

2021 Investment Outlook

FERGUSON WELLMAN CAPITAL MANAGEMENT

WEST BEARING INVESTMENTS

a division of Ferguson Wellman



2021

A New Year, A New Outlook

Ferguson Wellman Capital Management • West Bearing Investments



FERGUSON WELLMAN
CAPITAL MANAGEMENT



WEST BEARING INVESTMENTS
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Today's Presenters



George Hosfield, CFA
Director and Chief Investment Officer



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Executive Vice President and Head of Fixed Income



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Executive Vice President



Ralph Cole, CFA
Director



Peter Jones, CFA
Senior Vice President



Age Is Just a Number

Investment Outlook 2020

2020 Setlist

Economy Time Is on My Side

X

Rates You Can't Always Get What You Want

✓

Equities Beast of Burden

✓

Election Mixed Emotions

✓

Allocation Waiting on a Friend

✓



Back to the Future

Investment Outlook 2021

Back to the Future



- It Is Never Really “Different This Time”
- 2020 Year of the Virus ... 2021 Year of the Vaccine
- New Economic Cycle, New Leadership
- Governments Have Their Feet on the Gas
- Delivering Income in a Low-Interest Rate World

A faded background image of a classical building with a clock tower and a person in the foreground. The building has a prominent portico with columns and a clock tower on the roof. A person with long hair, wearing a blue jacket and a red backpack, is seen from behind in the foreground. The text "It Is Never Really 'Different This Time'" is overlaid in the center.

It Is Never Really “Different This Time”



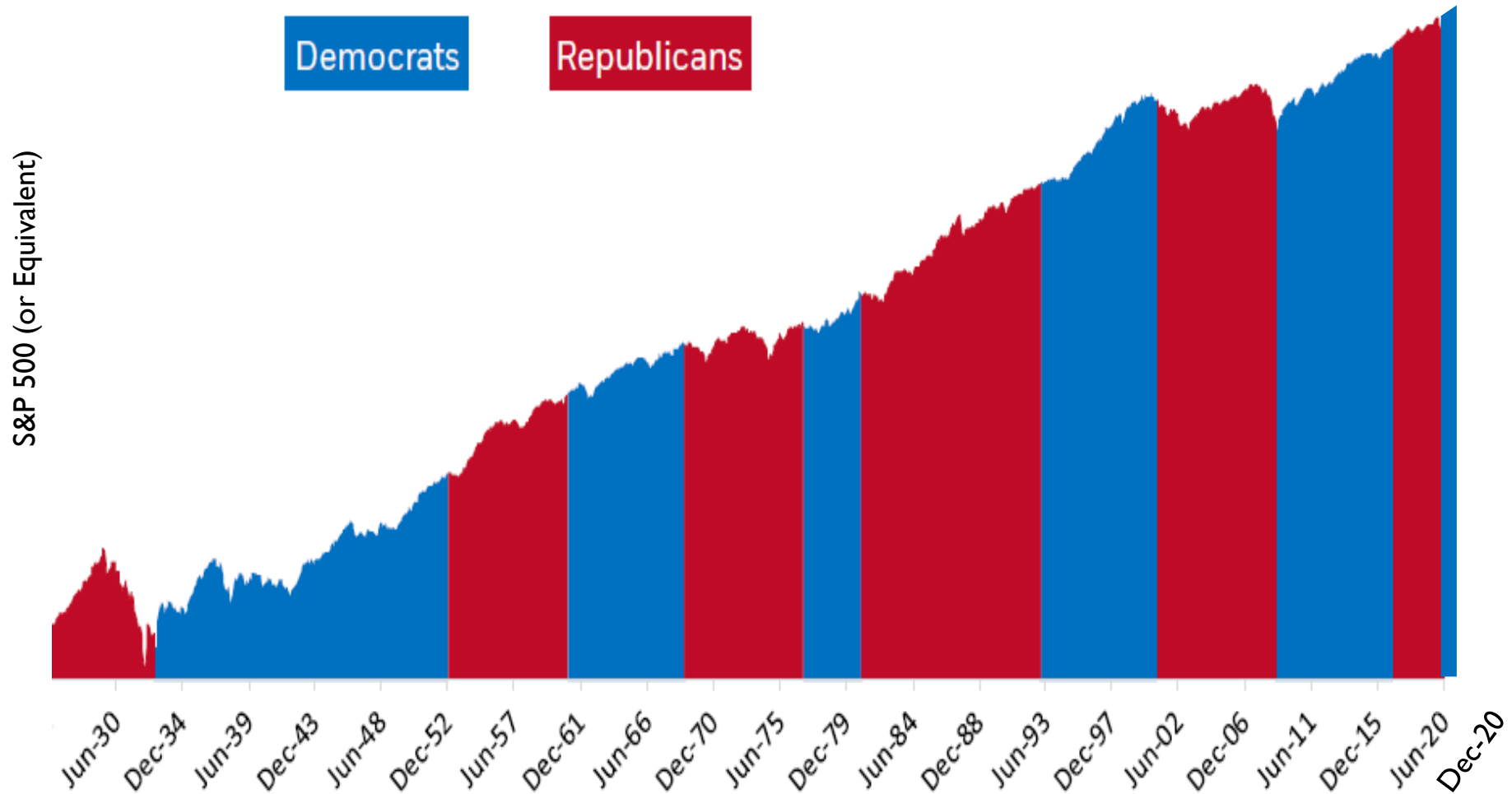
Lessons Reinforced

- **Losses** aren't permanent ... unless you sell
- **Bear markets** create buying opportunities
- **Markets stop panicking** when governments start panicking
- **Stay true** to your long-term goals
- **Political change** does not drive economic change



MOVIECLIPS.COM

Economic Trends Are Not Defined by Political Change



Source: Morningstar

Losses Aren't Permanent ... Unless You Sell

Year	Recessionary Decline	First Year Recovery
1953	-15%	38%
1957	-21%	32%
1959	-14%	30%
1968	-36%	46%
1973	-44%	35%
1974	-14%	35%
1975	-14%	28%
1980	-17%	40%
1981	-19%	55%
1990	-20%	29%
2000	-49%	34%
2007	-57%	68%
	AVERAGE:	AVERAGE:
	-27%	41%

