SilverOak

WEALTH MANAGEMENT LLC

Third Quarter 2024 Market Summary

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Third Quarter 2024 Market Summary

The third quarter saw increased volatility in asset prices, with many equity markets experiencing an 8-10% drawdown in late July/early August, though they ended the quarter at or near record highs. In September, the Federal Reserve implemented the much-anticipated first rate cut, reducing the Fed Funds rate by 50 basis points to a range of 4.75%–5.00%. Inflation is now within the Fed's target range of 2%–3%, it has shifted its focus towards the labor market. Uneven jobs data has contributed to market volatility, as investors closely watch these releases for insights into the economy's health.

Following the Fed’s meeting, market sentiment improved as equities extended gains and long-bond rates increased. The recalibration of monetary policy—marked by lower short-term interest rates and a weaker U.S. dollar—has boosted asset classes that had been underperforming relative to U.S. large cap growth. As a result, performance has broadened to include small caps, value stocks, international equities, and fixed income.

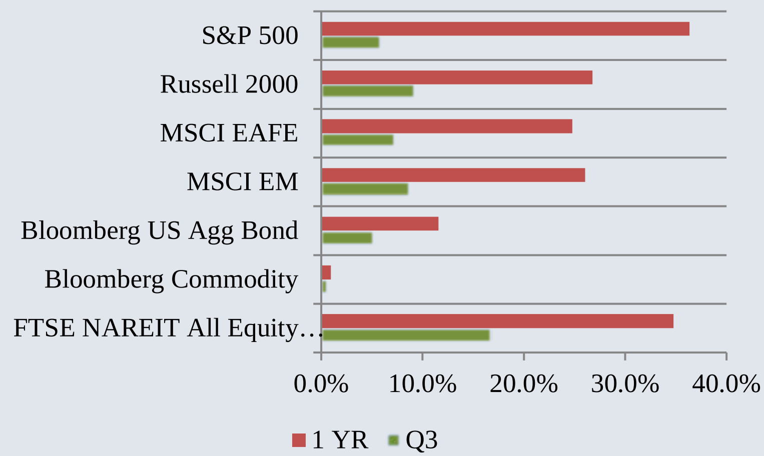
U.S. large company stocks (i.e., S&P 500 Index) posted a solid gain of 5.9% during the third quarter, bringing their impressive year-to-date increase to 22.1%. U.S. small company stocks (i.e., Russell 2000 Index) were up 9.3% during the quarter and are up 11.2% year-to-date. Sectors more sensitive to interest rates and economic growth—such as utilities, real estate, industrials, and financials—outperformed during the quarter, while the technology sector lagged. Looking ahead, earnings growth is expected to be strong through the second half of the year and into 2025, which could provide additional support for equities, including non-technology companies.

International stocks, represented by the MSCI ACWI ex US Index, gained 8.1% during the quarter and are up 14.2% year-to-date. Near the end of the quarter, China initiated a large stimulus package aimed at reinvigorating growth, as concerns over slower economic momentum and a real estate market slump had weighed on investor confidence. This move sparked a substantial rally in the Chinese equity market. During the quarter, emerging markets performed better than developed international markets and lead for the year as well.

The Bloomberg Barclays U.S. Aggregate Bond Index, representing a broad basket of bonds, had a strong quarter, rising 5.2% as interest rates declined. Generally, bonds with longer durations performed better in this environment. This marks a reversal, as returns had been negative through the first half of the year.

The trailing one-year return of 11.6% may help restore confidence in bonds. The Fed is projecting two 25-basis-point rate cuts by year-end. If the economy remains strong, intermediate-term rates may hold steady, even as the Fed lowers short-term rates. Historically, there is a strong correlation between the starting yield and future returns, suggesting that current fixed income investors may benefit from attractive yields.

Broad Market Index Returns
Third Quarter 2024



The market is grappling with the question: “What do rate cuts mean for asset prices?” Historically, rate cuts have often coincided with economic slowdowns, as seen during the last three recessions. However, they have also followed periods of declining inflation, such as in the mid-1990s and mid-1980s. Currently, the U.S. economy shows several positive indicators, including year-to-date GDP growth of 3%. That said, there are notable challenges as well. Some households and industries are facing more difficulties than others. Although the labor market has weakened, pandemic-related distortions may have reduced its traditional correlation with the economic cycle. The service-based economy, however, continues to benefit from consumers experiencing real wage growth and wealth effects driven by higher asset prices. While the cycle may be shifting, it doesn’t necessarily signal the end of economic growth.

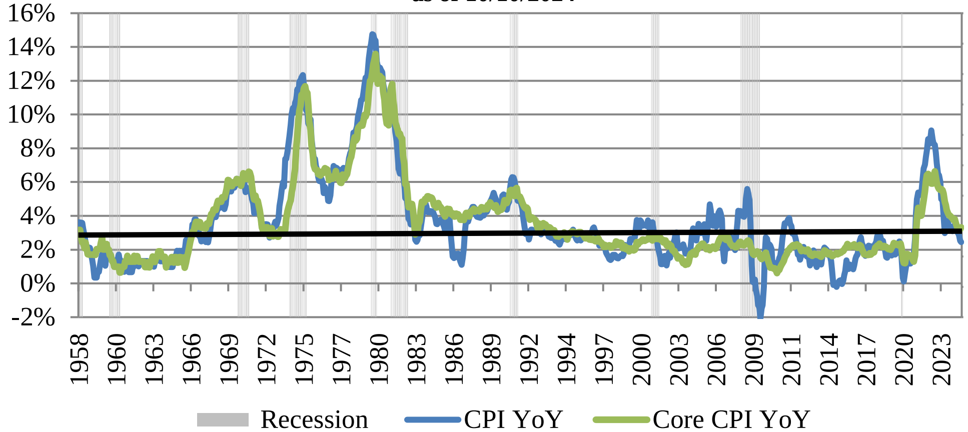
Third Quarter 2024 Market Summary (continued)

So far, the market appears comfortable with the prospect of a “soft landing”, where growth continues, and a recession is deferred. However, given the strong returns over the past two years, it is reasonable to temper expectations, as this trend is unlikely to continue indefinitely. Even if fundamentals remain positive, negative sentiment could arise, particularly with the upcoming U.S. elections, ongoing geopolitical conflicts, or shifts in economic outlook. Additionally, relatively high U.S. equity valuations may act as a headwind. This makes the path forward potentially bumpy, especially if tail risks become tangible. At present, however, there appears to be no significant strain on the system.

