Ferguson Wellman
Capital Management

West Bearing Investments
a division of Ferguson Wellman

Investment Webinar:
Post-COVID Sector Outlook

Our analyses and commentary on the economy and capital markets

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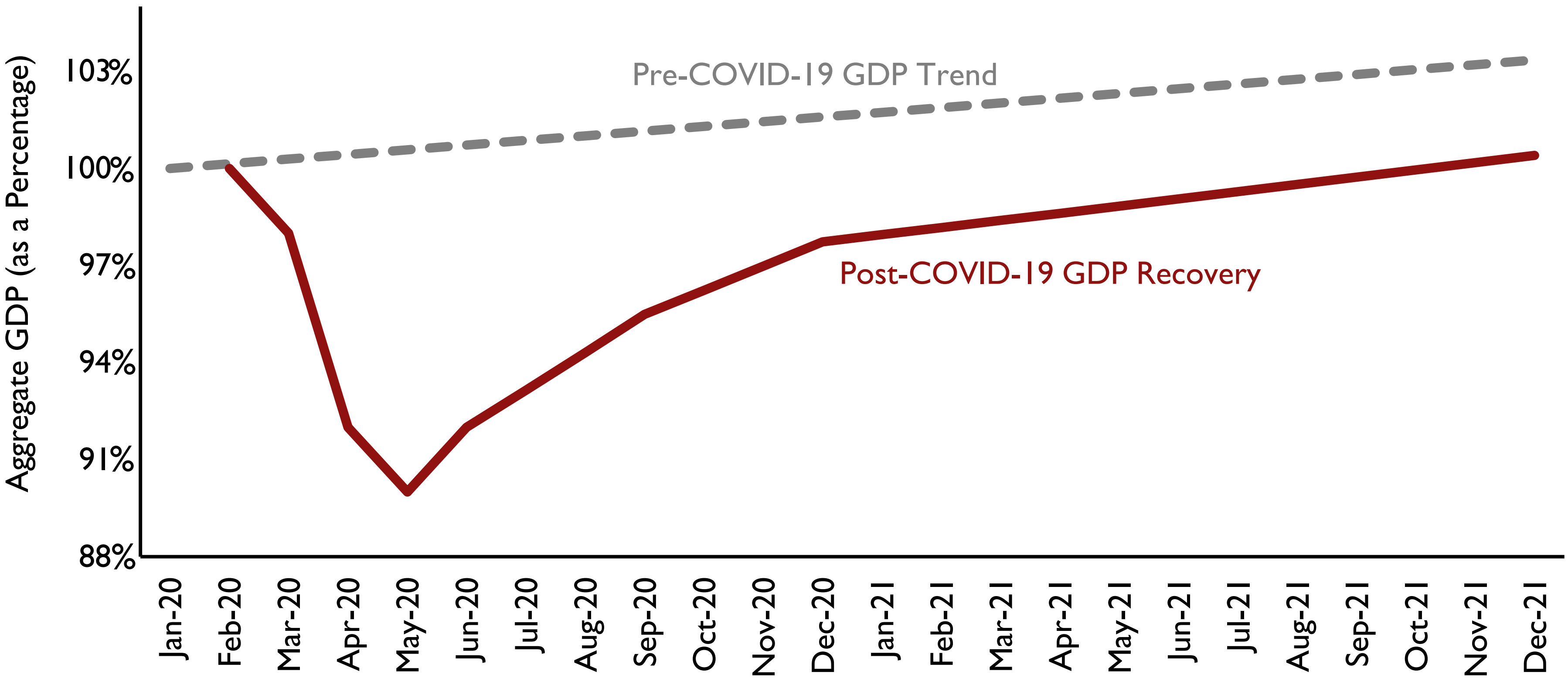
Post-COVID Outlook
Agenda

1. **Macro Overview**
   George Hosfield, CFA, Chief Investment Officer
   
2. **Healthcare and Technology**
   Jason Norris, CFA, Executive Vice President
   
3. **Financials**
   Ralph Cole, CFA, Director
   
4. **Industrials and Communication Services**
   Peter Jones, CFA, Vice President
   
5. **Real Estate**
   Brad Houle, CFA, Executive Vice President
   
6. **Consumer Discretionary, Energy and Utilities**
   Shawn Narancich, CFA, Executive Vice President
   

