



Wealth Management
COLUMBIA BANK



ColumbiaTrust
COMPANY

Economic & Capital Markets Overview

Estate Planning Council of Southwest Washington

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Today's Agenda

Economy

Consumer Fundamentals

Labor Markets

Inflation & The Fed

CFO Survey

Capital Markets

2022: A Year of Transition & Focus on the Fed

2022 is likely to be a year of transition as the market's focus shifts to economic growth, inflation, and the response of central banks.

2020

The Year of the Virus

2021

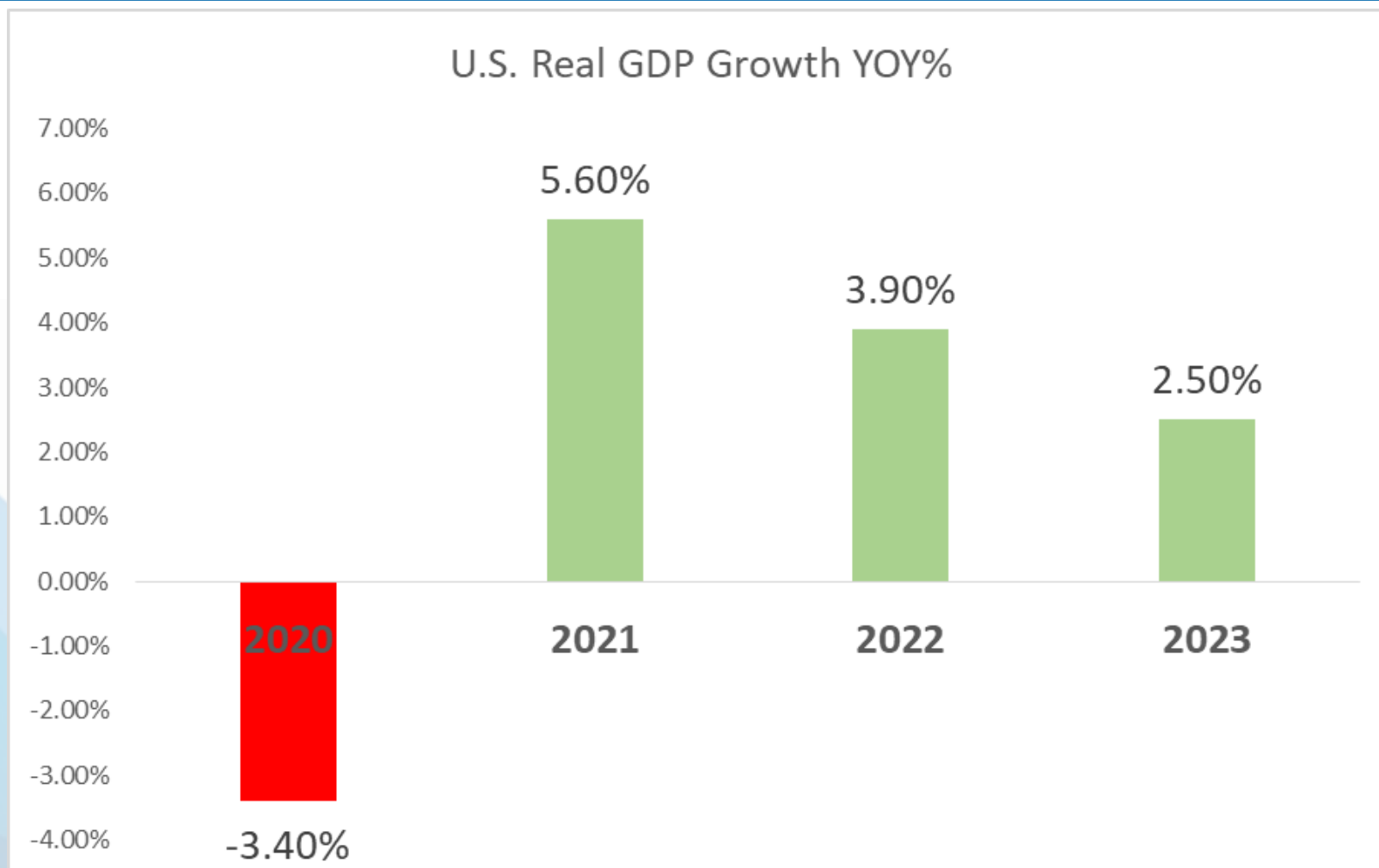
The Year of Inflation

2022

The Year of the Fed

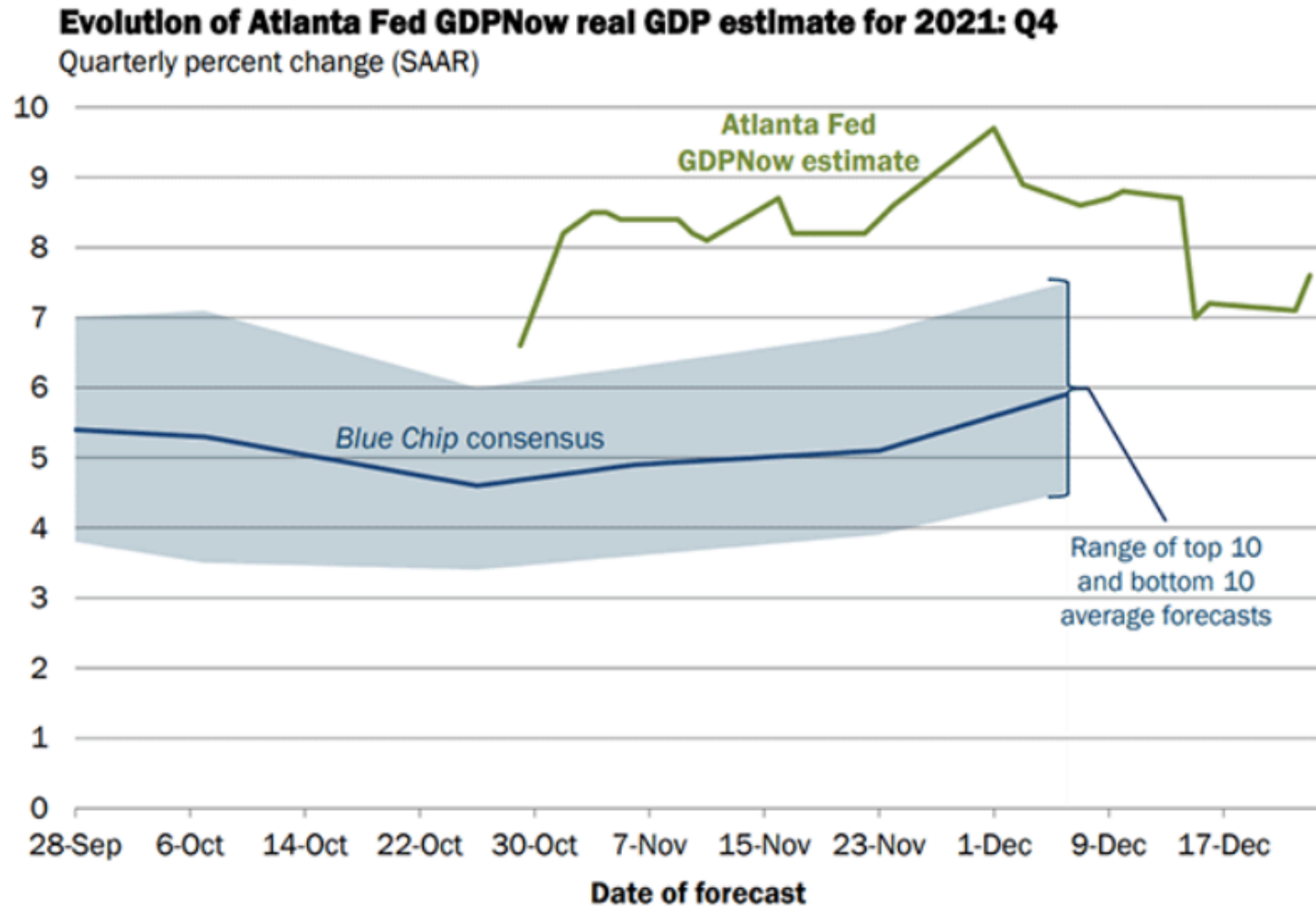
Source: Global X

Economic Growth: Strong but Moderating



Bloomberg consensus analyst forecast for GDP growth shows strong, but moderating economic growth.

