FERGUSON WELLMAN
CAPITAL MANAGEMENT

WEST BEARING INVESTMENTS
a division of Ferguson Wellman

Investment Webinar

Our analyses and commentary on the economy and capital markets

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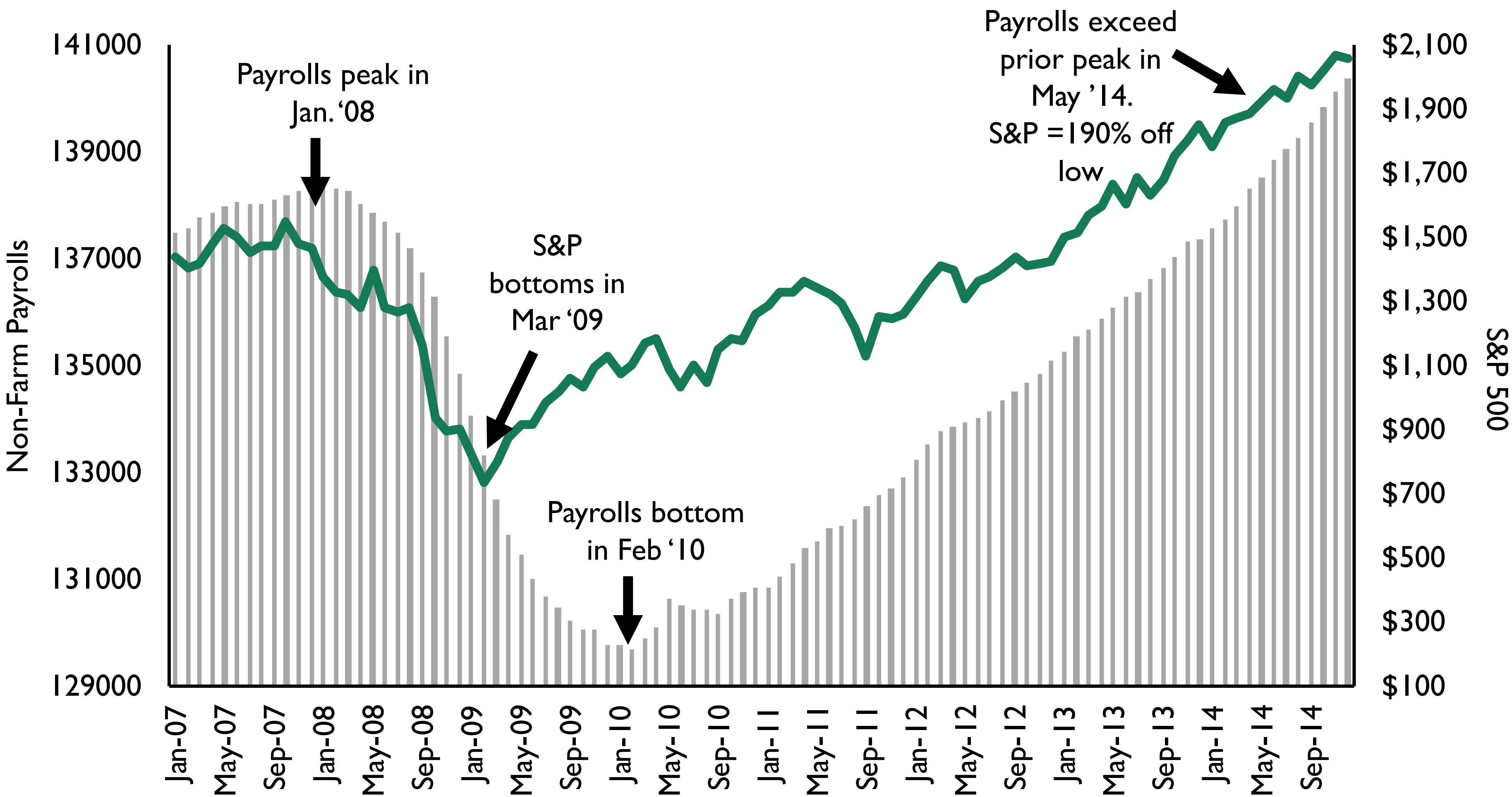
Start Me Up

Investment Strategy
Q3 2020

Start Me Up

- Markets will return to pre-pandemic levels before the economy
- While bad economic data abounds, the worst is behind us
- Any second wave 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
- It is still too early to position portfolios for the election
- Longer-term, bonds will play a diminished role in portfolio allocation