MACROECONOMICS

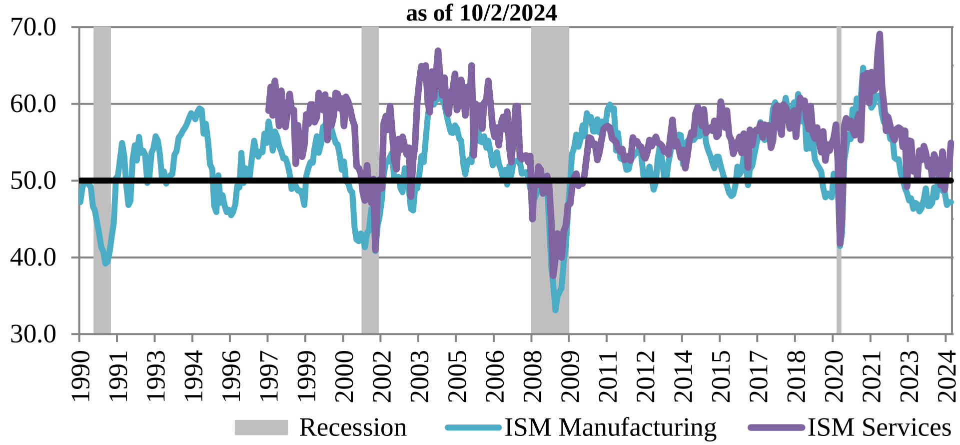
- The Bureau of Economic Analysis released the third estimate of second quarter 2024 real GDP, an annual rate increase of 3.0% from the preceding quarter.
- Inflation continues to grind lower and is now within the Federal Reserve's target range of 2-3%. In September, headline CPI increased 2.4% year-over-year. Core CPI, which excludes food and energy, had a 3.3% increase.

Inflation - Consumer Price Index (CPI)
as of 10/10/2024



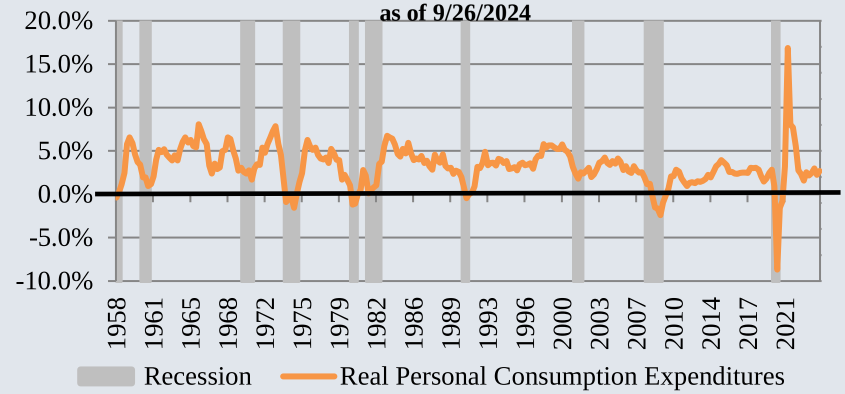
- The ISM Manufacturing Index decreased during the quarter, finishing at 47.2 versus 48.5 in June. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. Conversely, the ISM Non-Manufacturing Index was higher during the quarter and finished at 54.9 in September.

ISM PMI Indices
as of 10/2/2024



- In September, the Conference Board Leading Economic Index decreased 0.5% month-over-month to 99.7. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, remains at a contractionary level but the trend is slightly improving.
- The Real Personal Consumption Expenditures grew at 2.7% year-over-year in 2Q, indicting consumers continue to fuel economic growth.

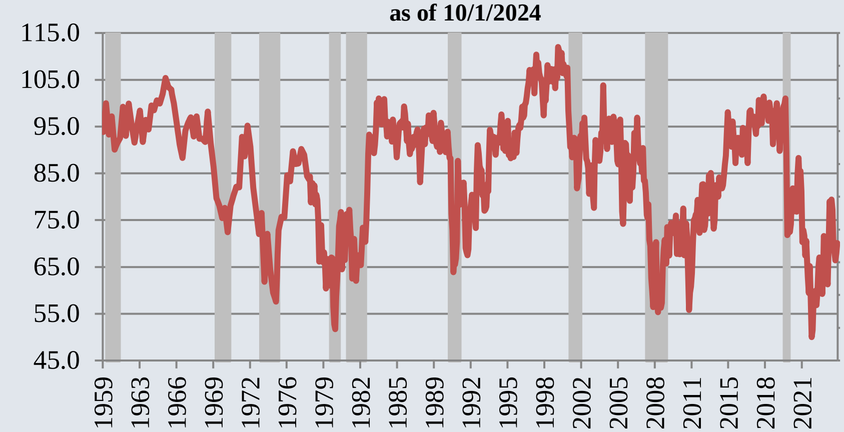
Real Personal Consumption Expenditures
as of 9/26/2024



CONFIDENCE METRICS

- The Conference Board's Consumer Confidence Index September reading was 98.7, essentially flat from 97.8 in June. Consumers are concerned with the economy and a weakening labor market.
- The University of Michigan Consumer Sentiment Index final reading for September was 70.1, which is similar to the second quarter levels.