2020

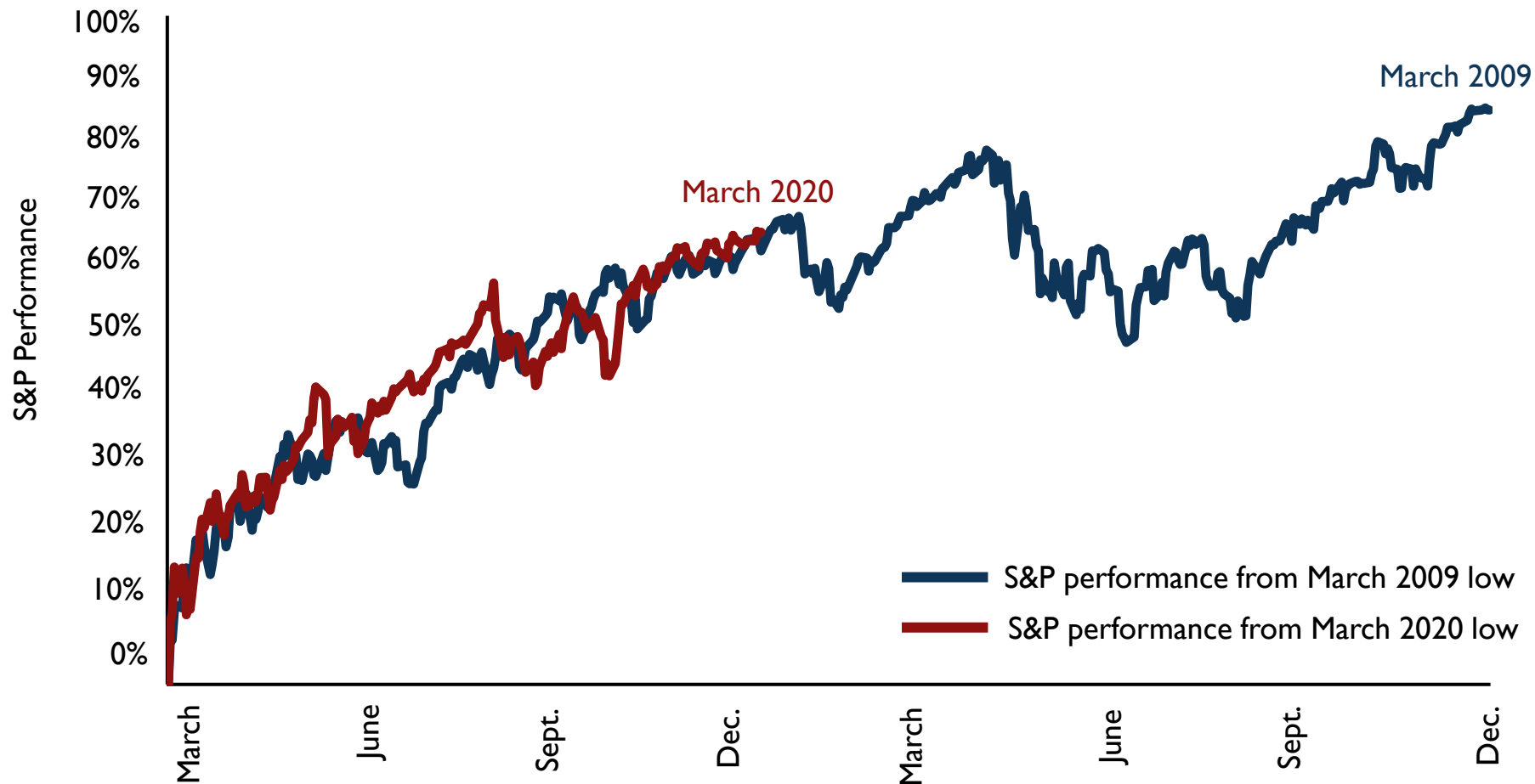
-34%

68%

Source: Strategas

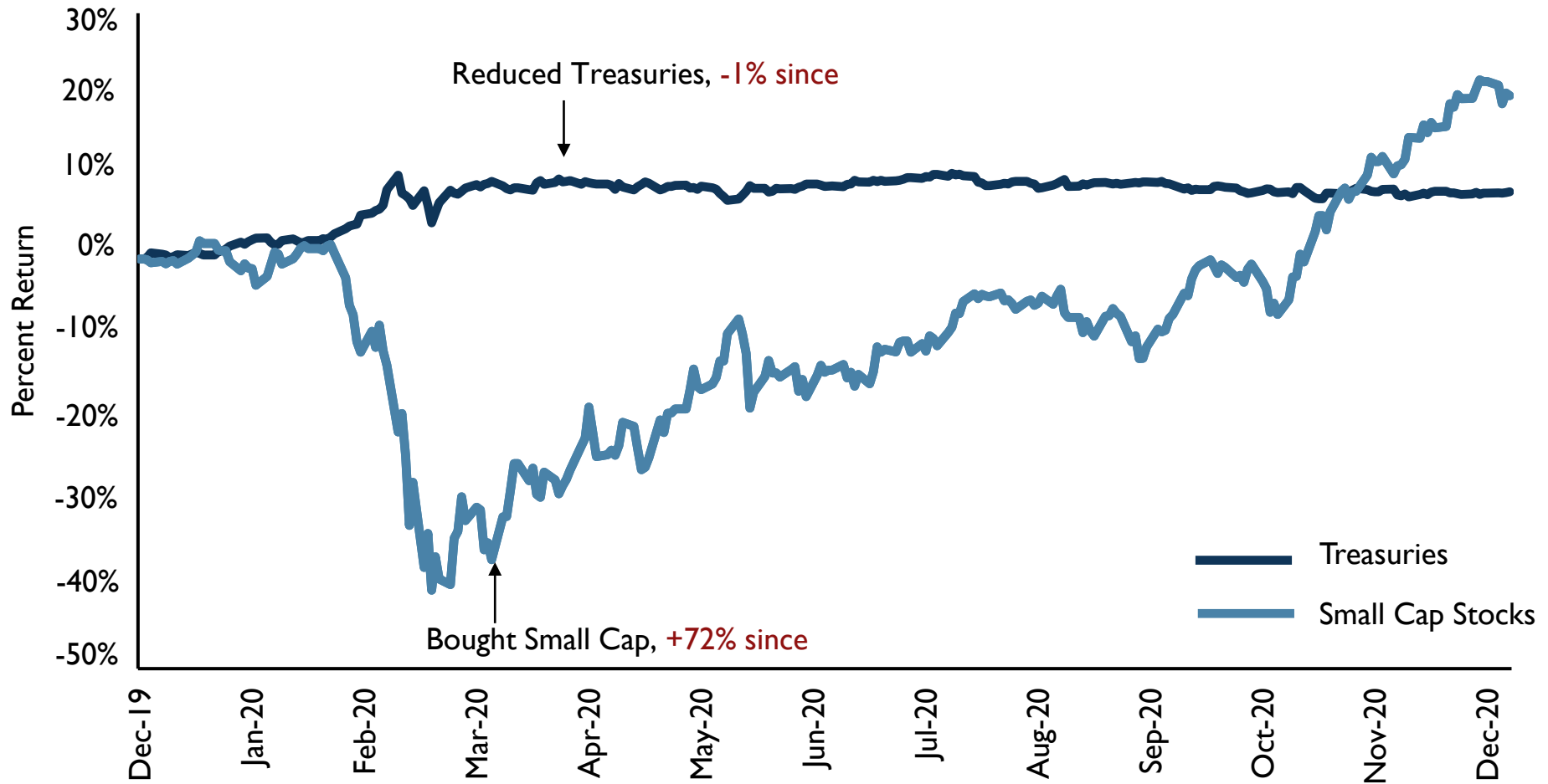
History May Not Repeat ... but It Rhymes

S&P 500 Performance from the March 2009 low vs. the March 2020 low



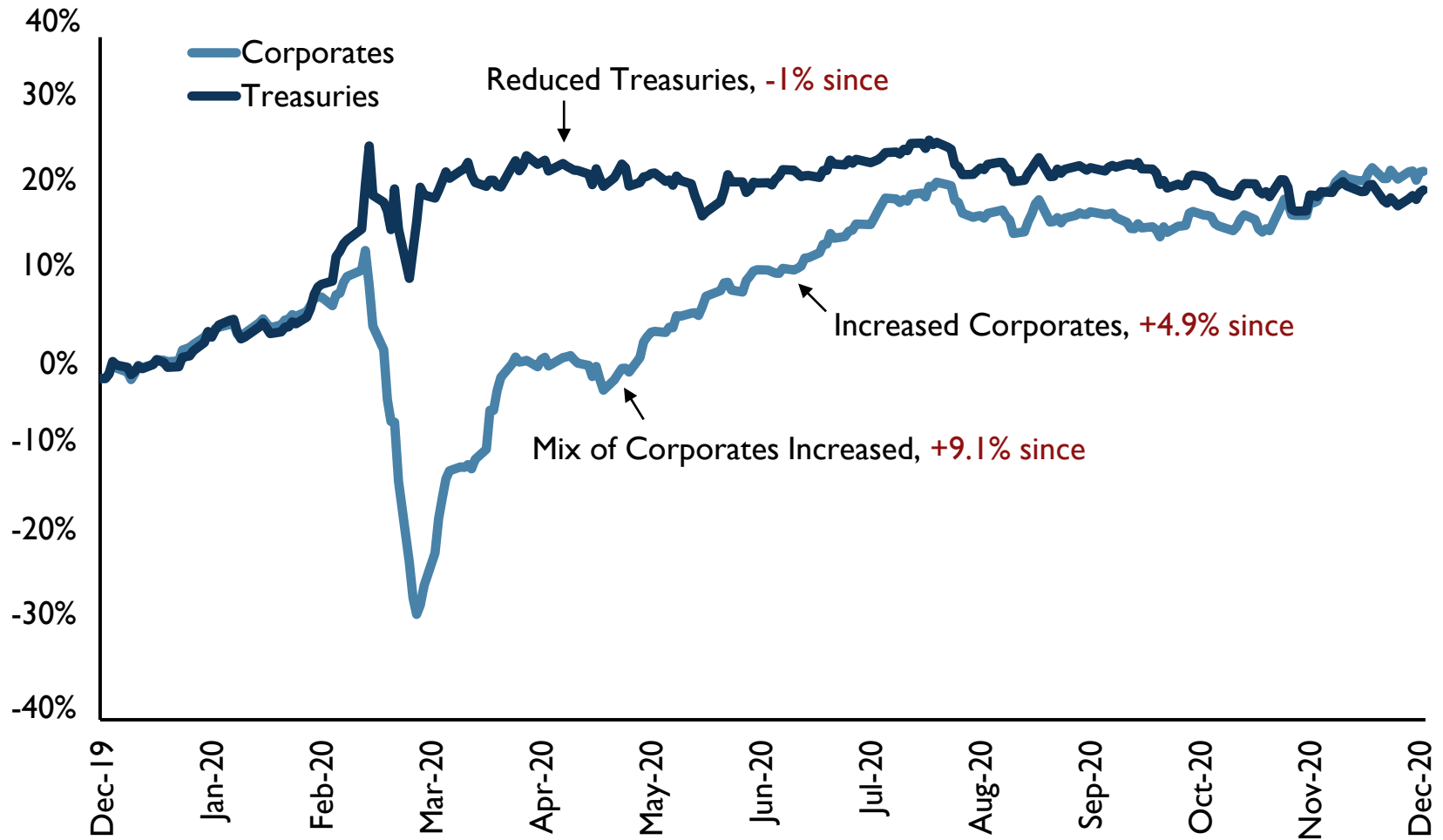
Source: Strategas

Asset Allocation: Buy Low, Sell High



Source: Bloomberg

Fixed Income: Buy Low, Sell High



Source: Bloomberg

If You Could Go Back to February 5, 1955

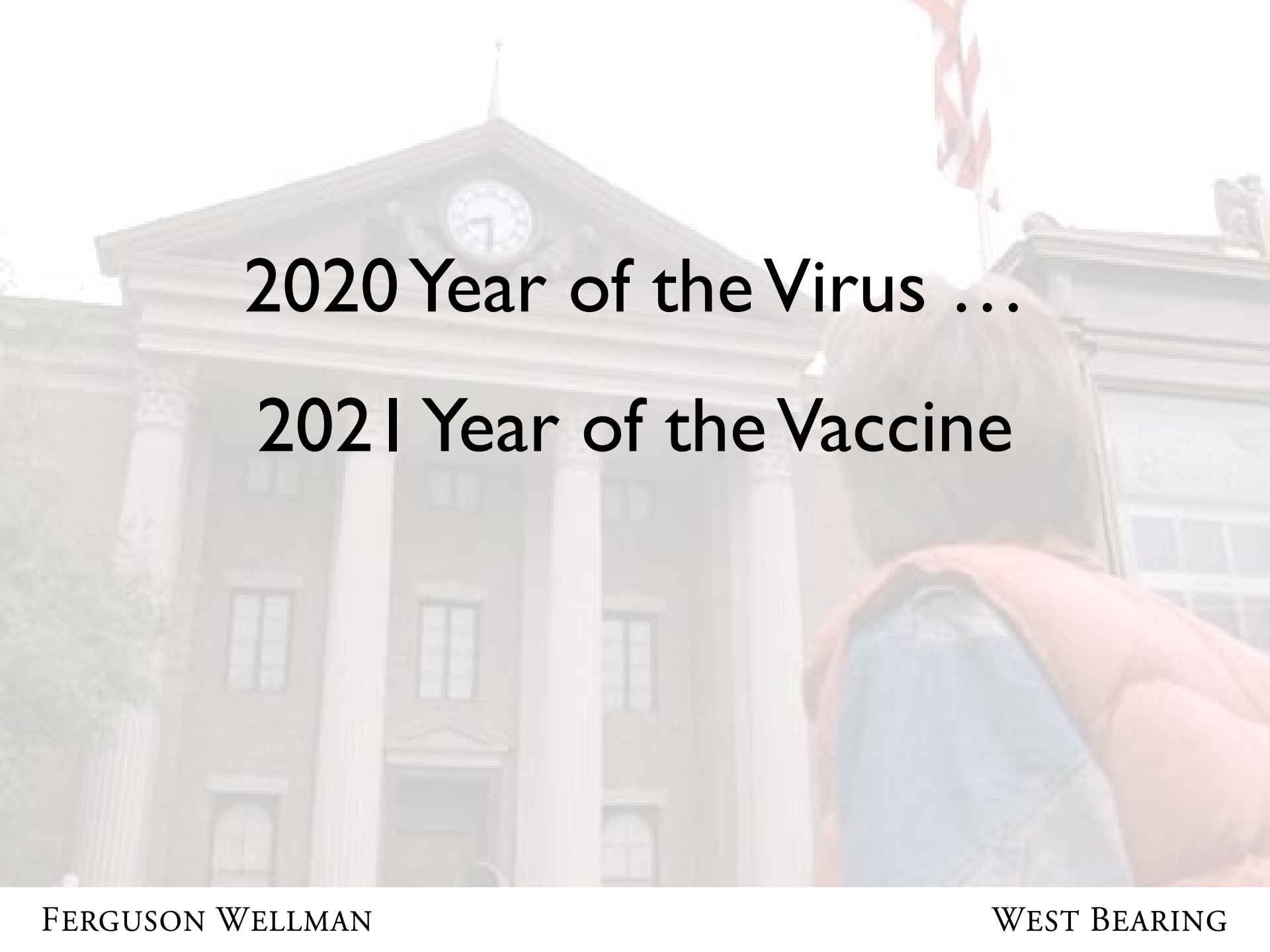
Returns from Market Peak

Year	5yrs	10yrs
1956	10.0%	9.0%
1957	7.6%	10.7%
1961	5.7%	7.4%
1966	4.3%	4.0%
1968	0.4%	3.1%
1972	-0.1%	7.6%
1978	17.1%	14.8%
1980	12.1%	11.8%
1983	12.8%	13.3%
1987	7.7%	13.4%
1990	11.5%	16.7%
1998	-1.3%	3.6%
2000	-1.6%	-1.1%
2007	0.6%	7.6%
Average	6.2%	8.7%

