Mid-Quarter Investment Strategy Webinar

October 20, 2020

FERGUSON WELLMAN
CAPITAL MANAGEMENT

WEST BEARING INVESTMENTS
a division of Ferguson Wellman

Today's Presenters

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Director and Chief Investment Officer

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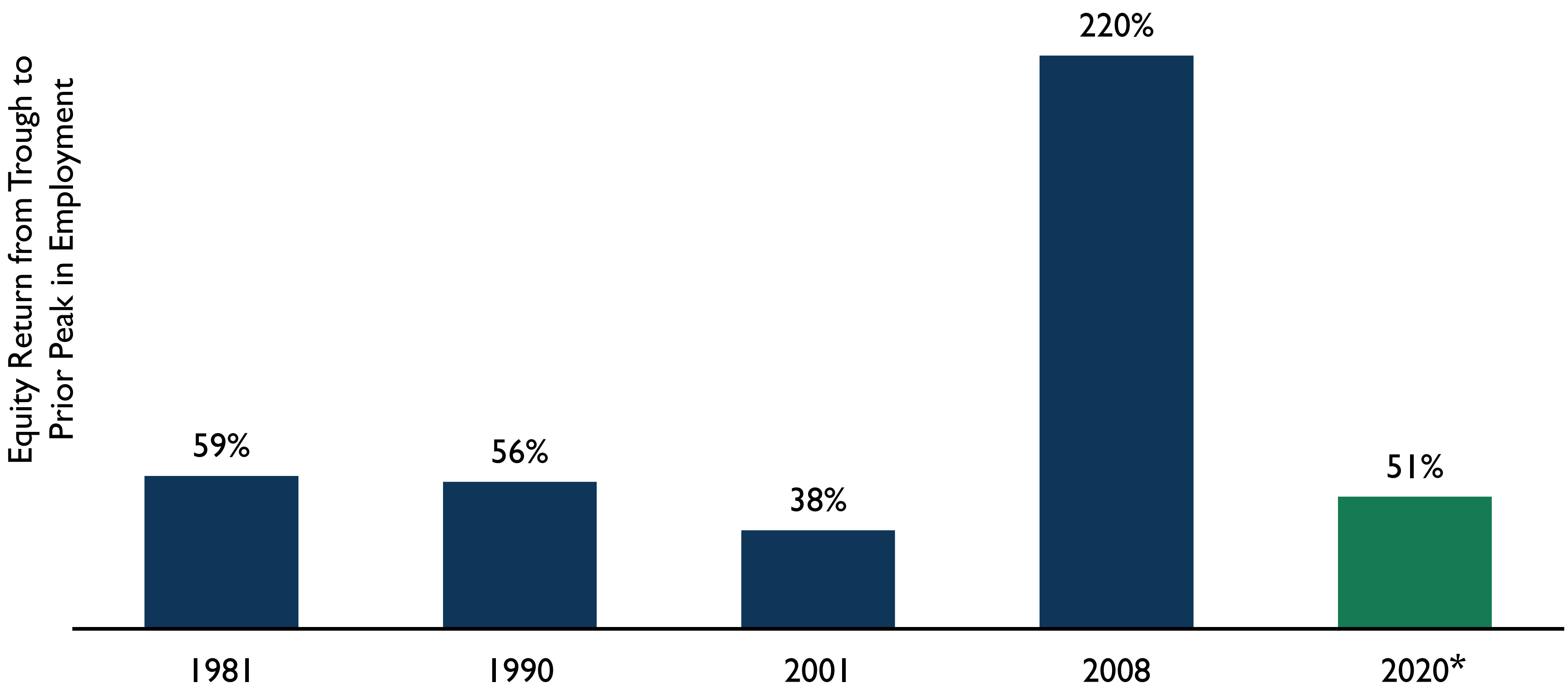
Executive Vice President and Head of Fixed Income