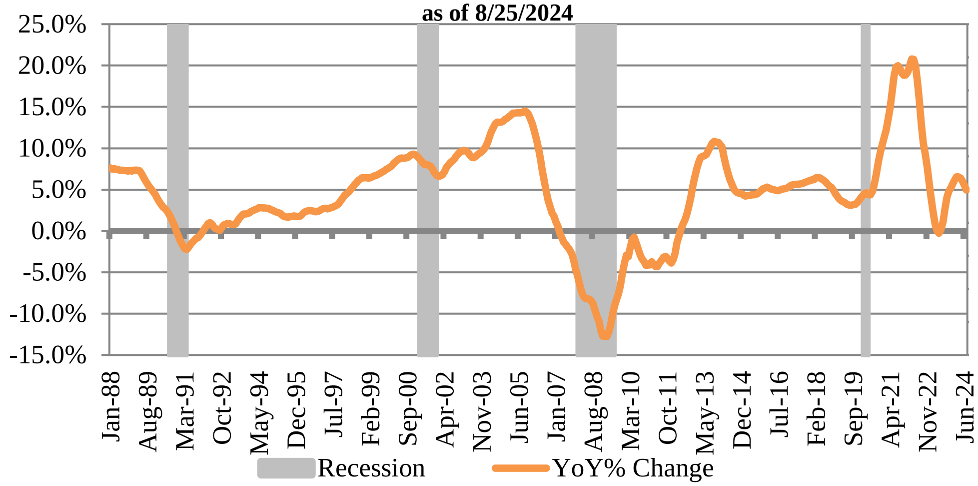
University of Michigan Consumer Sentiment Index
as of 10/1/2024



HOUSING

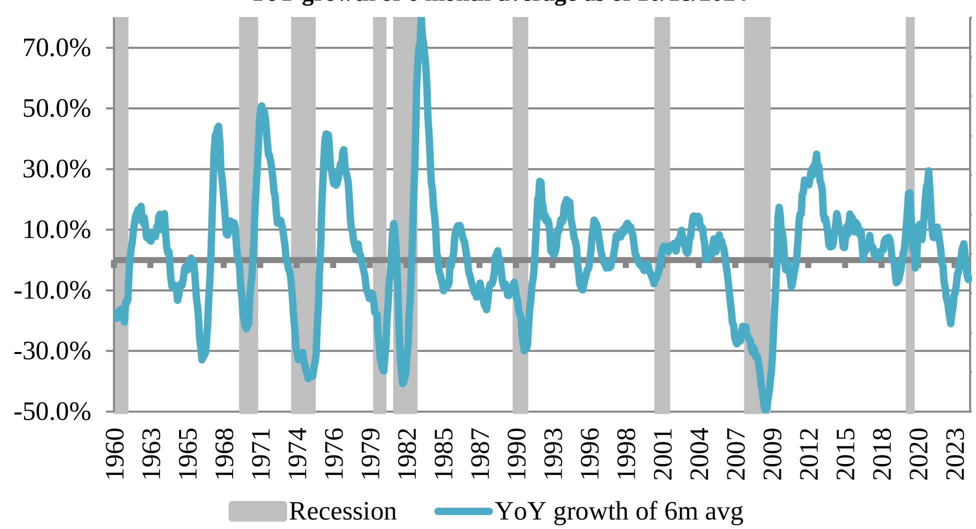
- S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices increased 5.0% year/year in July. The Index continues to make all-time highs.

S&P Case-Shiller U.S. National Home Price Index, YoY growth
as of 8/25/2024



- Housing starts have declined over the past two years, in part, due to higher financing costs. The housing market remains supply-challenged.

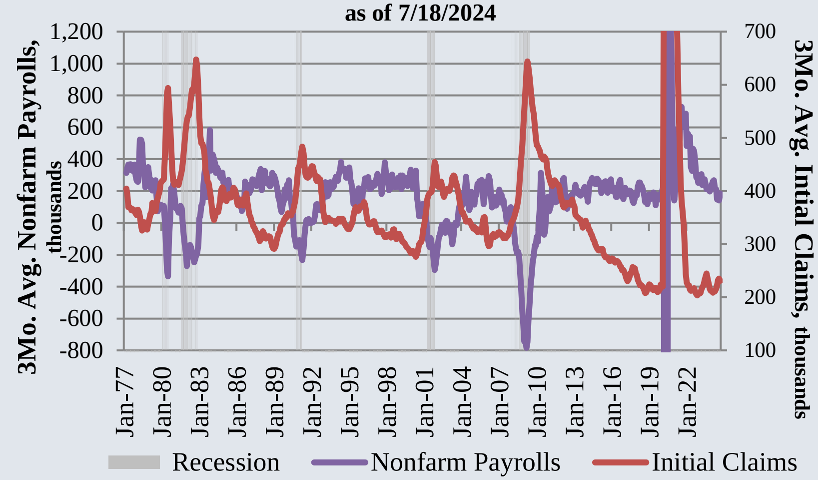
Housing Starts
YoY growth of 6 month average as of 10/18/2024



EMPLOYMENT

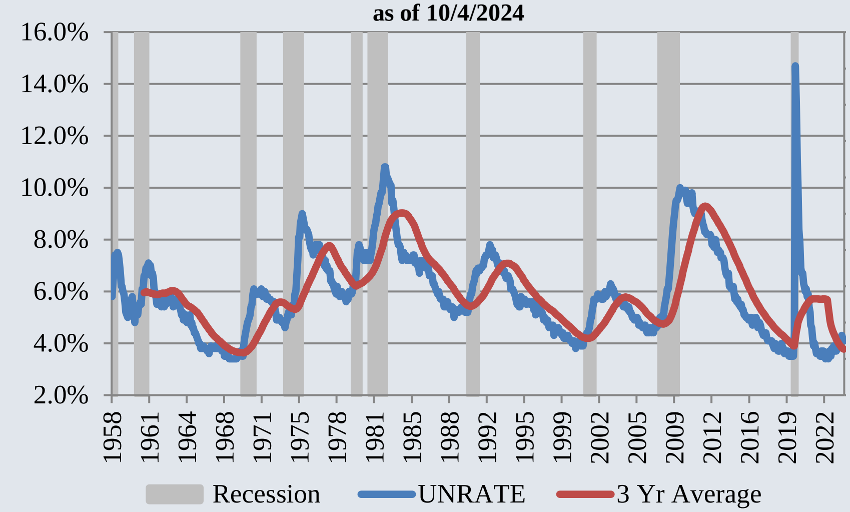
- During the quarter, nonfarm payrolls averaged 185,667 jobs added per month, while initial claims remain low.

