SilverOak

WEALTH MANAGEMENT LLC

Fourth Quarter 2023 Market Summary

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Fourth Quarter 2023 Market Summary

As we usher in the New Year, we often contemplate the potential opportunities and risks that may reveal themselves. However, in doing so, it can be enlightening to reflect on the predictions made at the beginning of the prior year and compare them with the events that actually unfolded. This retrospective analysis offers valuable insights to guide our decisions going forward.

At the onset of last year, a 2023 global recession was considered a base case by many economists and investors. The banking turmoil at the end of the first quarter, resulting in multiple bank failures, only boosted those fears. Contrary to these expectations, a recession was avoided, as economic growth surpassed initial projections. This occurred despite a tightening monetary policy, the U.S. debt ceiling standoff and increased geopolitical conflicts. The unexpected strength of the economic landscape was highlighted by the resilience observed in both consumer behavior and the labor market, alongside a decline in inflation.

2023 Markets in Review

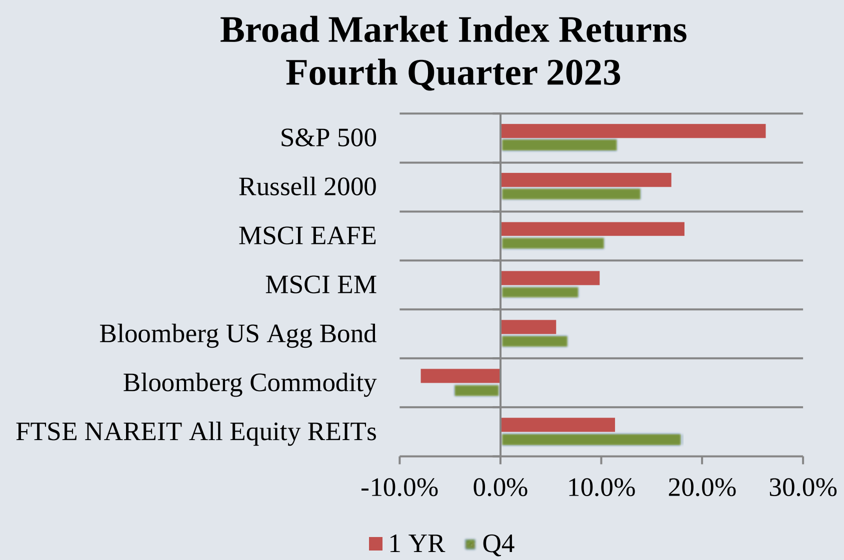
The chart below shows that U.S. large company stocks (i.e., S&P 500, a market-cap weighted index) increased 26.3% during the year, and U.S. small company stocks (i.e., Russell 2000 Index) were up 16.9%. The path to positive double-digit equity returns was not a straight line, as there were two 10%+ drawdowns during the year. A few large-cap growth stocks, labeled the “magnificent seven,” drove a large component of the S&P 500 Index returns. These companies underperformed significantly in 2022, only to benefit greatly in 2023 from the excitement surrounding artificial intelligence (AI) advancements.

International stocks, represented by the MSCI ACWI ex US Index, gained 15.6% during 2023. Emerging markets gained 9.8% during the year, though notably, if China is excluded, emerging market stocks were up 20.0%. Over the next year, international markets could benefit from favorable tailwinds, particularly as several central banks are expected to ease monetary policy, and China is increasing stimulus efforts to bolster its economy. Despite improvements in the fundamentals of international stocks, such as profit margins and buybacks, they continue to trade at lower valuations relative to the U.S. market.

Interest rates for U.S. Treasuries maturing beyond a year had a rollercoaster ride during 2023, but ended the year basically where they began. The 10-year Treasury rate started the year at 3.79%, dipping to a low of 3.3% in early April, then spiking to nearly 5.0% in October before eventually subsiding. These shifts occurred as the market tried to interpret the direction of the economy, inflation, and potential actions by the Federal Reserve. The Bloomberg Barclays U.S. Aggregate Bond Index, representing a broad basket of bonds, climbed 5.5% during 2023, beginning its recovery from a very difficult 2022. The credit areas of the bond market (i.e., investment grade corporates, high yield, securitized bonds, etc.) experienced even stronger returns for the year, as credit spreads decreased significantly.

Looking Ahead

To evaluate the current health of the economy and make predictions about the future, economists rely on a wide variety of data, which includes drawing on historical correlations for guidance. Over the past year, several economic indicators have displayed signs of weakness. While other data, such as employment figures, have remained strong thus far, they may see softening in the coming year. It is important to note that softening does not necessarily imply impending collapse. Some analysts still speculate that a recession in 2024 remains possible. However, there is no agreement on timing or the magnitude of potential economic weakness.



Fourth Quarter 2023 Market Summary (continued)

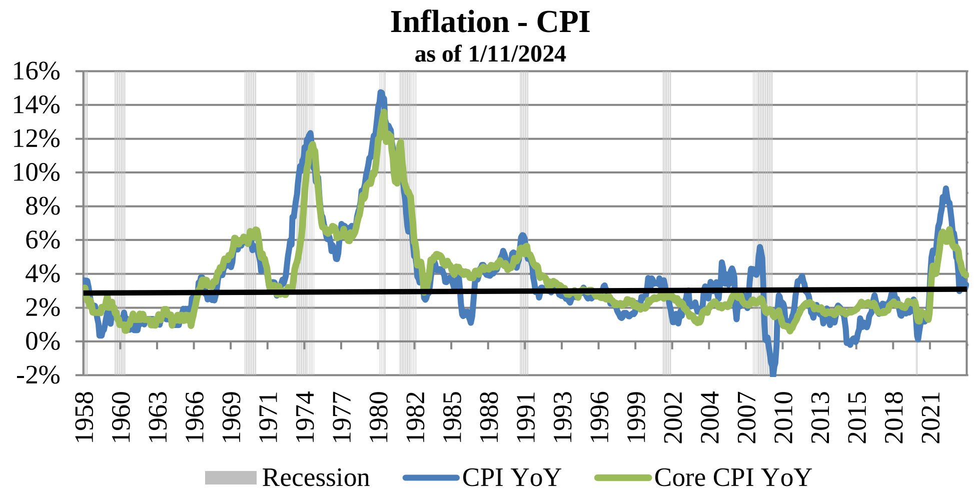
Another reasonable scenario would be a continuation of the “rolling recessions” we have been discussing over the past two years. The “manufacturing and trade recession” experienced in 2023 could be replaced by a recovery in the upcoming year, potentially helping offset any other areas of the economy be experiencing weaker growth.