Economic Growth: 4th Quarter appears very strong



The Atlanta Fed projecting economic growth of 6.7% based on strong consumption activities having rebounded measurably since Q3.

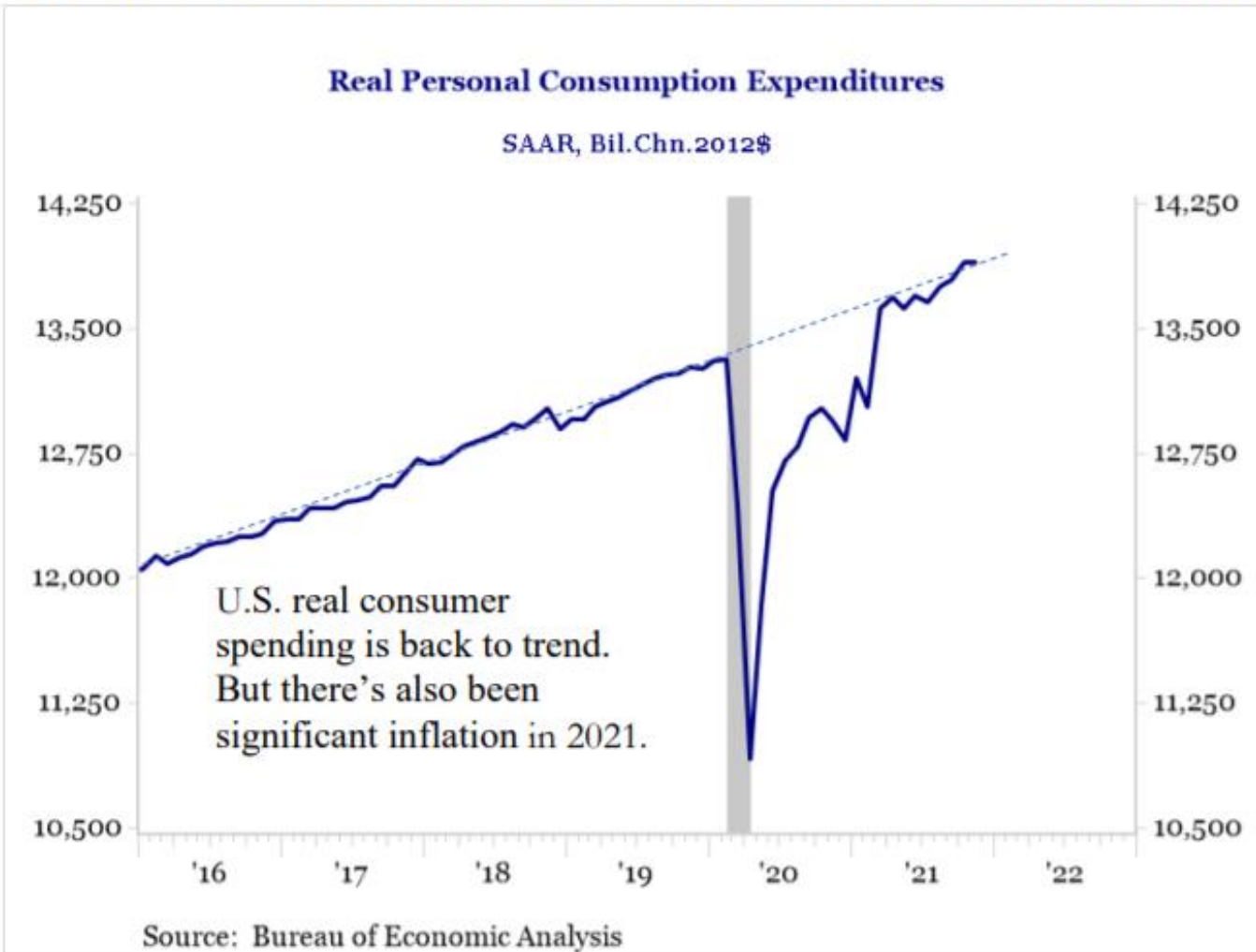
Economic Overview: Consensus Forecast

Bloomberg Consensus Analyst Forecast	2021	Current	2022	2023
Real GDP YOY%	5.6	4.9	3.9	2.5
GDPNow Forecast		6.7	6.7	
CPI YOY%	4.7	6.8	4.4	2.3
PCE YOY%	3.8	4.7	3.5	2.2
Consumer Spending	8.0	7.1	3.7	2.5
Industrial Production	5.6	5.3	4.1	2.5
Unemployment	5.4	4.2	3.9	3.5
Central Bank Rate Target	0.3	0.3	0.8	-
US 10 year Bond Yield	1.6	1.8	2.0	-
Euro EUR/USD Forecast	1.14	1.1	1.15	1.16

Source: Bloomberg, Columbia Trust

Consumer Spending

U.S. REAL CONSUMER SPENDING HAS RECOVERED




Consumer Fundamentals - Liquidity

- A significant amount of stimulus was injected into consumer wallets over the last two years.
- The U.S. government has sent \$804 billion to low and middle income individuals and families in three rounds of stimulus checks.
- 1st round \$1,200 per person = \$388B
- 2nd round \$600 per person = \$142B
- 3rd round \$1,400 per person = \$274B
- In addition, a total of \$567 billion in unemployment benefits have been paid out through three federal programs that enhanced eligibility and increased duration of payments.
- Many consumers have reduced debt and are in better financial shape than pre-pandemic.

Consumer Fundamentals - Liquidity

Disposable income above pre-pandemic levels

FRED  — Real Disposable Personal Income: Per Capita



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

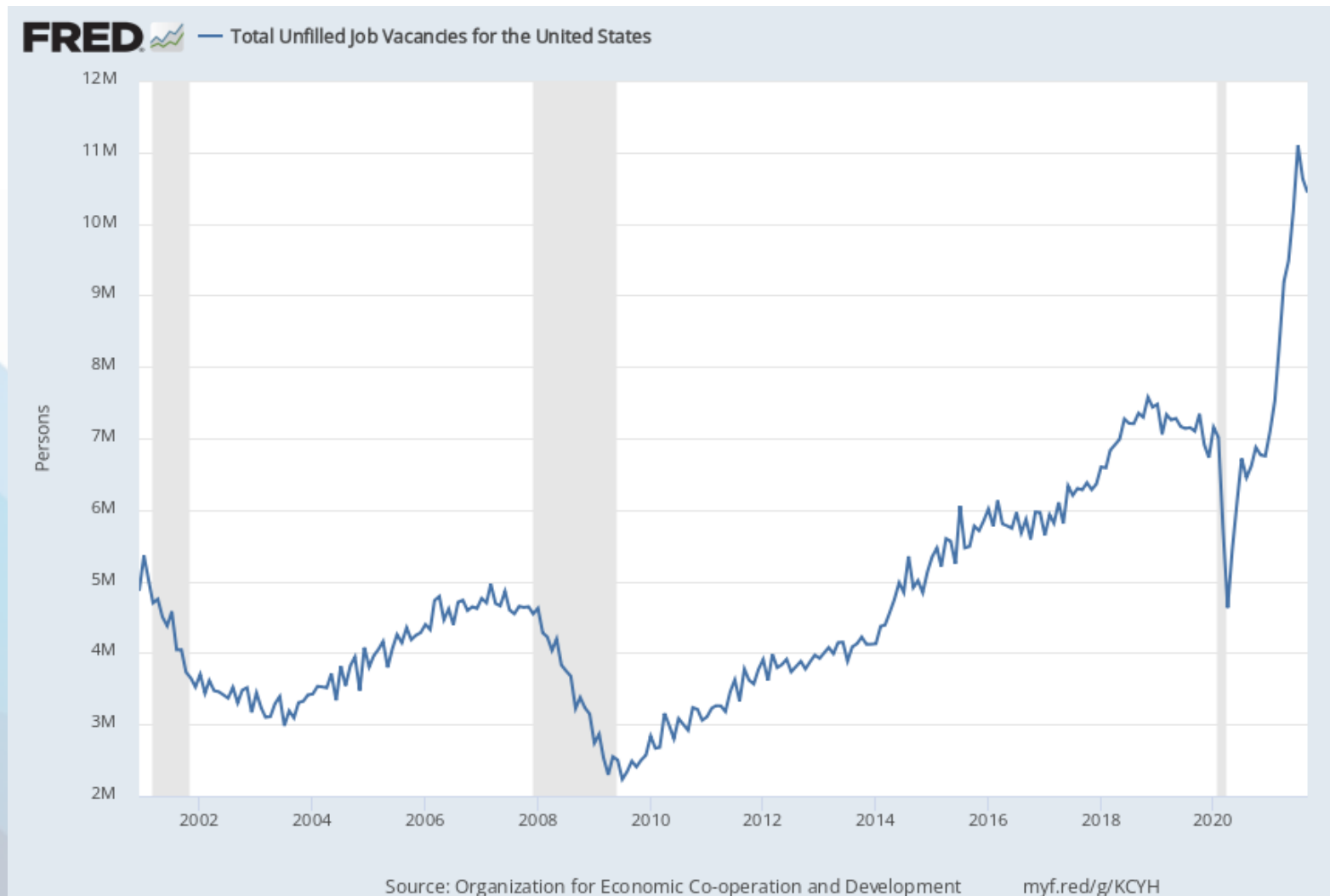
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Tight Labor Markets

