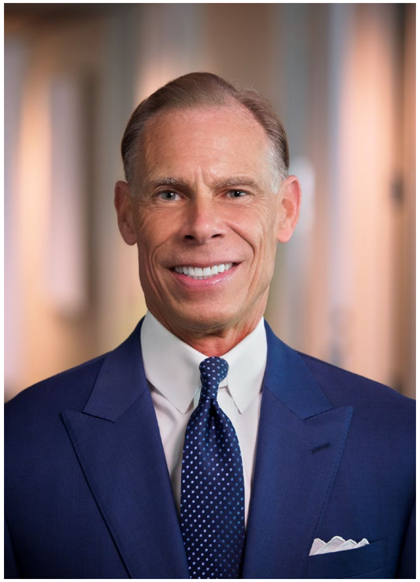
Mid-Quarter Investment Strategy Update

August 27, 2020

FERGUSON WELLMAN
CAPITAL MANAGEMENT

WEST BEARING INVESTMENTS
a division of Ferguson Wellman

Our Webinar Presenters



George Hosfield, CFA
Chief Investment Officer
Director

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Head of Fixed Income
Executive Vice President


Start Me Up
START
ON
Investment Strategy
Q3 2020


Q2 Start Me Up
START
ON
Investment Strategy Update
August 2020

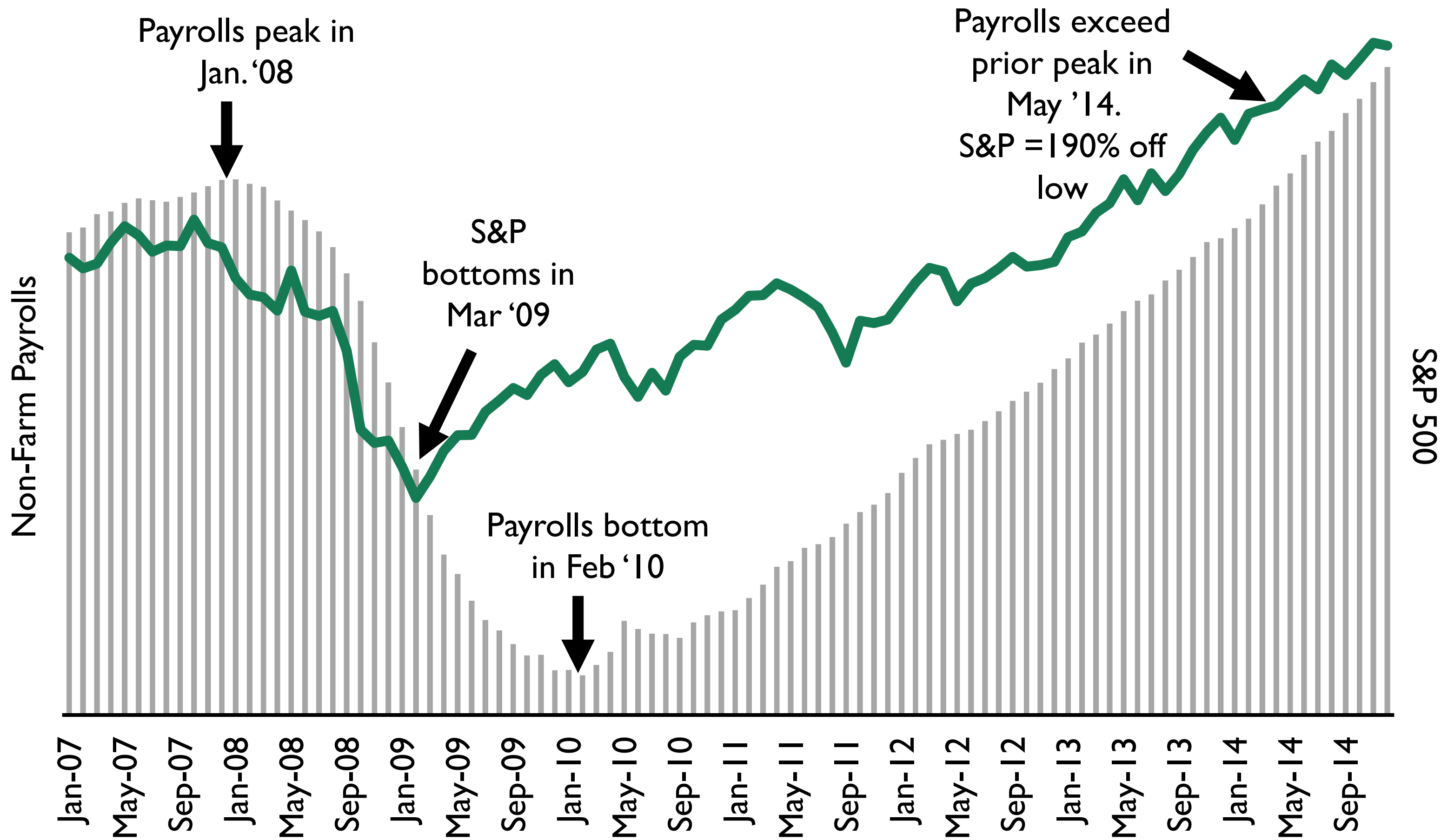

Q3 (I Can't Get No) Satisfaction

Q2 Start Me Up

Q3 (I Can’t Get No) Satisfaction

- As expected, markets have returned to pre-pandemic levels
- While difficult economic data abounds, the worst is behind us
- Second waves will mean more facemasks and fewer shutdowns
- Don’t fight the Fed
- At present, deflationary risks are greater than inflationary
- 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