(I Can't Get No) Satisfaction

Investment Strategy Update
Q4 2020

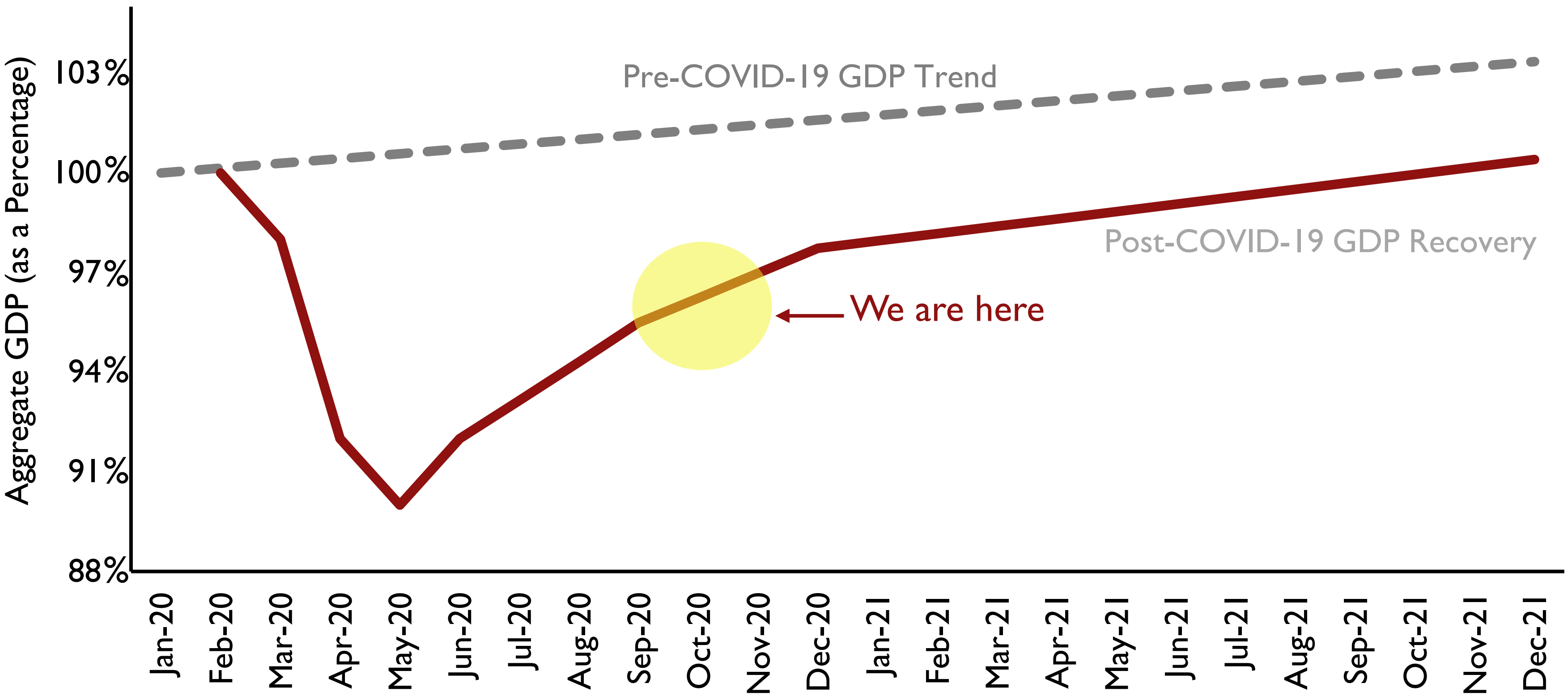
Equity Market Outperforming Economy



*Current cycle through 9/30/2020
Source: Ferguson Wellman

- We expect the recovery to be prolonged, similar to the financial crisis.
- Today's equity prices reflect tomorrow's economy
- The market is not the economy. Tech giants account for 25 percent of S&P market cap compared to less than 2 percent of U.S. GDP
- Interest rates are near all-time lows. Lower interest rates enable higher equity valuation
- Current equity market multiples are reasonable given expectations of 2021 S&P earnings exceeding 2019's level of $163

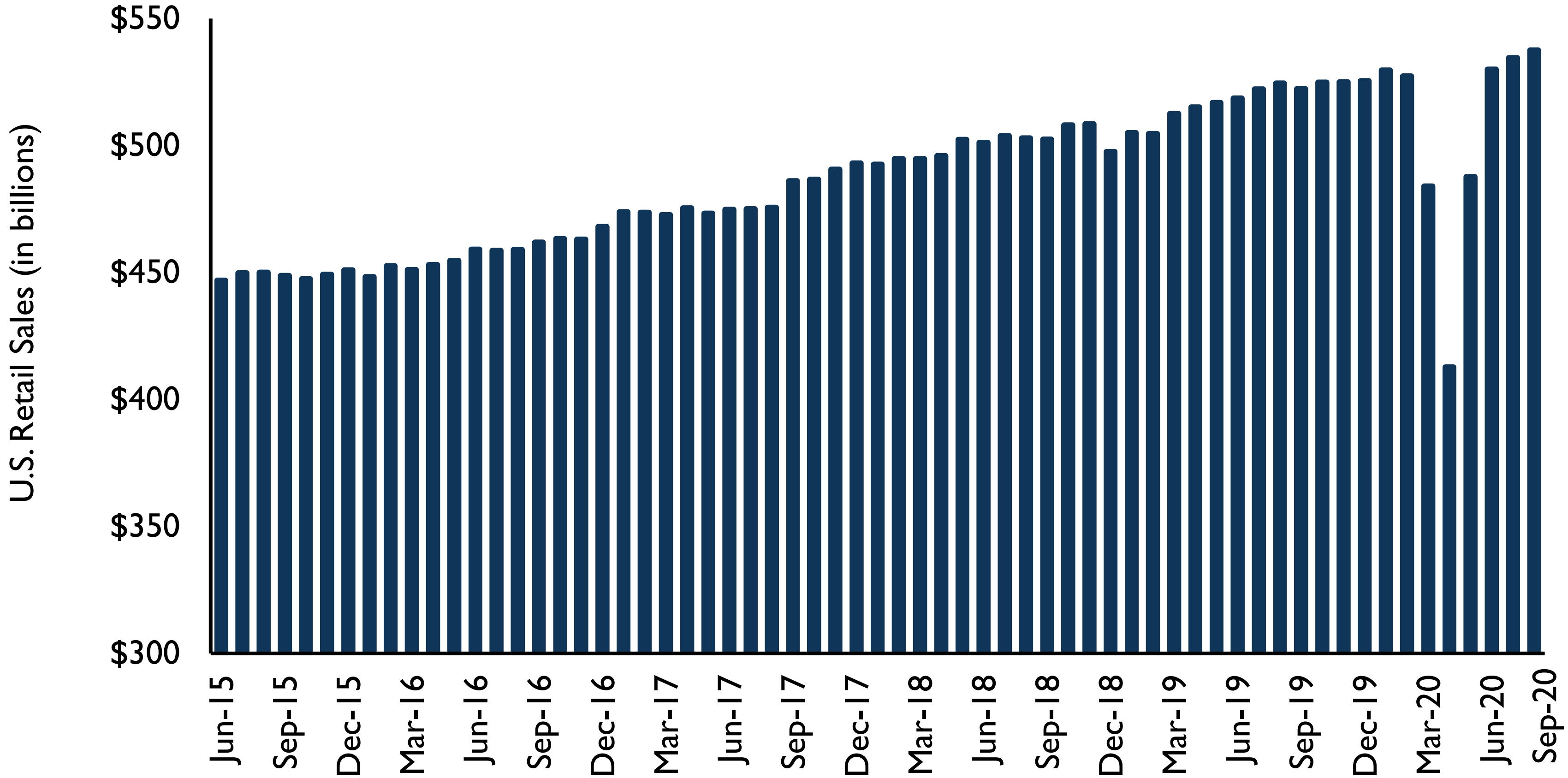
We Expect a Checkmark Recovery



Sources: FactSet and Ferguson Wellman

- The "Great Lockdown" has ended and the shortest, steepest recession in history (started in February and ended in April) is over
- Elevated levels of unemployment will prolong full economic recovery until likely late 2021
- Hospitalizations … and by extension, ICU capacity utilization … must be kept below-crisis levels
- We believe that hot spots will be met with greater rigor in the wearing of masks and distancing, and not with widespread lockdowns

