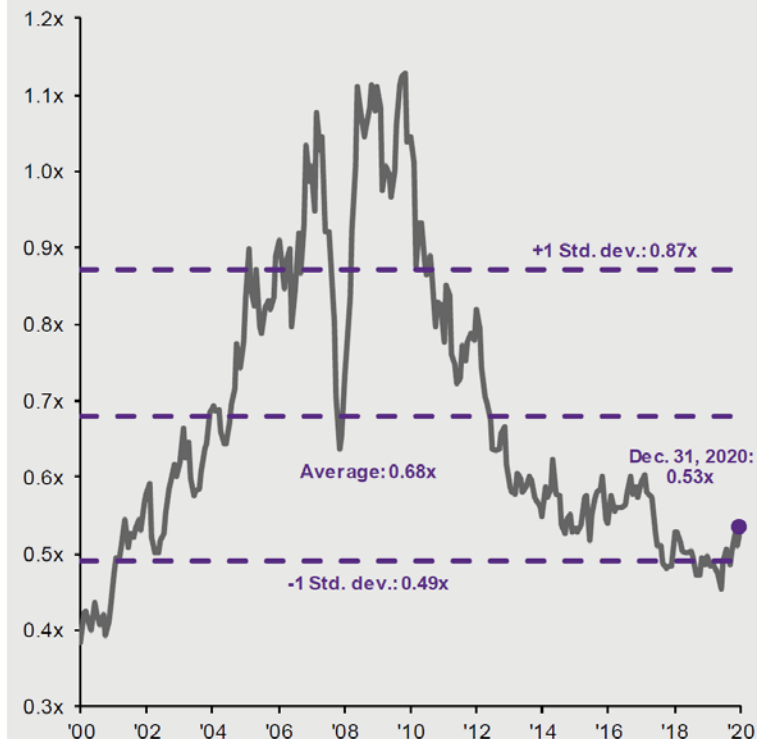
U.S. vs. International Equities



International Valuations are Low

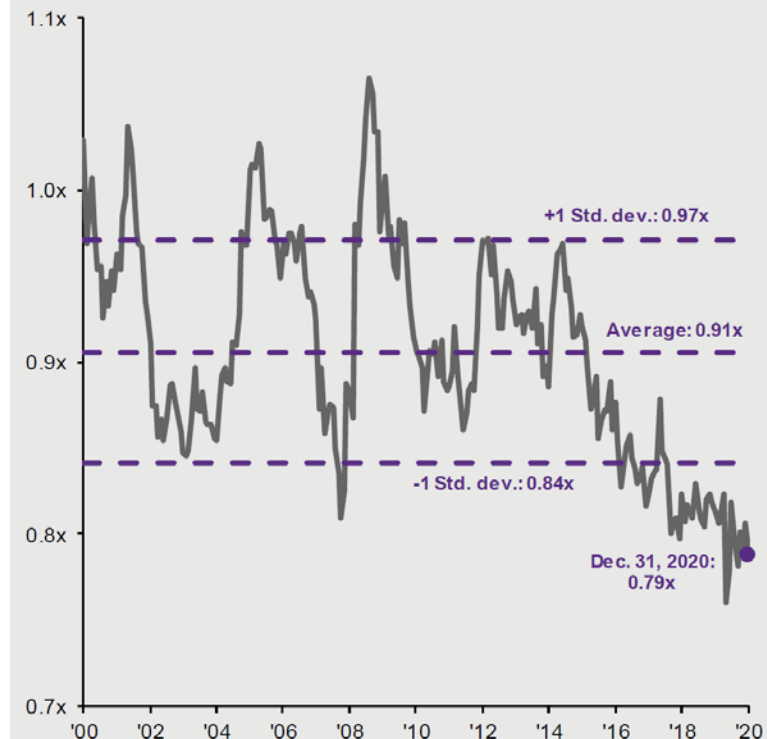
Emerging markets: Relative price-to-book ratio