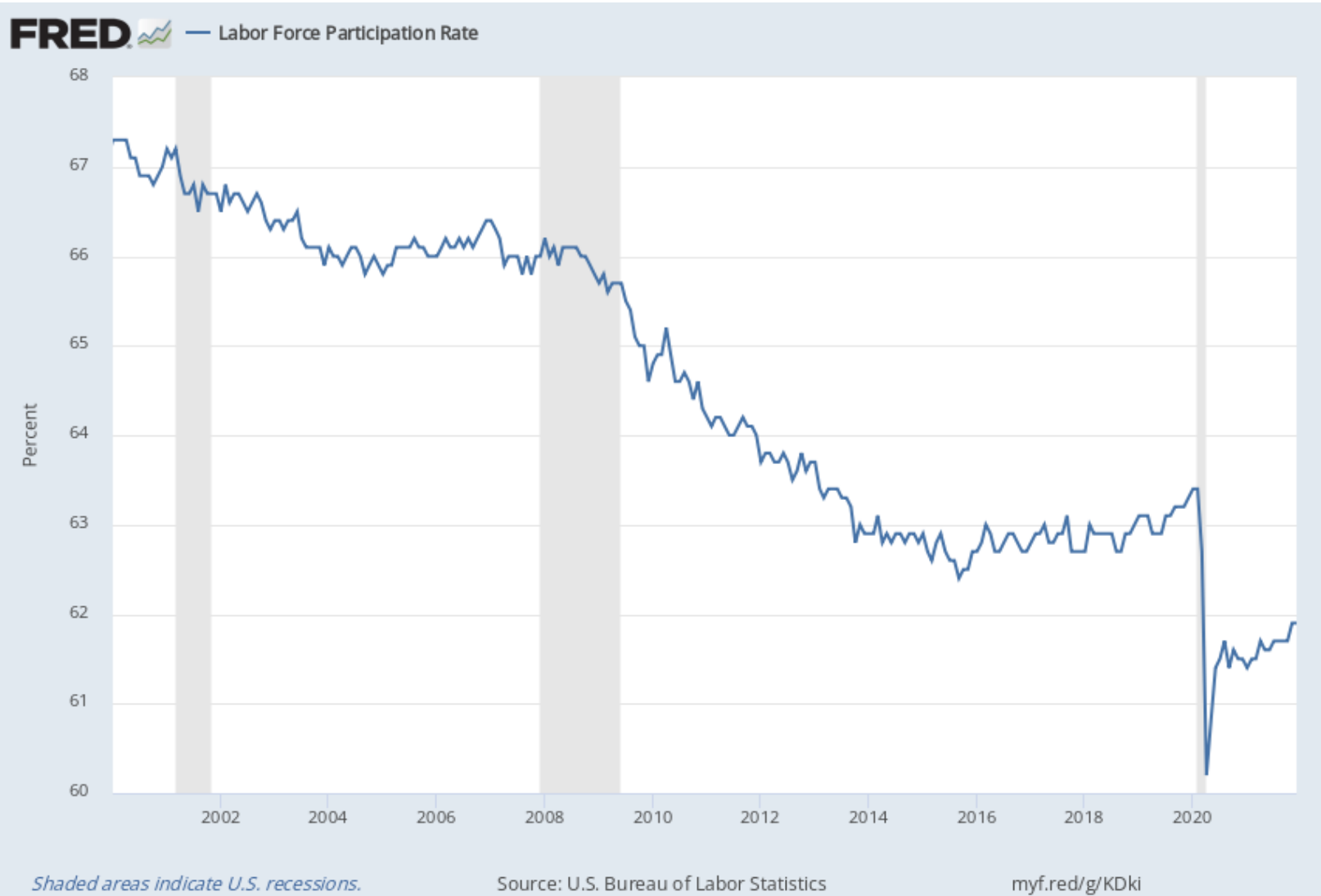
- In the Federal Reserve’s “Beige Book Survey,” employment growth was characterized as either modest or strong.
- Leisure & hospitality and manufacturing reported an uptick in employment but many were still limiting operating hours due to lack of workers.
- Robust demand for labor but persistent difficulty in hiring and retaining employees
- Childcare, retirements, and COVID safety concerns were cited as issues limiting labor supply.
- Many Districts noted concerns that the federal vaccination mandate could exacerbate existing hiring difficulties.
- All Districts reported robust wage growth. Hiring struggles and elevated turnover rates led businesses to raise wages and offer other incentives.

Historically High Job Openings

There are still over 10.4 million job openings in the U.S.