Retail Sales Have Rebounded to a New High

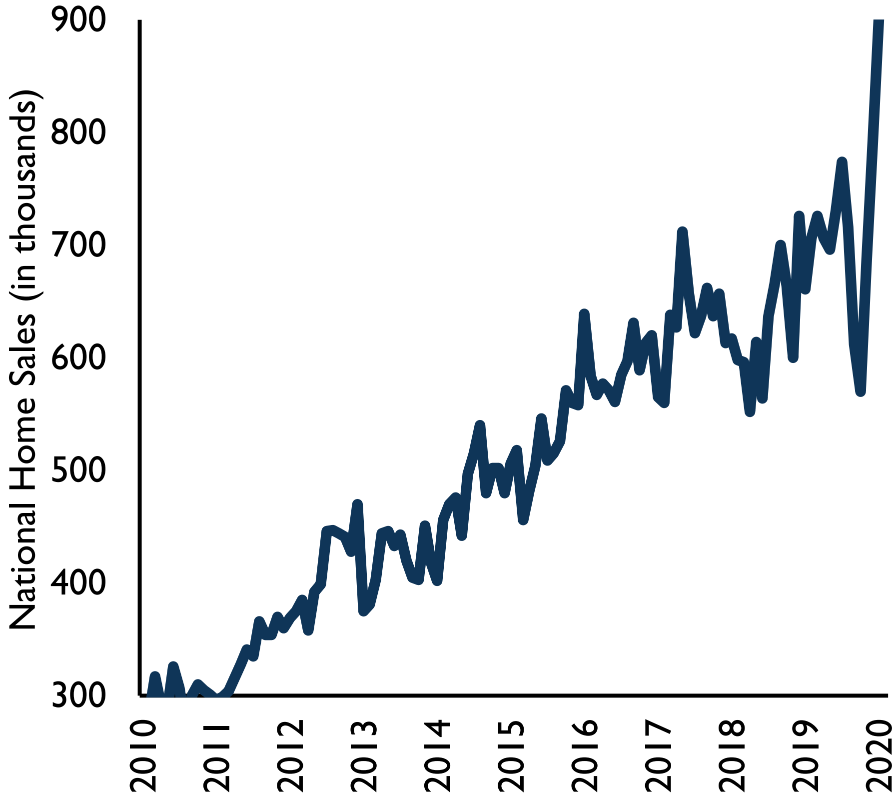


Source: FactSet

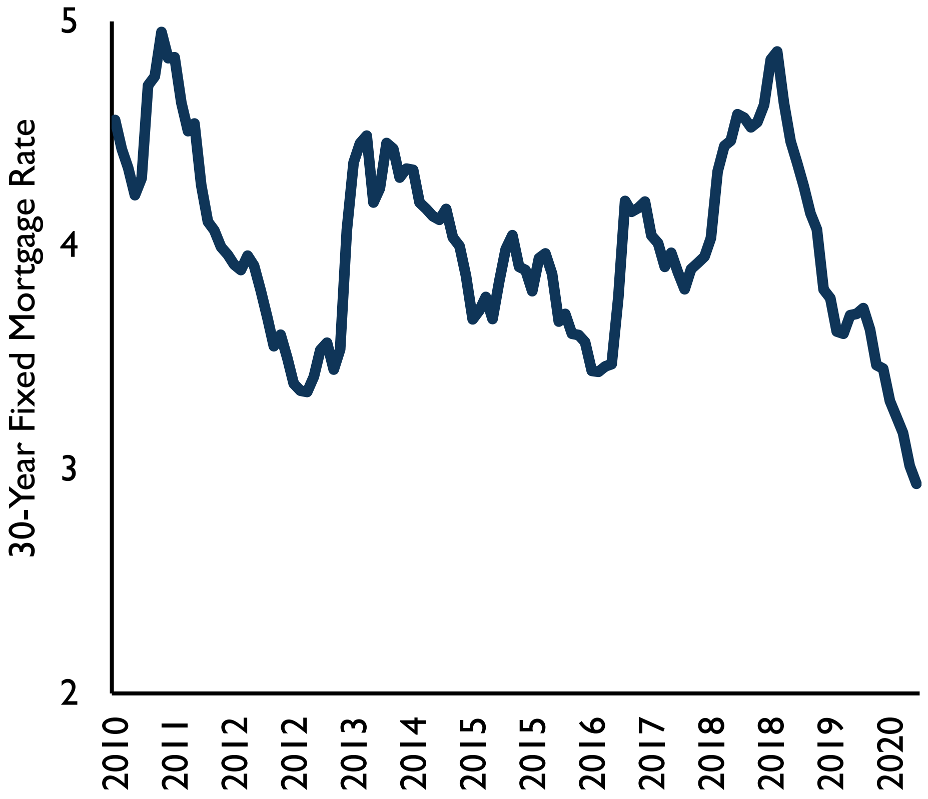
- Consumers have already begun to spend, even if the type of goods and services have shifted
- Consecutive months of retail sales growth suggests a true recovery rather than pent-up demand
- The global pandemic has served to hasten retail's shift to digital platforms
- Online has gone from 14 to 20 percent of total retail sales in six months