MSCI Emerging Markets vs. S&P 500, last 12 months



Developed markets: Relative price-to-earnings ratio

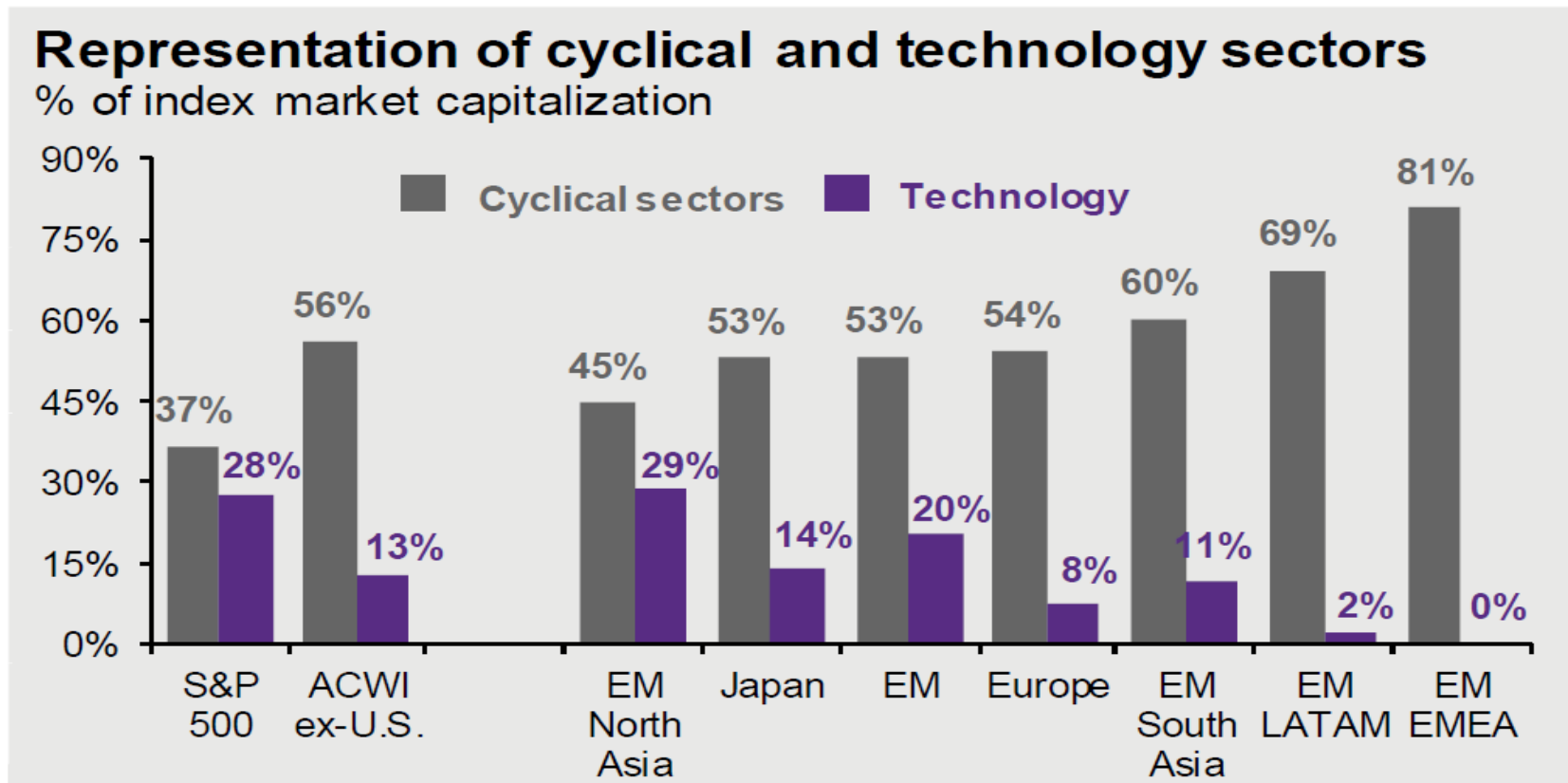
MSCI EAFE vs. S&P 500, next 12 months



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.