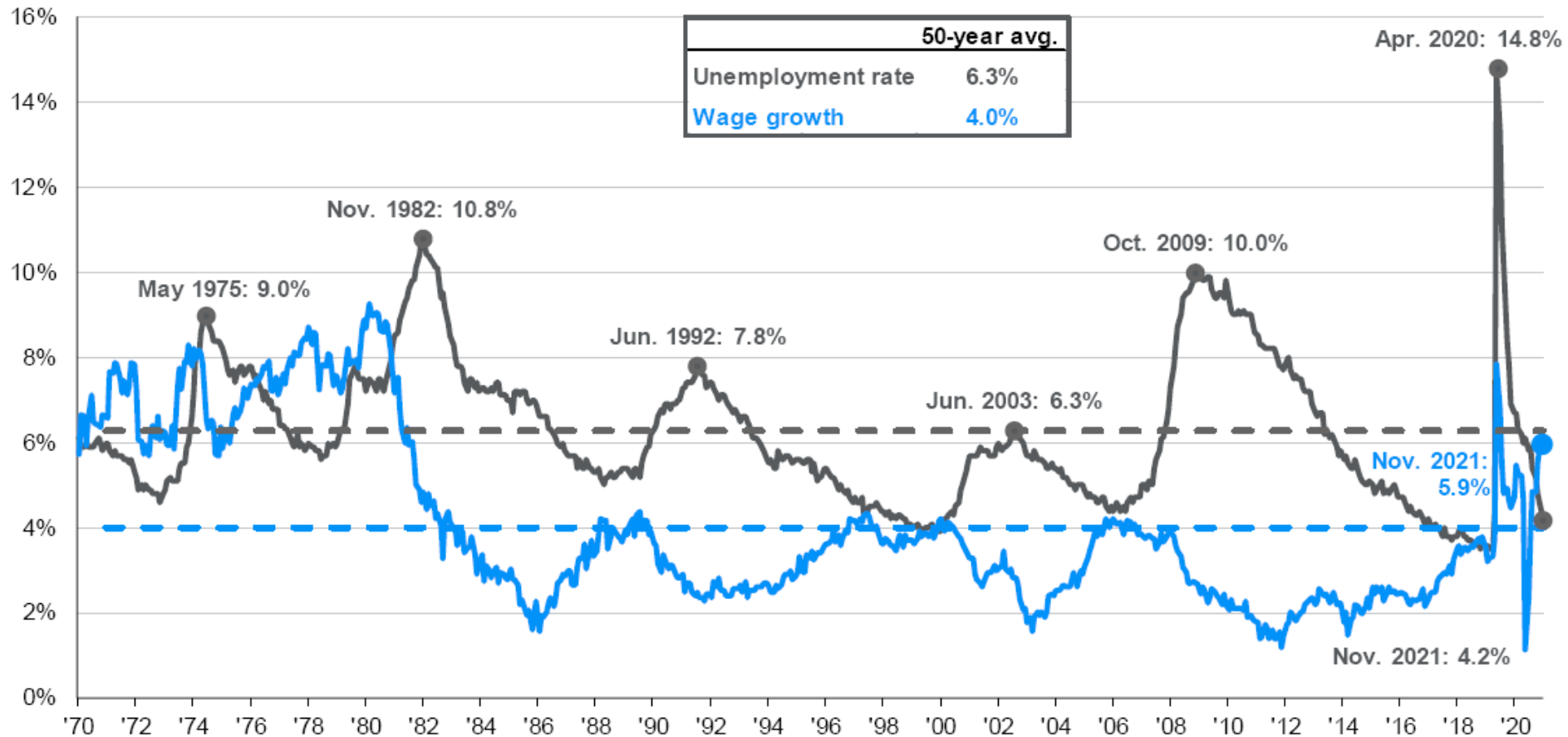
Labor Force Participation



Unemployment & Wage Growth

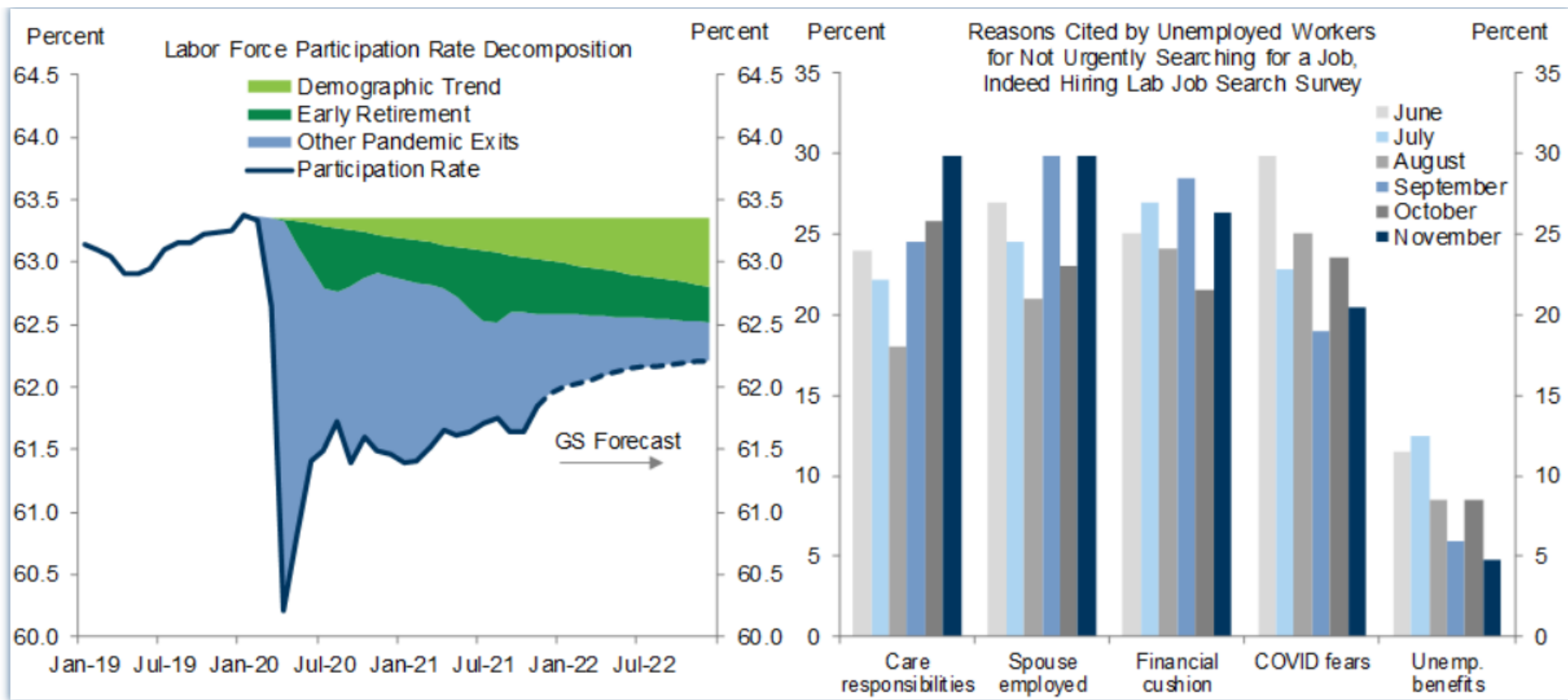
Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent



Source: J.P. Morgan

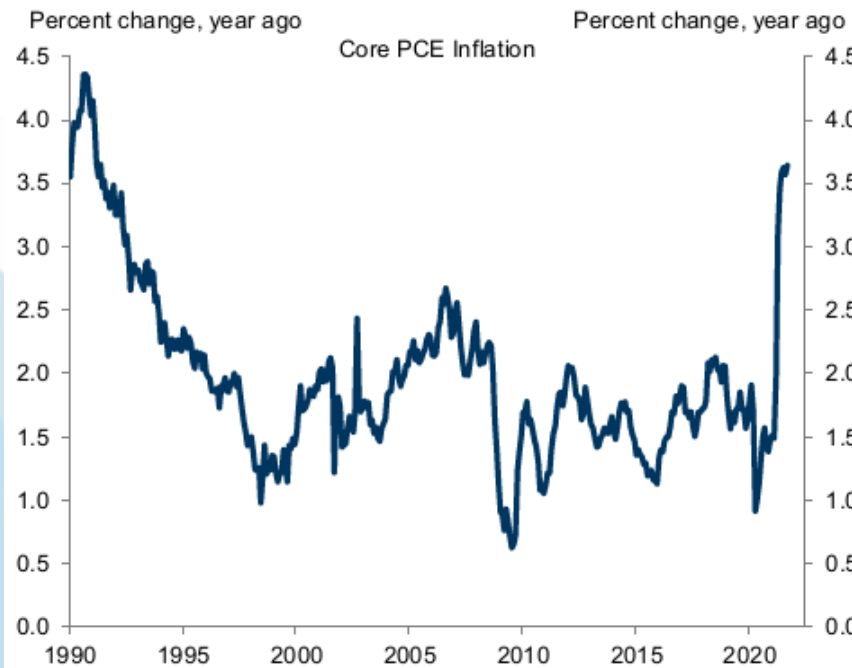
Labor Market Dynamics



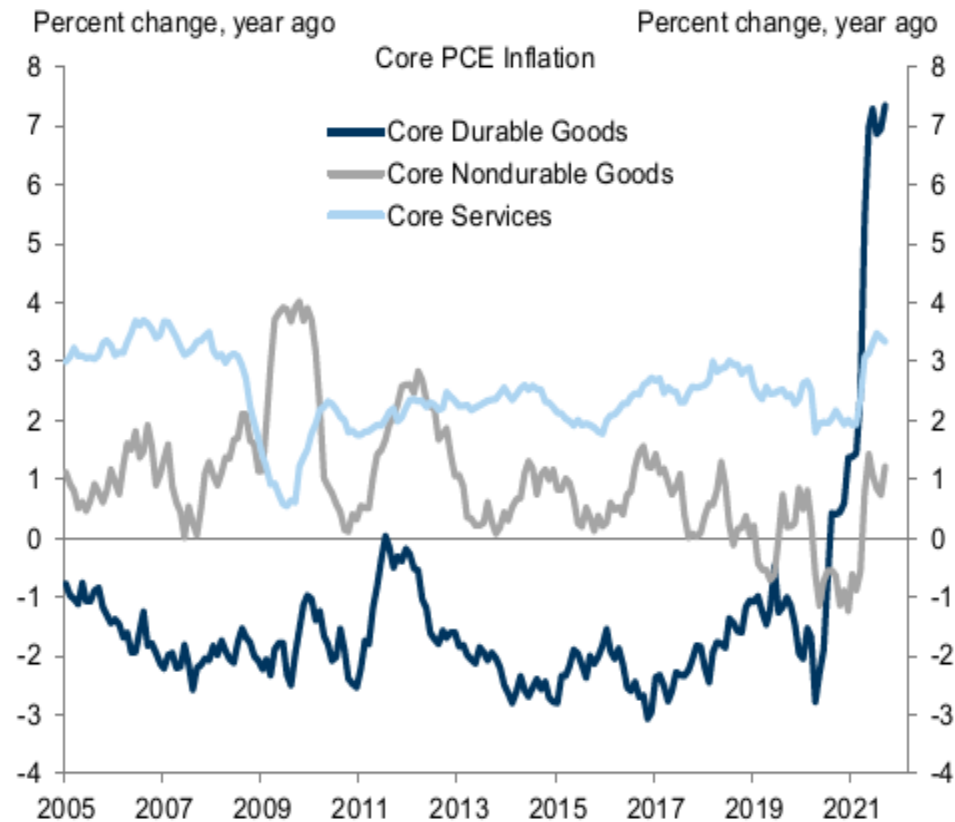
Source: Goldman Sachs

Highest Inflation Readings in 30 years

Core PCE Inflation

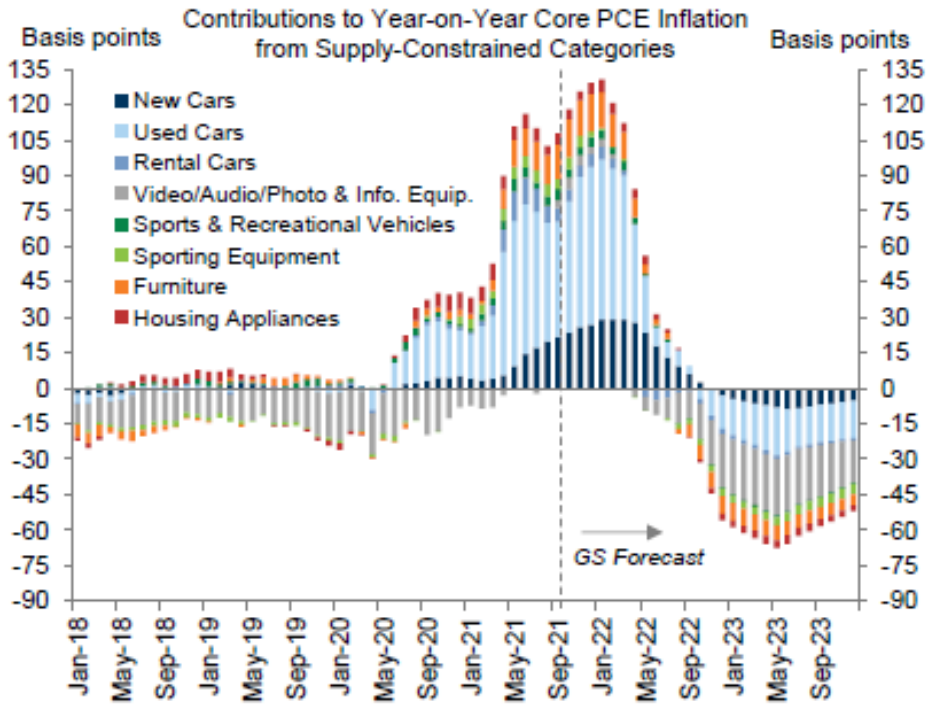


Components of Inflation



Source: Goldman Sachs

Sources of Inflation

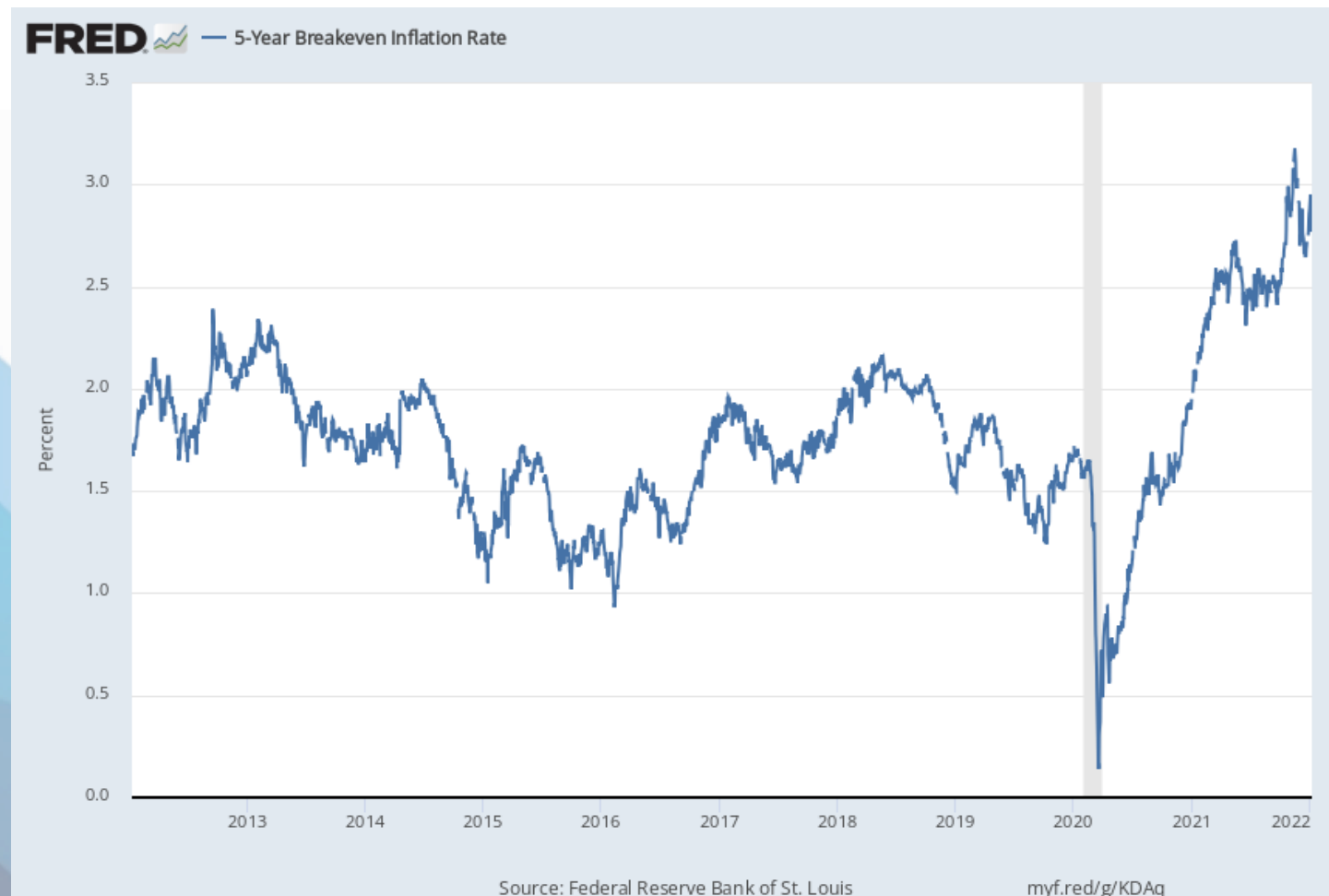


Source: Goldman Sachs

5-year Inflation Expectations

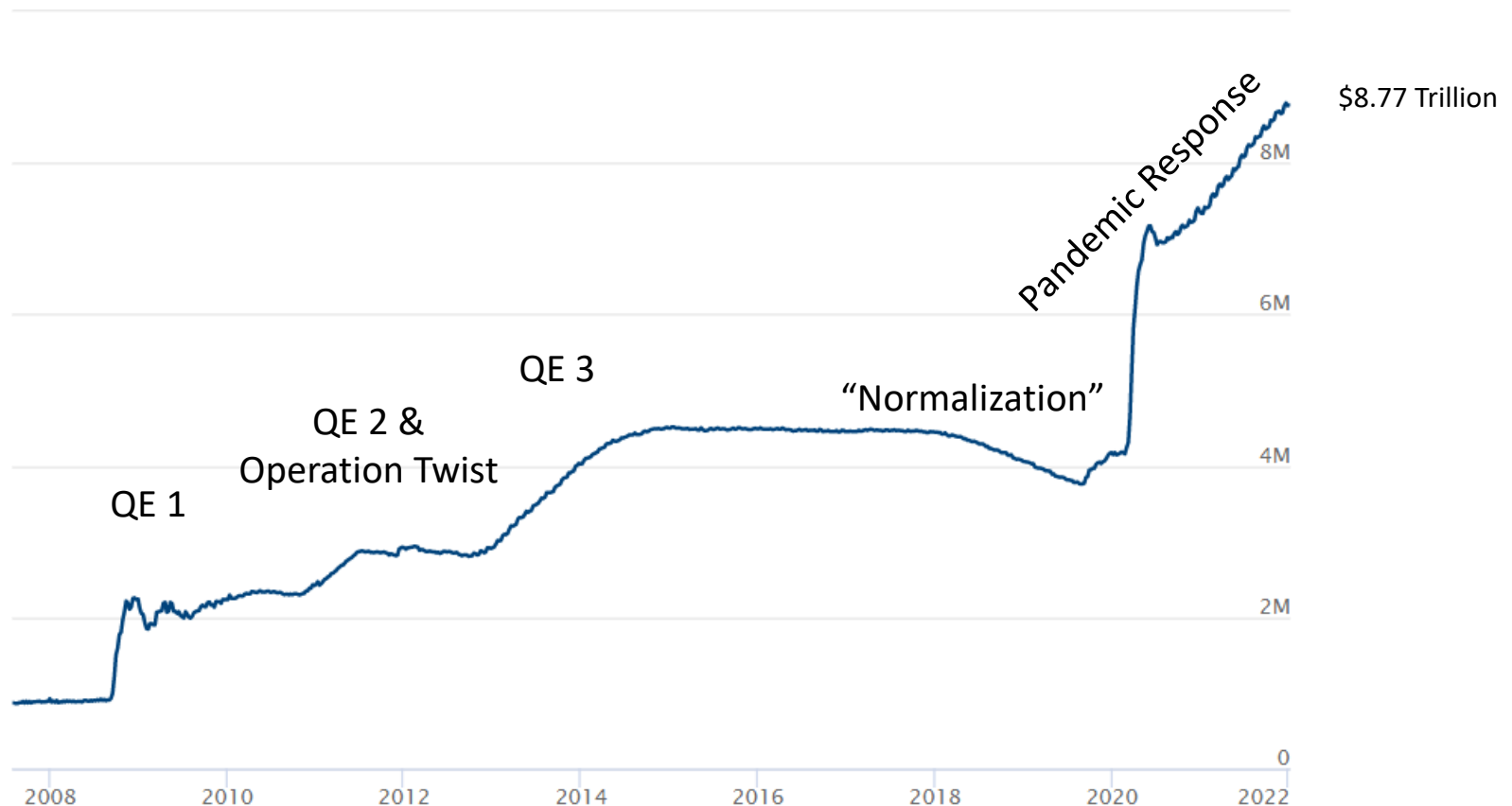
The breakeven inflation rate represents a measure of expected inflation and implies what market participants expect inflation to be in the next 5 years, on average.