Fixed income currently offers real yields, providing a base for solid returns even if interest rates remain volatile over the next year. Inflation is expected to trend lower in the short-term as housing costs subside. Nevertheless, as we observed during the past summer, there is a potential for higher-than-expected data points, which could influence the markets. Currently, the equity market expects the Fed to reduce rates by 150bps over the coming year. However, this could be overly optimistic as the Fed may be less inclined to lower rates if inflation continues to fall and the economy continues to hold up.

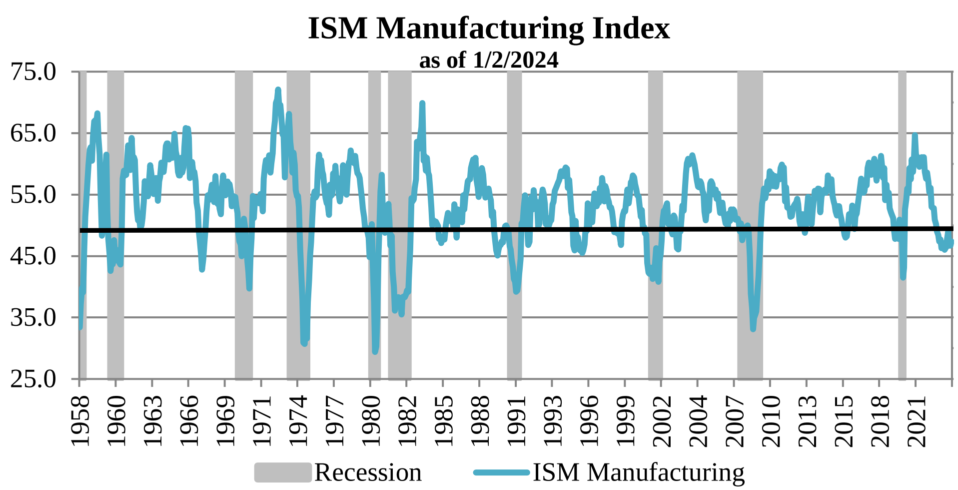
As a new year dawns, many often feel compelled to seek out predictions for the coming year. There is no shortage of articles proclaiming the “top ten things you should do to your portfolio in 2024.” Drawing from the lessons of 2023, where the rebounding asset prices highlighted the value of maintaining a long-term perspective, we anticipate that diversification will once again prove beneficial in 2024. While cash yields remain attractive, the returns observed in the fourth quarter demonstrate the potential risks of “staying on the sidelines.” Nevertheless, the strong momentum from the end of last year could fade if macro narratives shift, potentially leading to a more volatile market environment that tests investors’ resolve. As the broader picture gradually unfolds, more dots will need connecting. However, anchoring to a long-term perspective serves as a stabilizing force, tempering reactions to short-term performance fluctuations.

MACROECONOMICS

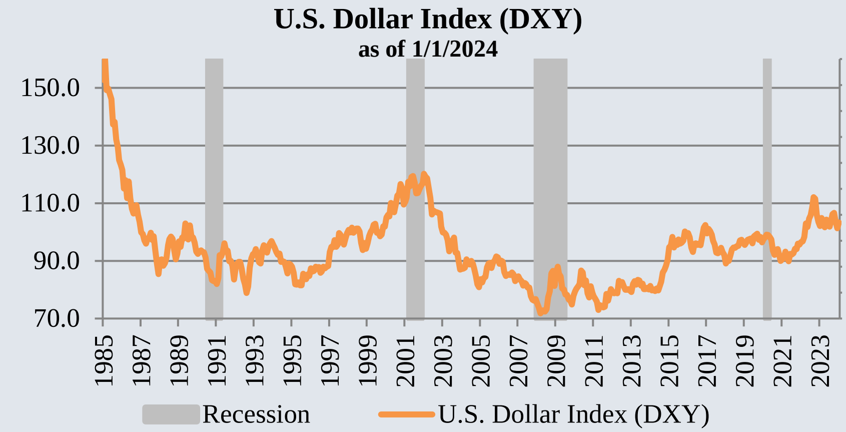
- The Bureau of Economic Analysis released the advanced estimate of fourth quarter 2023 real GDP, an annual rate increase of 3.3% from the preceding quarter.
- Inflation's downward trend persists, albeit at a slower pace. In December, headline CPI increased 3.4% year-over-year. Core CPI, which excludes food and energy, had a 3.9% increase.



- The ISM Manufacturing Index decreased slightly during the quarter, finishing at 47.4 versus 49.0 in September. 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 decreased slightly during the quarter and finished at 50.6 in December.

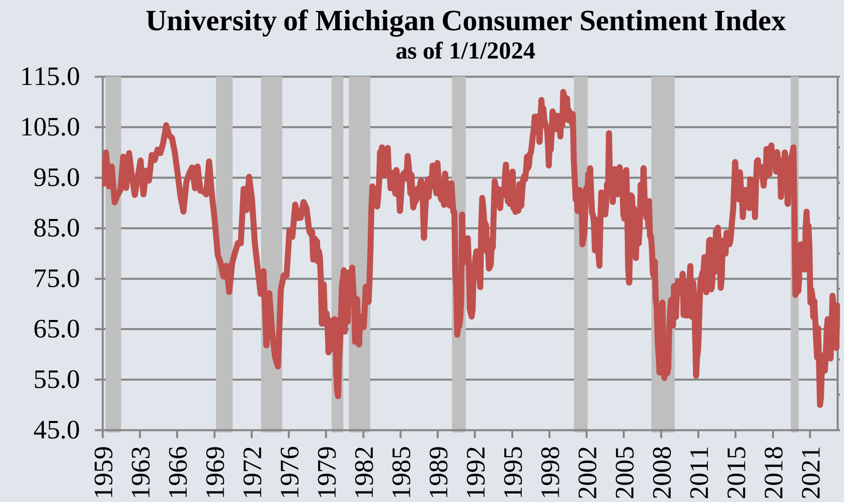


- In December, the Conference Board Leading Economic Index decreased 0.1% month-over-month to 103.1. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, has declined significantly over the past year but leveled in the 4th quarter.
- The U.S. dollar depreciated over the past quarter.