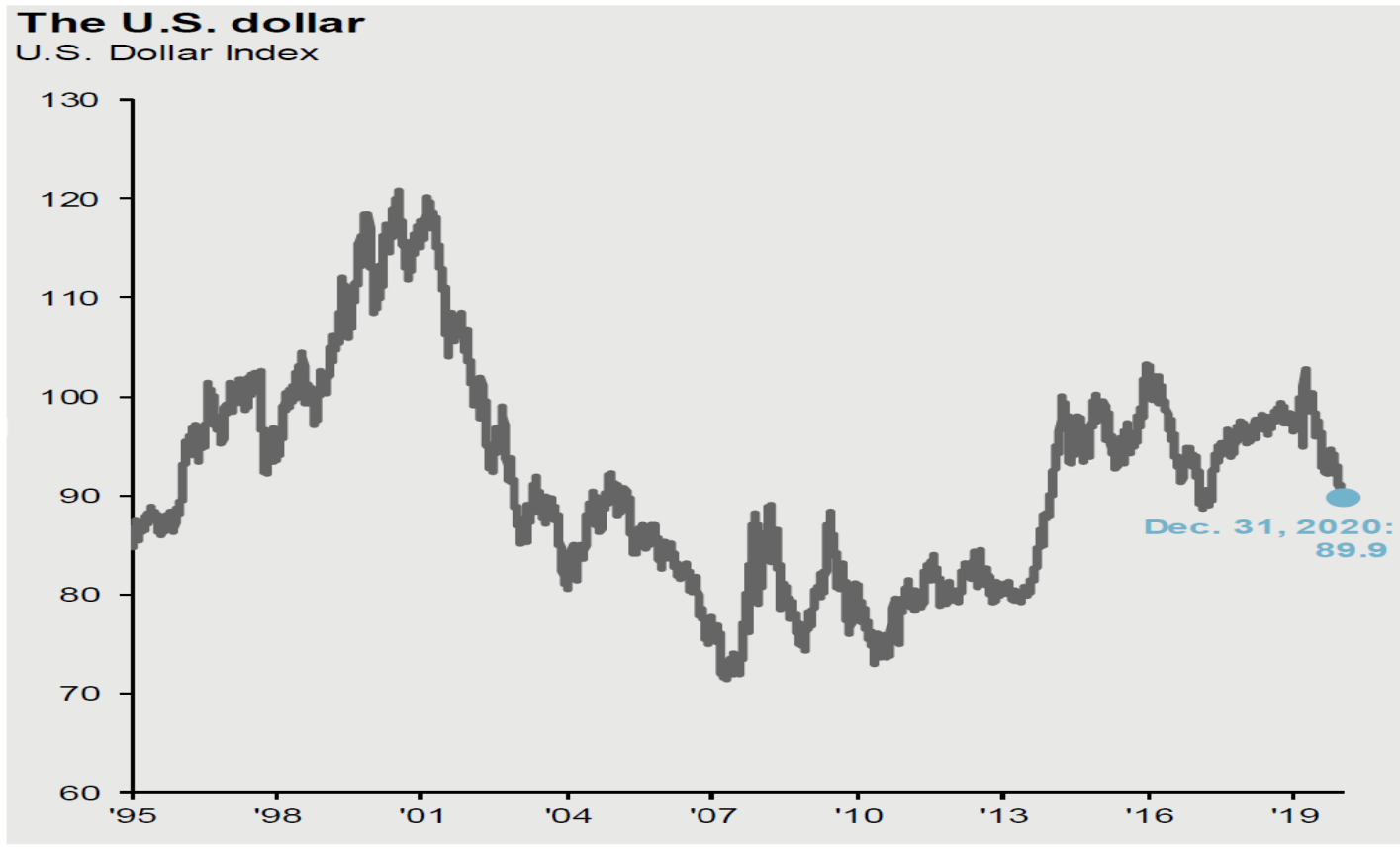
Better Cyclical Performance Could Help Int'l