Presently, the market implied 5-year inflation rate is close to 3%.



Federal Reserve Balance Sheet

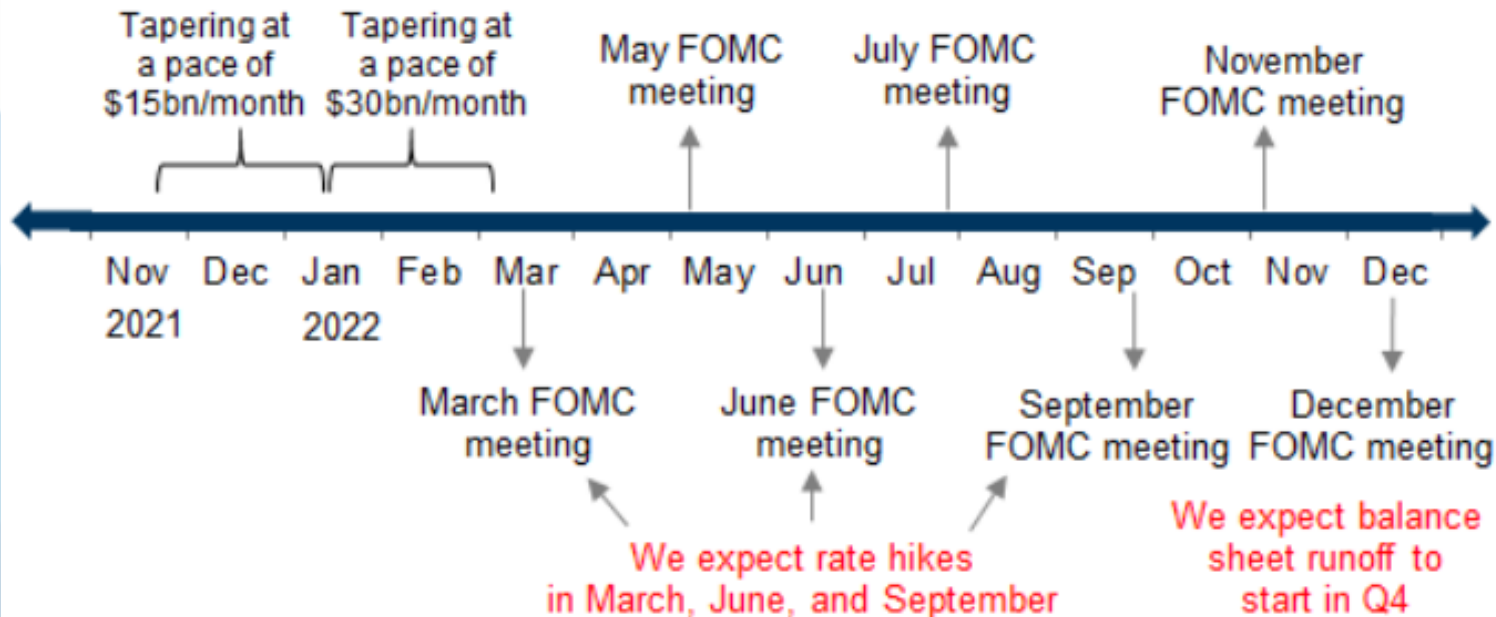
The Fed's monetary response during the pandemic was more than double all previous Quantitative Easing (QE) since the Great Financial Crisis.



Federal Reserve: A Year of Transition

Fiscal & Monetary Policy are expected to tighten this year as inflation has increased, unemployment is lower, and the economy is “healthy”.

Timeline for Tapering, Rate Hikes, and Balance Sheet Runoff, GS Forecast



Source: Goldman Sachs

Richmond Fed – CFO Survey Optimism Index

- The share of firms experiencing large cost increases grew from 80 percent to almost 90 percent in six months.
- Respondents of the survey indicate that these cost pressures are not abating and will likely be with us for some time.
- Many firms, especially large firms, are passing on some of these cost increases.
- Per the Richmond Federal Reserve, third and fourth quarter results indicate widening constraints on labor supply with intensifying supply chain disruptions.