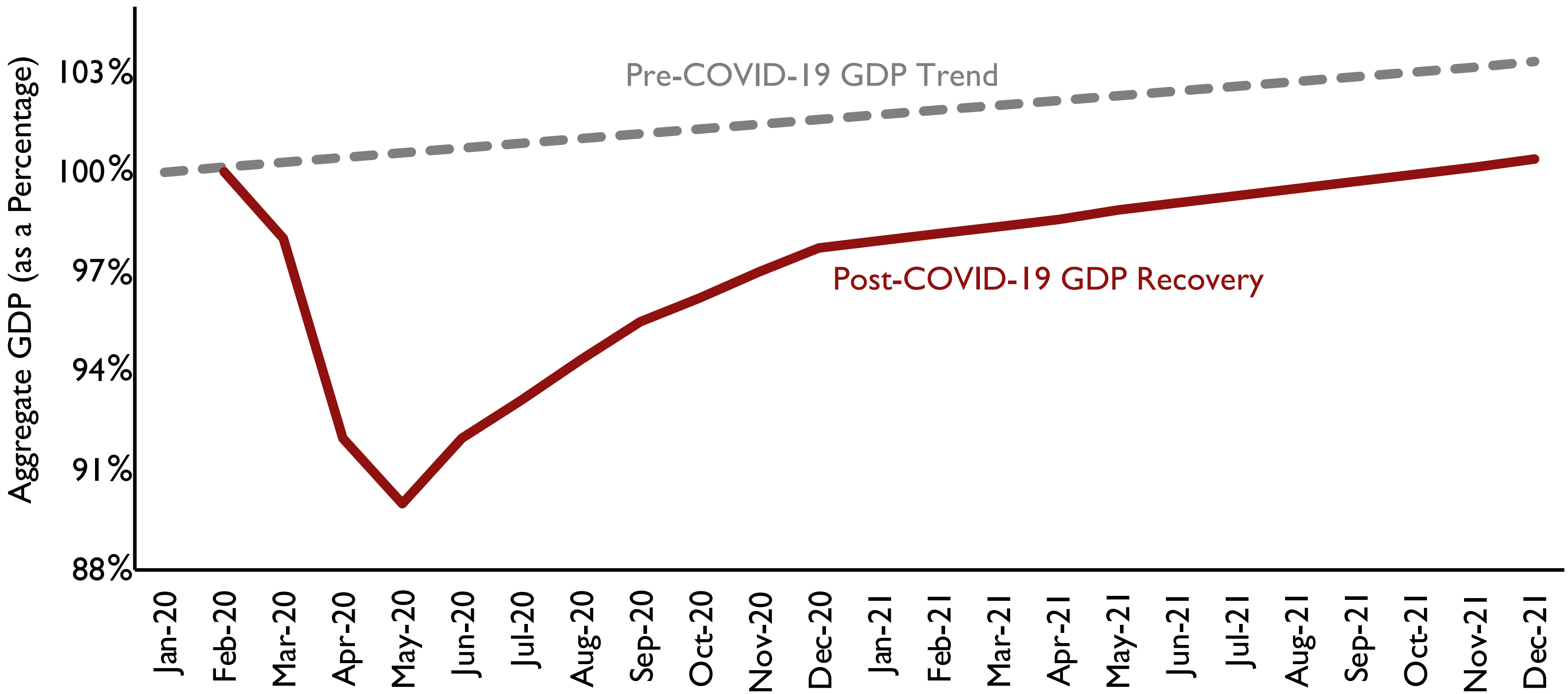
Stocks Anticipate Future Economic Activity



Sources: FactSet and Bureau of Labor Statistics

- The stock market begins rising about 6 months and on average is up 24 percent from the low point before the end of a recession
- In 9 out of 10 postwar recessions, the market rallies before the economy returns to expansion