Macro Overview – George Hosfield, CFA

It's Different This Time



Source: FactSet

- Economic growth has bottomed … but the trajectory of the recovery remains uncertain
- The passage of time will turn liquidity problems into solvency problems
- Consumer apprehension and elevated levels of unemployment will prevent full economic recovery until 2022

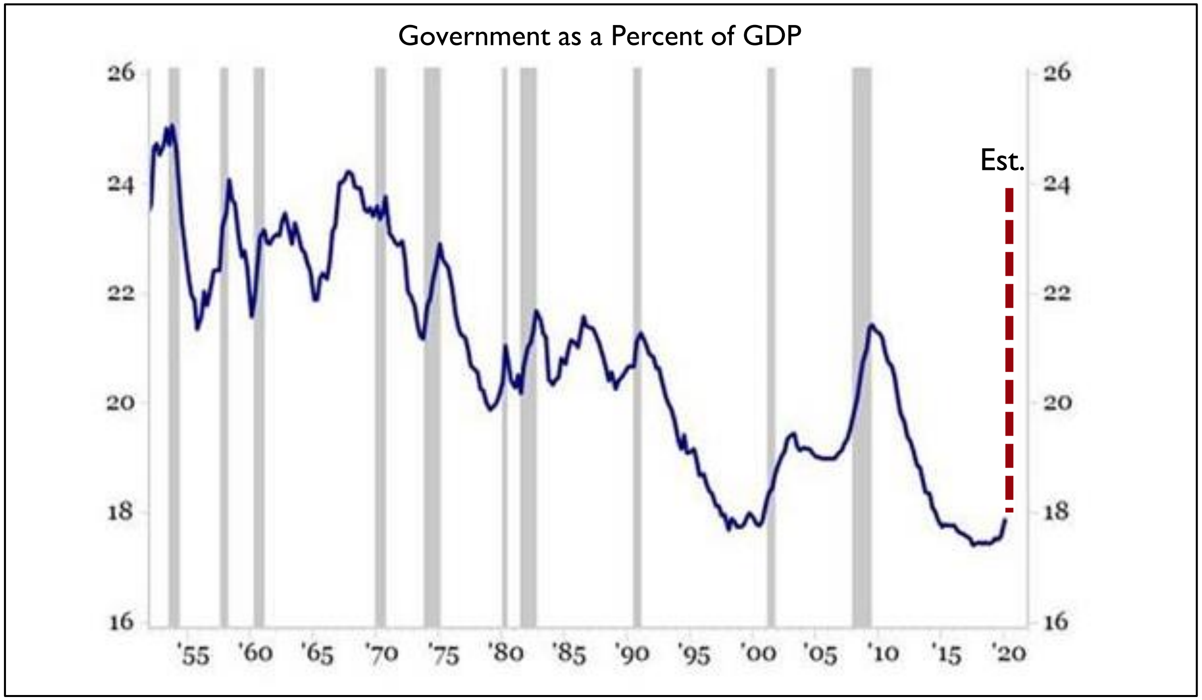
Macro Overview – George Hosfield, CFA

It's Different This Time

- Or is it?
- Change is constant and significant global events provide a catalyst.
- Forecasts of what will constitute the "new normal" tend to be overstated in the moment
- The most certain outcomes are not new, but rather, an acceleration of secular trends that were already in place pre-COVID
  - Online displacing brick and mortar
  - Populism over globalization
  - Working remotely
  - Growing online presence for post-secondary education
  - With strong cash flow and products that are increasingly in demand, the same companies that thrived and redefined their industries pre-COVID (AMZN, AAPL, GOOG, FB) are even more dominant now.

Macro Overview – George Hosfield, CFA
It's Different This Time

- Durable macro outcomes of the global pandemic:
    - Massive government spending that will leave federal, state and local balance sheets stretched … eventually leading to higher taxes and spending cuts
    - Government will be a larger part of the economy than it has been for two generations.
    - Slower growth and lower interest rates … for longer …



Source: Haver Analytics

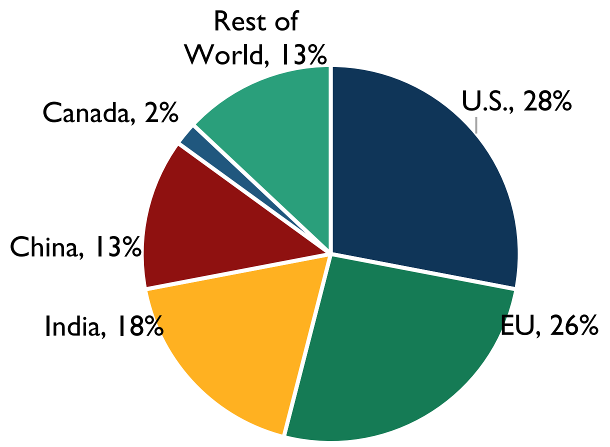
Healthcare / Life Sciences – Jason Norris, CFA