The CFO Survey: Optimism Indexes

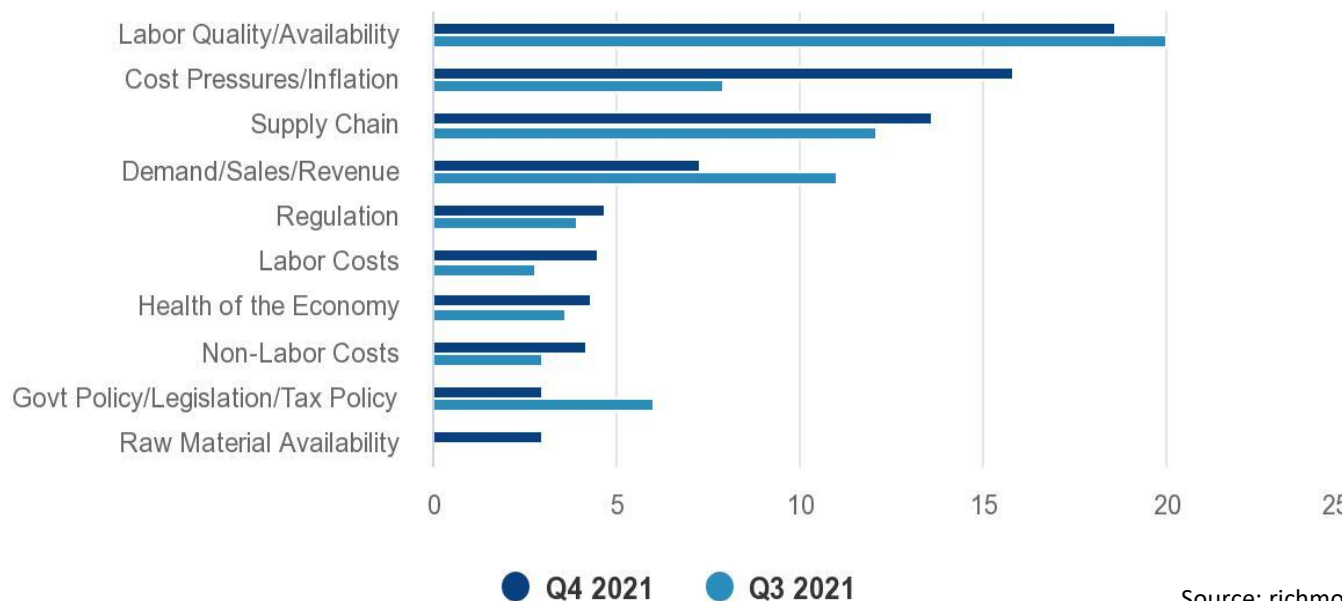


Richmond Fed – CFO Survey Concerns

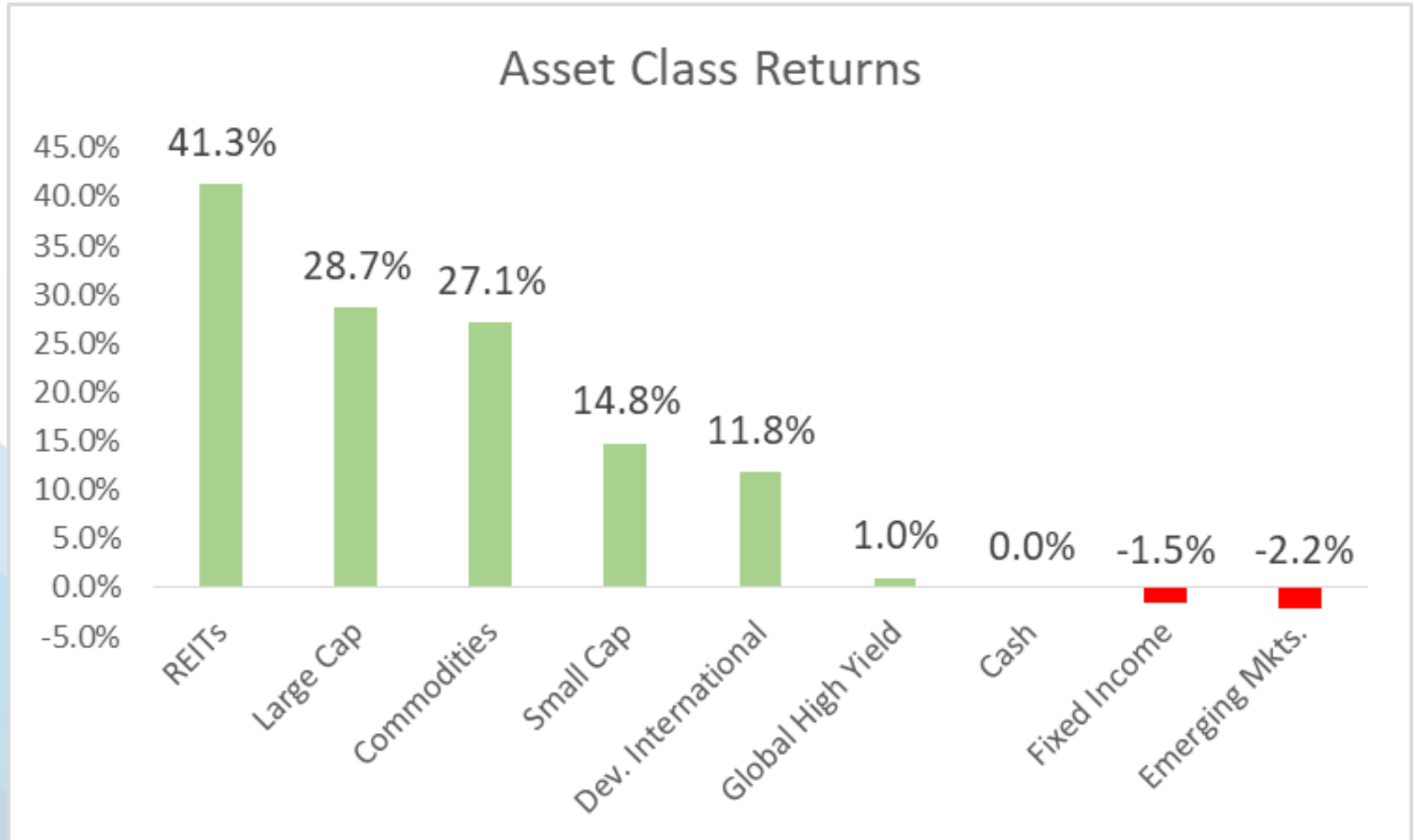
- Most CFOs expressed difficulty hiring, leading them to increase wages.
- Most CFOs also indicated their firms are experiencing supply chain disruptions that are expected to last well into 2022.
- Most pressing concern: Labor Quality/Availability remained at the top.
- Cost pressures/Inflation significantly moved up amongst top concerns among firms.
- Supply chains and demand/sales/revenue were also relatively more of a concern for respondents

Firms' Most Pressing Concerns

Share of Total Mentions



Capital Market Returns for 2021



Source: Morningstar, Columbia Trust

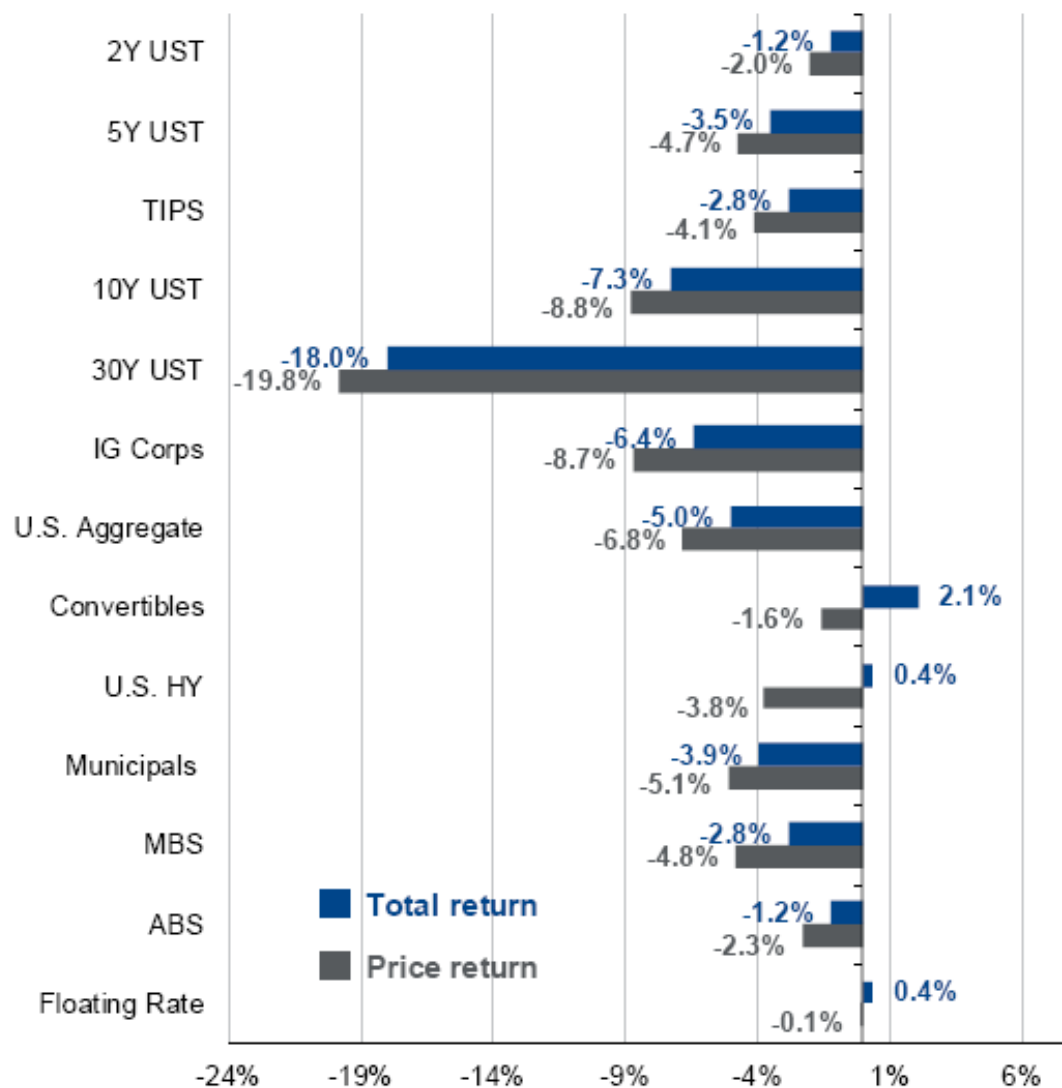
Capital Market Returns: U.S. Equities

10-year annualized				2021			
	Value	Blend	Growth		Value	Blend	Growth
Large	13.0%	16.6%	19.8%	Large	25.2%	28.7%	27.6%
Mid	13.4%	14.9%	16.6%	Mid	28.3%	22.6%	12.7%
Small	12.0%	13.2%	14.1%	Small	28.3%	14.8%	2.8%
Since market peak (February 2020)				Since market low (March 2020)			
	Value	Blend	Growth		Value	Blend	Growth
Large	27.1%	45.0%	61.7%	Large	105.5%	119.0%	136.0%
Mid	32.4%	38.3%	42.9%	Mid	134.1%	131.5%	122.2%
Small	37.1%	35.6%	31.7%	Small	141.1%	128.5%	114.1%