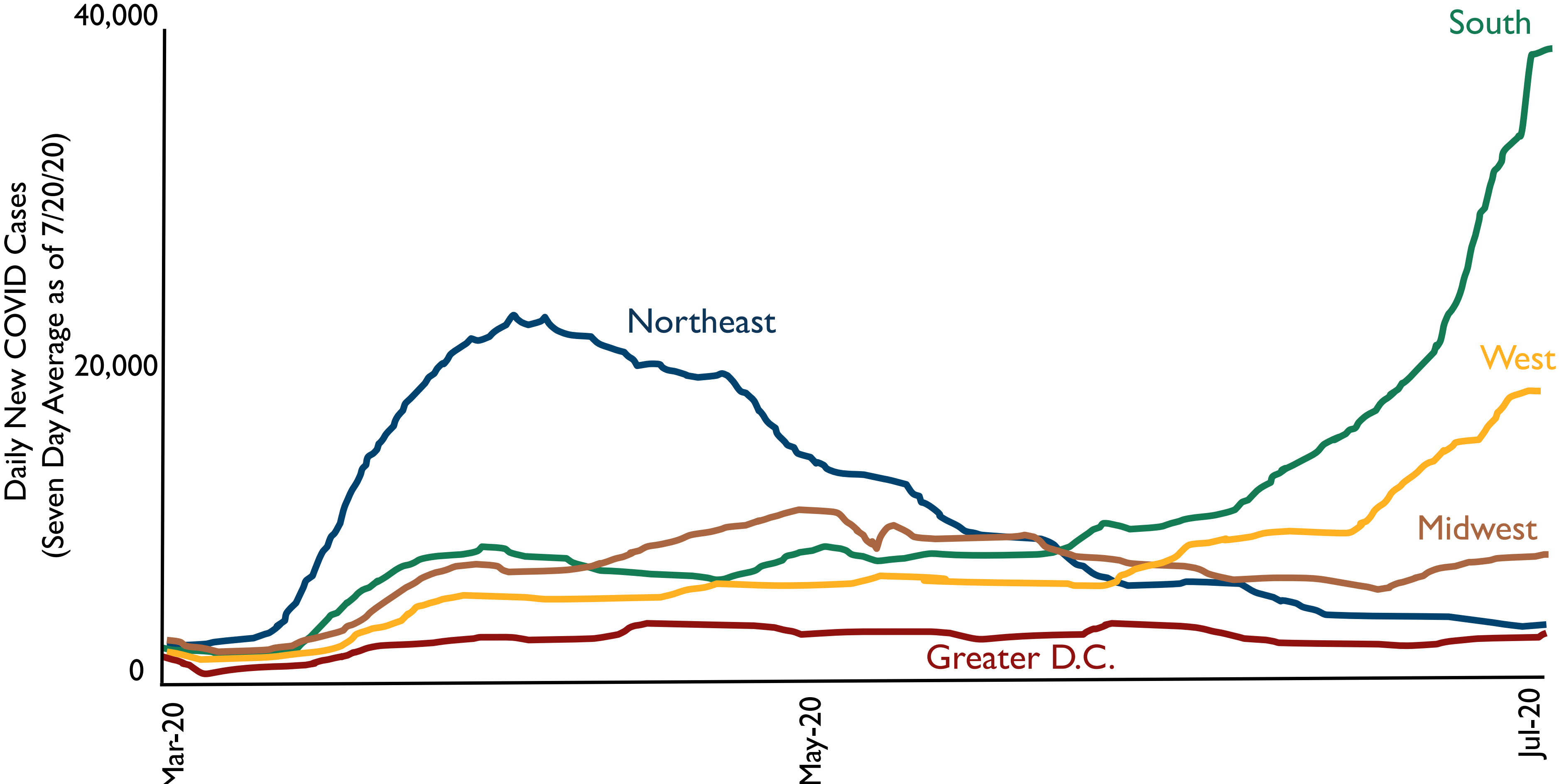
Recovery Likely to Look Like a Checkmark



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 likely prolong full economic recovery until sometime in 2022