- Pharma and Generic Supply Chain
  - Majority of generic and OTC drugs sold in the U.S. are manufactured in China and India
  - 90 percent of drugs taken in the U.S. are generic
  - However, China is a large exporter of API (active pharmaceutical ingredients)

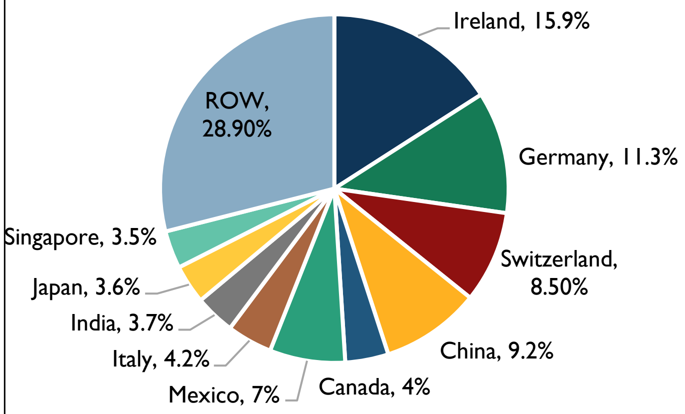
- FDA Approval Time Horizon
  - Temporary or permanent
  - Crisis or normal

- Contact Tracing
  - Apps
  - 5G
  - Privacy

Manufacturing Sites for APIs for U.S. Market (FDA, August 2019)



U.S. Imports of Pharmaceuticals and Medical Equipment, Products and Supplies (CRS, 2019)



Source: Strategas

Technology – Jason Norris, CFA

- Telecommuting and Business Travel
  - Federal subsidies for broadband expansion?
  - Will companies reimburse for home internet?
  - How much of the workforce will continue to work from home?

- Cloud/Tech Outsourcing
  - "We have seen two years worth of digital transformation in two months," Satya Nadella, CEO of Microsoft
  - Datacenter growth is capital intensive, will the big get bigger?

- Supply Chain
  - Changes started with trade tensions

- Sales of Semiconductor (Tech) into China

Financials post-COVID Impact – Ralph Cole, CFA

Banks

- Banks came into COVID in much better shape than the GFC
- Large lending pick-up with PPP
- Lower interest rates lower margins for banks

Insurance Companies

- Held up much better during the sell off
- Driving dropped, and sending checks to customers
- Threat of states retroactively imposing coverage for losses has been reduced due to insurers educating regulators on solvency risk and systemic risk for economy

Financials – Possible Change Due to Pandemic

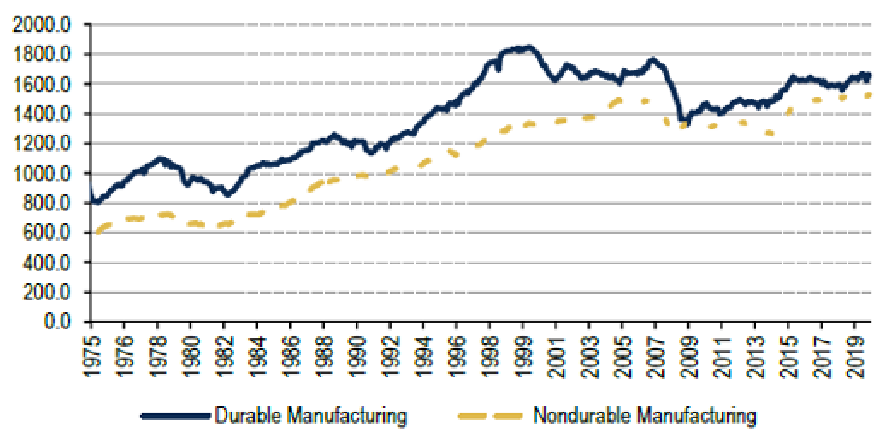
- Increased M&A activity within the banking sector will be driven by the desire to cut costs
- Companies are less likely to borrow and will want to keep more liquidity on hand, not optimum for growth
- Possible improved valuation for banks as they show their resilience during pandemic