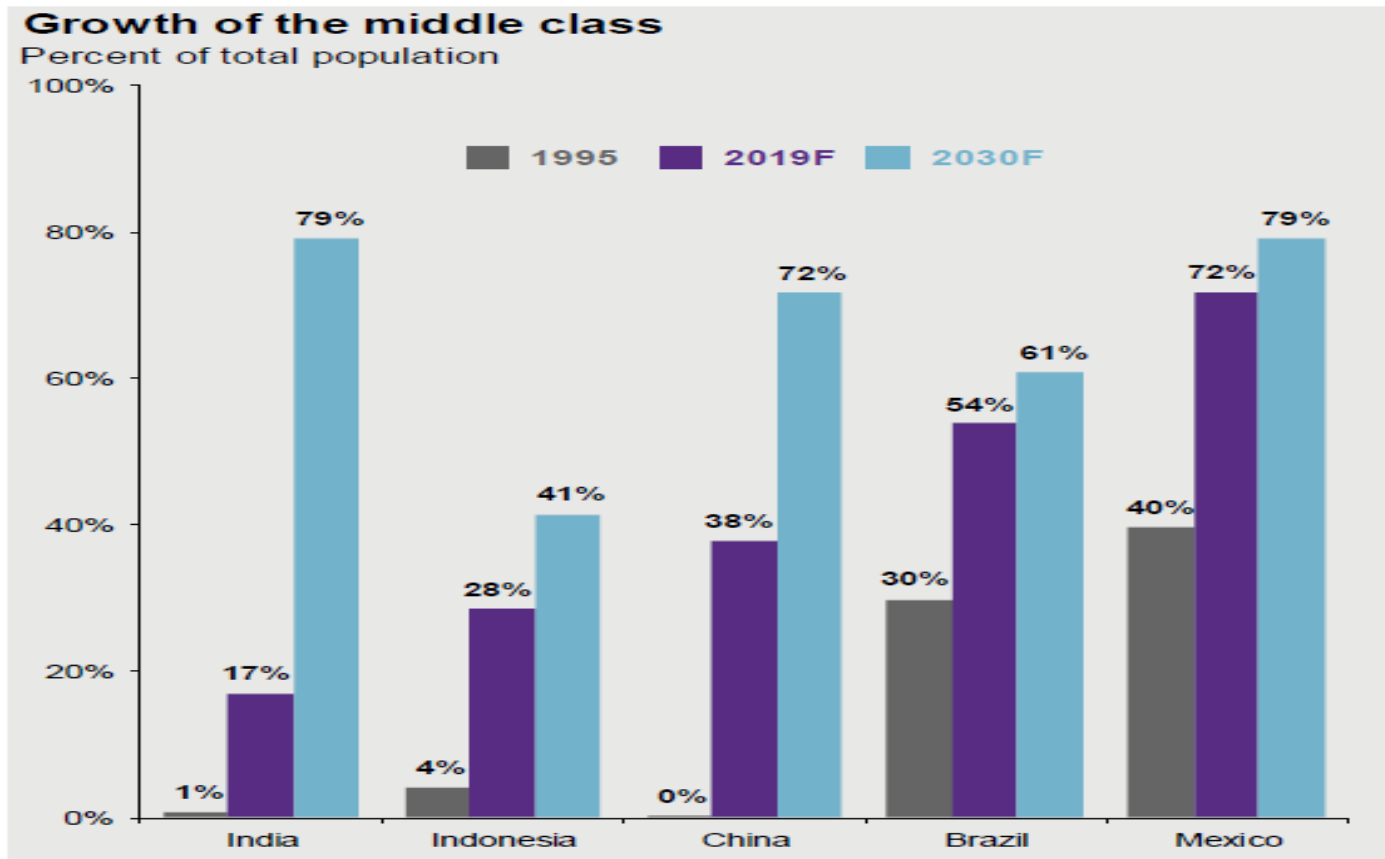
Source: Federal Reserve, Factset, Standard & Poor's, JP Morgan Asset Management



A Falling US Dollar Could Help International



Other Reasons to Own International



SilverOak Updates



SilverOak Updates

- **IQSStm (Investment Quality Scoring Systemtm)**
 - 2 positions added to “Watchlist Closed” for performance
- **Global allocation project complete**
 - Will begin implementing new allocation targets
- **Recent whitepapers released**
 - Behavioral finance
 - Residency checklist
- **Implementation of new trading software**
- **Continuing to work under our business continuity plan**
 - A few more team members coming into the office
 - Some meetings occurring in person with safe social distancing and masks



“New Year” Planning Tips



“New Year” Planning Tips

- **Don’t adjust risk tolerance due to recent market performance**
- **Remember April 15th tax filing deadline**
 - Make sure you have your tax information compiled
 - Get this information to your tax preparer
- **Foreign bank account reporting**
 - Two reporting requirements
 - Form 8938 (due with income tax return)
 - FBAR (due with income tax return – no longer due 6/30)
- **Now is a great time to start tax planning for 2021**
 - Adjust withholding and/or estimated tax payments
 - Create a good filing system for the year
 - Keep receipts for charitable donations above \$250



“New Year” Planning Tips

- **Review 2020 spending**
- **Utilize HSAs for long-term investments**
 - \$3,600 annual limit for individuals, \$7,200 for family
 - \$1,000 “catch-up” contribution for age 55 and over
- **Review Social Security statement online**
 - <https://www.ssa.gov/myaccount/>
- **Review your estate documents**
- **Confirm beneficiary designations**
- **Rebalance other investment accounts**
- **Ensure you have proper insurance coverage**
 - Life, disability, auto, property and umbrella



“New Year” Planning Tips

- **If it’s been awhile, get a copy of your credit report**
 - www.annualcreditreport.com or 877-322-8228
- **Consider freezing your credit with all three credit bureaus**
 - https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp
 - <https://www.experian.com/freeze/center.html>
 - <https://freeze.transunion.com/sf/securityFreeze/landingPage.jsp>
 - Retain your PINs!