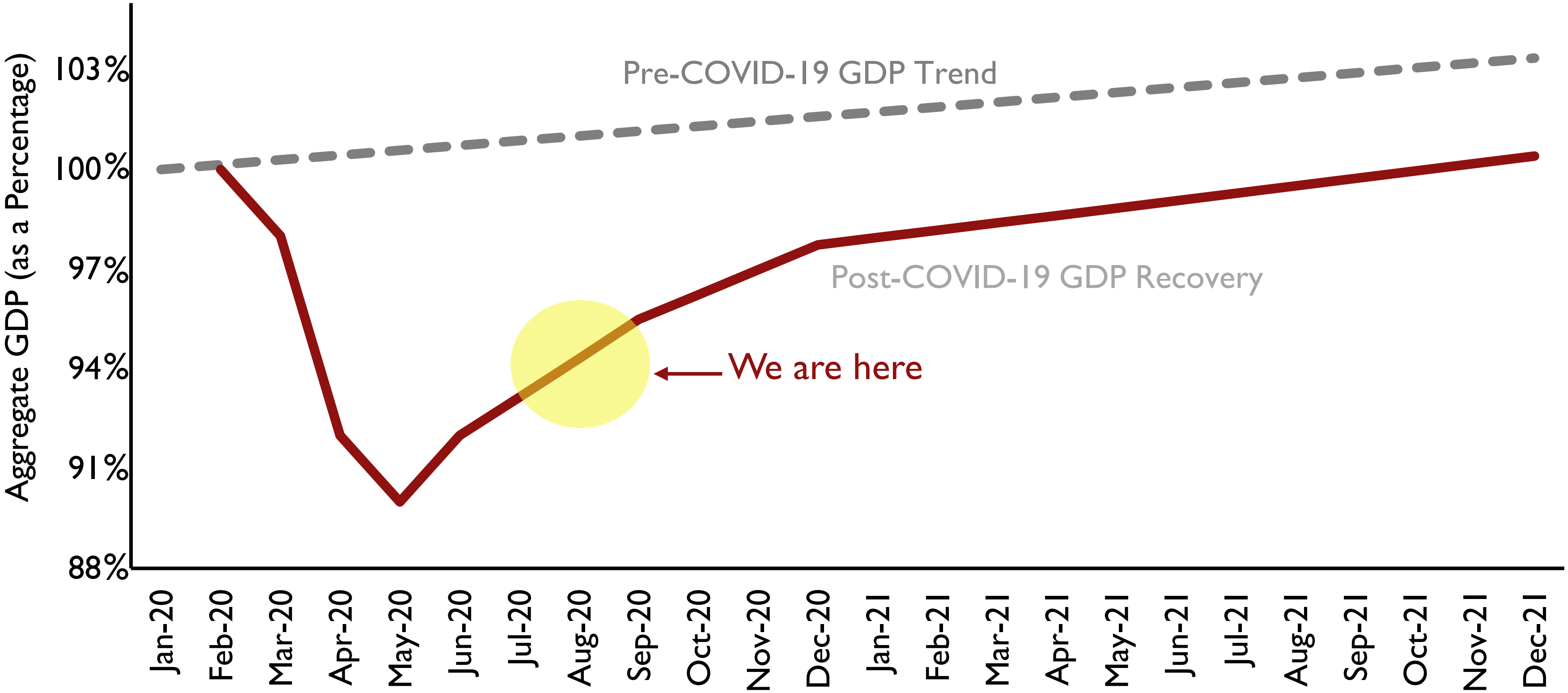
Stocks Anticipate Future Economic Activity



Sources: FactSet and Bureau of Labor Statistics

- In 9 out of 10 postwar recessions, the market has rebounded before the economy has bottomed
- On average, the stock market has begun rising roughly six months before the end of recession
- The average market appreciation from the market trough to the end of the recession has been 24 percent

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
- Lingering consumer apprehension and elevated levels of unemployment will prolong full economic recovery until sometime in 2022

