

2023 Investment Outlook

FERGUSON WELLMAN CAPITAL MANAGEMENT

WEST BEARING INVESTMENTS

a division of Ferguson Wellman

Tonight's Speakers



Peter Jones, CFA

Senior Vice President

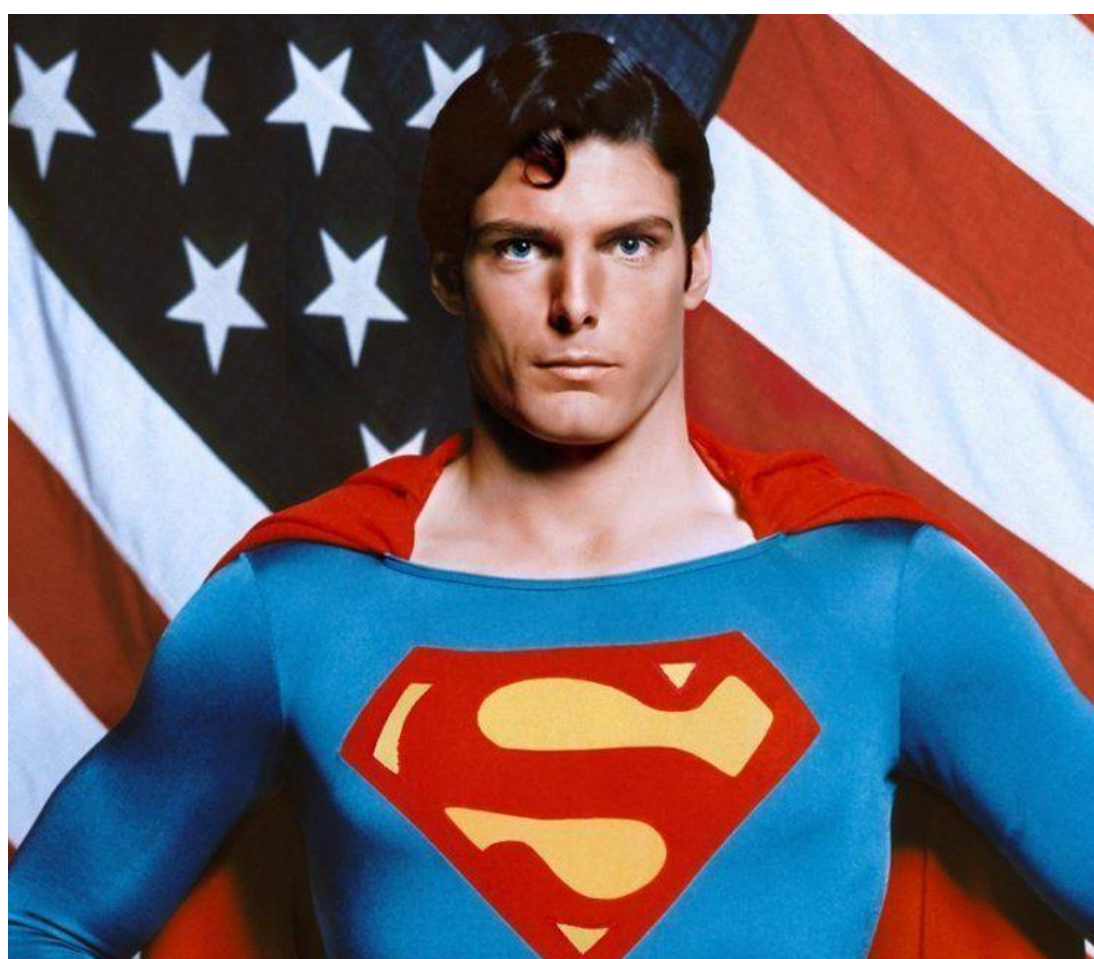
Equity Research and Portfolio Management



Jason Norris, CFA

Principal

Equity Research and Portfolio Management



Extraordinary to Ordinary

Investment Outlook 2022

Extraordinary to Ordinary: 2022 Takeaways

Grade:

- ✦ Earnings growth to slow significantly ✓
- ✦ Higher inflation and higher interest rates ✓
- ✦ Muted capital market returns and elevated volatility ✓
- ✦ Still in bull market and prudent to overweight risk assets ✗

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SLAYING THE DRAGON

A dramatic, painterly illustration of a knight in full plate armor, seen from behind, standing on a rocky outcrop. The knight holds a long sword and a shield, facing a massive, golden-scaled dragon. The dragon's head is lowered towards the knight, its mouth open in a roar. The scene is filled with intense orange and yellow flames and smoke, creating a sense of a fierce battle. The overall style is reminiscent of classic fantasy art.