Tax Updates



Recent Tax Law Changes

■ 2020 year-end tax legislation

- Additional \$600 refundable tax credit per eligible taxpayer
 - Includes \$600 per qualifying child
- \$250 Educator expense deduction applies to PPE
- For 2020 and 2021, non-itemizers can claim \$300 deduction for cash donations made to qualified organizations
 - \$600 for MFJ filers (2021 only)
- Extends 100% of AGI limitation for cash donations through 12/31/21
- Expands carryover period of 2020 and 2021 health and dependent care flexible spending account deferrals to 12 months after year-end



Recent Tax Law Changes

- **2020 year-end tax legislation**
 - Makes 7.5% of AGI limitation on medical expenses permanent
 - Extends Discharge of Qualified Principal Residence Indebtedness through January 1, 2026
 - Extends mortgage insurance premium deduction through 12/31/21



Other Tax Updates

- **2020 1099-Rs for QCDs & RMD Reversals**
 - 2020 1099-Rs will report distributions as taxable income, tax preparer must adjust for QCD and RMD Reversals
- **2020 Year-end Stimulus Package**
 - 11 week extension of unemployment benefits plus \$300/week benefit
 - Second round of PPP loans for businesses with 25% revenue decrease in any quarter of 2020
 - Plus expenses paid with PPP funds are deductible
 - Expanded business tax credits for eligible businesses
 - 100% business deduction for meal expenses provided by a restaurant for 2021 & 2022
 - Funds government through September 2021



Biden's Proposed Stimulus Package



Biden Proposed Stimulus Package

- **Additional \$1,400 advanced tax credit for qualified individuals**
- **Additional unemployment benefit at \$400 rather than \$300 passed in 2020 legislation**
 - Extends benefits through September 2021
- **\$25B of rental assistance for low income individuals who lost their job**
 - Also extends eviction moratorium through September 2021
- **Expanded child care and child tax credits**
- **Subsidized health insurance premiums for those who lost work-based health insurance through September 2021**

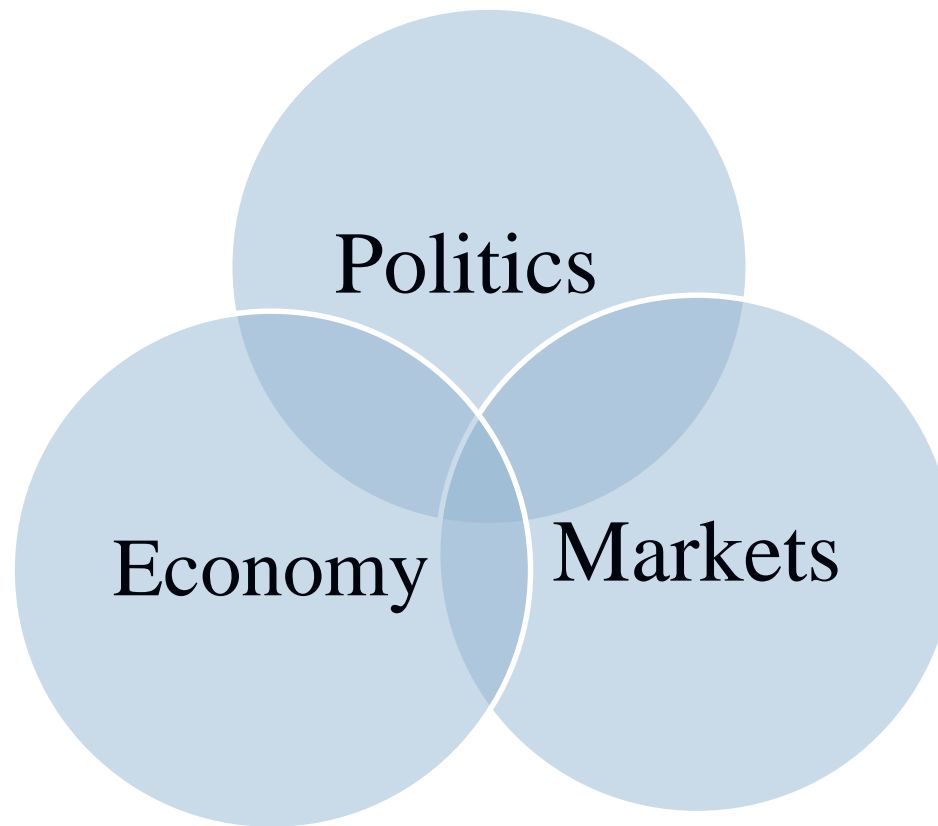


Biden Proposed Stimulus Package

- **Additional \$50B for small business owner grants and loans**
- **\$350B to state and local governments for workers, vaccine distribution, schools, and maintenance of vital services**
- **\$20B for a national vaccination program**
- **Increase minimum wage to \$15/hour**



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



*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