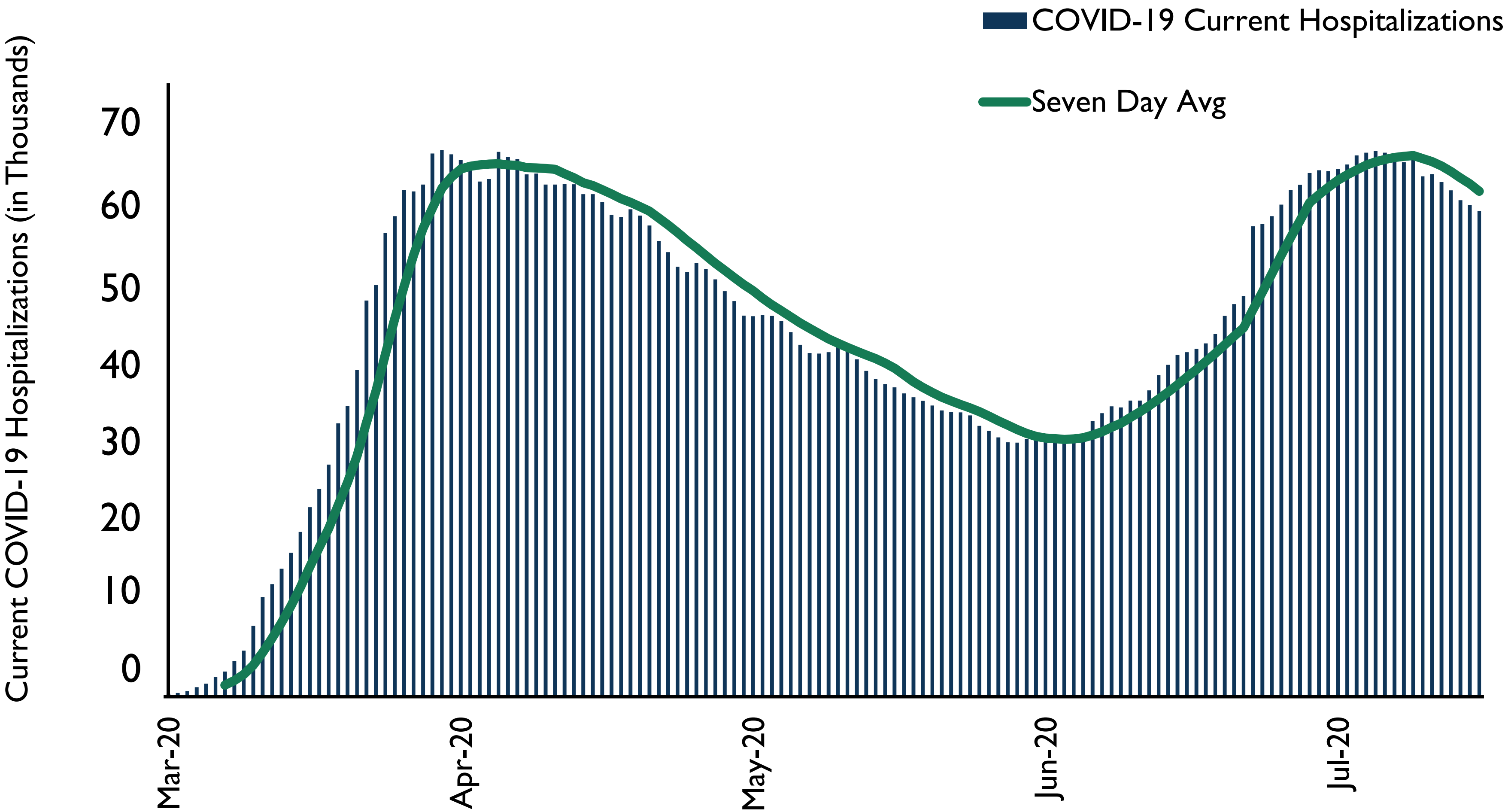
Housing Leading the Recovery

- U.S. housing starts surge by most since 2016
- Home sales jumped 21 percent in June
- Mortgage rates at all-time lows
- Home builder confidence hits all-time high
- Home Depot quarterly sales soar 23 percent

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

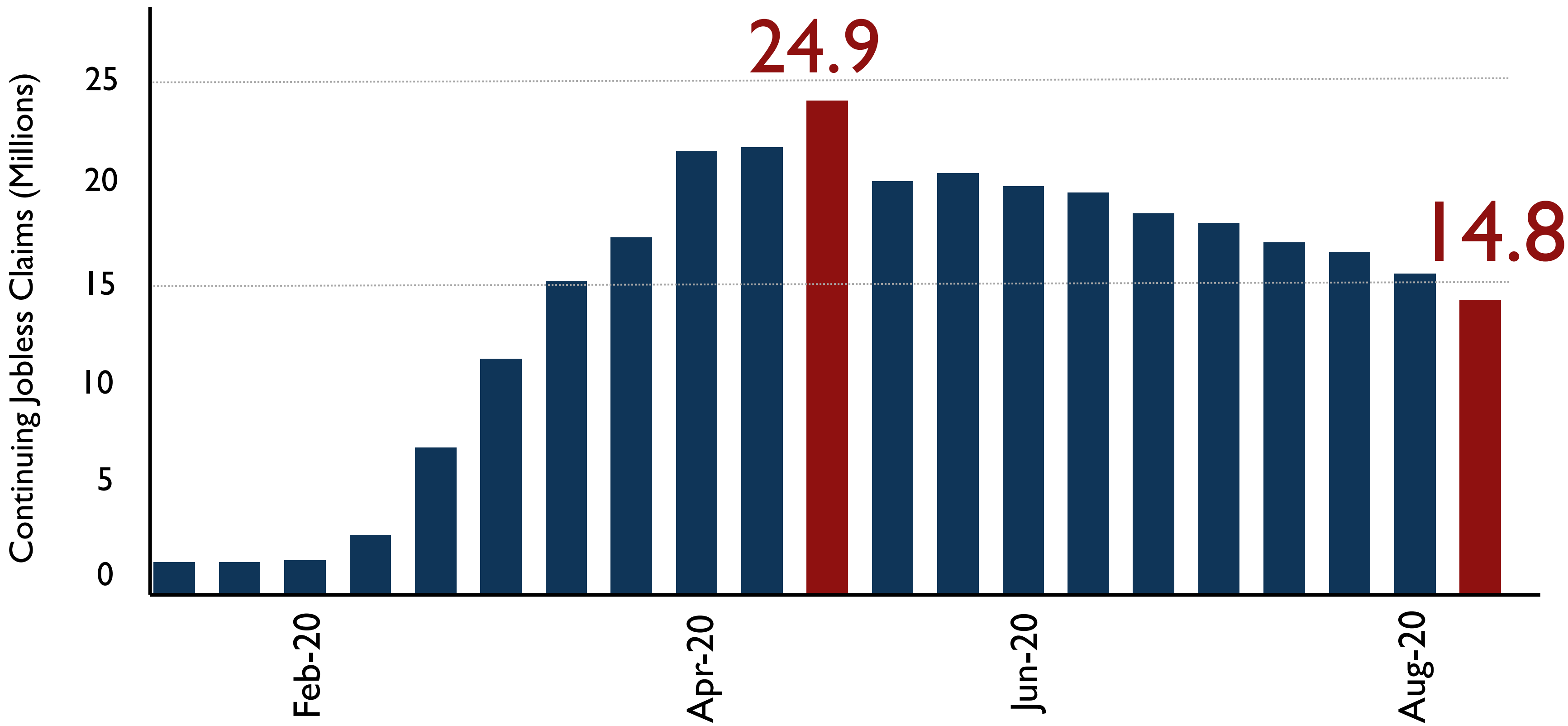
Hospitalizations Are the Key to the Pace of Reopening