CONFIDENCE METRICS

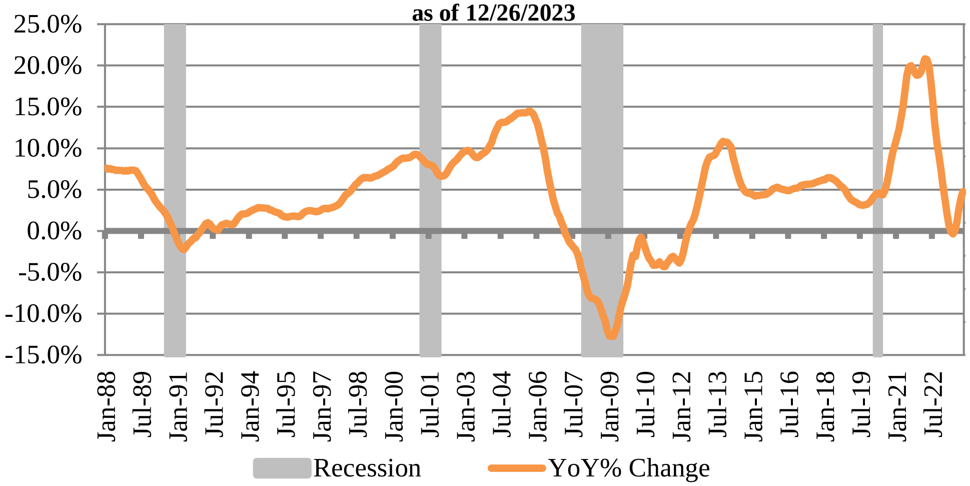
- The Conference Board's Consumer Confidence Index December reading was 110.7, up from 104.3 in September as consumers have benefitted from lower inflation and a steady labor market over the past quarter.
- The University of Michigan Consumer Sentiment Index final reading for December was 69.7, up from the lows in June of 2022.



HOUSING

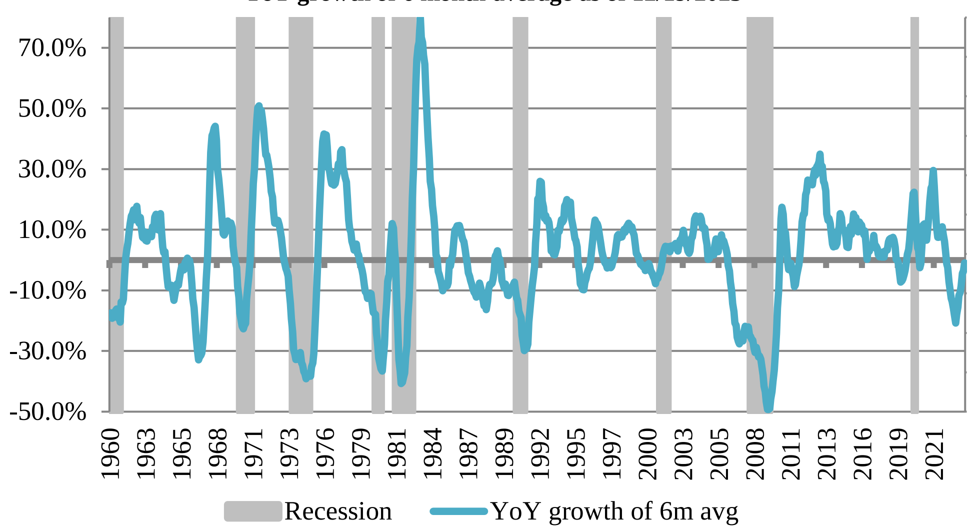
- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices increased 4.8% year/year in October. Prices rebounded in 2023 after a weak 2022.

S&P Case-Shiller U.S. National Home Price Index, YoY growth
as of 12/26/2023



- 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.

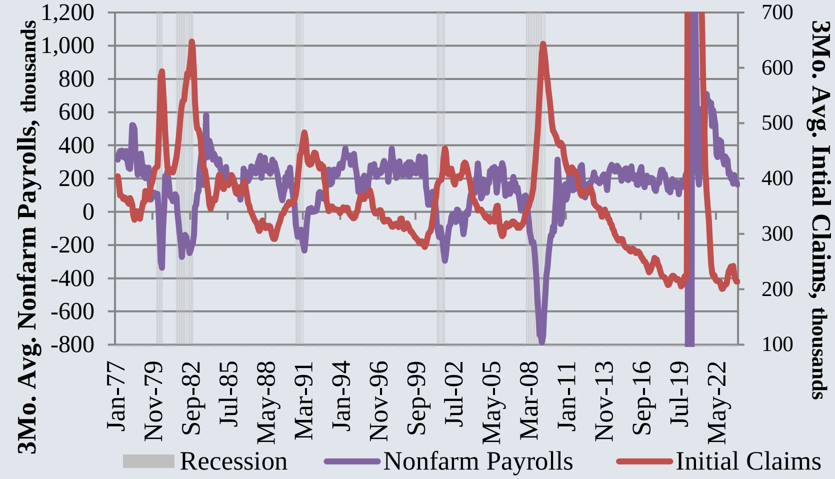
Housing Starts
YoY growth of 6 month average as of 12/19/2023