3Mo Avg. Nonfarm Payrolls & Initial Claims
as of 7/18/2024



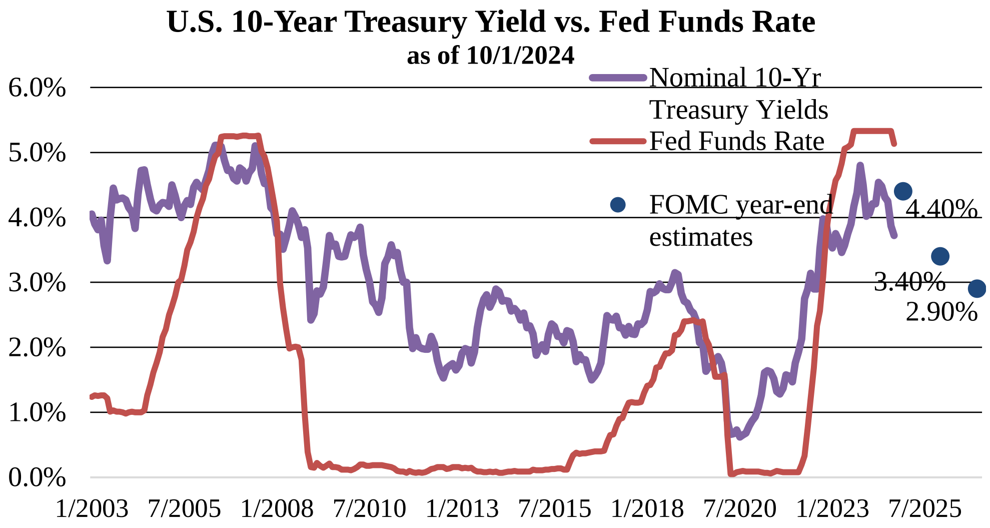
- The unemployment rate was flat during the quarter at 4.1% but remains slightly above its three-year average, showing potential weakness.

Unemployment Rate
as of 10/4/2024

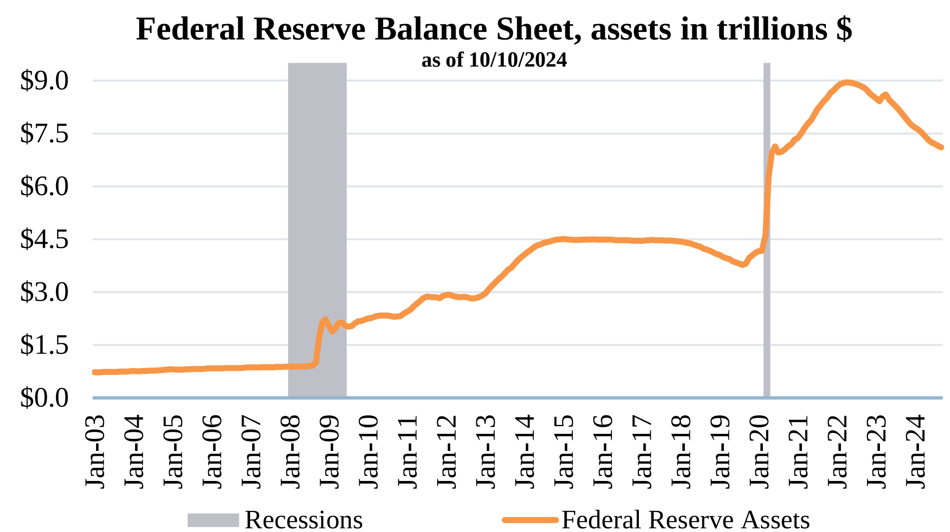


FED POLICY

- The Federal Open Market Committee (FOMC) lowered the federal funds rate by 50bps to 4.75%-5.0% in the September meeting. The Fed noted ongoing economic expansion and progress in reducing inflation, projecting additional rate cuts over the next year.

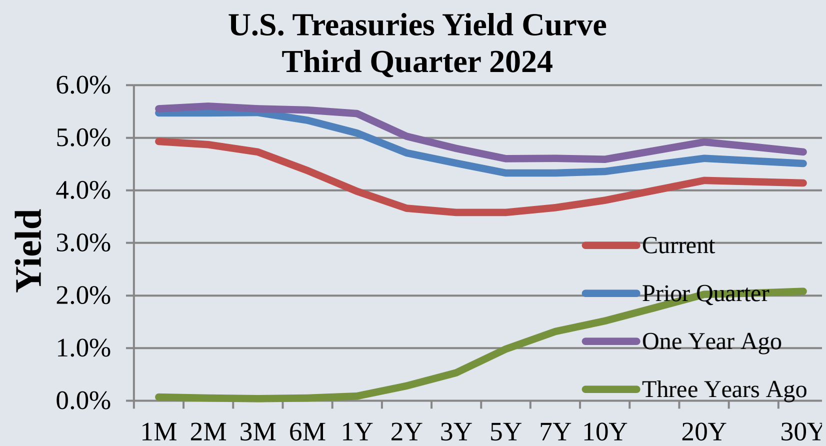


- In 2022, the Fed started to reduce its holdings of Treasuries and agency MBS. Other central banks have been reducing their balance sheets as well.

