



FERGUSON WELLMAN CAPITAL MANAGEMENT

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After six years of exceptionally low “turbulence,” volatility returned with a vengeance last year. We expect this bumpy flight path to persist as investors digest slowing economic expansion, materially lower earnings growth and broadening trade and political tensions.

Benefiting from last year’s tax cuts and abundant jobs, the U.S. consumer remains key to driving an ongoing economic expansion that we see becoming the longest on record in July. While incremental stimulus from the Tax Cuts and Jobs Act of 2017 will be less impactful this year, reduced tax burdens at both the consumer and corporate level should help to further boost consumption spending and investment.

With GDP growth accelerating to rates exceeding 4 percent last year, the labor market has tightened, and prices have finally achieved the Central Bank’s 2 percent inflation target. While some fear the Fed will go too far in raising rates, with little evidence that moderate wage growth is translating into faster rates of inflation, we expect the Fed will be increasingly judicious about moving rates materially above the targeted level of inflation.

As the accompanying chart shows, trade policy poses an increased risk to the economy as already enacted tariffs could nearly double if additional actions are taken against Chinese imports. Yet, in our view, the simmering trade disputes will be resolved short of a full-blown trade war. While tighter monetary policy, waning fiscal stimulus and troublesome tariffs have our attention, rather than grounding the plane, we see the economy remaining aloft in 2019.

With GDP tailwinds intact, we expect rising corporate earnings this year, but at a mid-single digit pace that is much slower than the north of 20-percent-growth enjoyed last year. That said, a more challenging late-cycle economic environment and fourth quarter equity market plunge has already clipped the wings of equity valuations, thus increasing the odds that earnings growth will translate into commensurate levels of equity appreciation in 2019.

Amid superior U.S. growth, our move to overweight international equities last year failed to pay off. However, a less-aggressive Fed could serve to weaken the dollar in 2019 and put international equities back in the win column. In the absence of inflationary pressure, we believe bonds are “free to move about the cabin” as our expectation for only slightly higher interest rates should result in positive, albeit modest fixed income returns in 2019.

While we do not see a recession in the offing, a later-cycle economy sets the stage for seeking “calmer air” for client portfolios through opportunistically reducing risk as the year unfolds.

Marc F. Fovinci, CFA*Principal*

Marc Fovinci, CFA, leads Ferguson Wellman's fixed income team. He is a principal of the firm and a member of its Investment Policy Committee. Before joining the firm in 1991, Fovinci was a senior investment officer for the Washington State Investment Board with responsibility for the state's fixed income investments. Raised in Northern California, he graduated with honors from Stanford University with a B.S. in mechanical engineering and later received his M.B.A. in finance from the University of Washington. Fovinci is a member of the Chartered Financial Analysts Society of Portland as well as member and past president of the Northwest Taxable Bond Club. Fovinci is a board member of the Portland Business Alliance, is board chair of Morrison Child & Family Services and a board member and treasurer of Legacy Good Samaritan Foundation. He is past president of Morrison Child & Family Services, the Rotary Club of Portland, the Portland State University Foundation and the Portland Rotary Charitable Trust.

Peter Jones, CFA*Vice President of Equity Research and Analysis*

Peter Jones, CFA, joined Ferguson Wellman in 2015 and is vice president of research, serving as an analyst and a member of the firm's investment team. Jones leads the firm's *Global Sustainable Investing* strategy team, manages the communication services sector, and co-manages the industrial and basic material sectors. In addition, he maintains the multifactor model used by the investment team for its equity selection process. Jones is a native of Portland and graduated from the University of Portland with a B.A. in political science and minors in Spanish and psychology. While attending college, Jones played tennis for the Pilots. Prior to joining Ferguson Wellman, Jones was employed at UBS Financial Services.