EMPLOYMENT

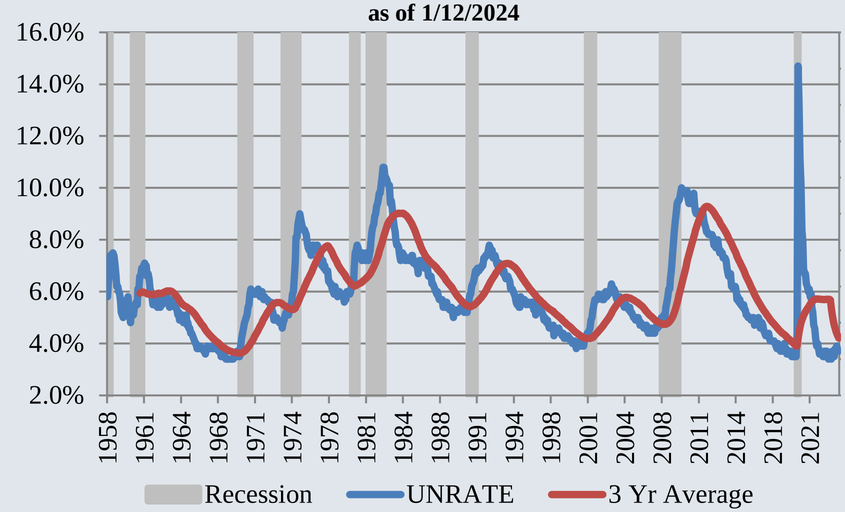
- During the quarter, nonfarm payrolls averaged 164,667 jobs added per month, while initial claims remain low.

3Mo Avg. Nonfarm Payrolls & Initial Claims
as of 1/11/2024



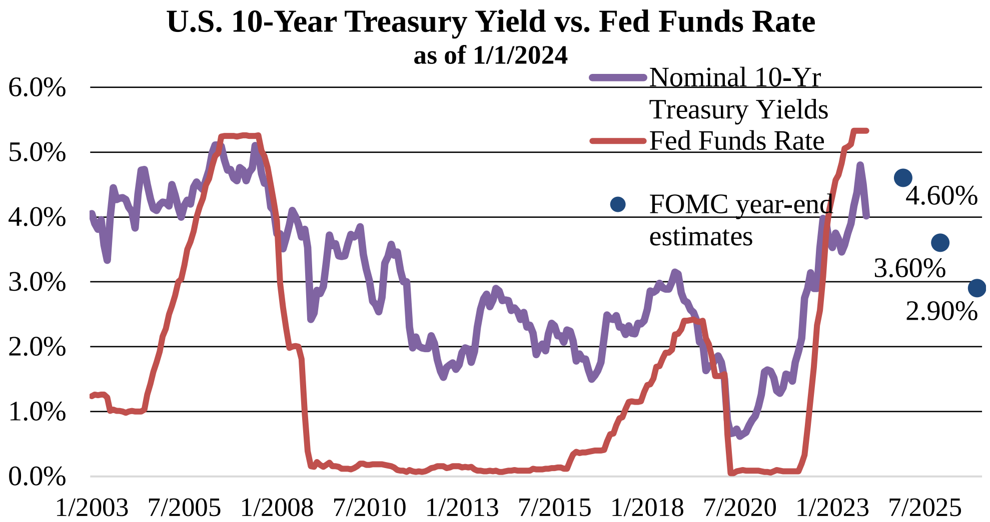
- The unemployment rate declined slightly during the quarter to 3.7%.

Unemployment Rate
as of 1/12/2024

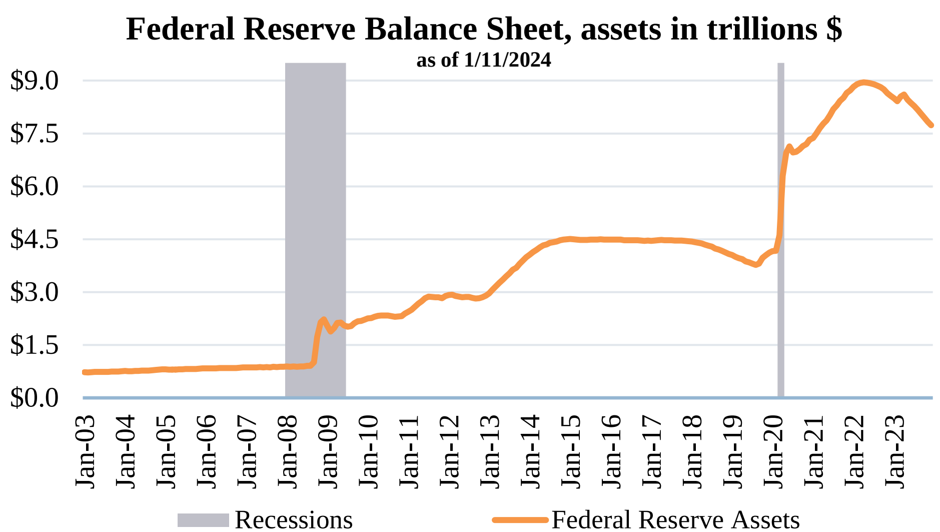


FED POLICY

- The Federal Open Market Committee (FOMC) maintained the federal funds rate at 5.25%-5.5% during the past few meetings. In December, the Fed lowered its expectations for 2024 year-end rates, as they reduced their inflation expectations.

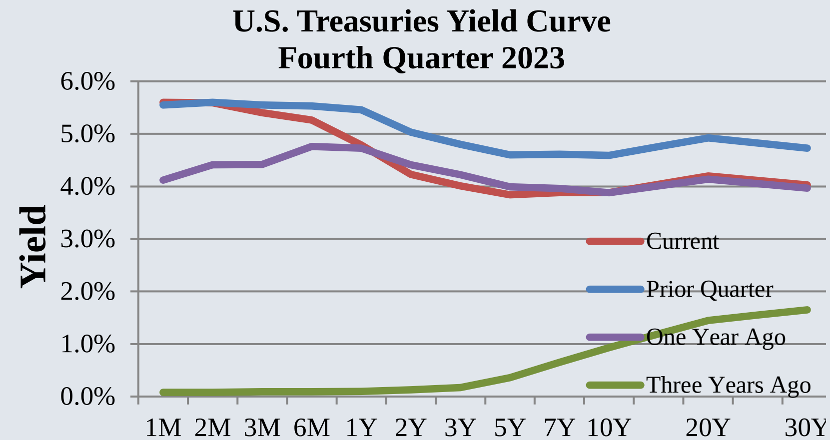


- In 2022, the Fed started to reduce its holdings of Treasuries and agency MBS. Other central banks have been reducing their balance sheets as well.