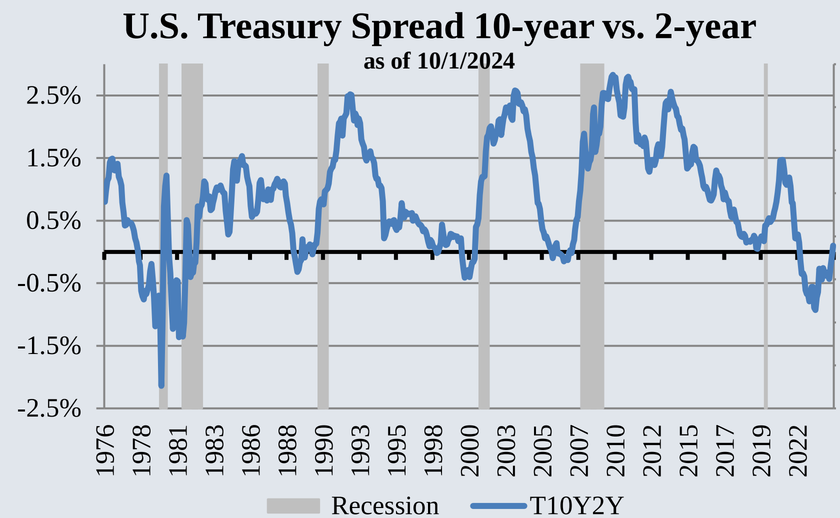


FIXED INCOME

- Yields across the U.S. Treasury curve fell during the quarter. 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 un-inverted in September. The curve had been inverted for over two years, the longest such occurrence. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.



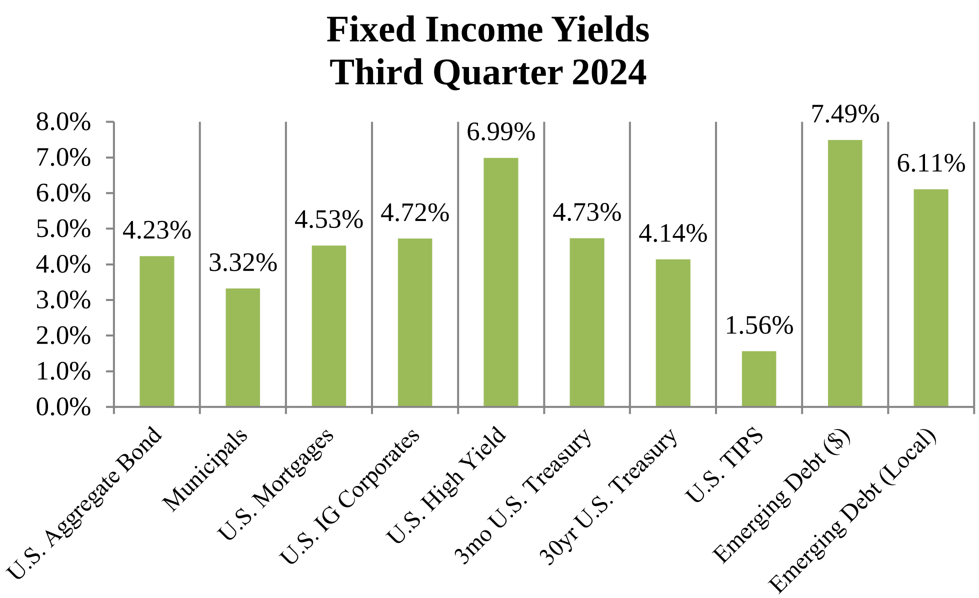
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was up 5.2%. Bonds with more interest rate sensitivity, performed better as rates declined.

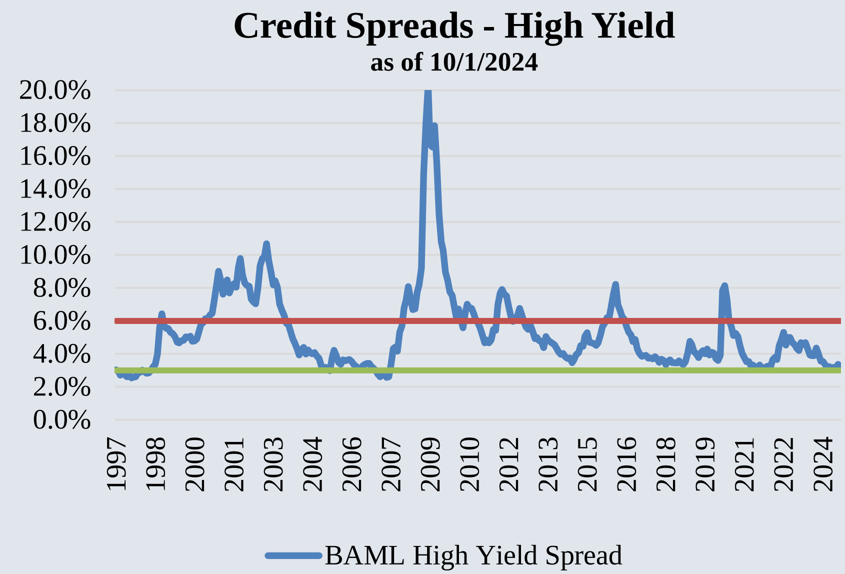
	3Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	5.20%	11.57%	0.33%	1.84%
Municipals	2.71%	10.37%	1.39%	2.52%
U.S. Mortgages	5.53%	12.32%	0.04%	1.41%
U.S IG Corporates	5.84%	14.28%	1.16%	2.93%
U.S. High Yield	5.28%	15.74%	4.72%	5.04%
3mo U.S. Treasury	1.38%	5.51%	2.37%	1.68%
30yr U.S. Treasury	8.12%	14.46%	-5.77%	0.37%
U.S. TIPS	4.12%	9.79%	2.62%	2.54%
Emerging Debt ($)	6.50%	8.70%	0.80%	3.20%
Emerging Debt (LCL)	8.60%	4.60%	0.40%	0.30%