- Insurance companies will be more specific in their language around pandemics and forced government shutdowns
- They will be able to price for this risk
- Long-term positive for the industry

Industrials – Peter Jones, CFA

- Last year it was tariffs, this year COVID-19. Push to re-shore and diversify the supply chains intensifying
  - Especially relevant for pharmaceuticals, medical supplies, and personal protective equipment
- Warehouse automation equipment to benefit from accelerating eCommerce demand and increasingly complicated logistics
- Normalized raw material and intermediate goods inventories to rise
  - Supply chain disruption from COVID-19 creates fear for operators that need to run at maximum utilization to generate profits e.g., semiconductors
- Flexible factory operations, equipment that is versatile and can switch to adjacent products to meet unexpected changes in demand

Chart 3: Total durable vs. non-durable manufacturing ($USbn constant 2012)



Source: FactSet

Industrials – Peter Jones, CFA

- Mixed implications for freight

  - De-globalization, closer proximity of materials sourcing and supply chains will be a negative for trade volumes and long-haul freight

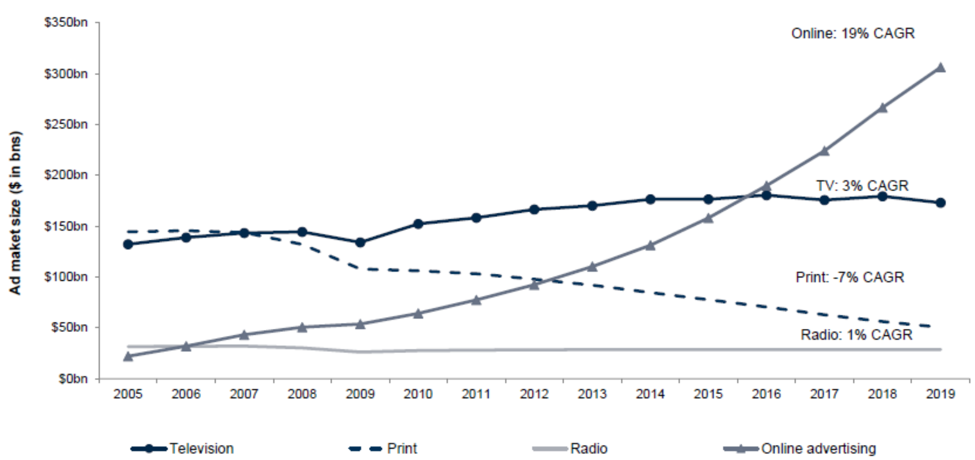
  - Accelerating shift from traditional retail to eCommerce increases demand for short-haul and last mile transportation

  - So long as oil prices remain low and unemployment elevated, truck input costs remain depressed. Good for truck, bad for rail

Communication Services – Peter Jones, CFA

- Pandemic accelerating secular adoption of streaming products such as Netflix and Hulu
- Lack of sports causing a massive spike in video game usage, expect to see heightened levels on engagement persist
- Contentious news cycle and social issues causing greater social media consumption
- Without sports and lower marketing budgets, digital share of advertising to increase