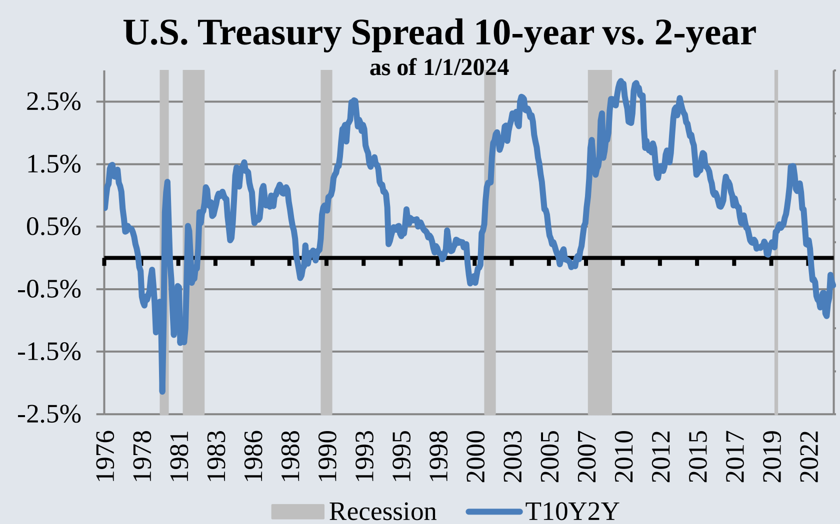


FIXED INCOME

- Yields across the U.S. Treasury curve decreased during the quarter as the market adjusted their expectations for more 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.



- The spread between short and intermediate-term Treasuries has remained inverted since July 2022 (the past 18 months), and finished at negative 44bps in December. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.



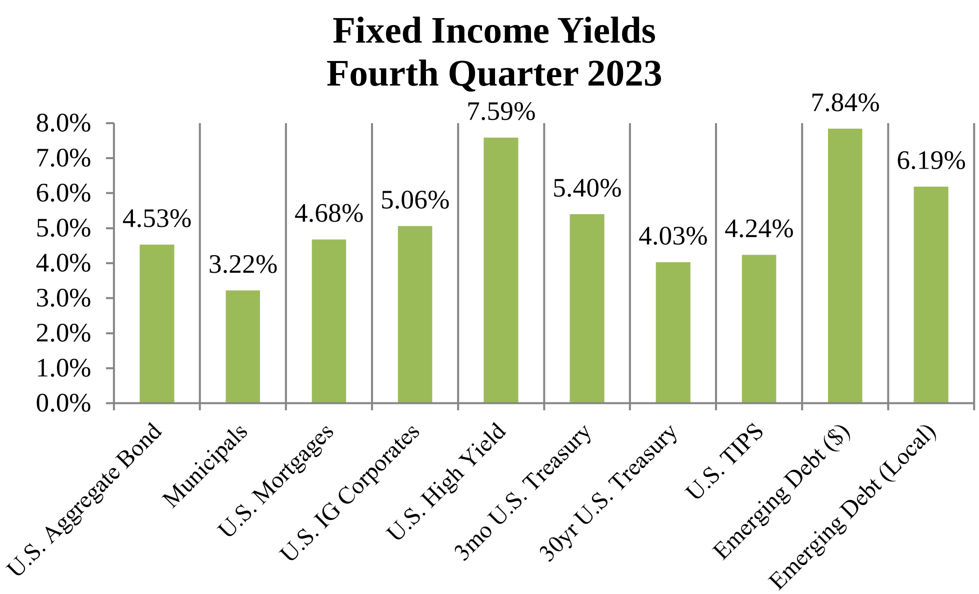
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was up 6.82%. Bonds with more credit and/or interest rate risk, generally, performed better as rates fell and spread compressed.

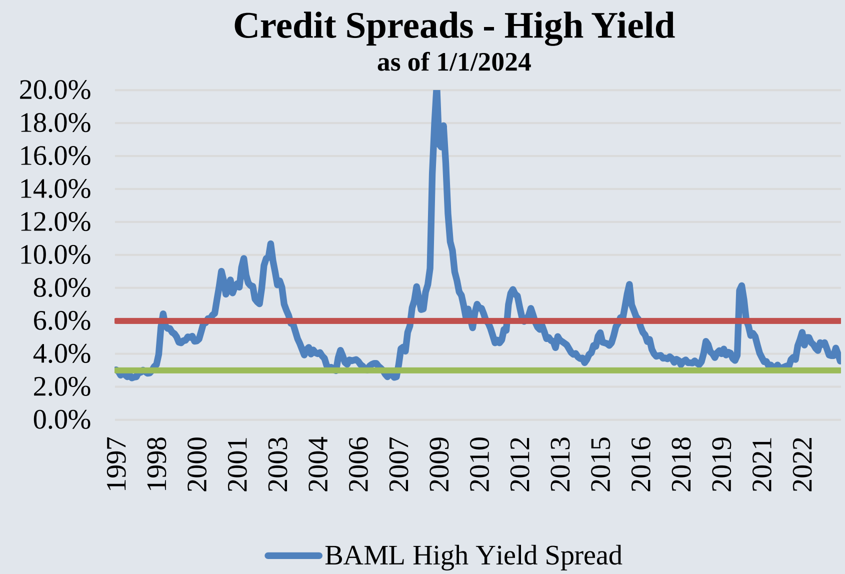
	4Q 23 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	6.82%	5.53%	1.10%	1.81%
Municipals	7.89%	6.40%	2.25%	3.03%
U.S. Mortgages	7.48%	5.05%	0.25%	1.38%
U.S IG Corporates	8.50%	8.52%	2.63%	2.95%
U.S. High Yield	7.16%	13.44%	5.37%	4.60%
3mo U.S. Treasury	1.39%	5.15%	1.92%	1.28%
30yr U.S. Treasury	12.85%	1.93%	-2.16%	1.86%
U.S. TIPS	4.71%	3.90%	3.15%	2.42%
Emerging Debt ($)	9.70%	10.80%	1.70%	3.10%
Emerging Debt (LCL)	6.90%	10.90%	0.60%	-0.20%