Bloomberg and JPMorgan Indices

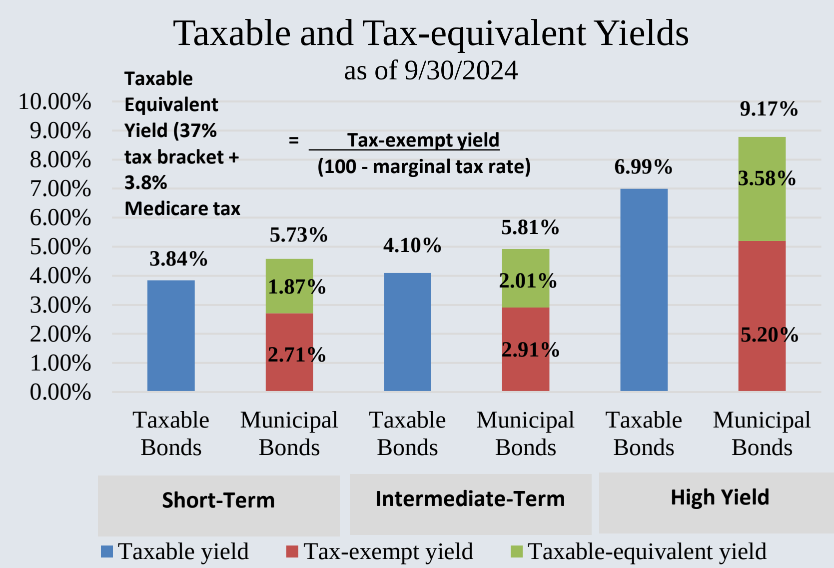
- Yields decreased during the third quarter and remain at attractive levels.



- 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

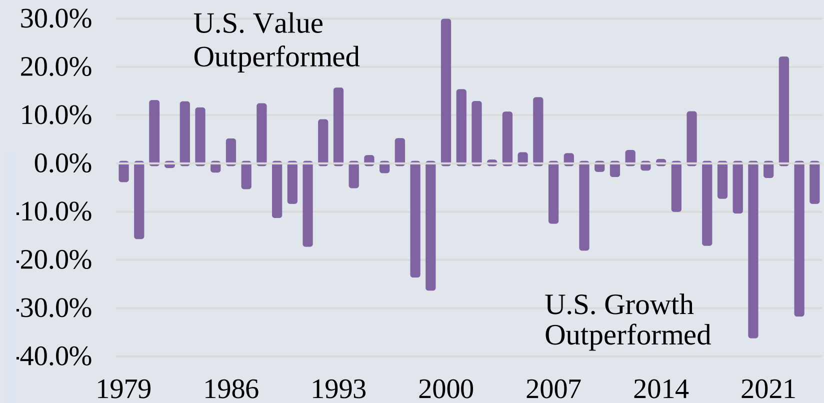
Third Quarter 2024 Returns			
	Value	**Core**	**Growth**
Mega Cap		4.2%	
Large Cap	9.4%	6.1%	3.2%
Mid Cap	10.1%	9.2%	6.5%
Small Cap	10.2%	9.3%	8.4%
Micro Cap	8.1%	8.3%	8.6%

- The Russell 1000 Index, comprising of large and mid-capitalization stocks, posted a positive total return of 6.1% during the third quarter. On a year-over-year basis, the Russell 1000 Index has increased 35.7%.
- Small capitalization stocks, as represented by the Russell 2000 Index, increased 9.3% during the third quarter. On a year-over-year basis, the index has increased 26.8%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	3Q 24 Return	1-Yr Return	10-Yr Return
Energy	3.3%	6.7%	0.4%	-2.3%	0.8%	4.0%
Materials	2.3%	4.7%	0.7%	9.7%	25.2%	9.1%
Financials	12.9%	21.1%	6.4%	10.7%	39.0%	11.5%
Industrials	8.5%	14.7%	4.6%	11.5%	35.9%	11.7%
Cons. Disc.	10.2%	6.3%	14.3%	7.8%	28.1%	13.1%
Technology	31.7%	9.1%	48.7%	1.6%	52.7%	22.4%
Comm. Services	8.8%	4.2%	12.8%	1.7%	42.9%	9.8%
Real Estate	2.3%	4.9%	0.6%	17.2%	35.8%	8.9%
Health Care	11.6%	15.5%	7.8%	6.1%	21.7%	11.1%
Cons. Staples	5.9%	8.0%	3.7%	9.0%	25.3%	9.6%
Utilities	2.5%	4.8%	0.2%	19.4%	41.8%	10.4%
S&P 500 Index	100.0%	100.0%	100.0%	5.9%	36.4%	13.4%

- During the quarter, more cyclical and interest rate sensitive sectors outperformed. Utilities, Real Estate, and Industrials delivered the strongest returns, reflecting a positive broadening of market performance beyond technology.