Housing Is Fueling the Economic Rebound

Home Sales Surge



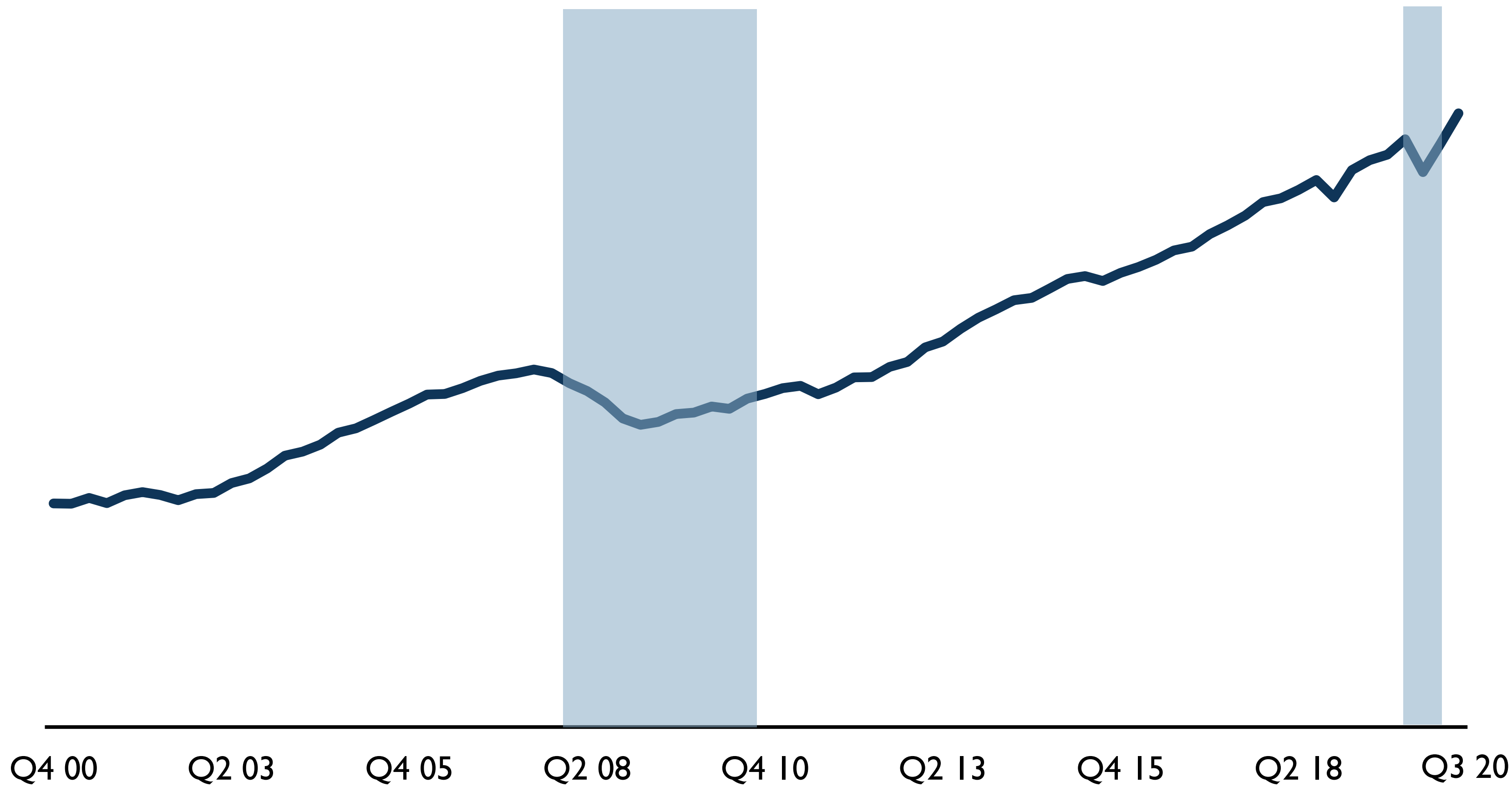
All-Time Low for Mortgage Rates



Sources: Bloomberg, FactSet, Wall Street Journal

- We have increased our exposure to housing-related industries in both the consumer discretionary and industrials sectors
- Stay-at-home orders have forced people to re-evaluate their living situations which has caused an uptick in new builds and moving
- New home construction and inventories were exceptionally low coming out of the financial crisis

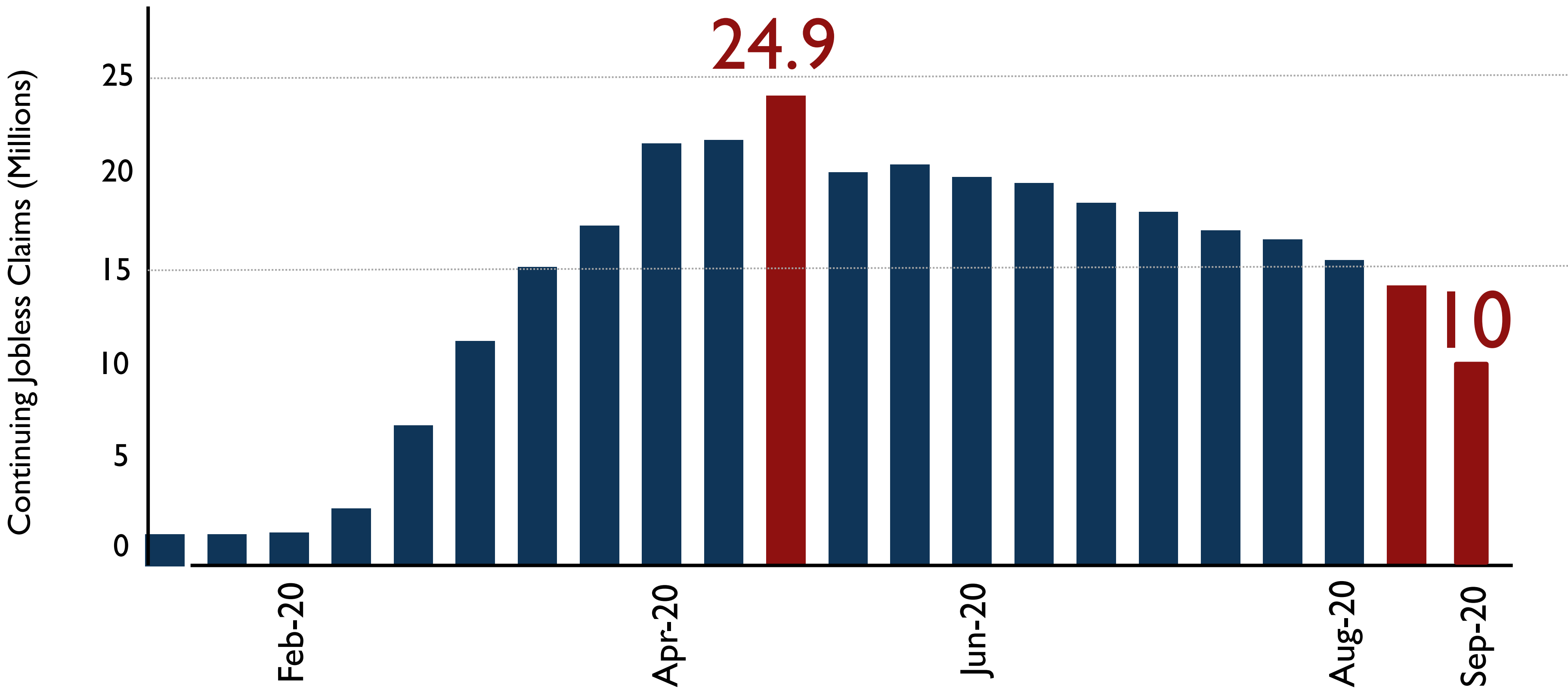
Consumer Net Worth at an All-Time High



Source: FactSet

- The Wealth Effect suggests that with a higher capacity to spend, more discretionary spending will occur
- Housing has seen the largest benefits of record net worth