Source: CDC

- Expect regional hot spots to hopscotch across the country as people navigate how best to reopen
- 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

Return to Work Is the Key to Recovery

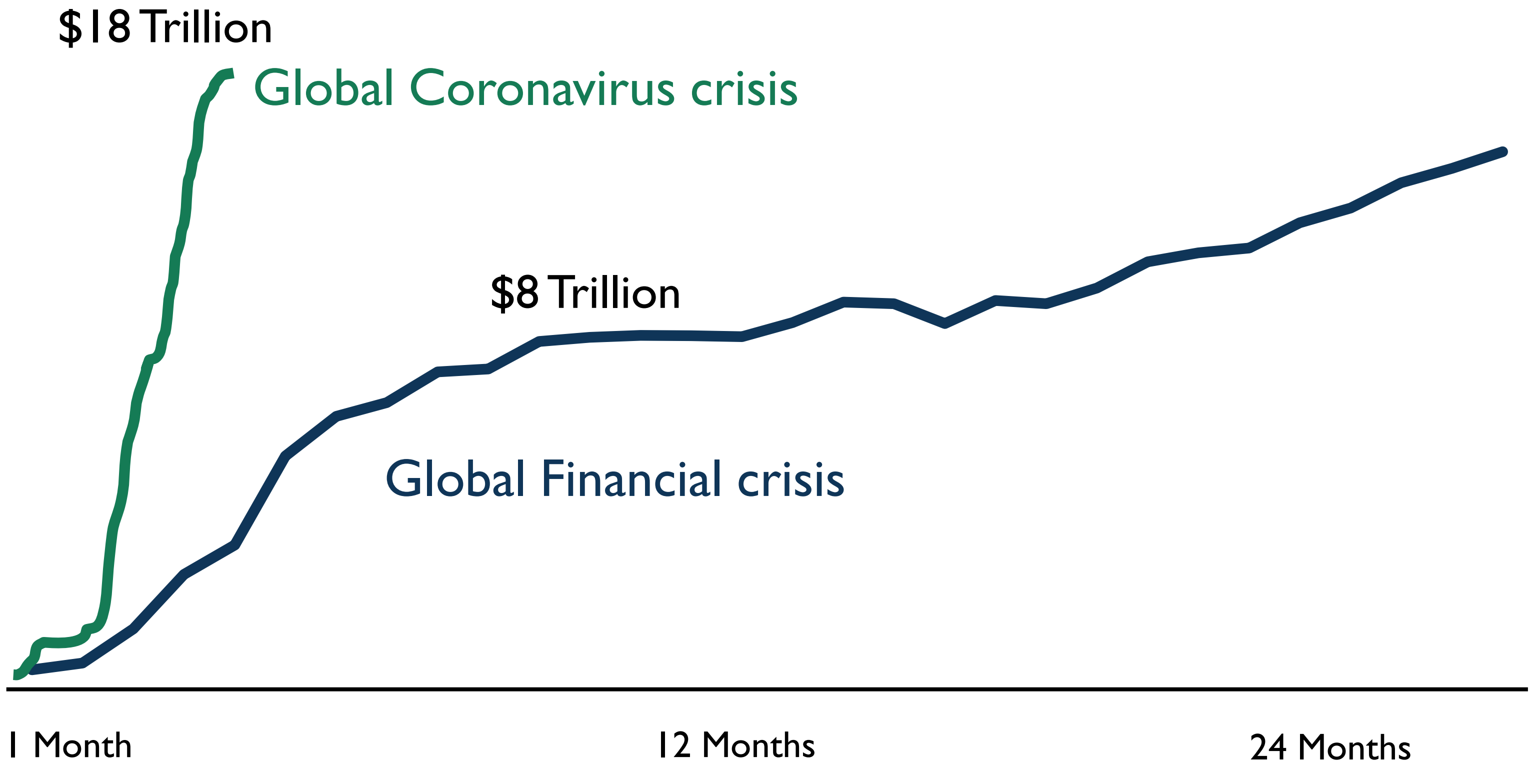


Source: FactSet

- Continuing claims of 14 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

Don't Fight The Fed

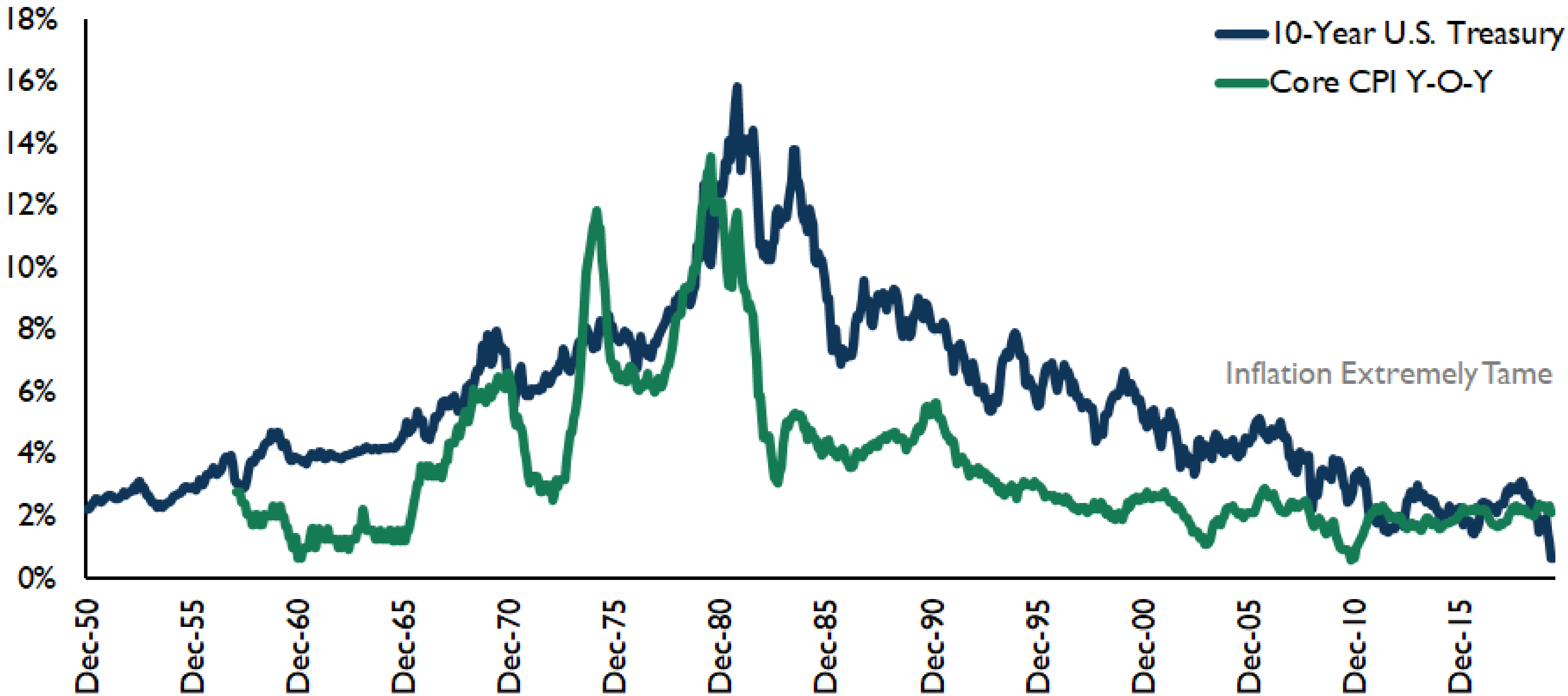
Faster Growth in the Money Supply



Sources: St. Louis Federal Reserve, JP Morgan Asset Management

- The Fed opened the taps with liquidity making sure this economic crisis did not turn into a financial crisis