Bloomberg and JPMorgan Indices

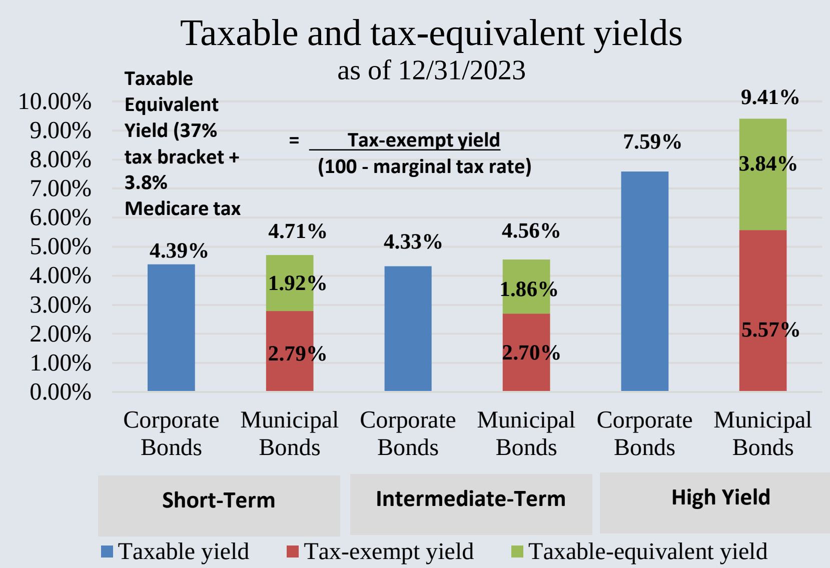
- Yields decreased during the fourth quarter but remain at attractive levels.



- Credit spreads tightened during the quarter and are not reflecting stress in the financial system at the moment.



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



DOMESTIC EQUITIES

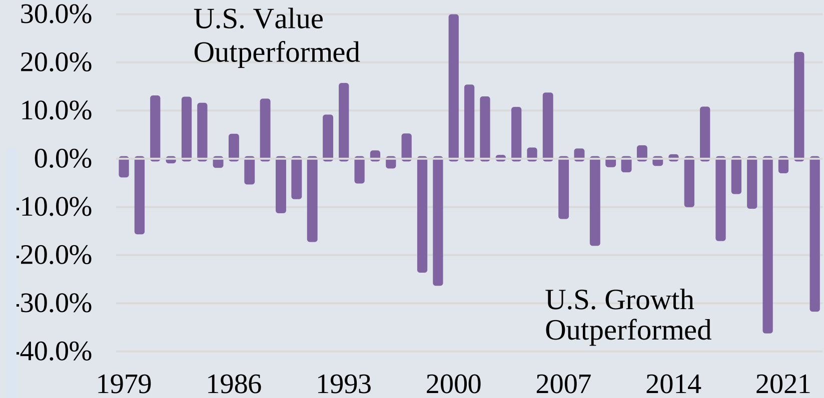
Fourth Quarter 2023 Returns			
	Value	Core	Growth
Mega Cap		10.9%	
Large Cap	9.5%	12.0%	14.2%
Mid Cap	12.1%	12.8%	14.6%
Small Cap	15.3%	14.0%	12.8%
Micro Cap	16.3%	16.1%	15.6%

- The Russell 1000 Index, comprising of large and mid-capitalization stocks, posted a positive total return of 12.0% during the fourth quarter. On a year-over-year basis, the Russell 1000 Index has increased 26.5%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 14.0% during the fourth quarter. On a year-over-year basis, the index has increased 16.9%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	4Q 23 Return	1-Yr Return	10-Yr Return
Energy	3.9%	7.8%	0.5%	-6.9%	-1.3%	3.5%
Materials	2.4%	4.9%	0.7%	9.7%	12.5%	8.6%
Financials	13.0%	21.8%	6.4%	14.0%	12.1%	10.0%
Industrials	8.8%	13.9%	5.9%	13.1%	18.1%	10.0%
Cons. Disc.	10.9%	5.2%	15.8%	12.4%	42.4%	11.7%
Technology	28.9%	9.5%	43.5%	17.2%	57.8%	20.8%
Comm. Services	8.6%	4.7%	11.4%	11.0%	55.8%	7.8%
Real Estate	2.5%	5.0%	0.9%	18.8%	12.4%	8.9%
Health Care	12.6%	14.6%	10.6%	6.4%	2.1%	11.4%
Cons. Staples	6.2%	7.9%	4.1%	5.5%	0.5%	8.5%
Utilities	2.3%	4.8%	0.1%	8.6%	-7.1%	8.9%
S&P 500 Index	100.0%	100.0%	100.0%	11.7%	26.3%	12.0%

- During the quarter, technology remained strong, but performance broadened and more sectors participated. Energy was the only sector with negative returns.

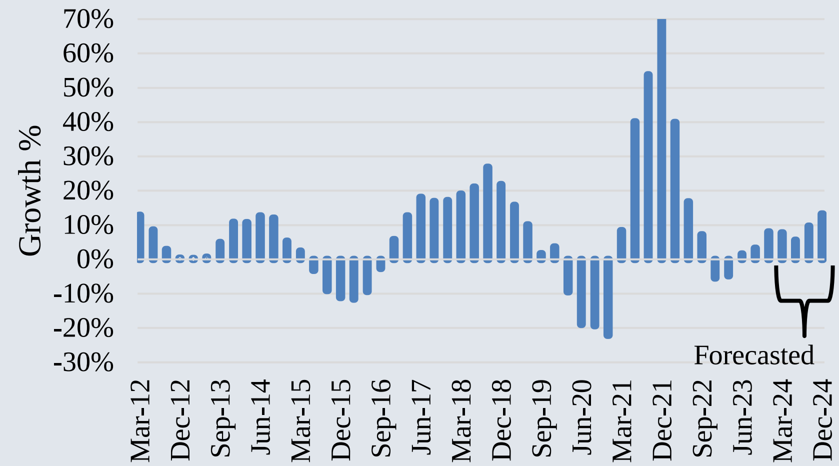
U.S. Value vs. Growth Relative Equity Performance (as of 12/31/23)



Russell 1000 Value TR vs. Russell 1000 Growth TR

- Growth outperformed Value during the quarter 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 1/17/2024)



- Corporate earnings growth has slowed over the past year, but earnings are expected to rebound over the next year.