+10,336%



Source: FactSet



2020 Year of the Virus ...

2021 Year of the Vaccine

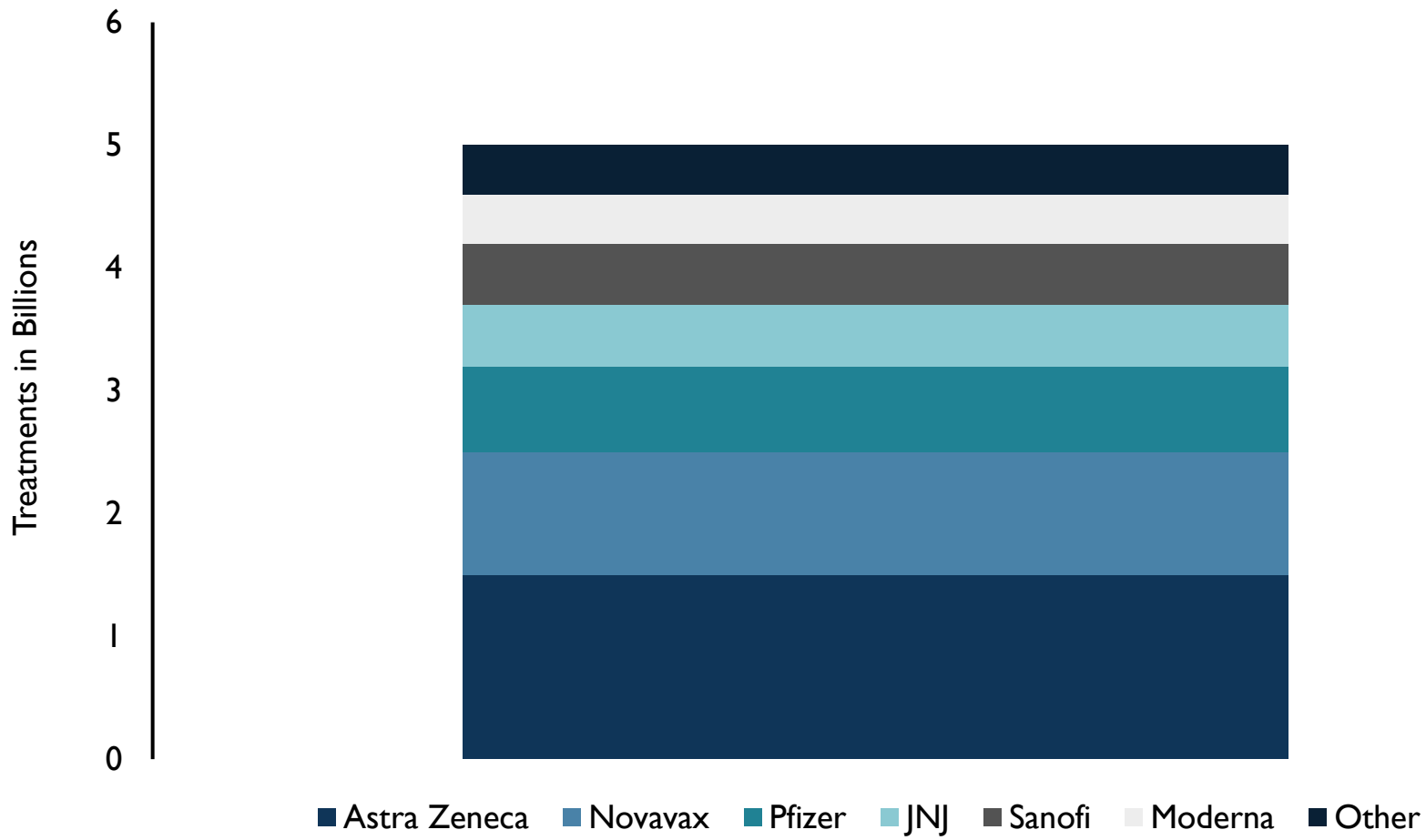
Vaccine... the Flux Capacitor of 2021 Economic Growth



Source: Universal Studios

Vaccines Are on the Way

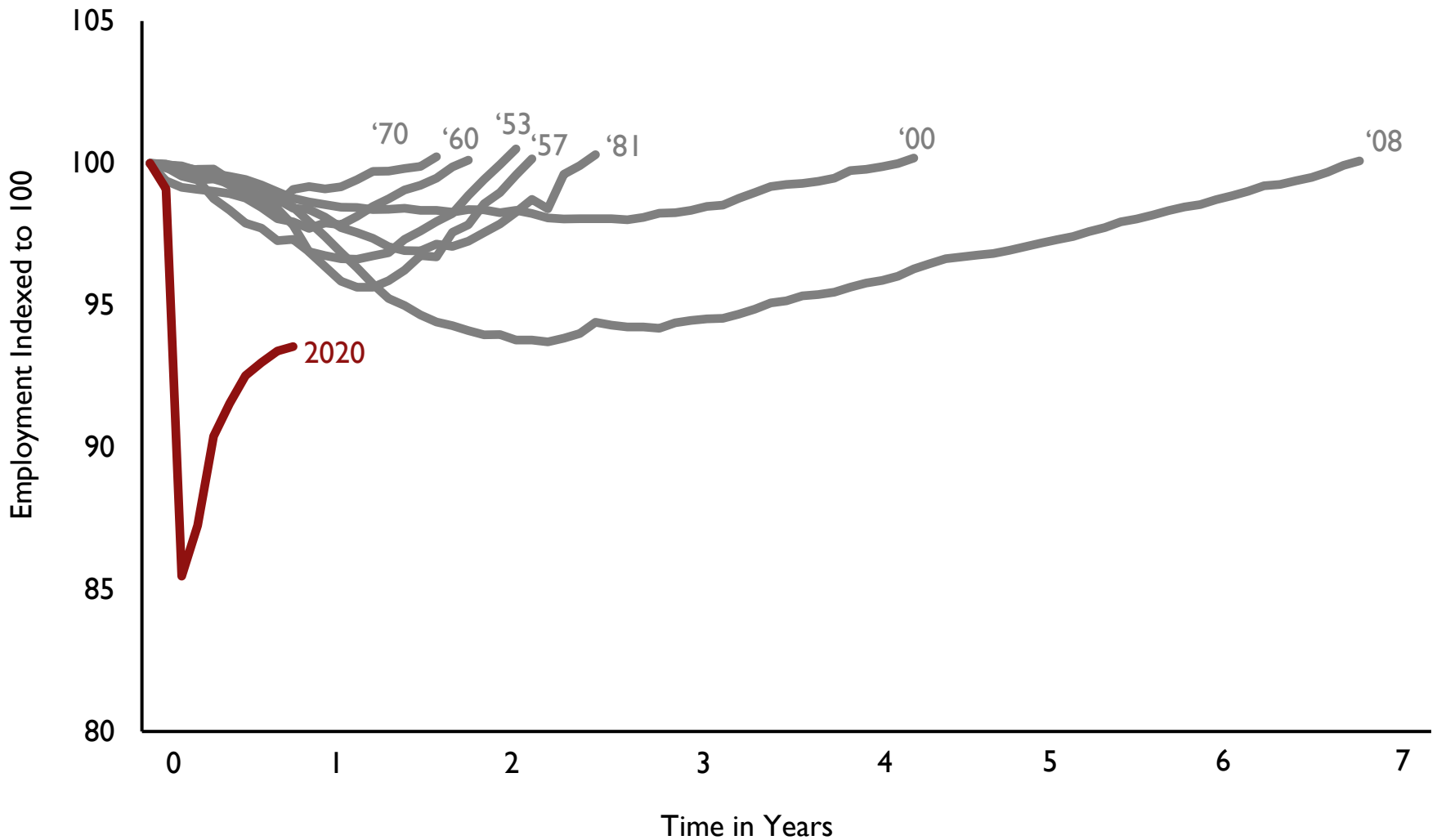
Estimated COVID Vaccine Treatments for 2021



Source: Goldman Sachs

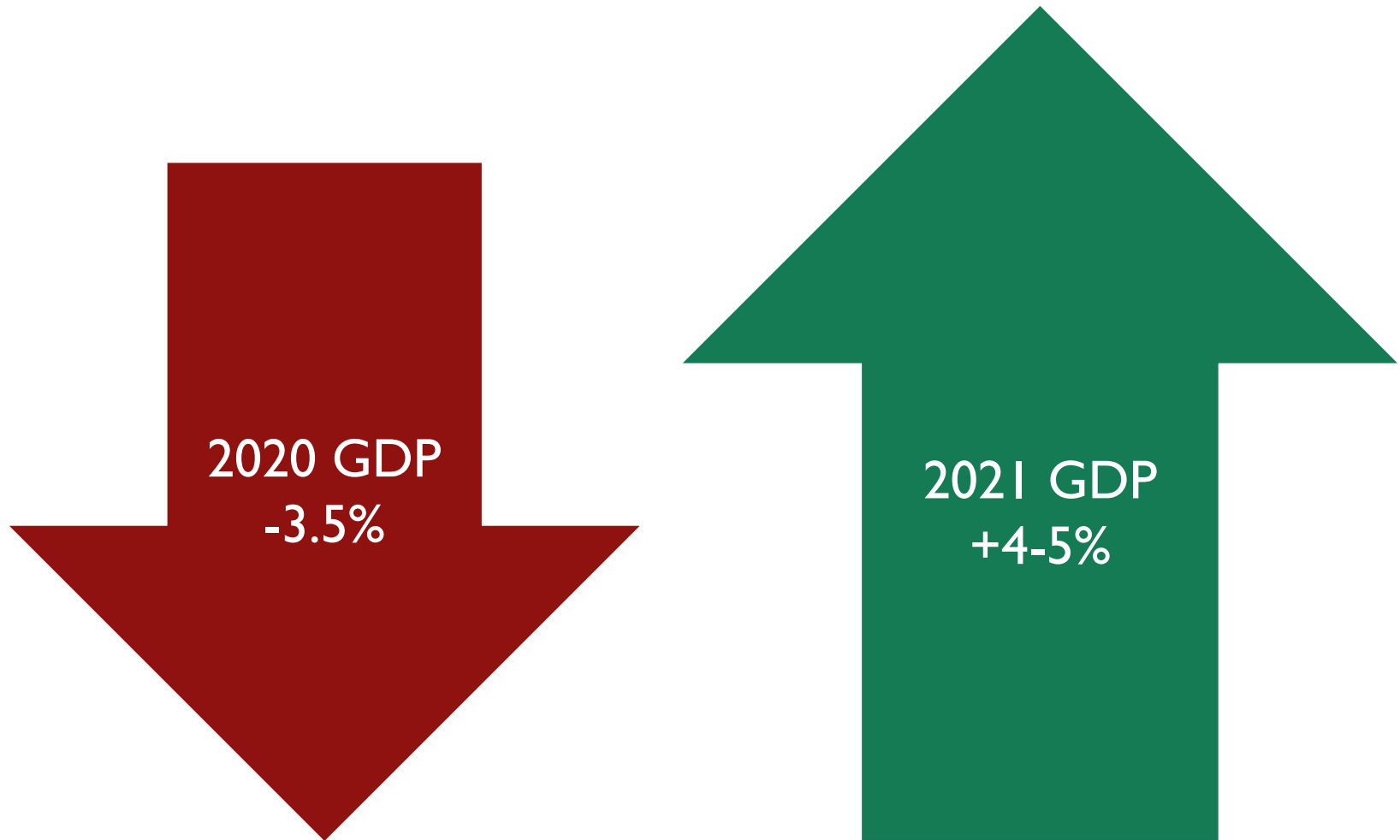
Labor Market is Healing Despite Second Wave