- Fed Chairman Powell has indicated that the Fed will do whatever it takes and is not even thinking about increasing interest rates

Deflationary Risks Loom Larger than Inflationary Risks

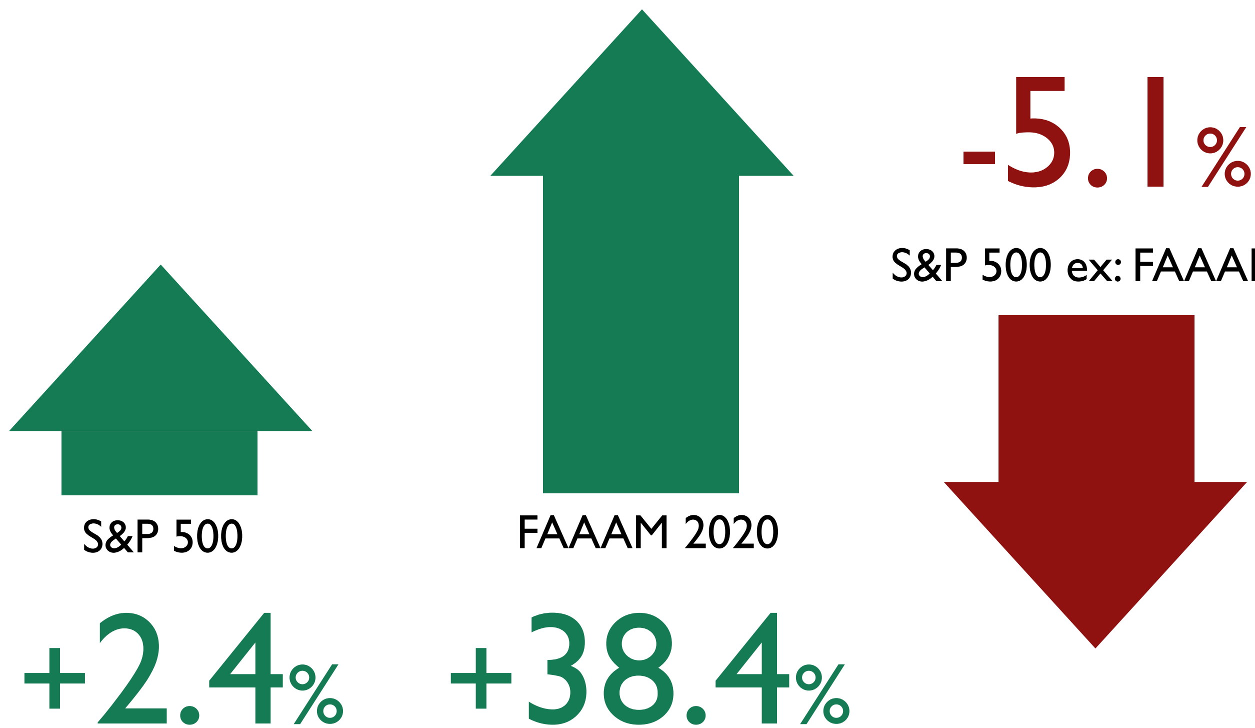


Source: Bloomberg

- Inflation is the largest factor that determines the level of long-term interest rates. Inflation has dropped dramatically due to the crisis and interest rates should remain low for the foreseeable future
- Low rates internationally keep a lid on U.S. rates
- New debt largely held by global central banks