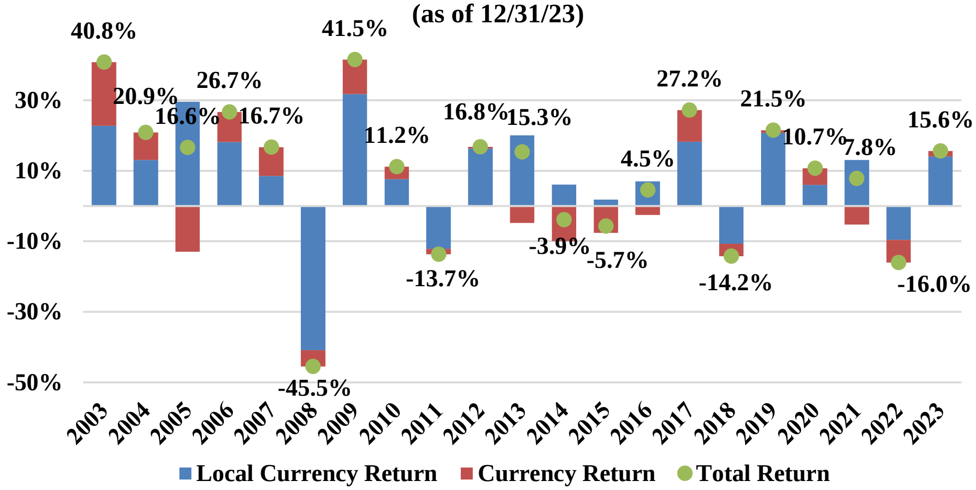
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were up 10.4% during the quarter, and were up 18.2% on a year-over-year basis.
- Emerging market stocks underperformed developed markets during the fourth quarter as the MSCI Emerging Markets Index was up 7.9%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of 9.8%.

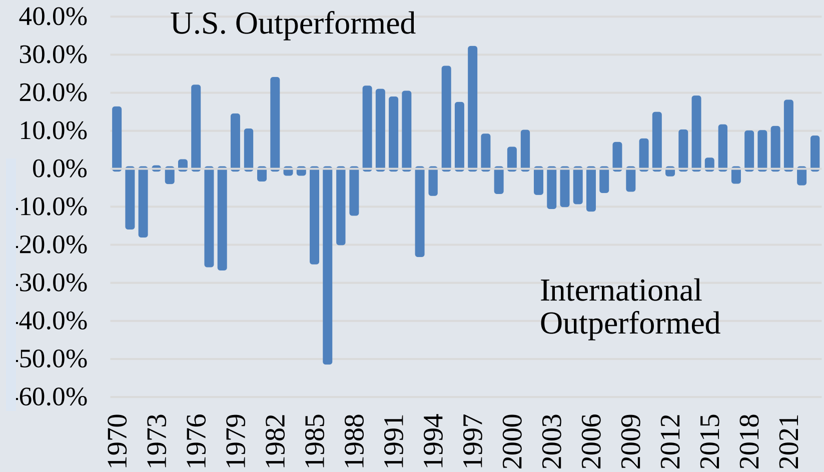
	4Q 23 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	11.0%	22.2%	11.7%	7.9%
World Ex-US	9.8%	15.6%	7.1%	3.8%
EAFE	10.4%	18.2%	8.2%	4.3%
Europe	11.1%	19.9%	9.1%	4.1%
Japan	8.2%	20.3%	6.9%	5.0%
Pacific Ex-Japan	11.4%	6.4%	5.7%	3.9%
Emerging Markets	7.9%	9.8%	3.7%	2.7%
EM (Asia)	6.7%	7.8%	4.3%	4.1%
EM (Latin America)	17.6%	32.7%	6.1%	2.1%
EM (Eastern Europe)	29.1%	47.2%	-18.3%	-10.4%

- Currency was a slight boost to 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 12/31/23)



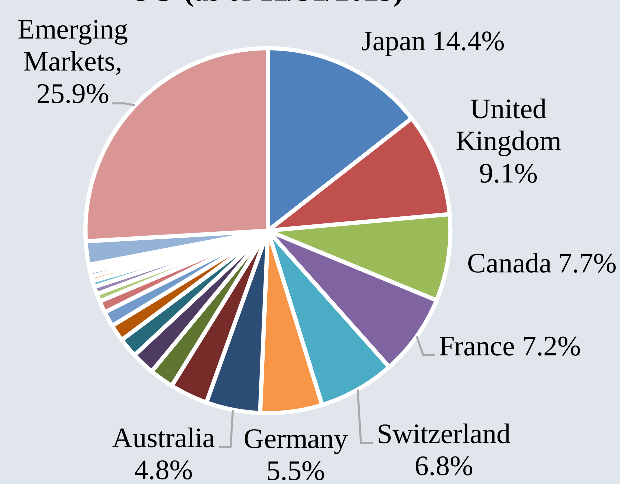
U.S. vs. International Equity Performance (as of 12/31/23)