The Amount of Time to Recoup All Jobs Lost During Previous Recessions



Source: Federal Reserve Bank of St. Louis

Vaccine to Unleash Pent-Up Demand

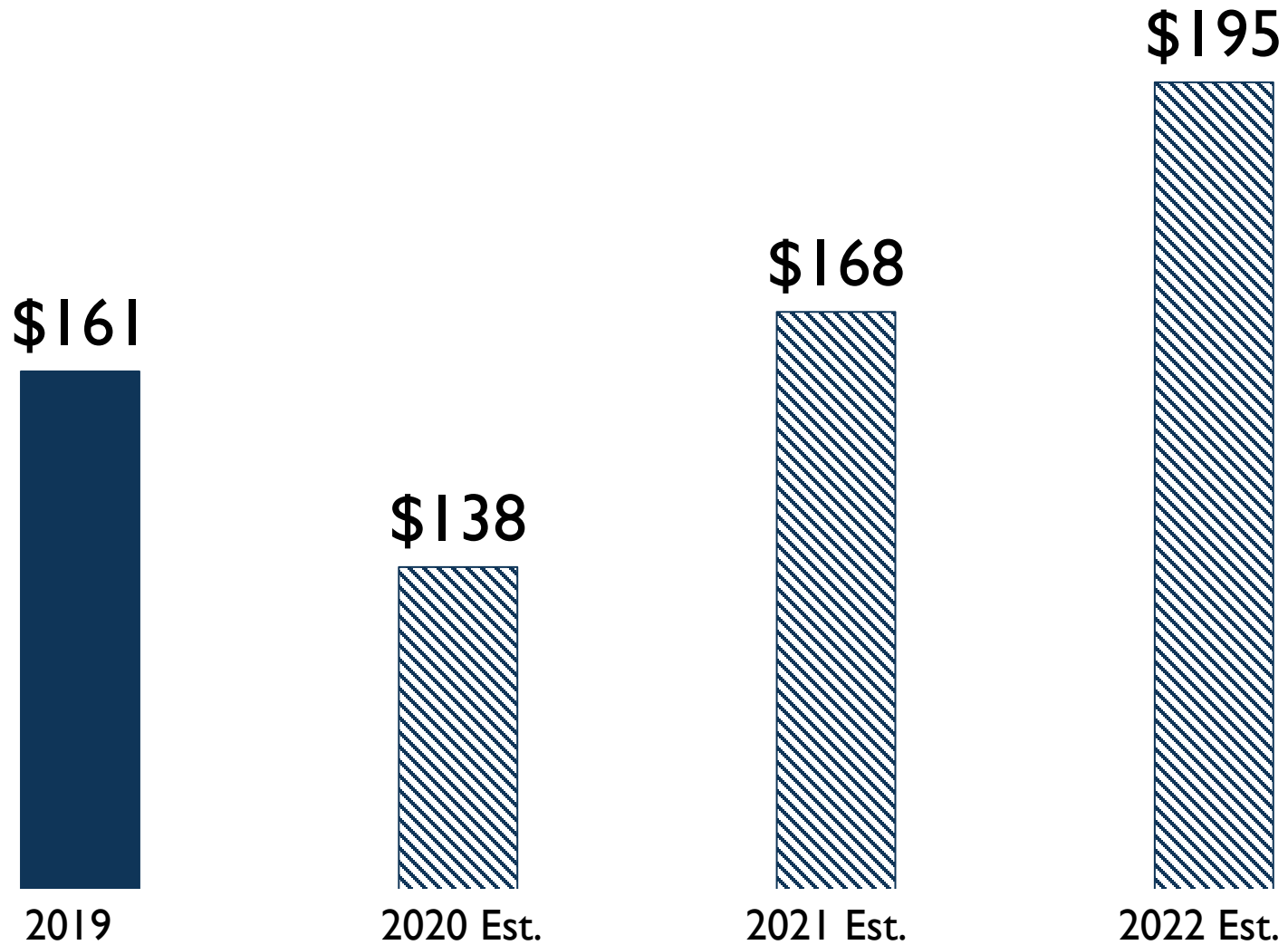


The Fed's forecast of 4.2 percent growth would be the highest since 2003

Source: Federal Reserve Bank of St. Louis

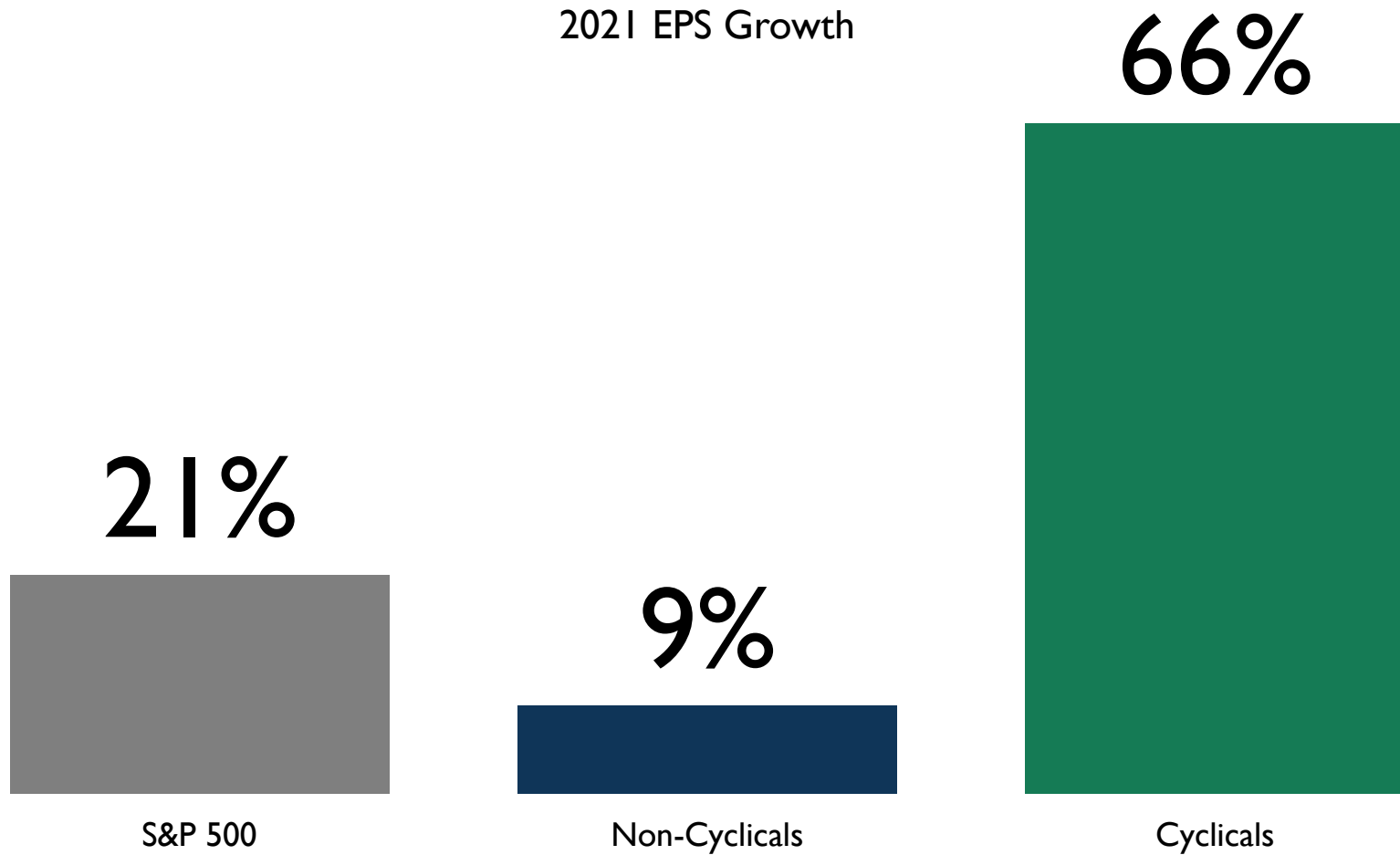
The Economy Has Taken COVID's Best Shot

Fundamentals Are Improving



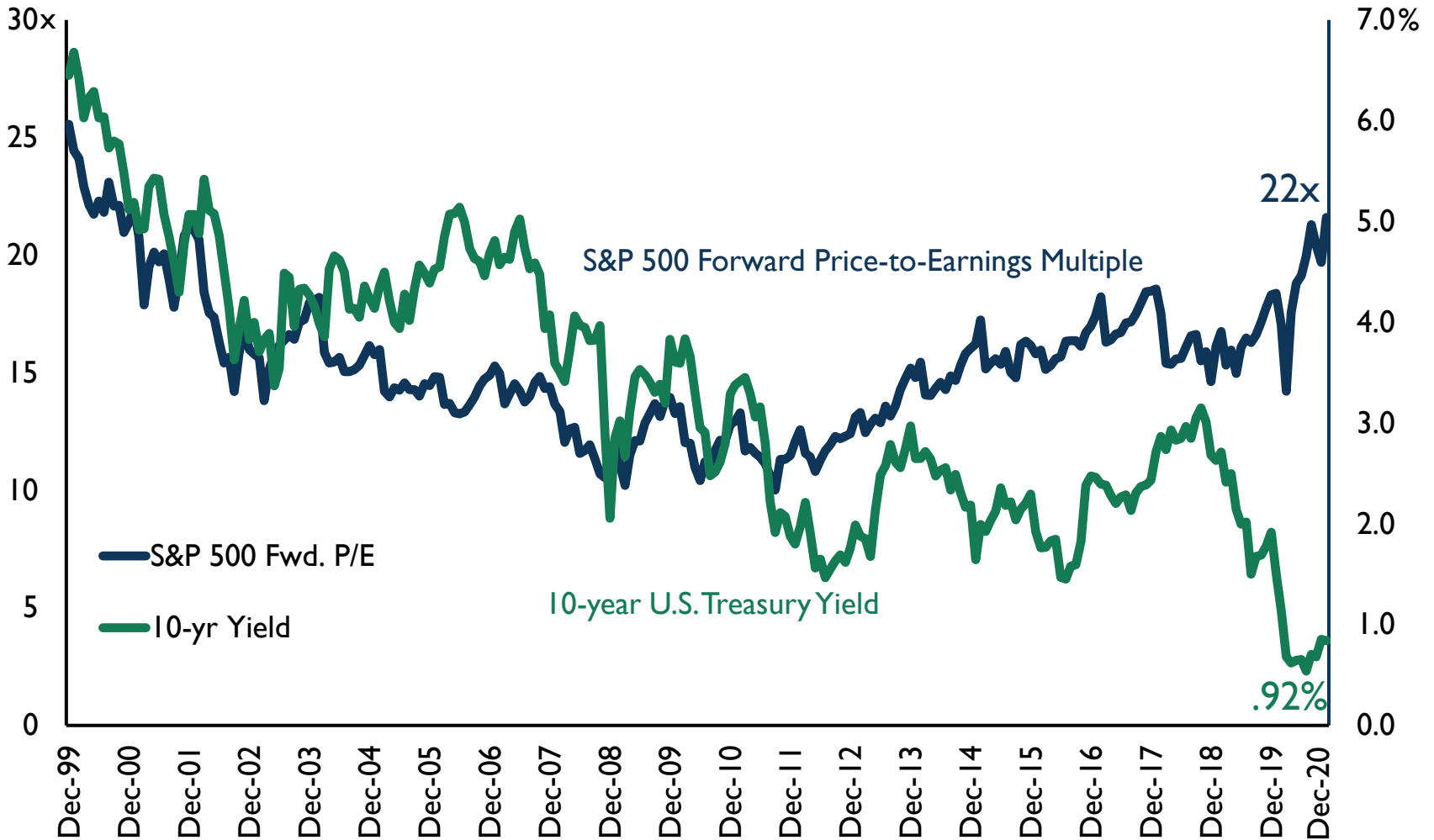
Source: FactSet

Cyclical Outperformance Has Room to Run



Source: FactSet

Valuation Is Elevated in the Absolute, but Not When Compared to Rates



Source: FactSet



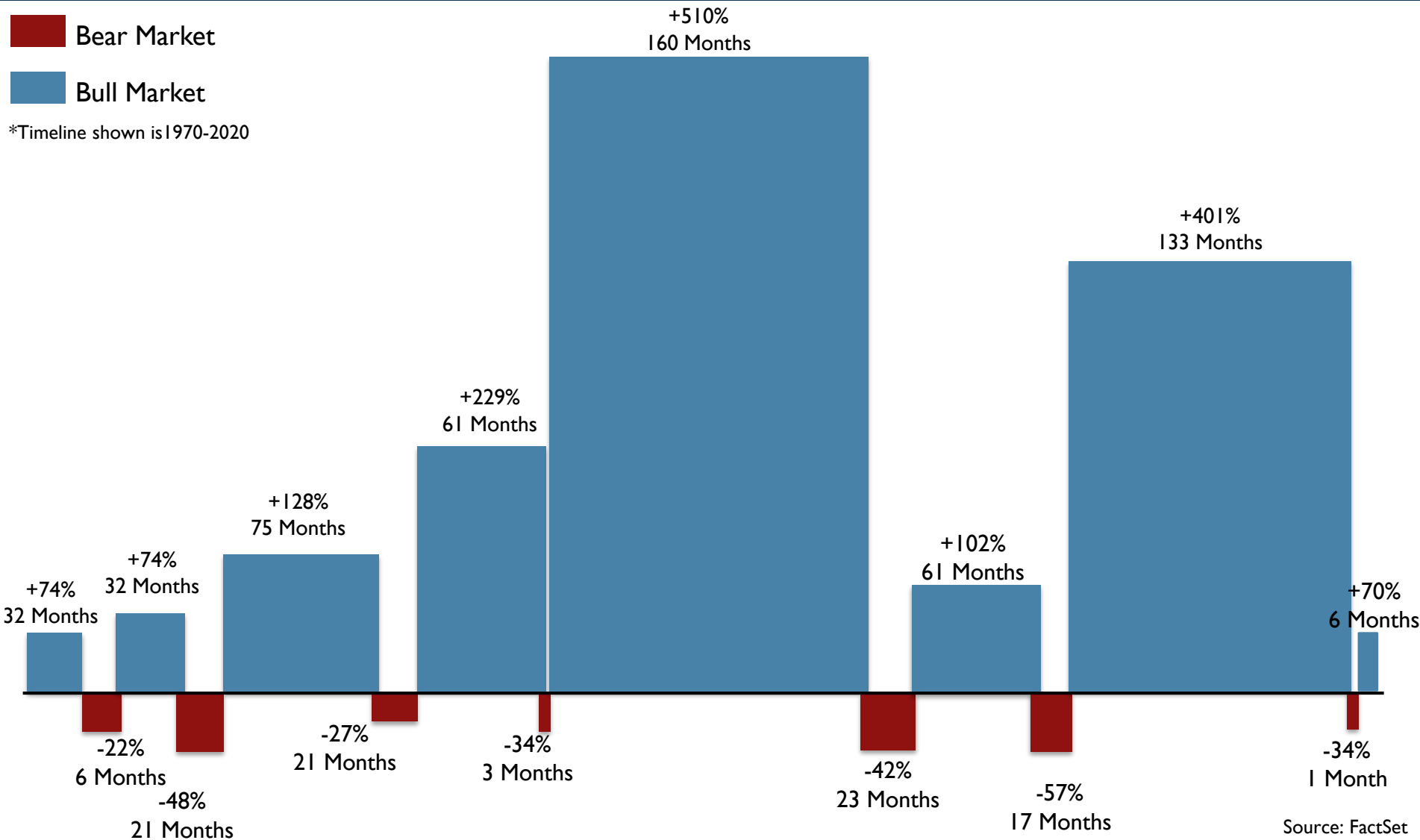
New Economic Cycle, New Leadership