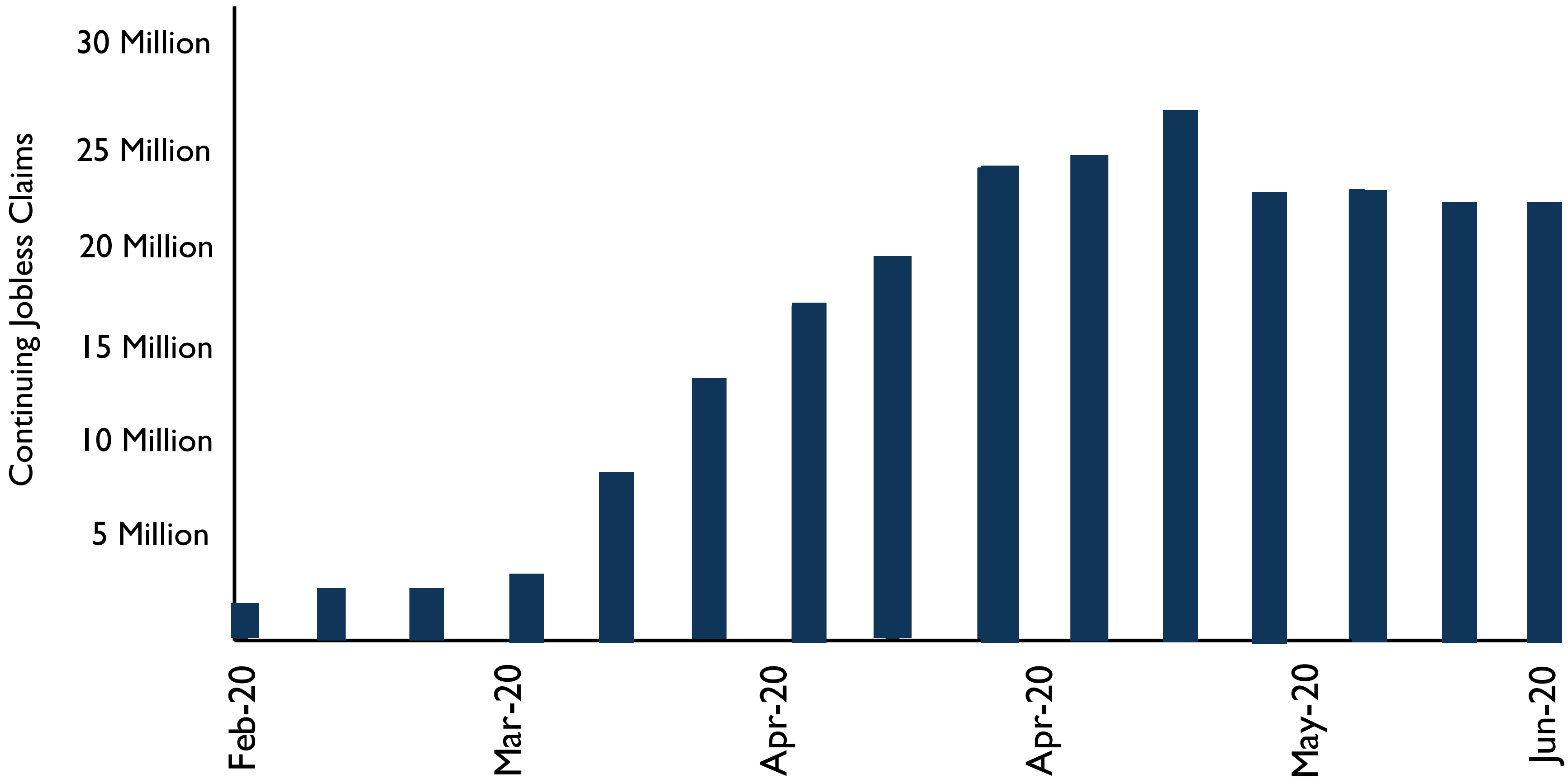
Hospitalizations Are the Key to the Pace of Reopening