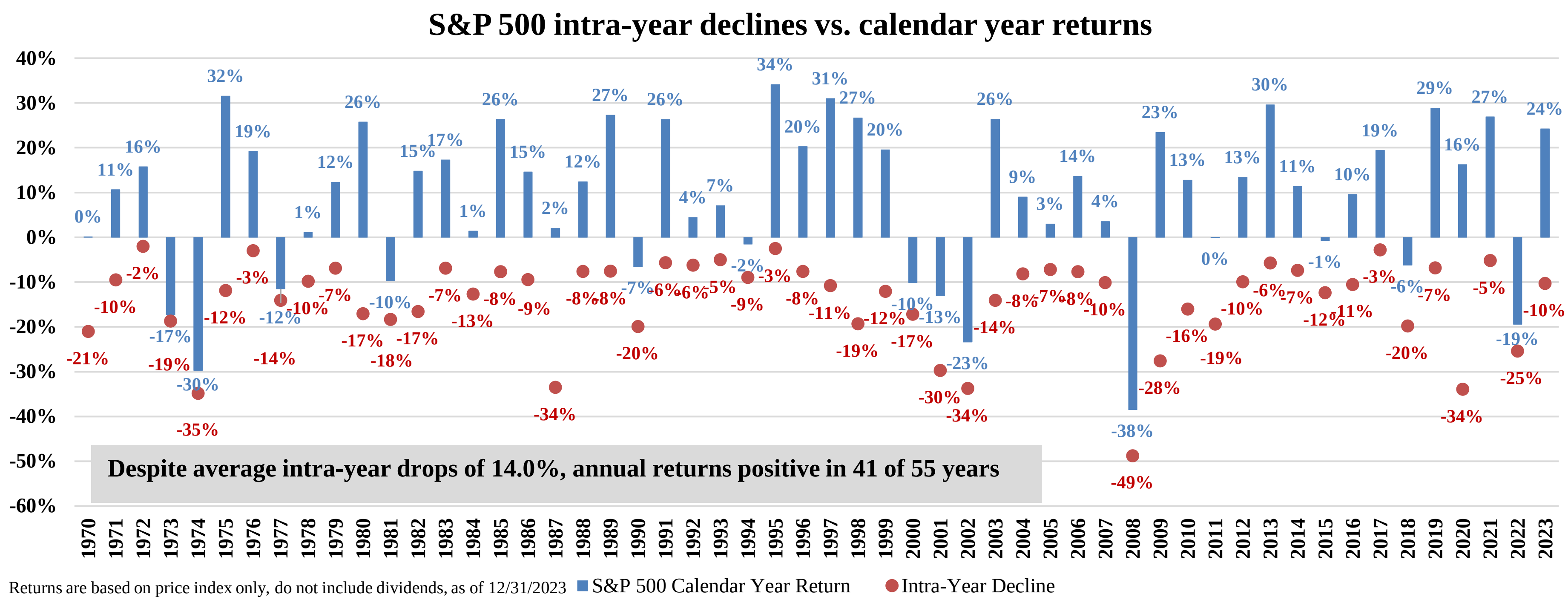


S&P 500 TR vs. MSCI EAFE NR

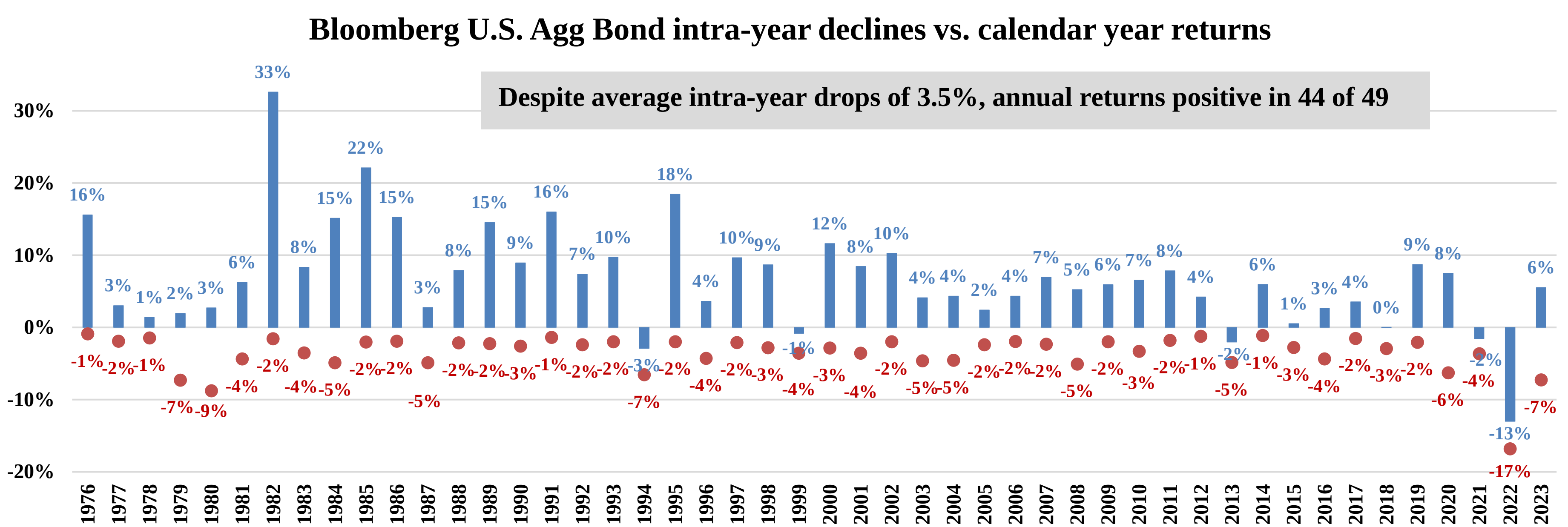
- International equities performed worse than U.S. equities during the quarter. International equities have underperformed U.S. equities in eleven out of the last fourteen years. Performance is cyclical as shown in the chart above.

Country Weighting in MSCI ACWI ex US (as of 12/31/2023)





Returns are based on price index only, do not include dividends, as of 12/31/2023



Returns are based on total return, as of 12/31/2023

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-yrs '14-'23 Return	10-yrs '14-'23 Volatility
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 16.1%	Large Cap 26.3%	Large Cap 12.0%	Small Cap 20.2%
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 1.5%	International 18.9%	Real Estate 8.0%	Real Estate 17.3%
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%	High Yield -12.7%	Small Cap 16.9%	Small Cap 7.2%	Emerging Markets 17.2%
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%	Fixed Income -13.0%	Asset Allocation 14.2%	Asset Allocation 5.9%	International 15.2%
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%	Asset Allocation -13.9%	High Yield 14.0%	International 4.8%	Large Cap 15.2%
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%	International -14.0%	Real Estate 11.4%	High Yield 3.6%	Commodities 14.3%
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%	Large Cap -18.1%	Emerging Markets 10.3%	Emerging Markets 3.1%	Asset Allocation 10.2%
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%	Emerging Markets -19.7%	Fixed Income 5.5%	Fixed Income 1.8%	High Yield 8.6%
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%	Small Cap -20.4%	Cash 5.1%	Cash 1.2%	Fixed Income 4.8%
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 -25.0%	Commodities -7.9%	Commodities -1.1%	Cash 0.5%

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 12/31/2023

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