Bull Markets Are Long, Bear Markets Are Brief

 Bear Market

 Bull Market

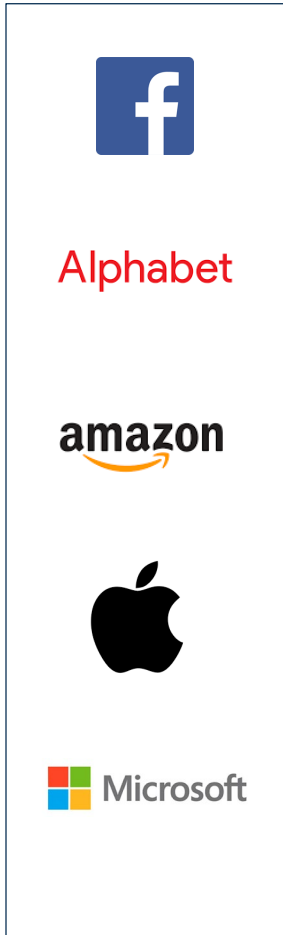
*Timeline shown is 1970-2020



Source: FactSet

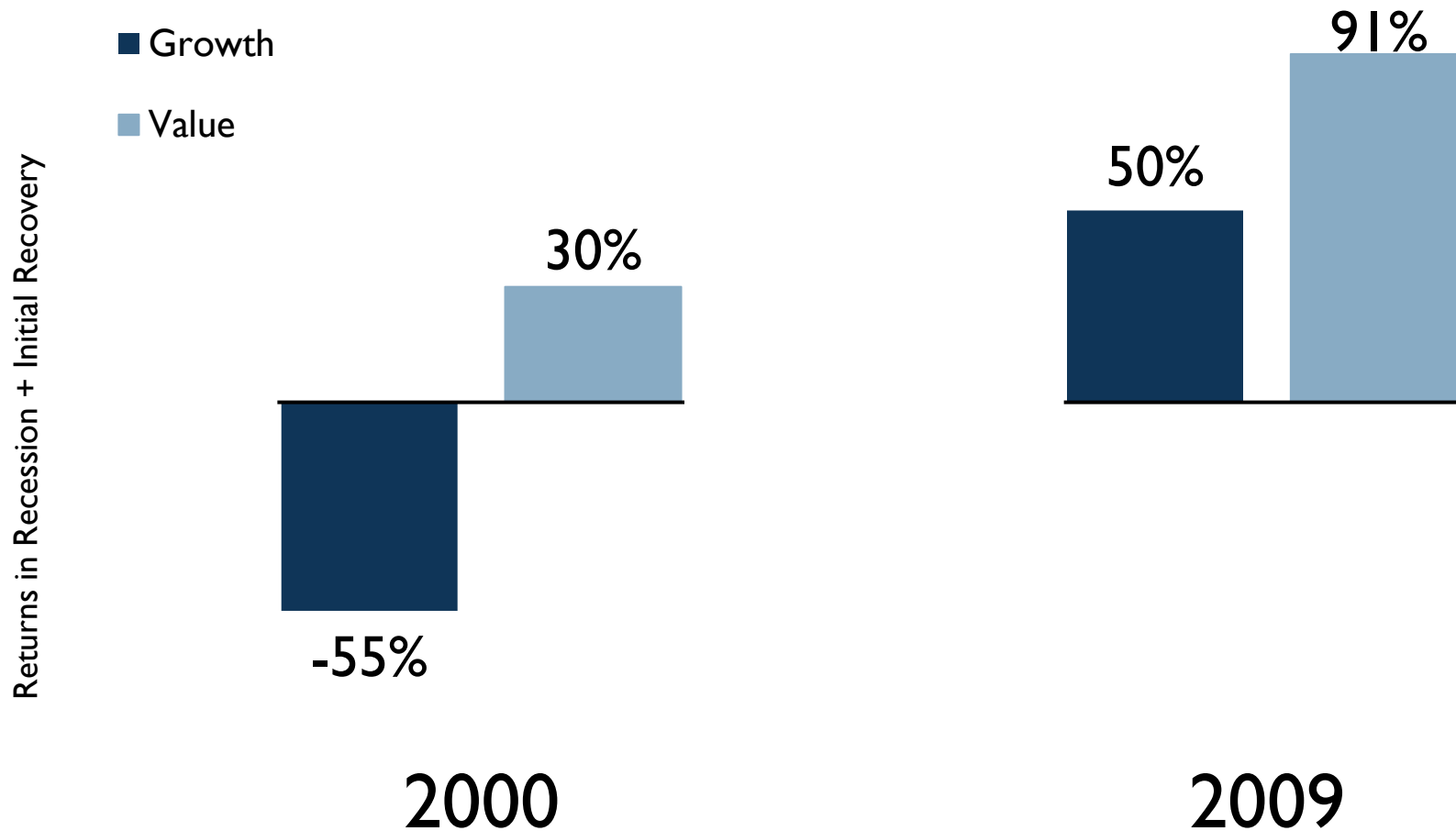
Trees Don't Grow to the Sky

S&P 500 Weight of Five Largest Market Cap Companies



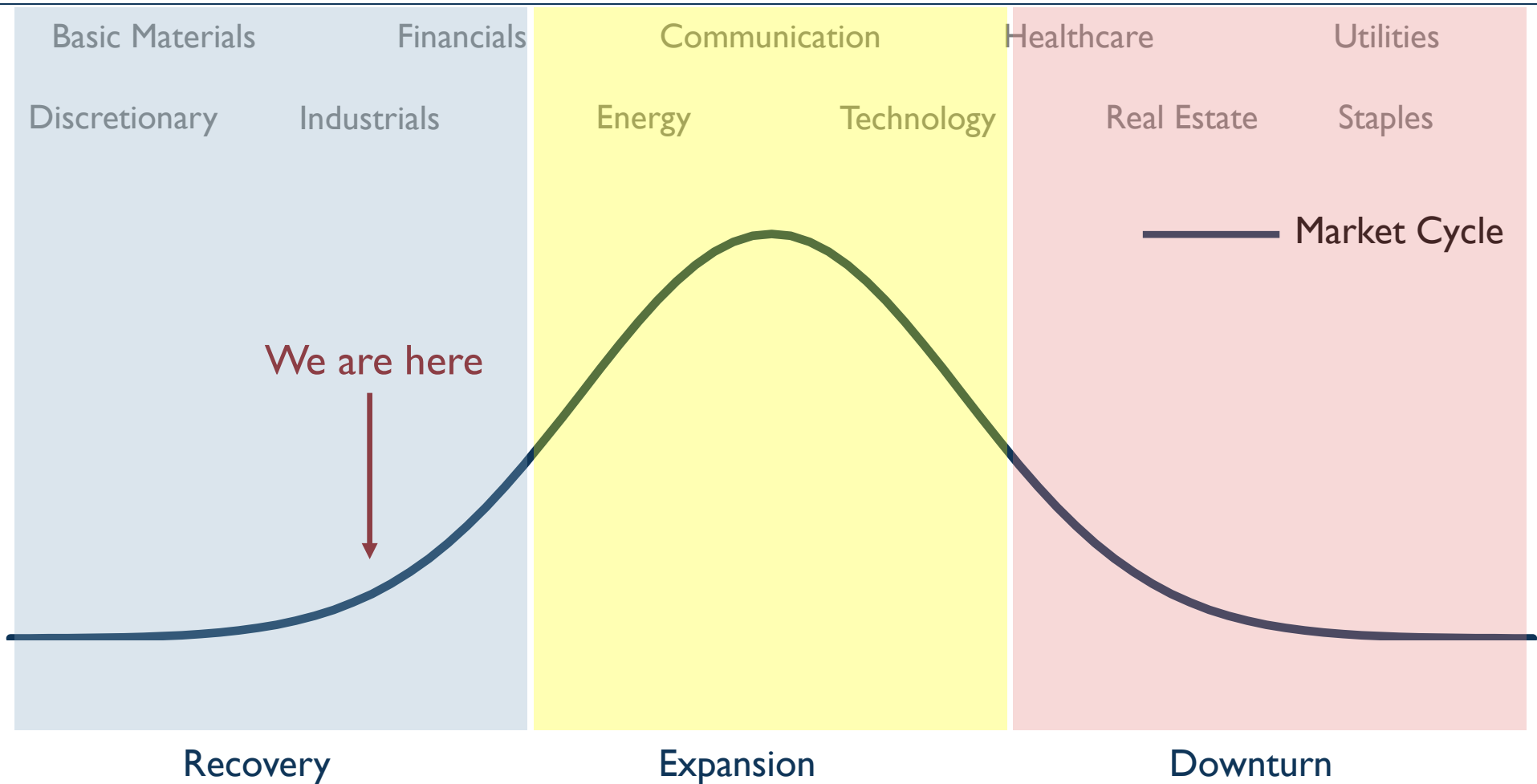
Source: FactSet

Value Outperforms as the Cycle Turns



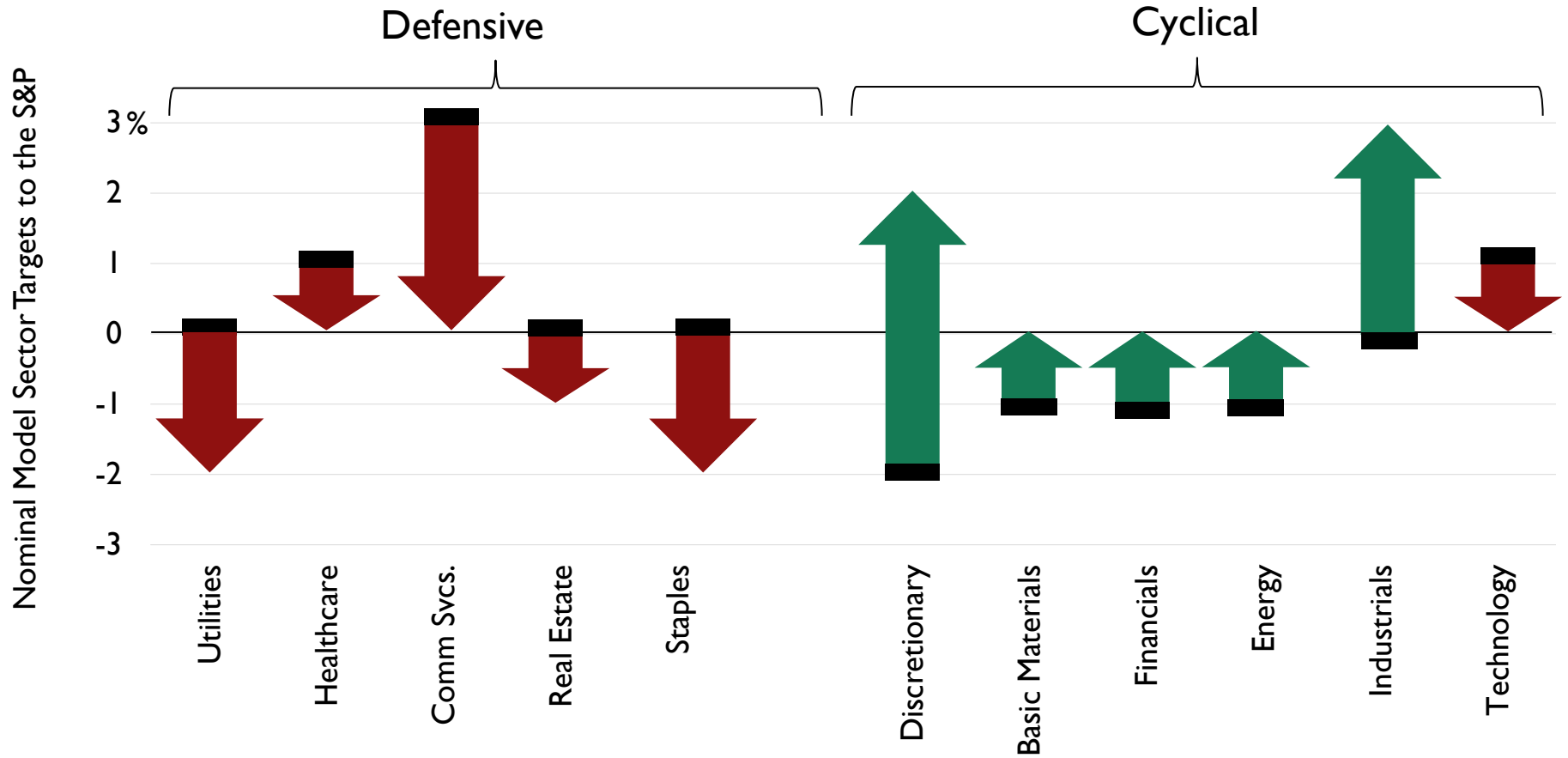
Source: FactSet

Cyclicals Lead Early in the Recovery



Source: Ferguson Wellman

Positioning Portfolios for Cyclical Rebound



Source: Ferguson Wellman

Pandemic Themes ... Not Necessarily New Portfolio Themes

Temporary Losers:

- Leisure Travel
- Theme Parks
- Restaurants
- High-Cost Cities

Accelerated Themes:

- Housing
- eCommerce
- Work-from-Home

Source: Ferguson Wellman



Millennial Housing Boom Already in the Works

Percentage of Recent Generations Living with Parents

7%

Boomers living with parents in 1981

9%

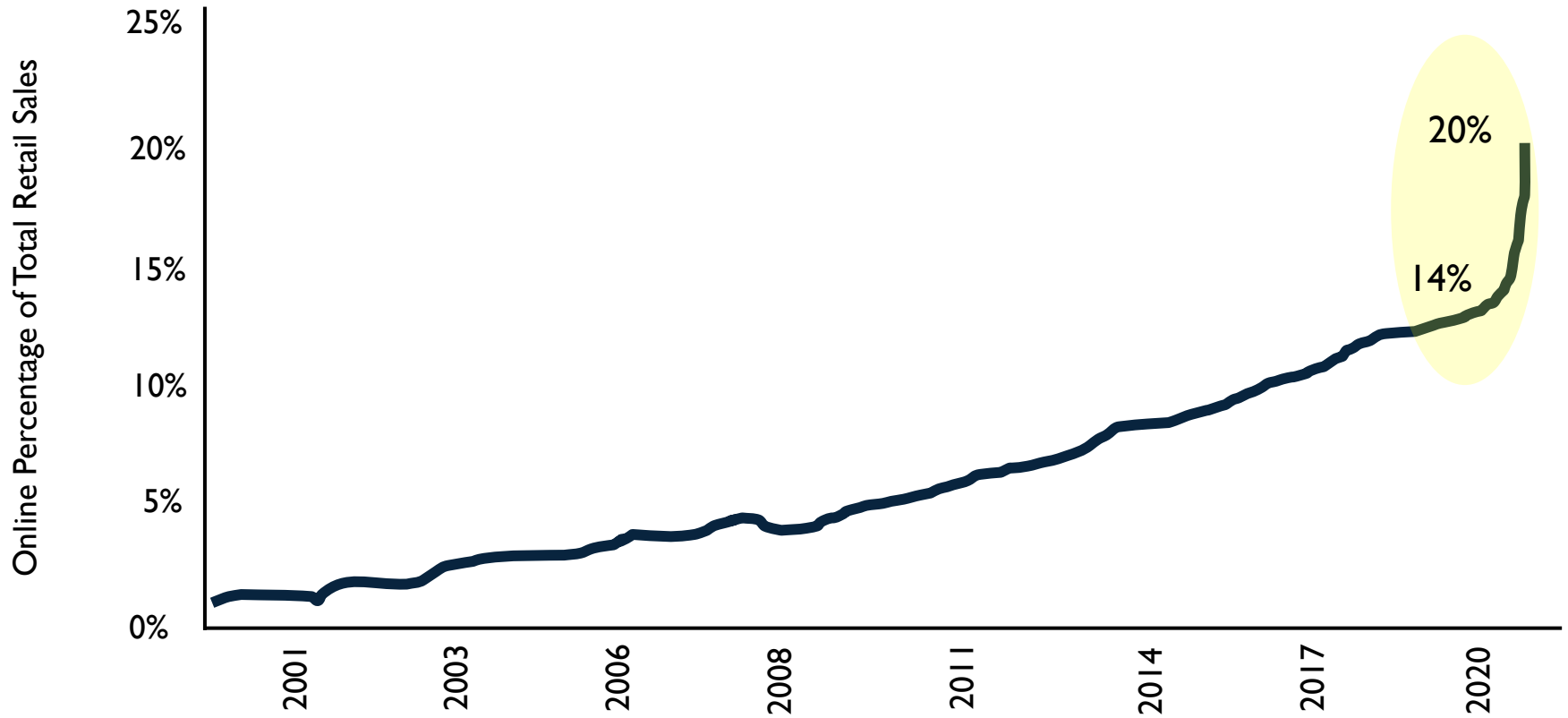
Gen X living with parents in 2000

17%

Millennials living with parents in 2019

Source: FactSet

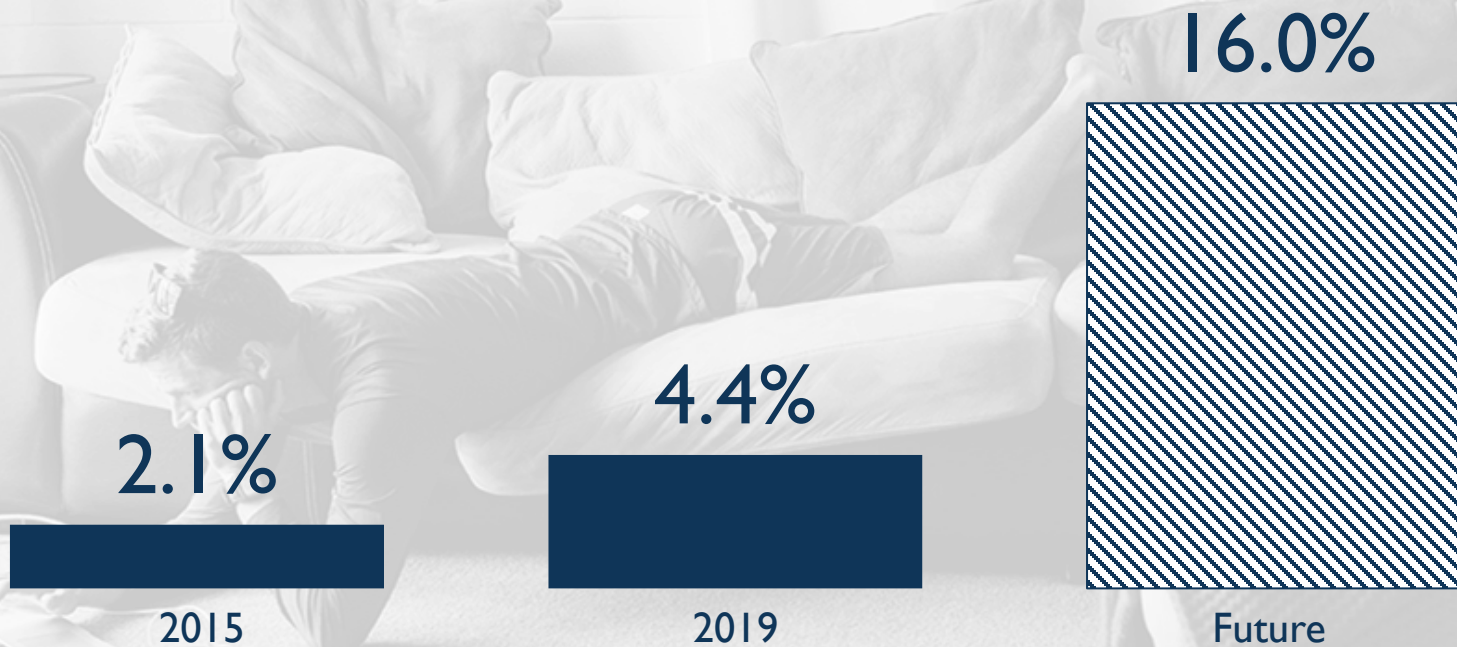
eCommerce; Nothing New but Faster Pace




Source: FactSet

“WFH” Adoption Occurring Much Faster

Work from Home Employees as a Share of the Labor Force



Source: FactSet

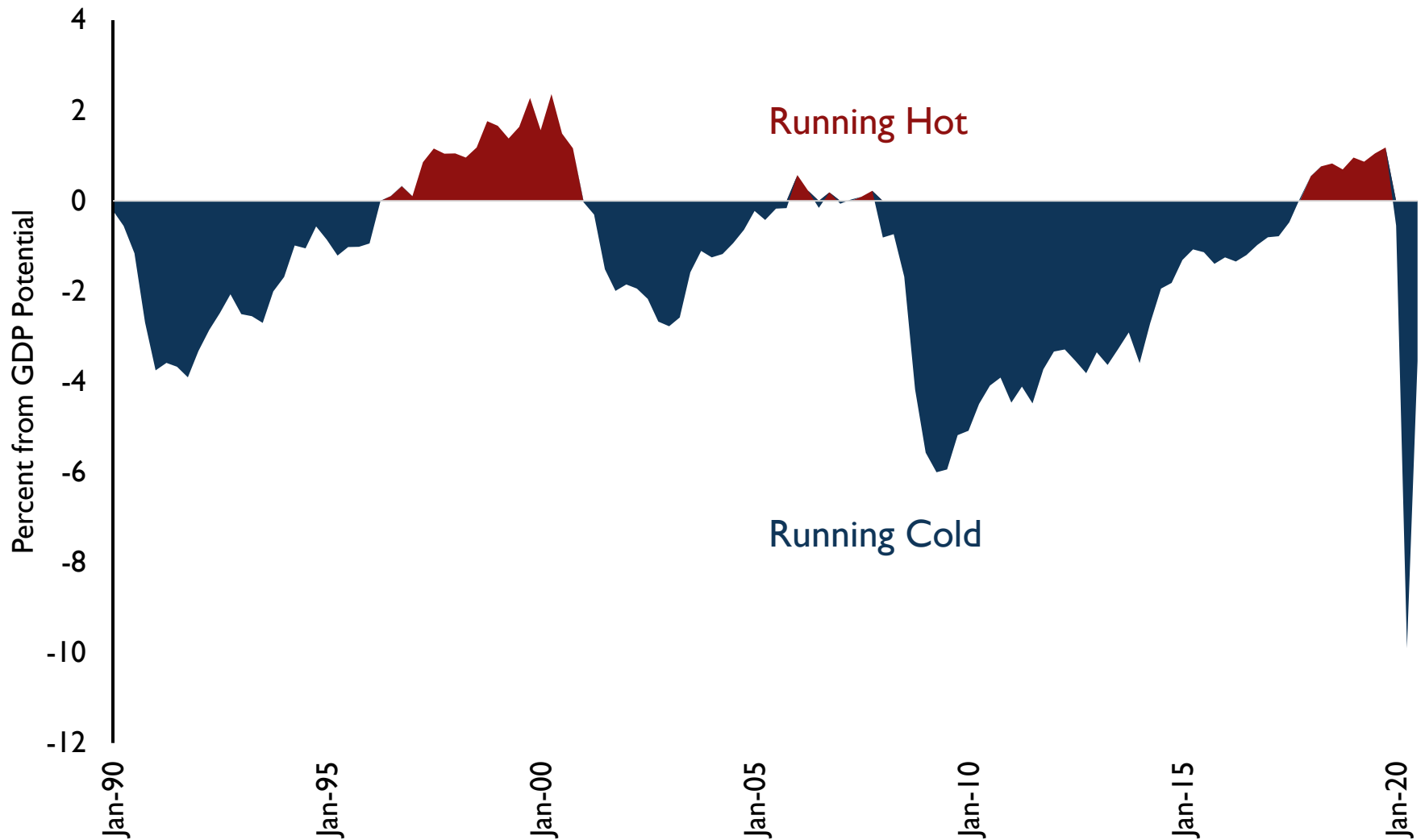


Governments Have their Feet on the Gas



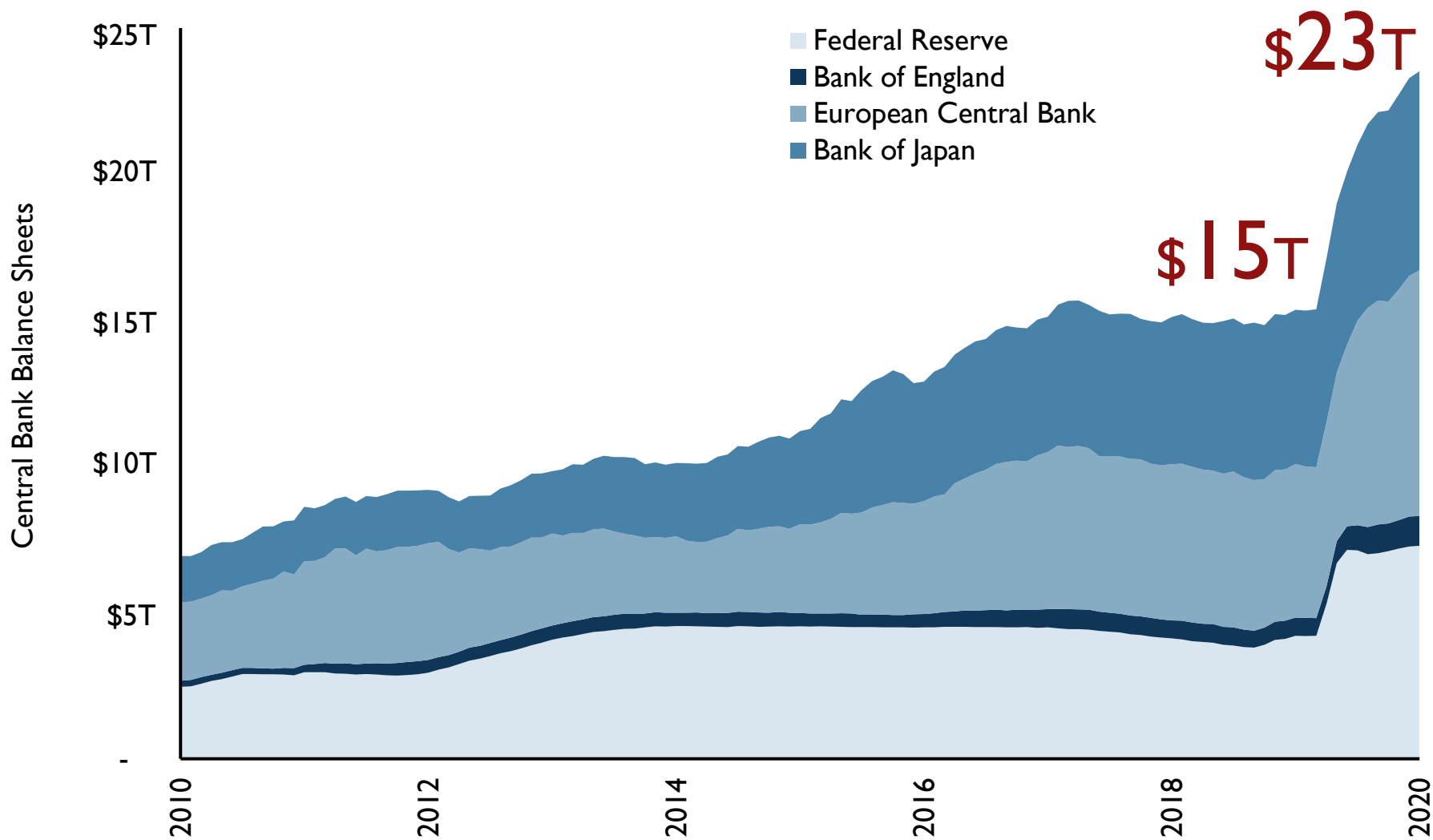
Plenty of Room for Stimulus

Economic Slack Persists



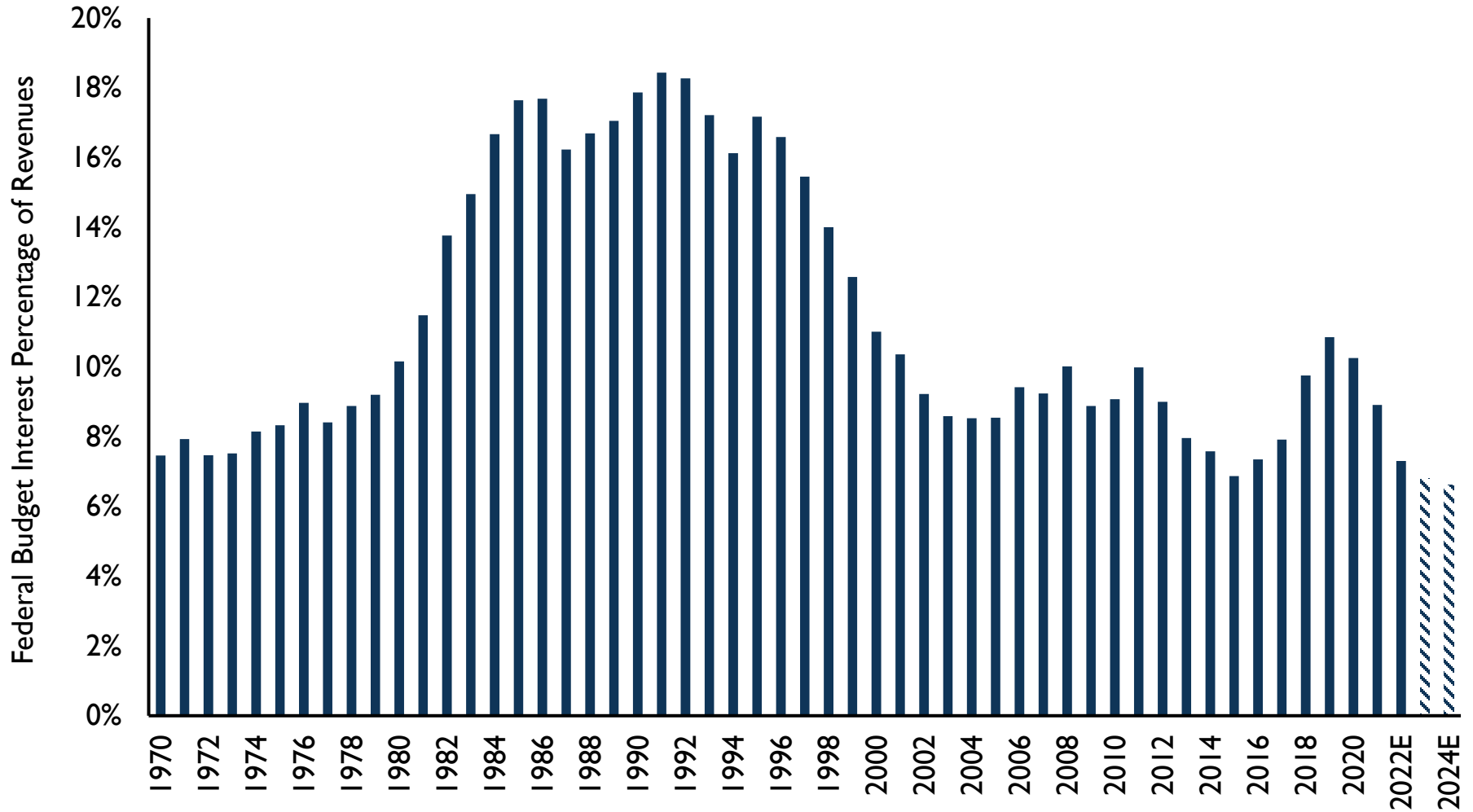
Source: Bloomberg