Source: State Health Departments

- 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

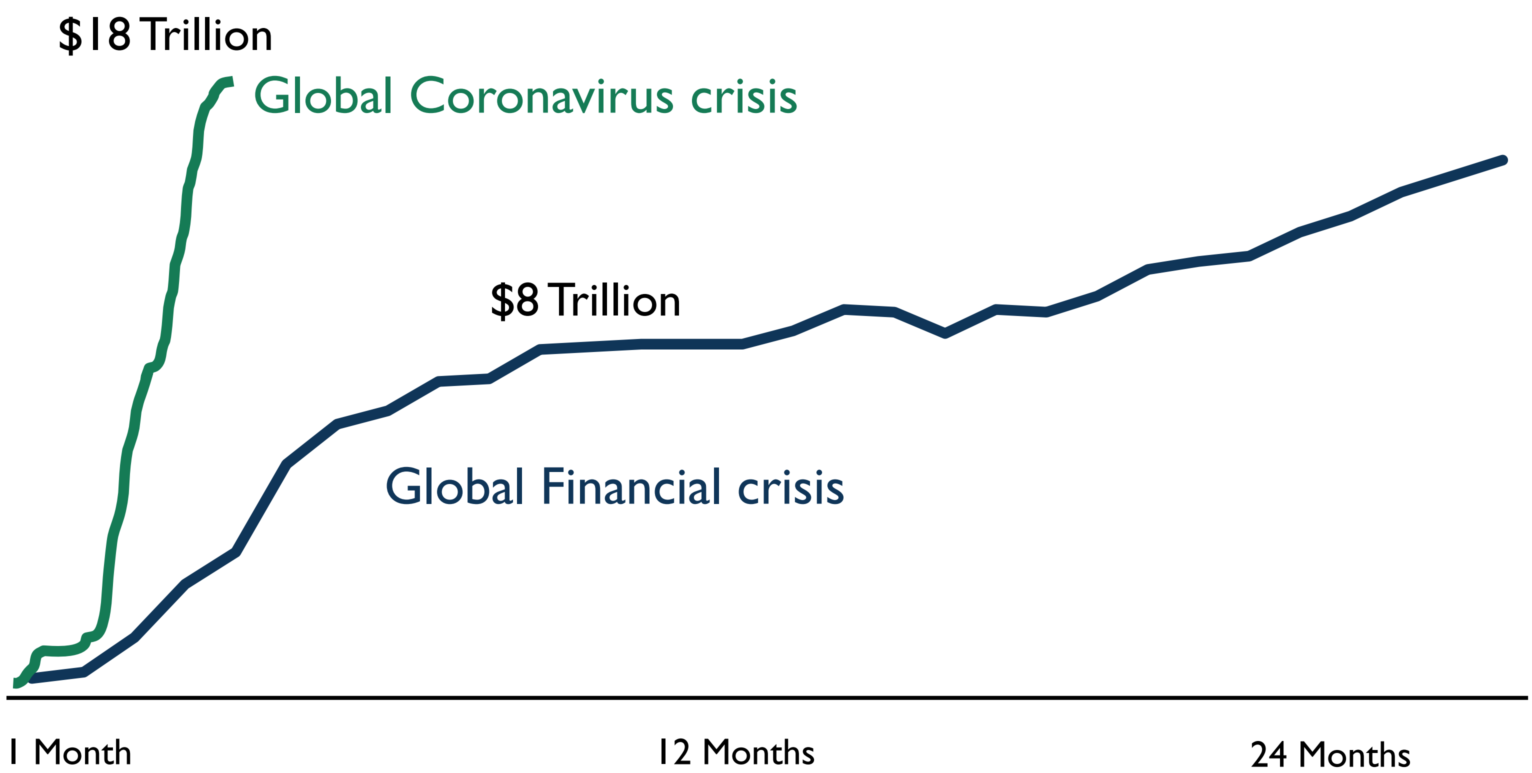


Source: FactSet

- Unemployment of 20 million remains extremely elevated
- So far, only 2 million job losses are permanent … this surely will go up … the last cycle's permanent job losses exceeded 7 million