U.S. Value vs. Growth Relative Equity Performance (as of 9/30/24)

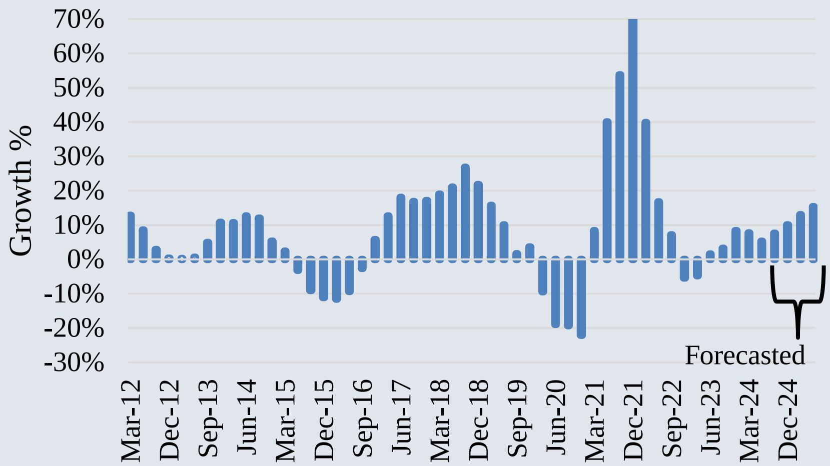


Russell 1000 Value TR vs. Russell 1000 Growth TR

- Growth trailed Value during the quarter but has significantly outperformed YTD. 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 10/18/2024)



- Corporate earnings are projected to grow by nearly 10% in both 2024 and 2025, with profit margins remaining strong.

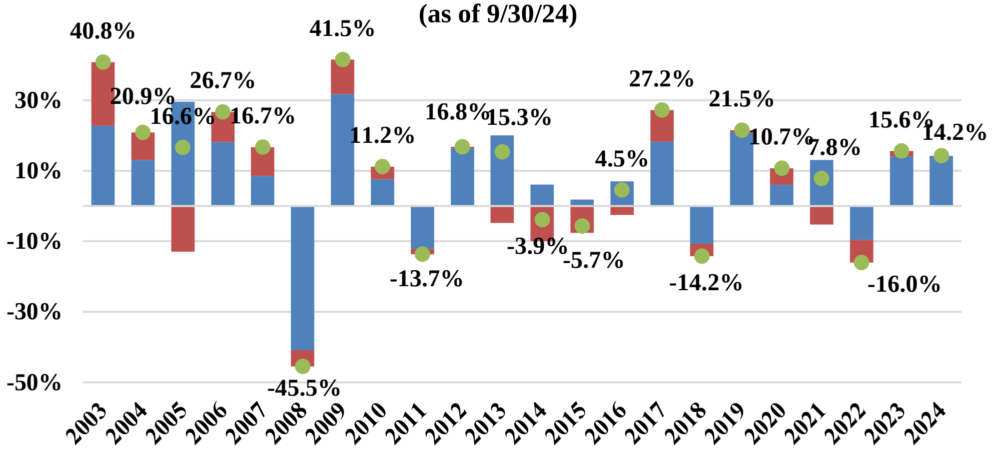
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were up 7.3% during the quarter, and were up 24.8% on a year-over-year basis.
- Emerging market stocks outperformed developed markets during the third quarter as the MSCI Emerging Markets Index was up 8.7%. On a year-over-year basis, emerging market stocks are beating developed markets with a return of 26.1%.

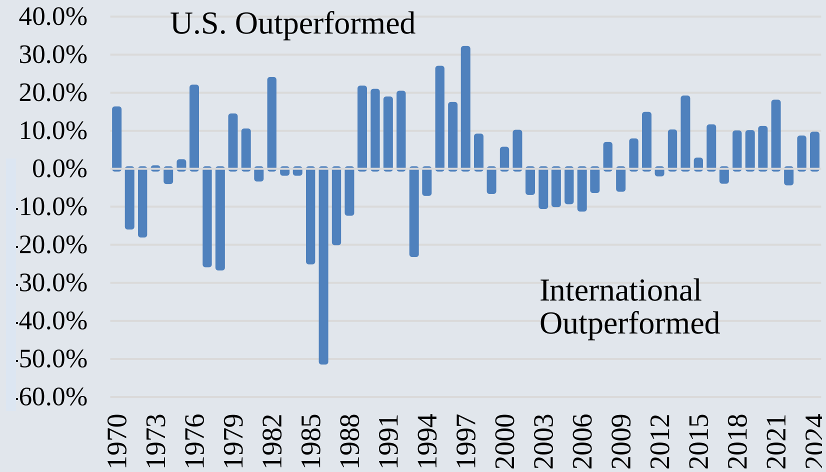
	3Q 24 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	6.6%	31.8%	12.2%	9.4%
World Ex-US	8.1%	25.4%	7.6%	5.2%
EAFE	7.3%	24.8%	8.2%	5.7%
Europe	6.6%	25.2%	8.9%	5.6%
Japan	5.7%	21.6%	7.1%	6.4%
Pacific Ex-Japan	14.3%	28.2%	6.3%	5.3%
Emerging Markets	8.7%	26.1%	5.7%	4.0%
EM (Asia)	9.5%	29.7%	7.2%	5.6%
EM (Latin America)	3.7%	2.8%	2.1%	0.6%
EM (Eastern Europe)	-1.2%	38.4%	-19.7%	-8.3%

- Currency was a positive for international equity returns during the quarter. 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 9/30/24)



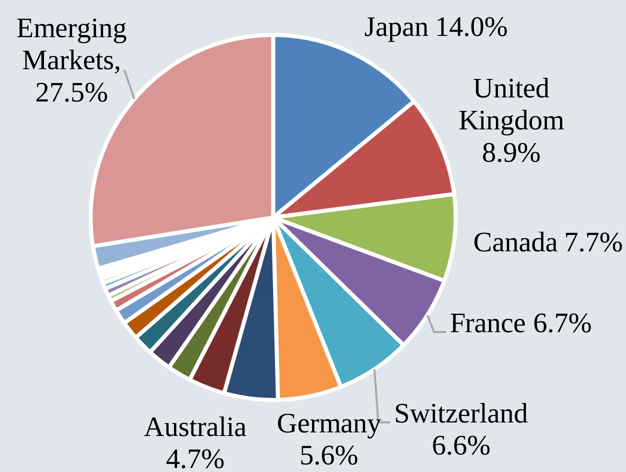
U.S. vs. International Equity Performance (as of 9/30/24)