Exhibit 10: Growth in ad platforms (2009-2019 CAGR)
$ in billions; MAGNA GLOBAL



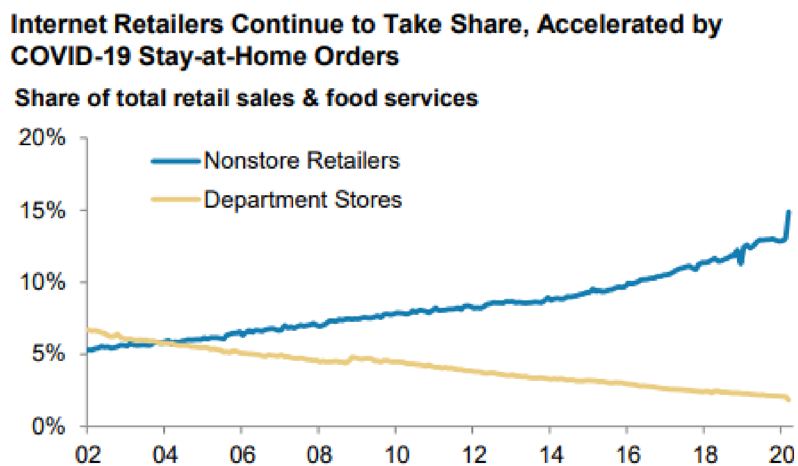
Source: Goldman Sachs

Real Estate – Brad Houle, CFA

- New CRE supply limited – developers finishing what is in progress
- Lack of ability to get permits
- Uncertainty around expected returns on new projects
- CRE trends have accelerated – the death of marginal retailers and suburban malls
- High quality office real estate offers an attractive risk/reward in this market. Office REITs are trading at a discount to historical valuations with rent collections and occupancy that is stable.
- Demand for senior housing could be permanently lowered
- Possible changes to building codes to limit the risk of future pandemics, potentially affecting standards for HVAC, square footage per person, and amount of enclosed space
- Portland CRE should be fairly resilient due to a diverse economy with a lack of concentration in high-risk jobs

Consumer Discretionary – Shawn Narancich, CFA

- **Retail** is the sector's largest industry, increasingly impacted by shift to e-commerce
- **Hotels** struggling to regain footing, but the U.S. occupancy now is up to 40 percent and steadily improving … industry will persevere
- **Autos and Suppliers** ramping up post-shutdown; low fuel prices accentuating consumers' preference for trucks and SUVs. Catalysts?
- **Restaurants:** casual dining resorted to take-out, sales now rebounding as limited in-house dining resumes

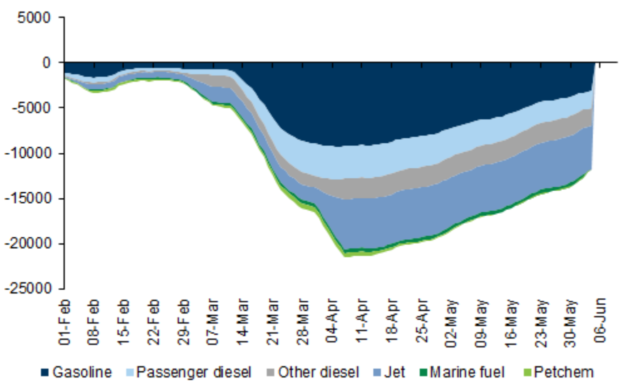


Source: Morgan Stanley

Energy – Shawn Narancich, CFA

- Oil markets hit by a double-whammy
- You have failed me for the last time! … the cartel strikes back
- U.S. production shut-ins help balance supply and demand
- Oil demand rebounding as people go back to work
- Oil prices have surged off the -$37/bbl bottom, but likely capped for now:
- Coal remains a market share loser, natural gas demand still rising

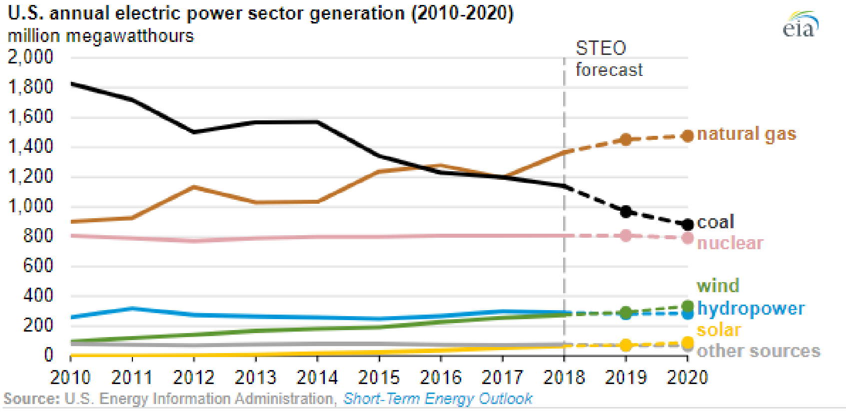
GS high-frequency oil demand tracker (kb/d, difference to normal)



Source: Apple, Thomson Reuters, Kpler, IIR, IEA, Goldman Sachs Global Investment Research

Utilities – Shawn Narancich, CFA

- Electricity demand negatively impacted by COVID-19
  - Factory shutdowns reduce commercial and industrial loads, U.S. demand -8 percent year-over-year
  - Usage is now recovering as states ease lockdowns … longer-term, electric vehicles could boost demand
- Future load growth will increasingly be served by natural gas and renewables generation – solar and wind
  - Market share gains done right … improving economics of wind and solar mean fewer subsidies
  - Industry rate base growth increasingly a win-win: ratepayers enjoy stable or declining bills while shareholders benefit from earnings growth



Questions?

Please use the Q&A below.

Additional resources from this conversation and the recording will be sent with our survey after the webinar has ended via email.