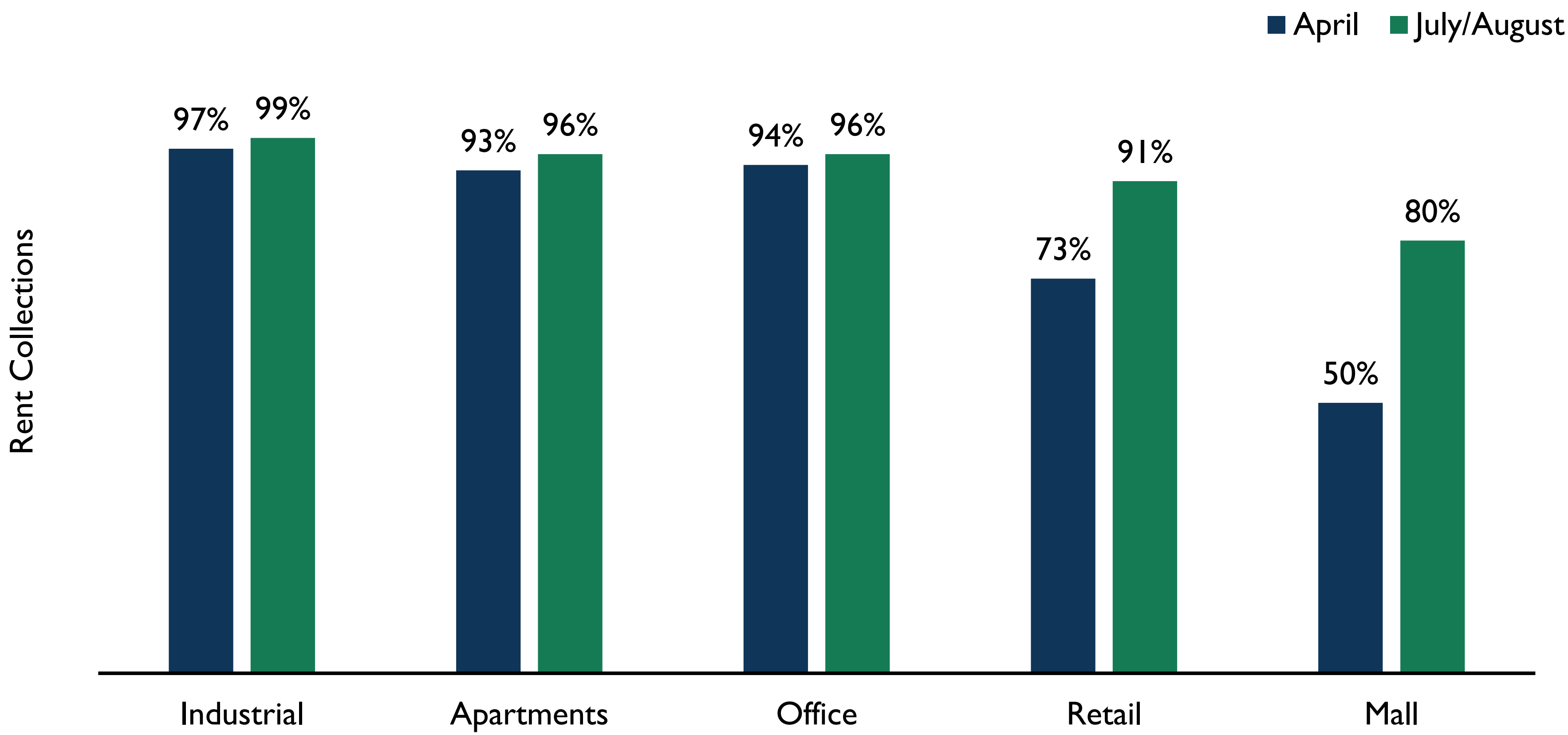
Return to Work Is the Key to Recovery



Source: FactSet

- Continuing claims of 10 million are dramatically higher than the 1.5-2.0 million pre-COVID levels
- Roughly two-thirds of those currently unemployed view their status as temporary
- Permanent job losses peaked at 7 million last cycle
- September unemployment of 7.9 percent is lower than every economic projection for year-end