Historically Narrow Market

FAAAM* (YTD Total Return Through 7/31/2020)

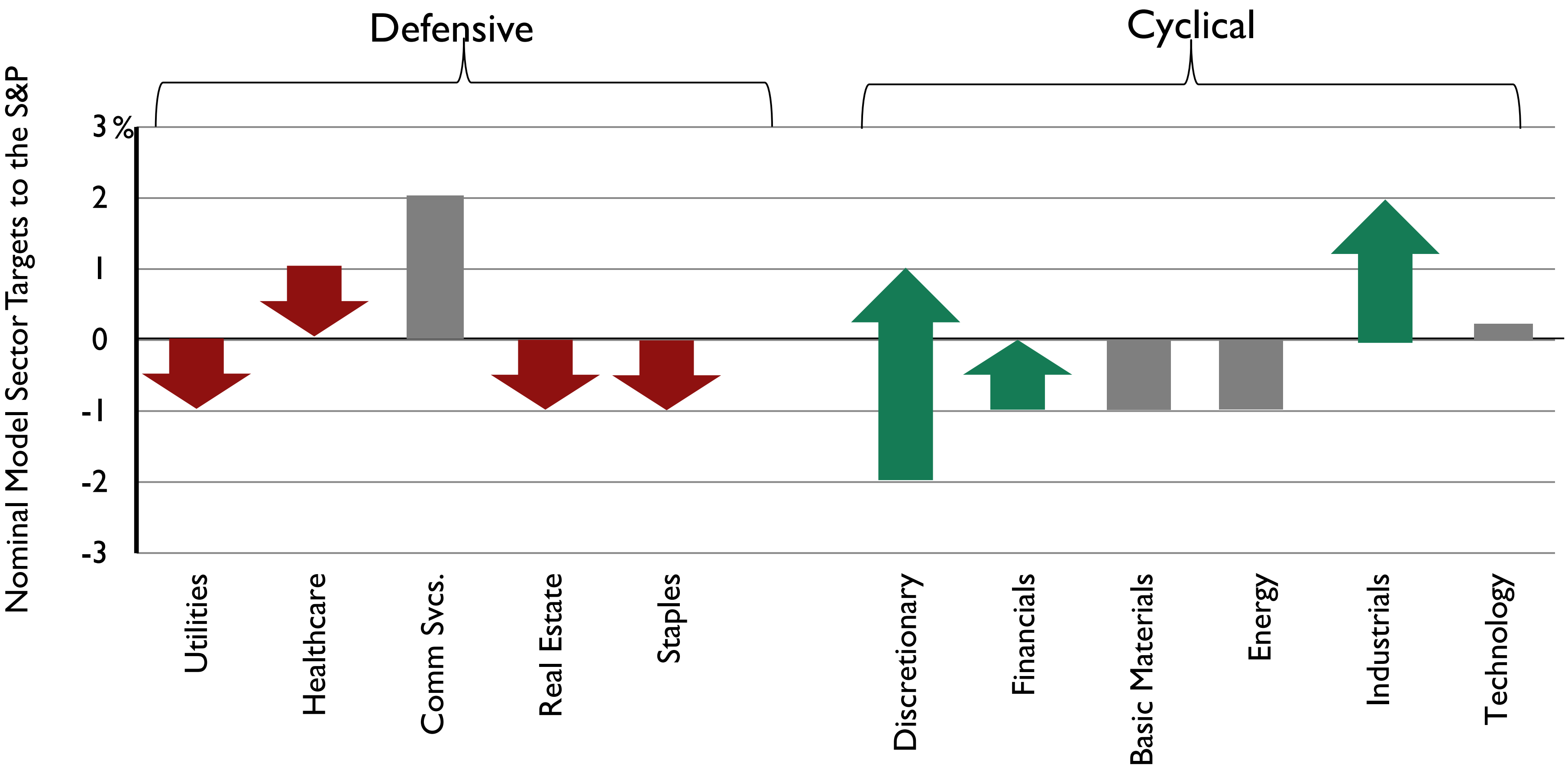


*Facebook, Alphabet, Amazon, Apple, Microsoft

Source: FactSet

- 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