Don't Fight The Fed

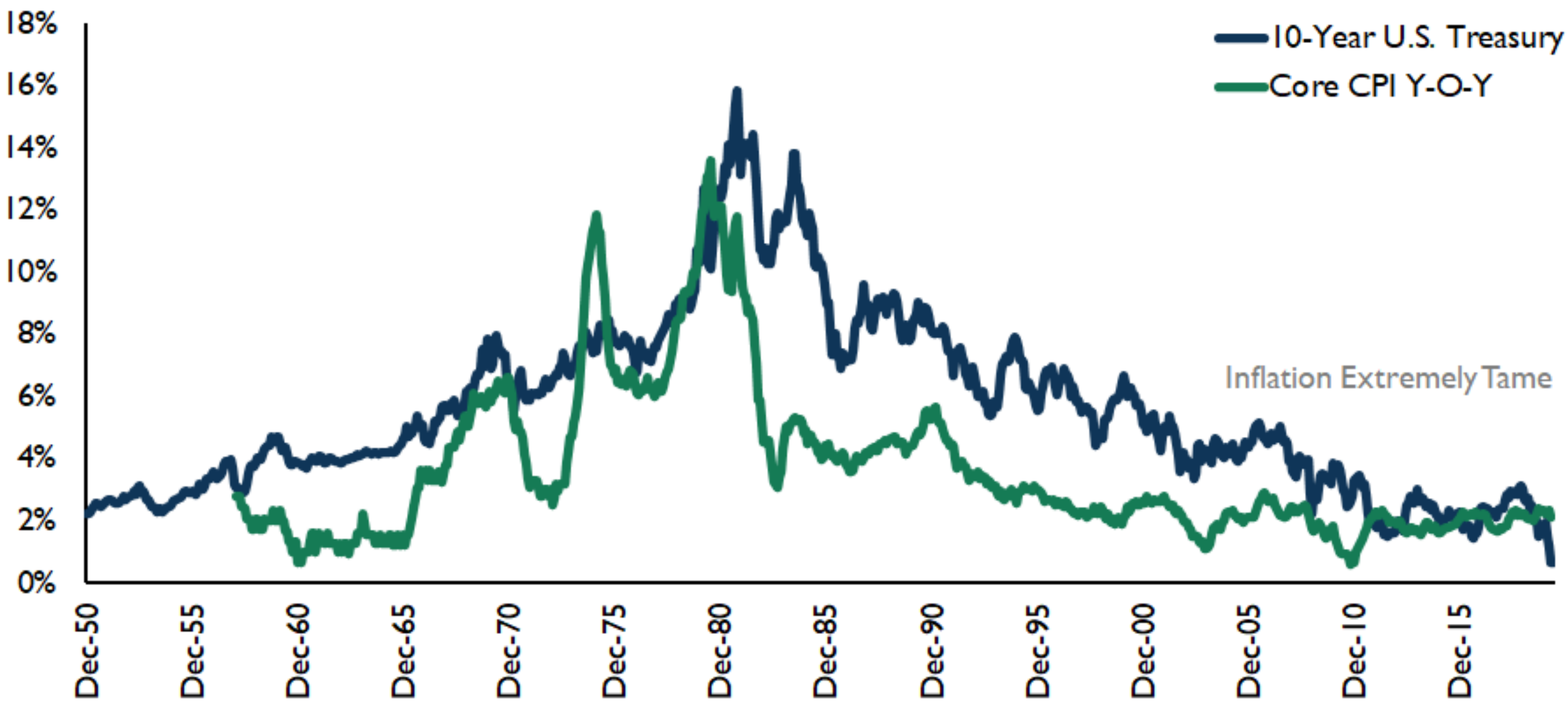
Faster Growth in the Money Supply



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

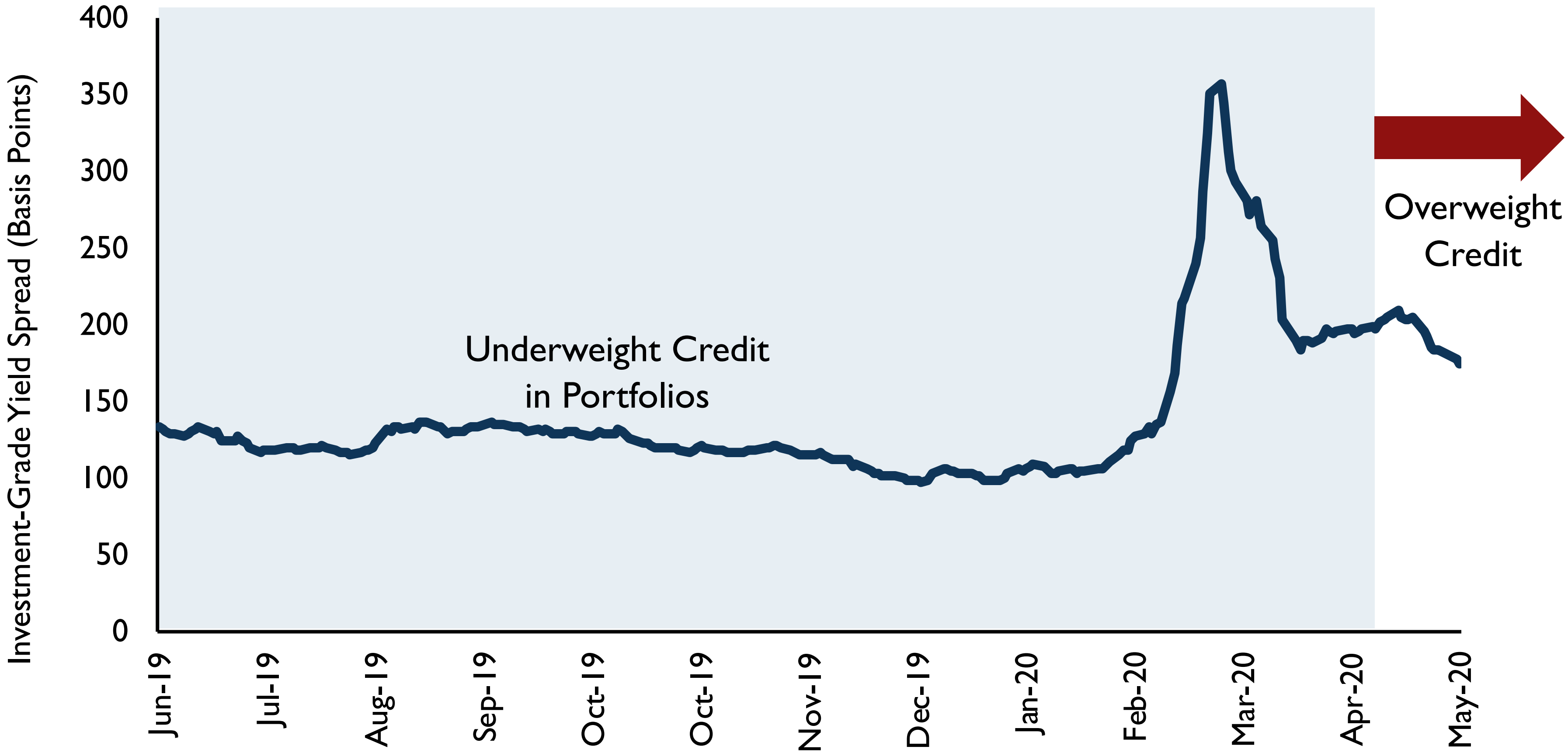
Deflationary Risks Loom Larger than Inflationary Risks