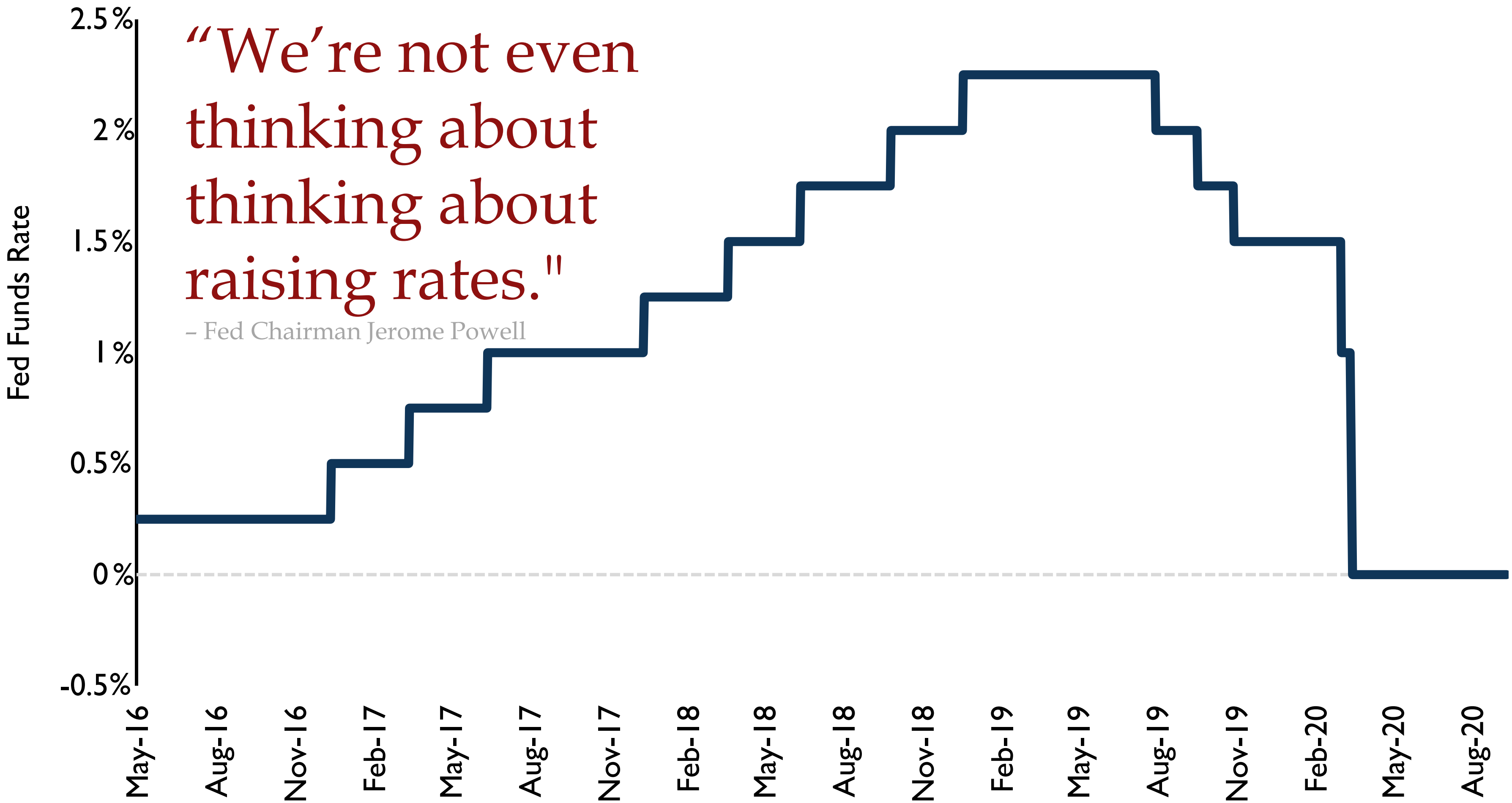
Commercial Real Estate Resilient



Source: JP Morgan

- Rent collection is at normal levels in every property type other than retail and hotel
- The trend of office densification will likely reverse adding to the square footage per employee, supportive to office space demand
- Office was not oversupplied prior to COVID and new supply should be muted post-COVID

Don’t Fight the Fed



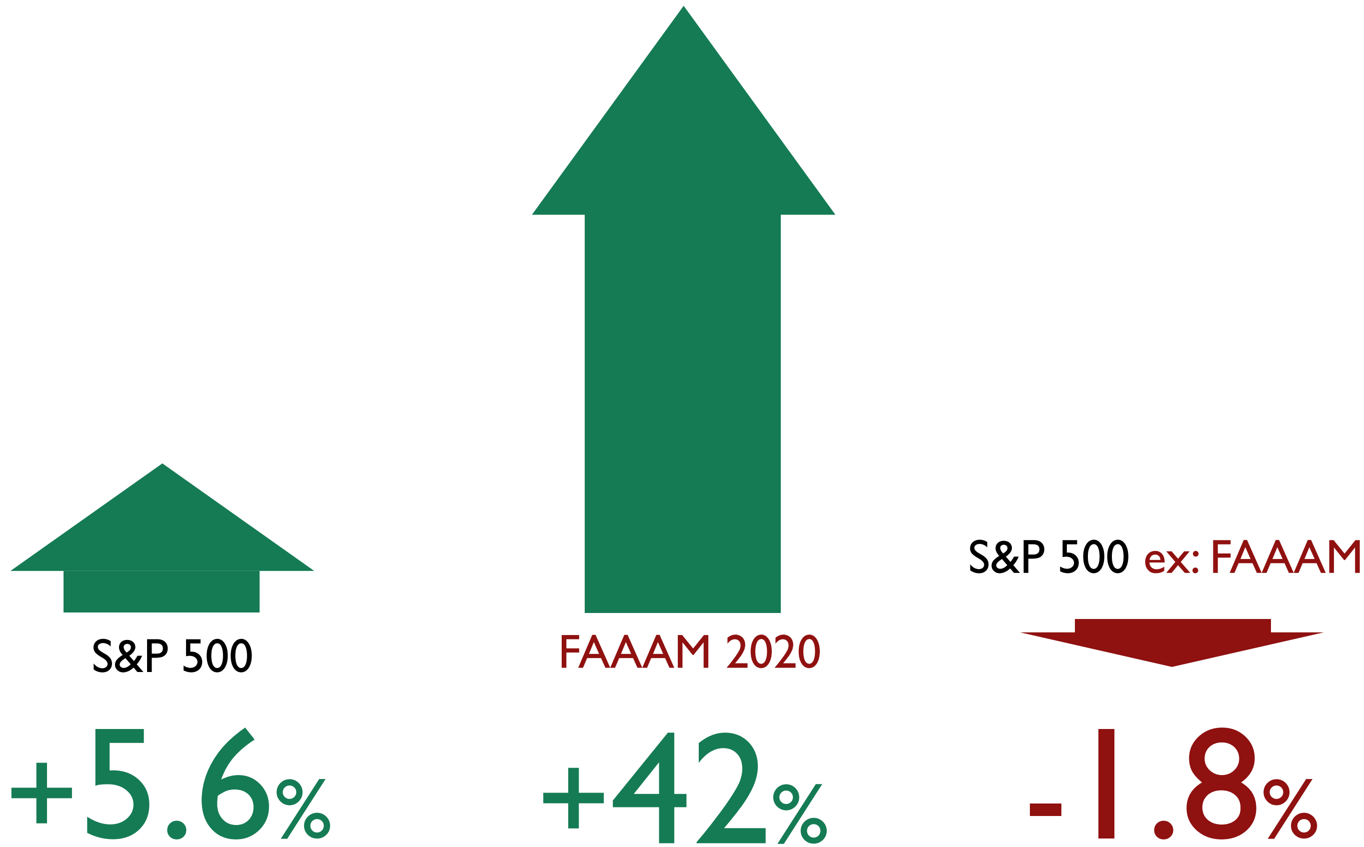
Source: Bloomberg

- We believe that short-term interest rates will remain near zero for the foreseeable future
- Zero interest rates are very supportive to risk assets such as real estate and equities

Historically Narrow Market

FAAAM* (YTD Total Return Through 9/30/2020)