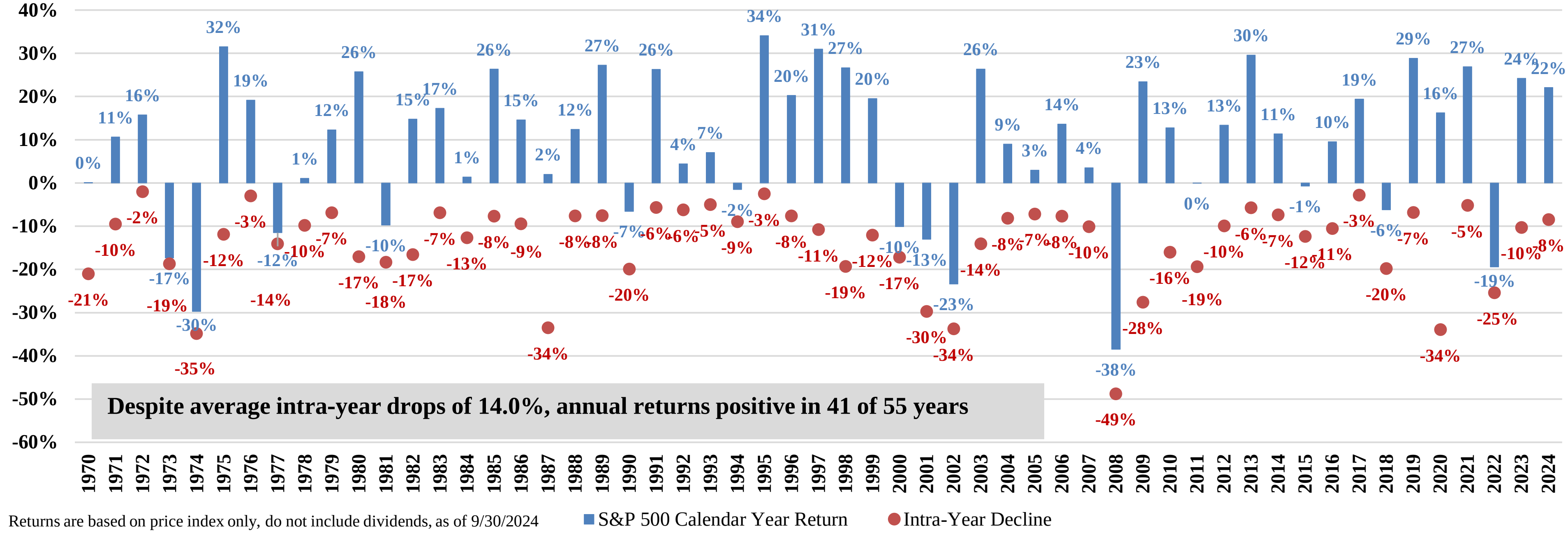
S&P 500 TR vs. MSCI EAFE NR

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

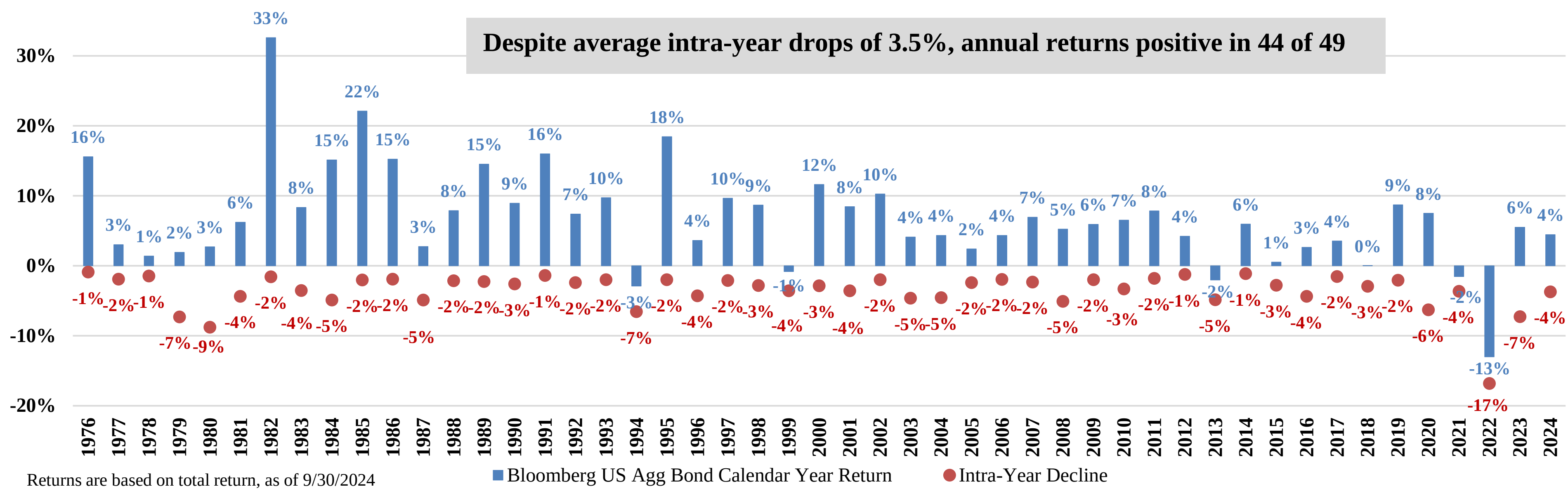
Country Weighting in MSCI ACWI ex US (as of 9/30/2024)



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



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



Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

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 22.1%	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 17.2%	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%	Real Estate 14.2%	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%	International 13.5%	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%	Asset Allocation 12.4%	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%	Small Cap 11.2%	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%	High Yield 9.6%	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%	Commodities 5.9%	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 4.5%	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%	Cash 4.1%	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 9/30/2024

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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.