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

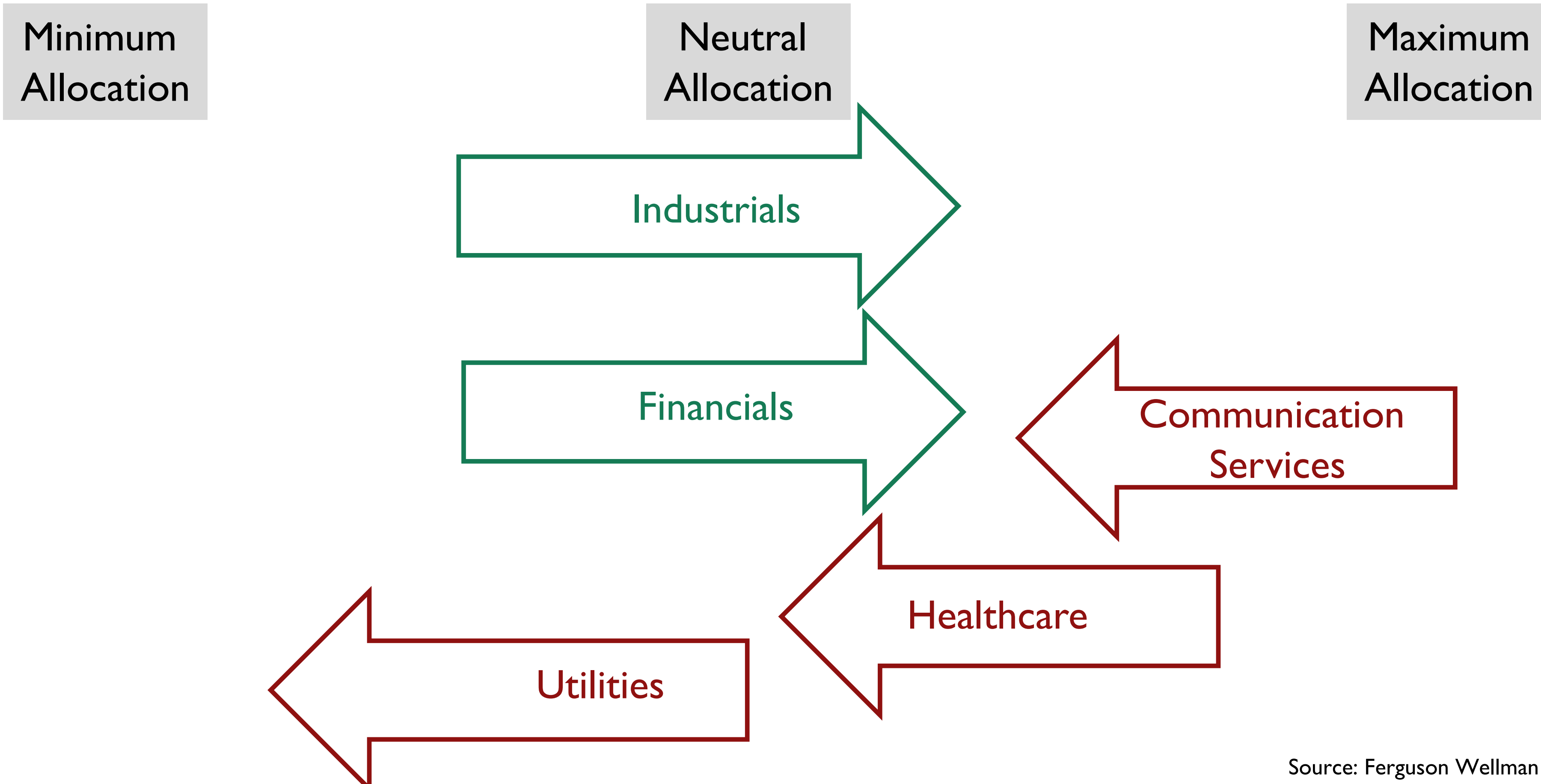
Corporate Bond Risk-Reward Improved



Source: Bloomberg

- Historically it is advisable to overweight corporate bonds when the economy is expanding and overweight Treasuries when the economic cycle is nearing a cyclical peak
- Over time, we strategically adjust the mix of Treasuries to corporate bonds in our client portfolios to maximize the return for the level of risk assumed