Alphabet
amazon
Microsoft

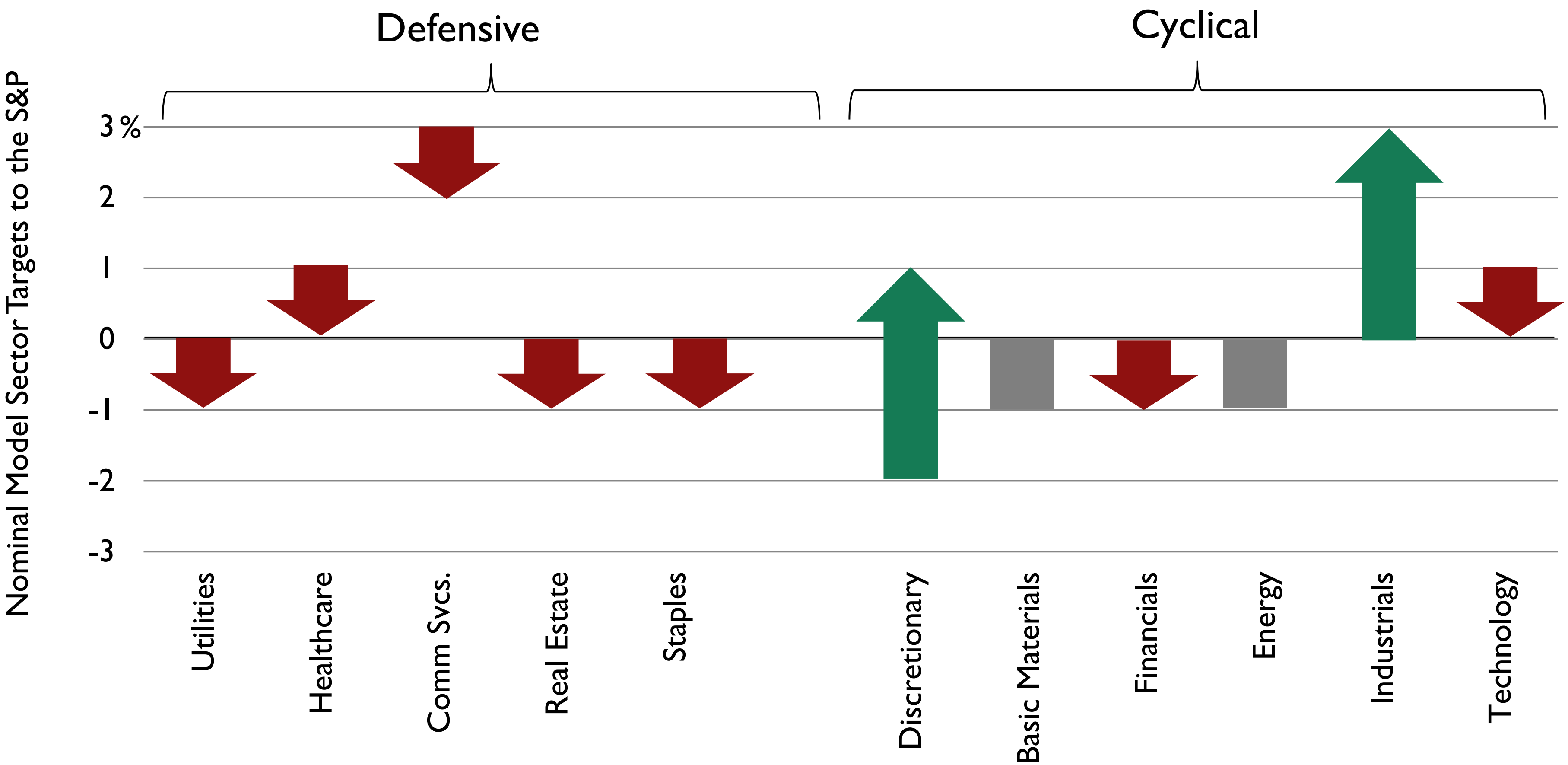


*Facebook, Alphabet, Amazon, Apple, Microsoft

Source: FactSet

- Five largest companies now comprise 25 percent of the S&P's market cap
- Large Cap Growth companies have been the driver of 2020 equity returns
- Unlike the late 1990s, the Large Cap Growth Stocks are much more profitable
- We anticipate leadership to transition out more broadly as global growth continues to expand