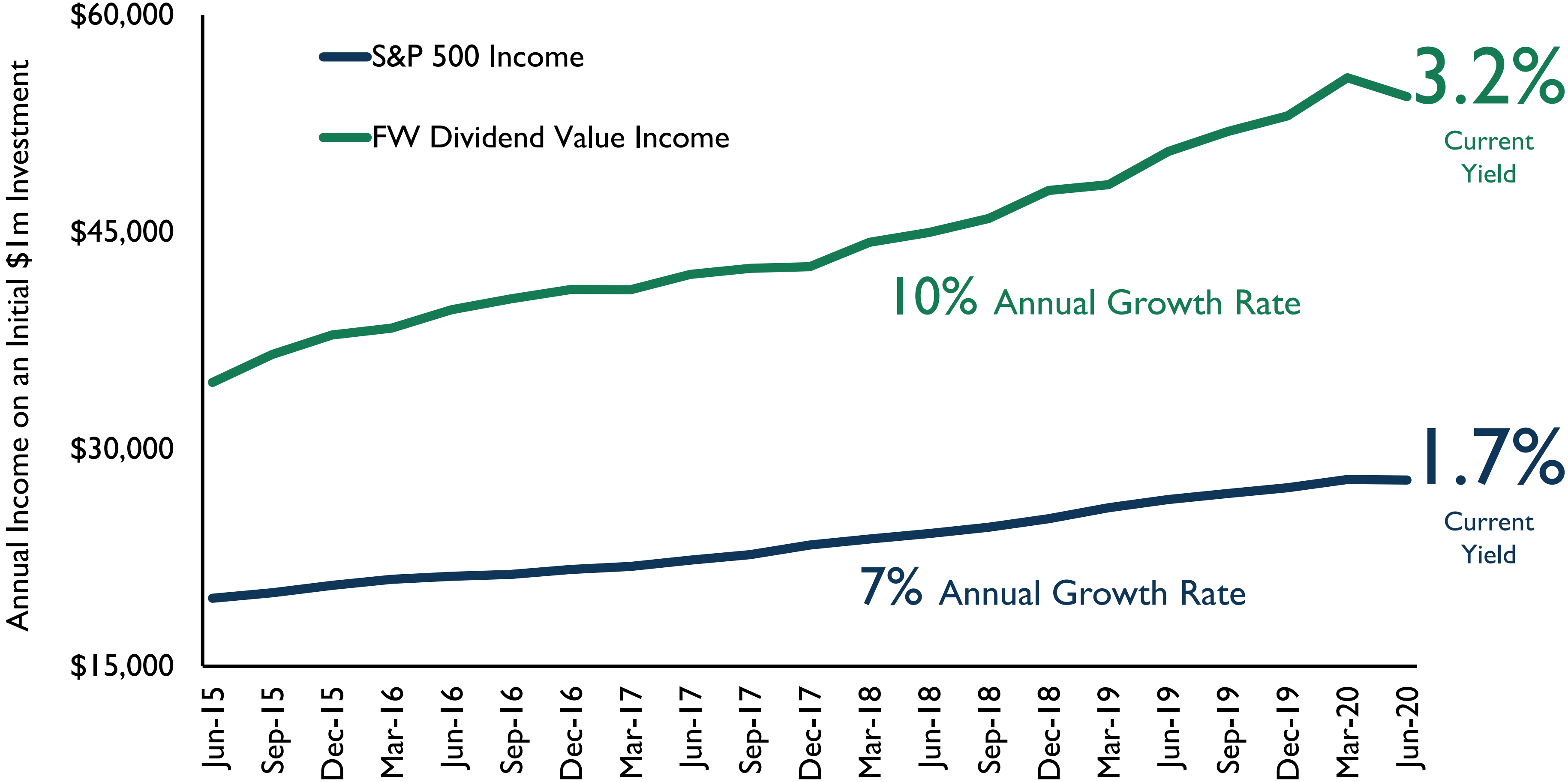
Walking, Not Running, Towards Cyclicals



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

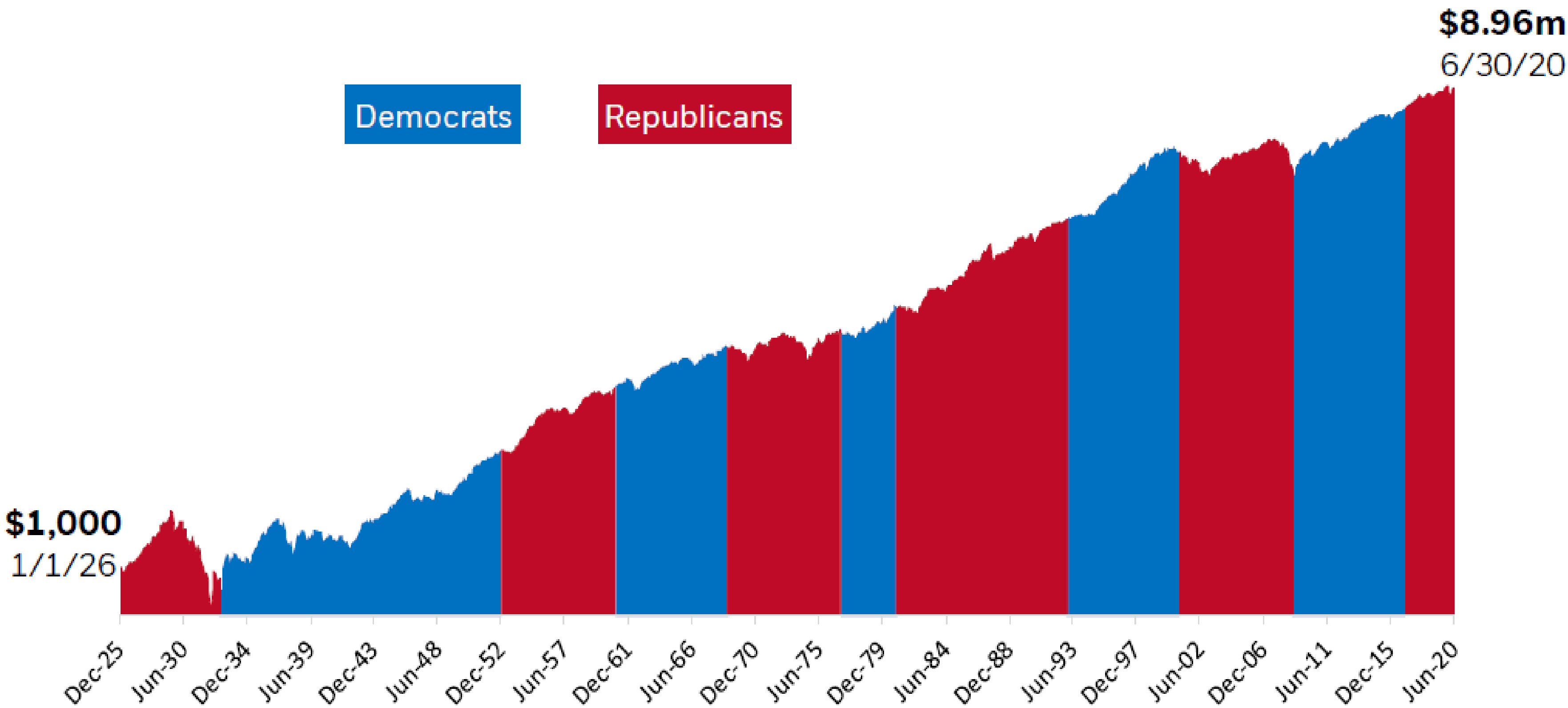
Dividend Value Offers Attractive Income and Growth