Walking, Not Running, Towards Cyclicals



Source: Ferguson Wellman

- Growth sectors (technology and communication services) have led the market since 2016
- Representing over 20 percent of the total market by capitalization, the five largest companies have never represented more of the S&P
- Historically, cyclical value sectors (industrials, financials and basic materials) lead in the early stages of an economic recovery
- We have gradually become less defensive and more cyclical with our sector weights; we now have an aggregate neutral sector stance

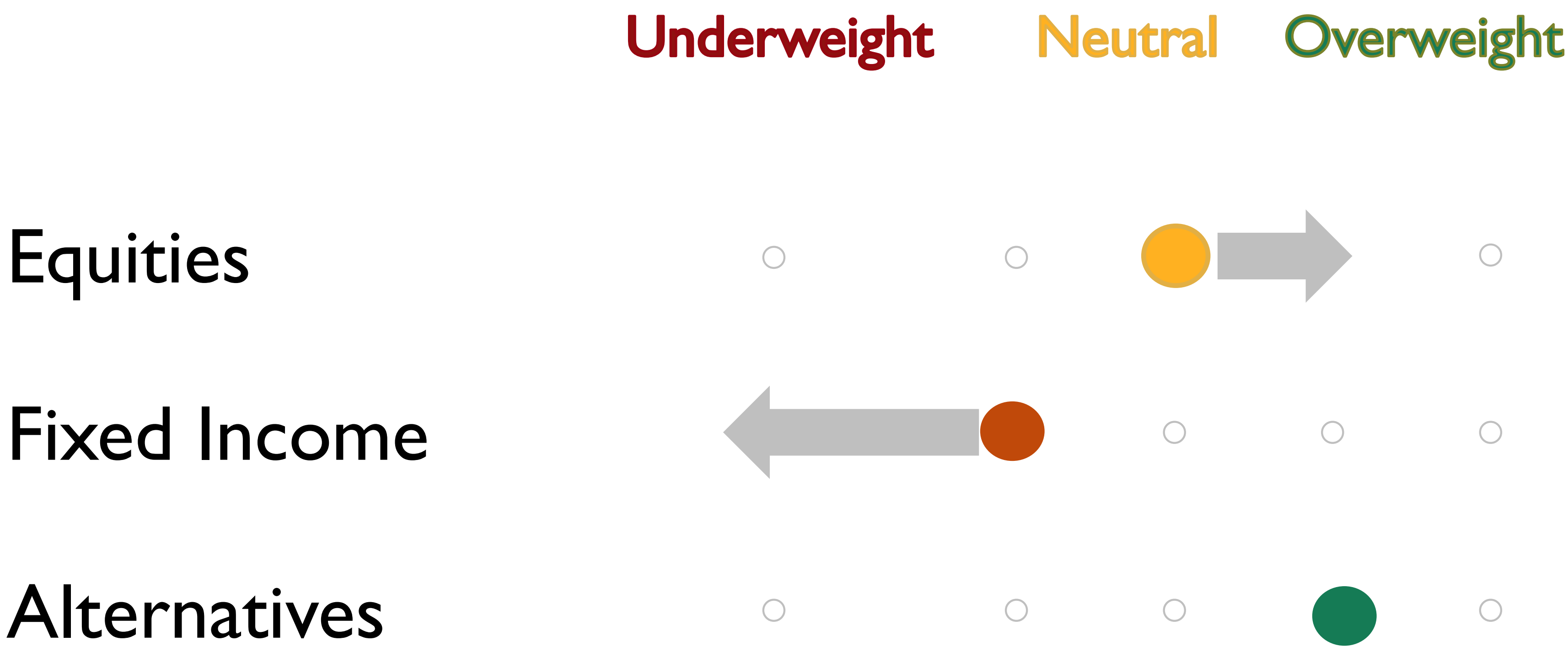
Still too Early to Position for the Election

	Blue Wave	Red Redux
Macro Impacts	• Increased government spending • Higher corporate taxes	• Reduced government spending • Lower taxes
Sector Impacts	• Negative on pharma and big tech • Positive for managed care, infrastructure and renewable energy	• Negative for renewable energy, Medicare exposure to pharma • Positive for aerospace, defense, financial services and U.S. energy production

Source: Ferguson Wellman

- Historically, election years have been good for stock returns. Better if the incumbent wins, but still positive if the incumbent loses
- Since 1928, performance of the stock market the three months prior to the election has correctly predicted the winner of the election 87 percent of the time

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