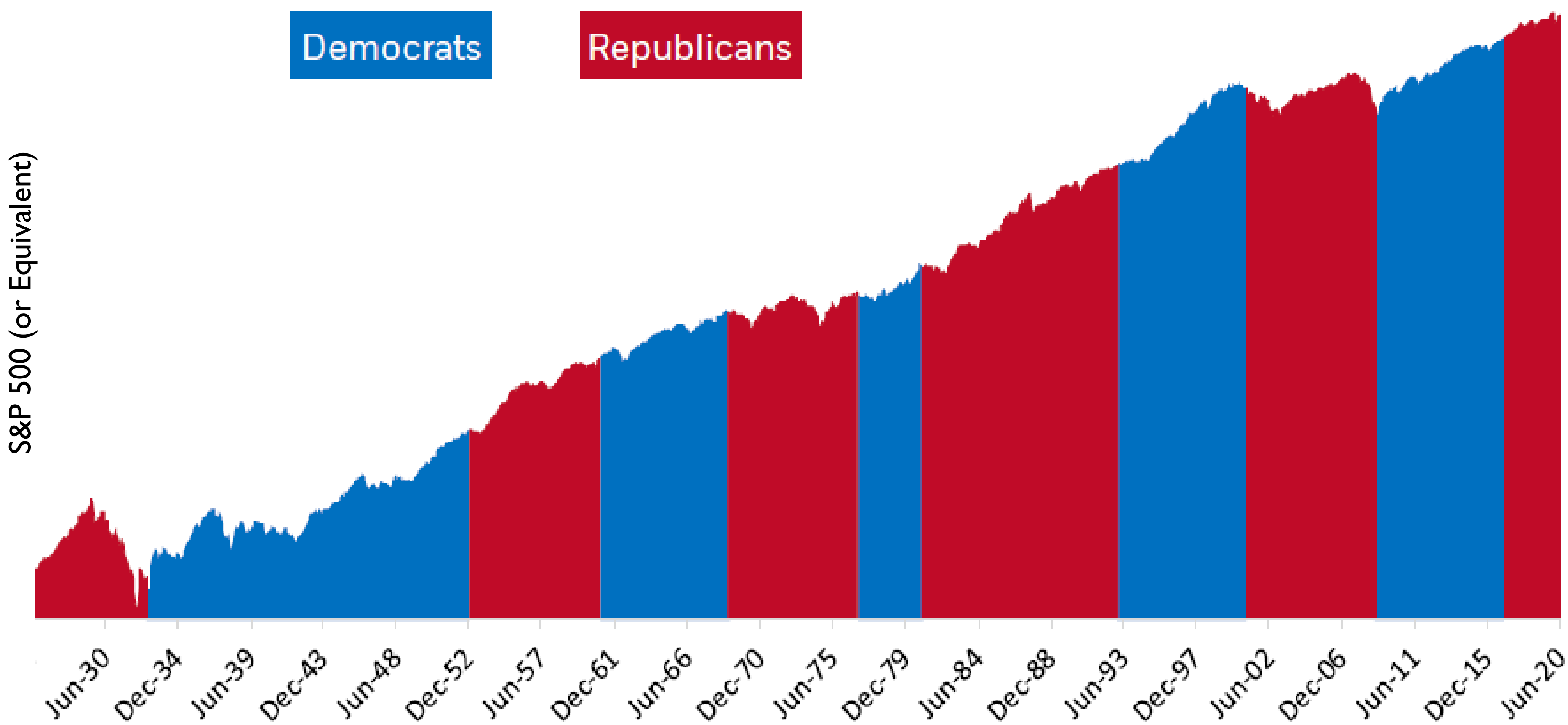
Walking, Not Running, Towards Cyclicals



Source: Ferguson Wellman

- Historically, cyclical value sectors such as discretionary, financials and industrials have led the market in an economic recovery and we expect this time will be no different
- We have gradually reduced defensive sectors such as utilities, healthcare, real estate and staples in order to add cyclical exposure

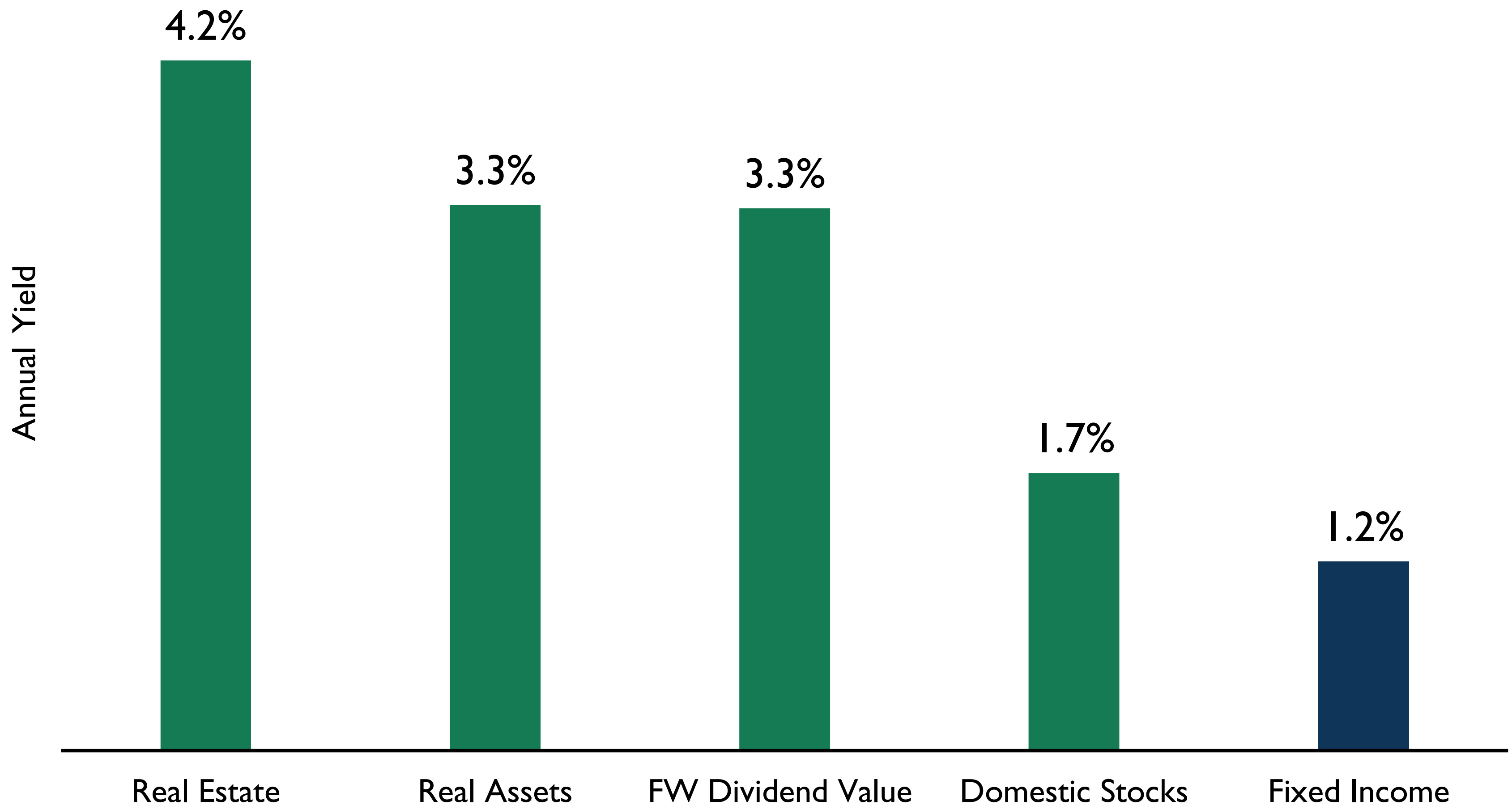
Stocks Have Continued Higher Regardless of Presidential Party



Source: Morningstar

- Historically, elections have not been capital market events
- Policy changes take time. On the margin, some industries may face increasing or decreasing "tailwinds," but elections do not present material asset allocation opportunities

Bonds Still Provide "Insurance" … but Very Little Income



Source: Ferguson Wellman

- Expect bonds to play a diminished role in portfolio allocation
- Stocks and alternatives provide more income and a higher-expected return than bonds
- If inflation surges, non-bond asset classes will provide better protection

(I Can't Get No) Satisfaction

- Equity markets looking beyond the economic shutdown
- While difficult economic data persists, the worst is behind us
- Economically, we have taken COVID's best shot
- Don't fight the Fed
- Expect interest rates to remain low … for longer
- Gradually getting more cyclical within debt and equity strategies
- Historically, elections have not been capital market events
- Bonds will play a smaller role than ever before in portfolio allocations

Q&A

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