Source: Ferguson Wellman

- Dividend Value offers a consistently higher yield and a faster-growing income stream relative to the S&P 500
- The portfolio has been historically less volatile than the S&P 500
- Over the past five years, the strategy has provided twice the dividend income as the S&P 500

Stocks Have Continued Higher Regardless of Presidential Party

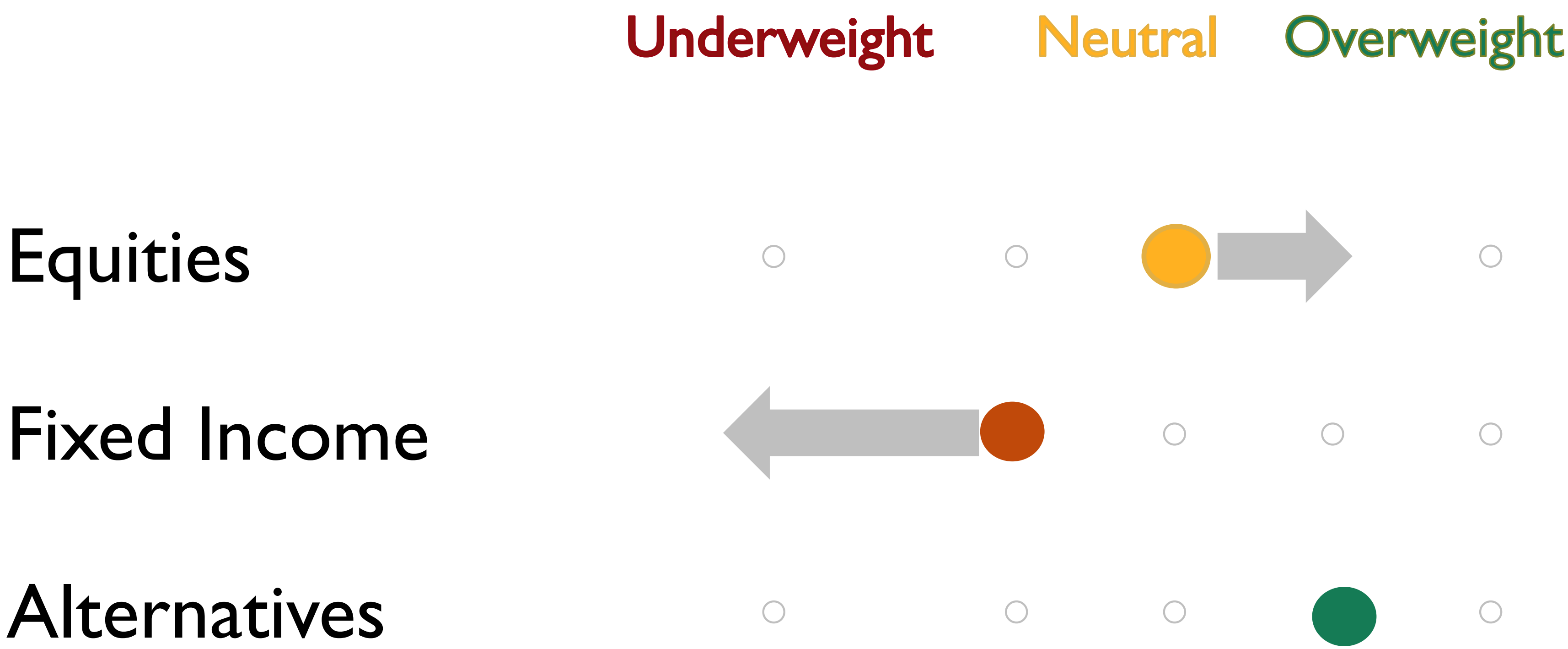


Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SBBI U.S. largecap stocks index from 1/1/26 to 1/1/70. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

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

A New Expansion Has Started



- Given our expectation for low interest rates on a secular basis, allocation to fixed income will be historically low
- Equities and alternatives must play a larger role in providing portfolio income and generation of total return than ever before

Questions?

Please submit via the Q&A feature at the bottom of the screen.