Central Banks Boosting Asset Prices ... and Keeping Rates Low



Source: Bloomberg, Federal Reserve

Debt Levels Are High, but Not the Cost to Service

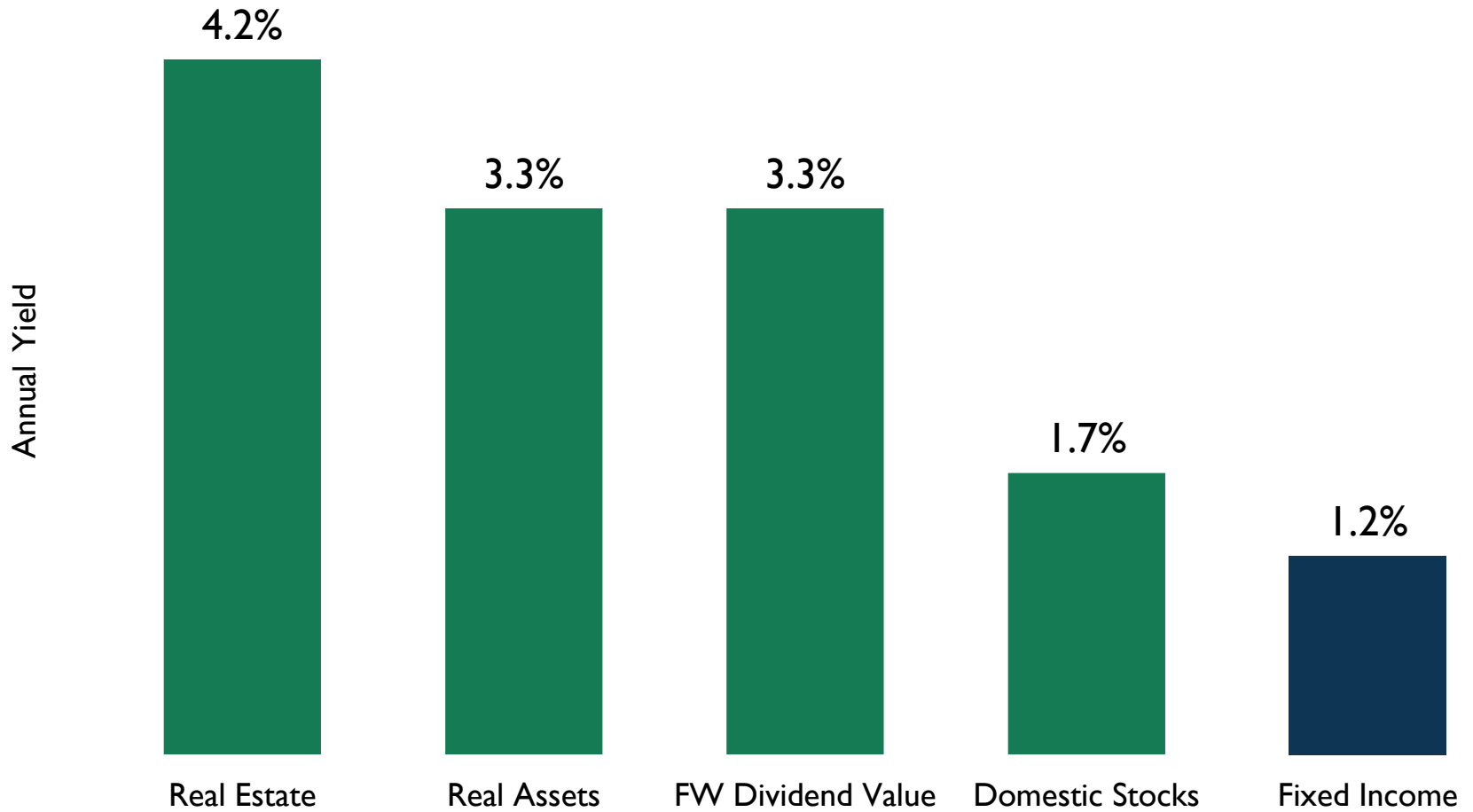


Source: Bloomberg

The background image is a faded, low-angle shot of a grand, classical-style building. The building features a prominent portico with several tall, white columns. In the center of the portico is a large clock tower with a circular clock face. To the right, a flagpole with a flag is visible. In the foreground, the back of a person's head and shoulders is visible, wearing a blue jacket and a red hooded garment. The overall image has a soft, desaturated appearance.

Delivering Income in a Low-Interest Rate World

Bonds Still Provide “Insurance” ... but Very Little Income



Source: Ferguson Wellman