Fixed Income: Bonds are Risky Too

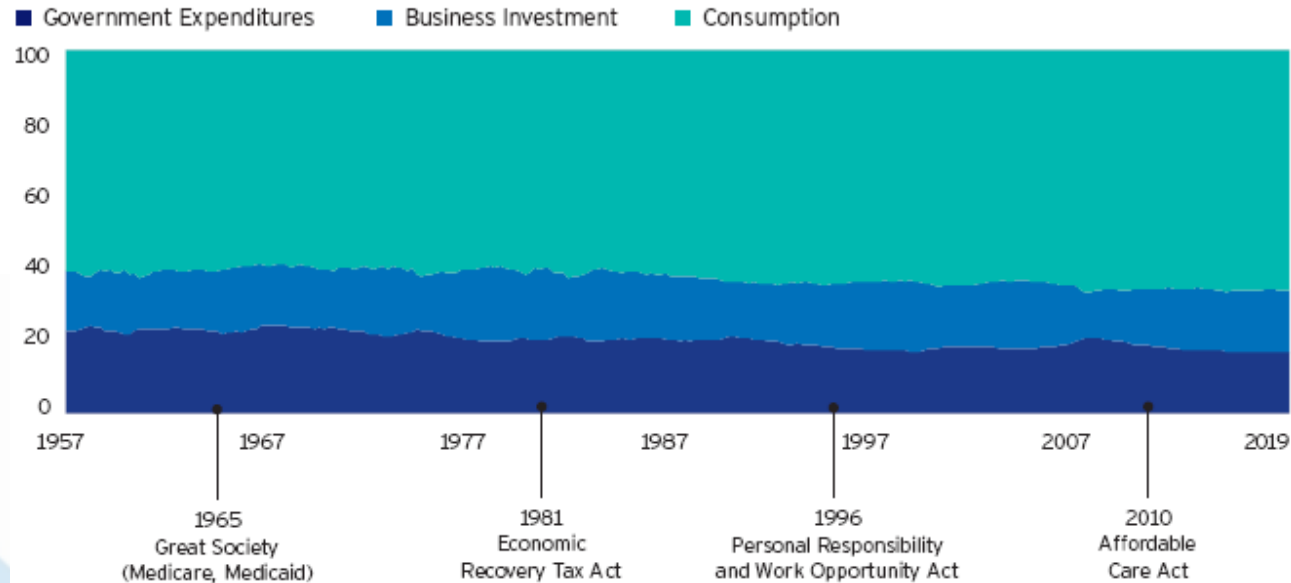
Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve



Economy Throughout Various Political Environments

Breakdown of major components of GDP as a % of total spending in the United States since 1957

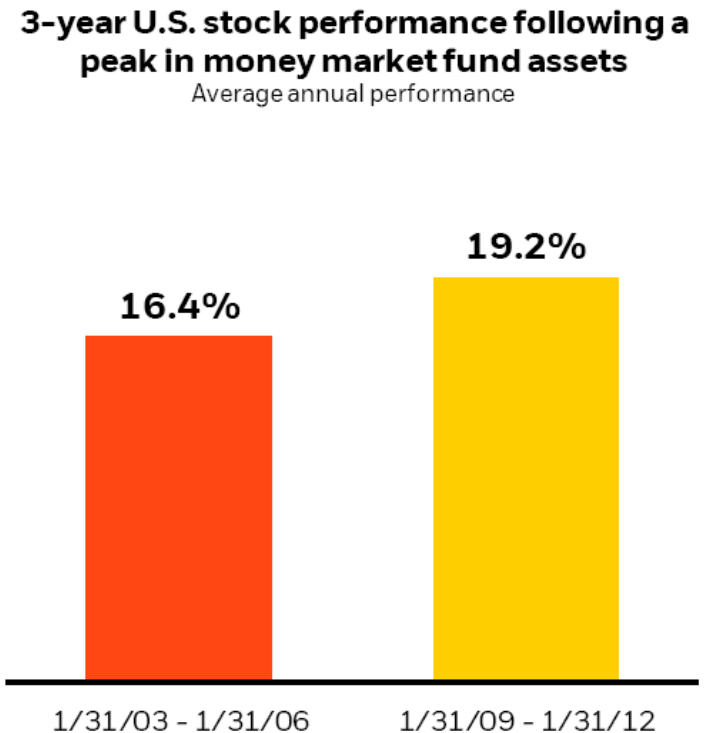
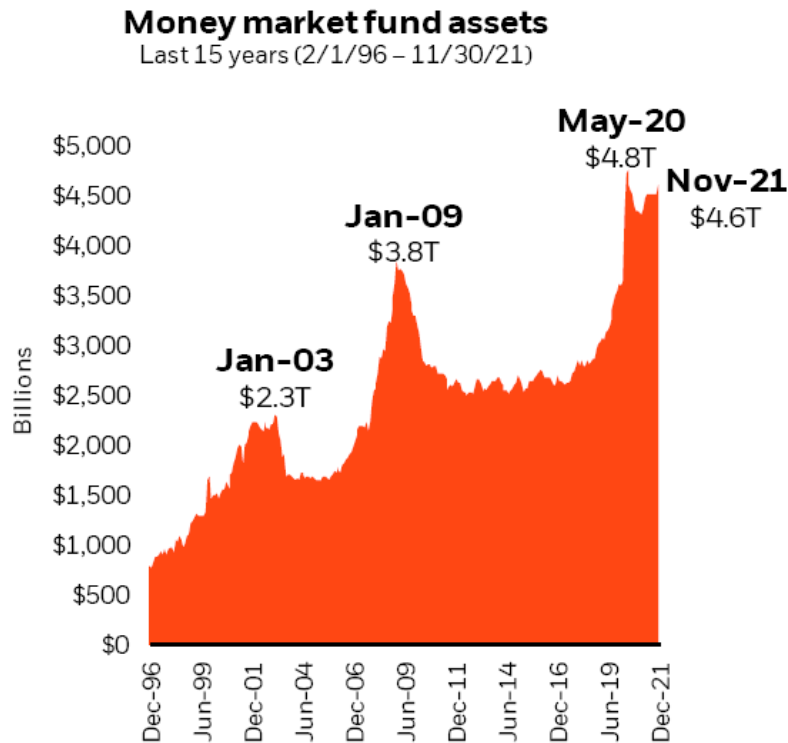


S&P 500 Total Return Index (Growth of \$100)



Significant Amount of Cash on the Sidelines

Money market assets still near historic peak



Source: Morningstar as of 11/30/21. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Multi-Asset Positioning – Focus on Equities, Large Cap

	<i>Underweight</i>		<i>Neutral</i>	<i>Overweight</i>	
Asset Class					
Equities				◇	
Bonds		◇			
Alternatives				◇	
Fixed Income					
US Investment Grade (IG)				◇	
EM IG Bonds				◇	
US Treasury Long	◇				
Inflation Linked			◇		
Floating Rate Loans			◇		
High Yield				◇	

	<i>Underweight</i>		<i>Neutral</i>	<i>Overweight</i>	
Regions					
US					◇
Developed International			◇		
Emerging Markets		◇			
Style and Capitalization					
US Large					◇
Value				◇	
Growth				◇	
US Small			◇		
Value				◇	
Growth		◇			

Some “known unknowns” to keep an eye on in 2022

- Inflation: will it be persistent and last longer than expected? Central banks may be more accepting of higher inflation considering low inflation over the last 10+ years.
- Legislation that includes tax, spending, and/or regulatory changes could impact corporate earnings and economic growth.
 - Odds of a huge “Build Back Better” plan looking to be lower than initial expectations.
- Ongoing coronavirus pandemic, the potential for more variants, and how they impact consumer behavior, supply chains, and subsequent economic activity.
- Geopolitical: tensions amongst the U.S., China, Russia, Europe, and Iran could impact investor sentiment and increase volatility in capital markets.



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Questions?

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