Not Your Parents' 60/40

Yield of a Traditional 60 Percent Equity, 40 Percent Bond Portfolio

3.0%

2005

2.3%

2015

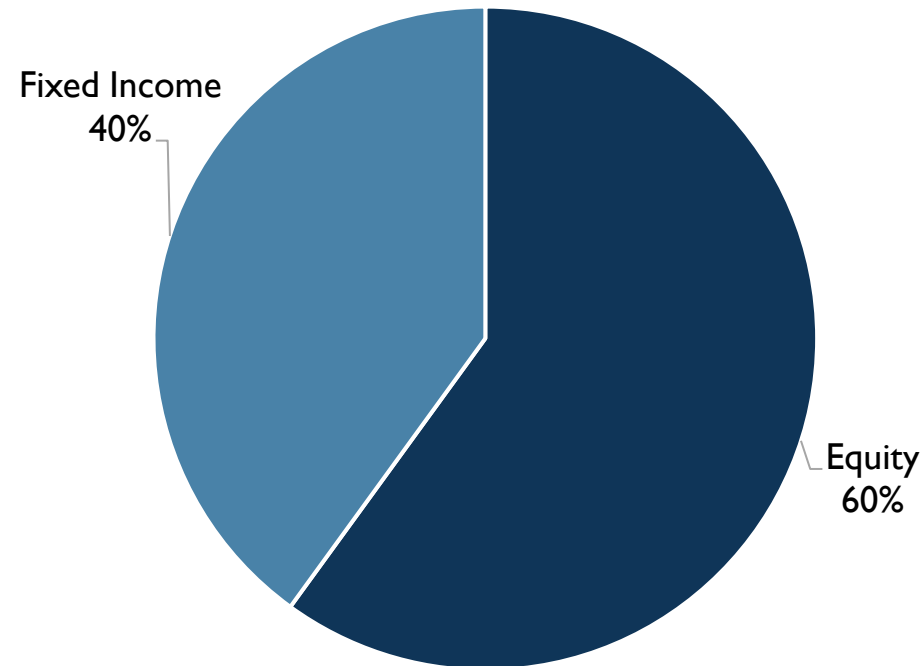
1.5%

2020

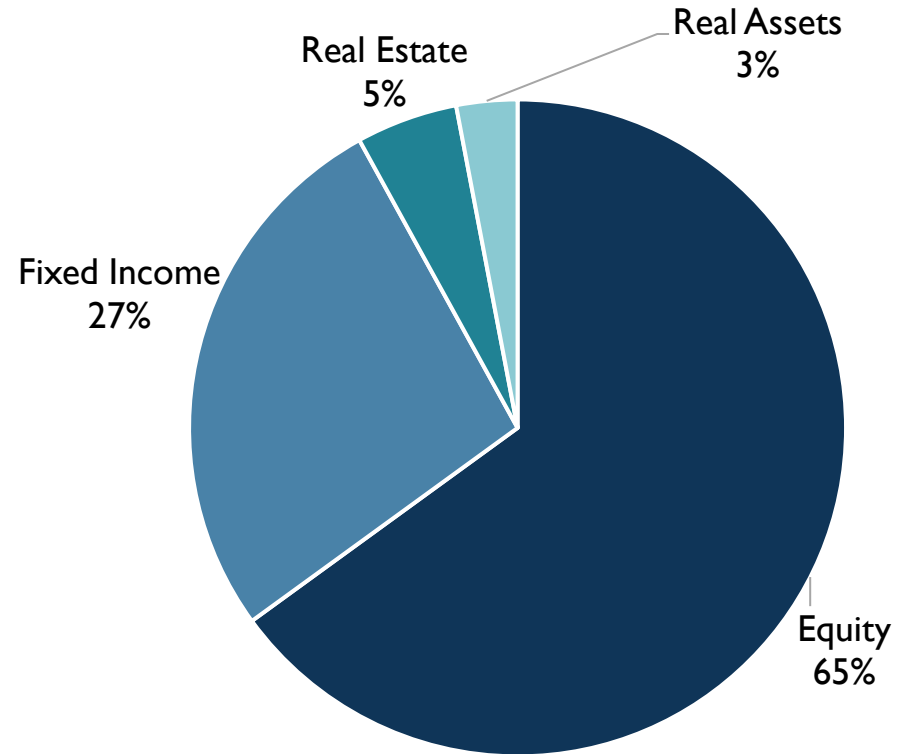
Source: FactSet

Adjusting Allocation for a Low-Yield World

Traditional 60/40



FWCM Balanced



Source: Ferguson Wellman

Enhancing Returns and Income ... with Little Added Risk

	Return	Risk	Income
Traditional 60/40	5.6%	10.8%	1.5%
FWCM Balanced	6.2%	12.6%	2.0%

Source: Ferguson Wellman

Asset Allocation

Underweight Neutral Overweight

Equities:

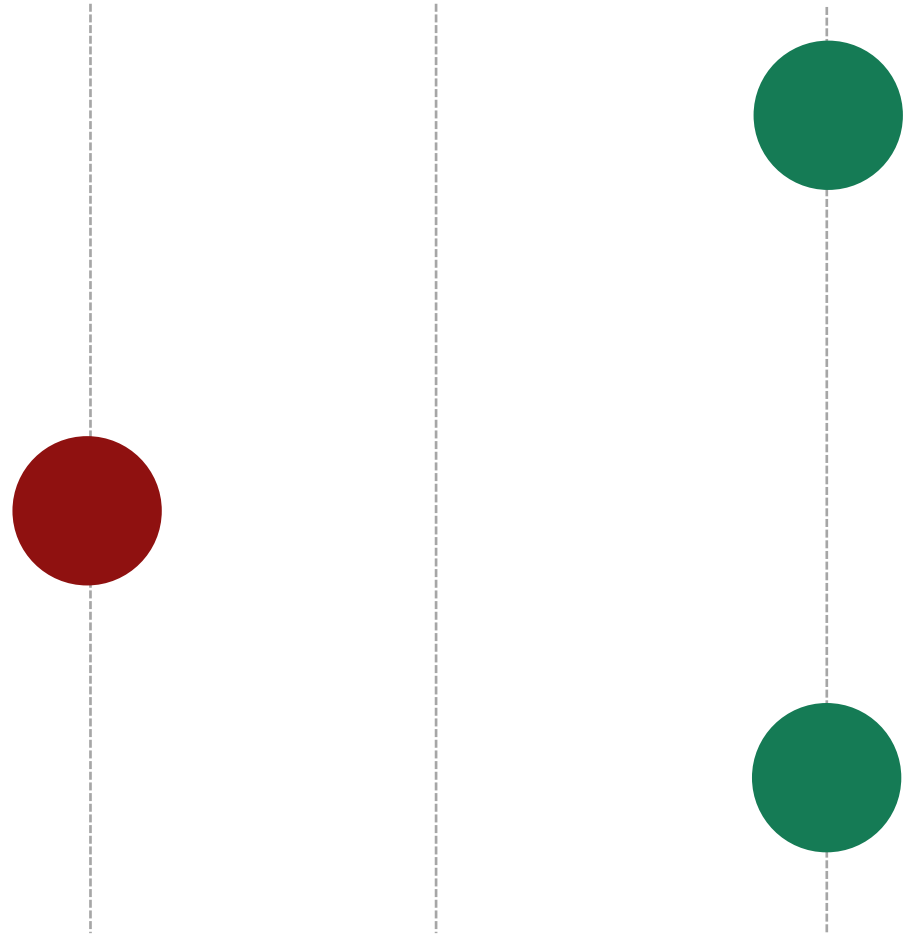
- U.S. Large Cap
- Small Cap
- **Developed Markets**
- Emerging Markets

Bonds:

- **Treasuries**
- Corporates

Alternatives:

- Real Estate
- **Real Assets**



Source: Ferguson Wellman



Questions?