Investment Outlook 2023

SLAYING THE DRAGON

- Inflation's Flame Dims
- The End Is in Sight for Rate Hikes
- If Recession Is Near, Expect It to Be Short and Shallow
- Today's Market Is Tomorrow's Economy
- A More Balanced Asset Allocation



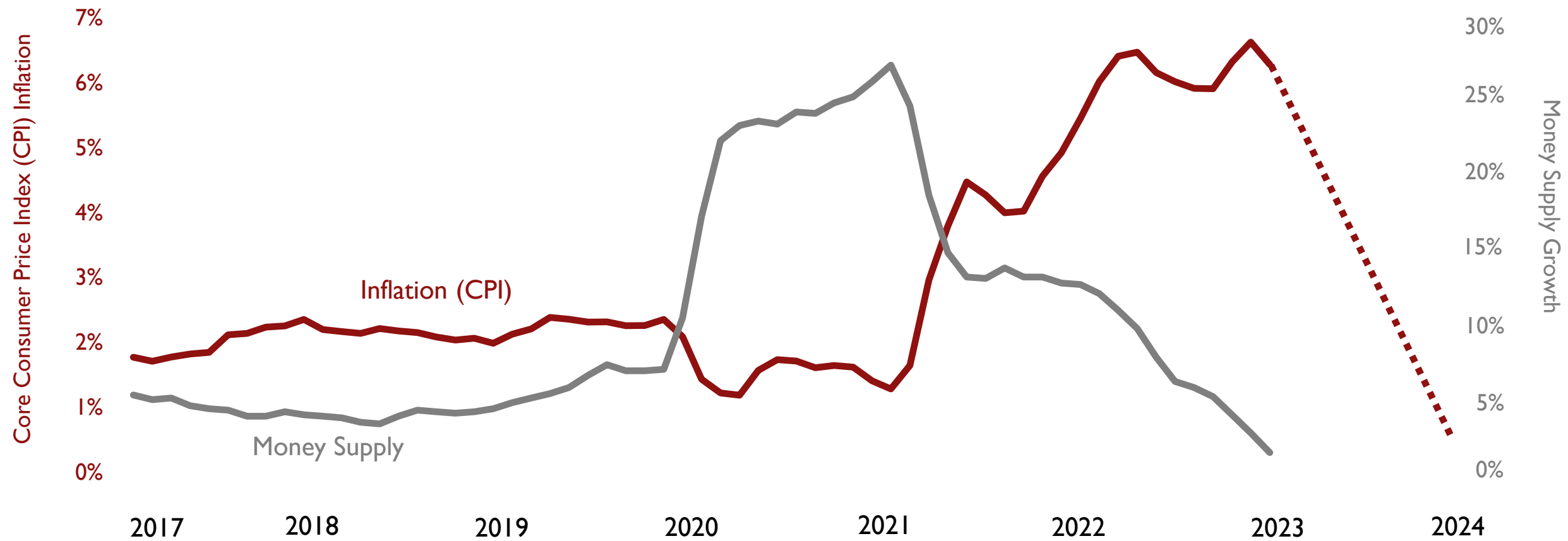
INFLATION'S FLAME DIMS



“Inflation is caused by too much money chasing after too few goods.”

-Milton Friedman, American Economist

Inflation Follows the Money (with a 12-Month Lag)



Source: Bloomberg

Labor Market Has Begun to Soften

CRN CRN

Tech Layoffs In 2022: 23 Companies Slashing Their Workforce

Tech layoffs became a common part of headlines in the second half of 2022 as technology companies adjusted their payrolls.

2 days ago



AMAZON / TECH / BUSINESS

Amazon mass layoffs will reportedly ax 10,000 people this week

/ The cuts would be the most significant in Amazon's history and continue a wave of mass firings in the tech industry.

By CHRIS WELCH / @chrishwelch
Nov 14, 2022, 9:20 AM PST | 11 Comments / 11 New



HOME > TECH

Elon Musk starts layoffs at Twitter, went out telling employees cut

Kali Hays Nov 3, 2022, 9:00 PM



Amazon, Meta and Twitter: Tech Layoffs by the Numbers

Facebook, Amazon and Twitter are cutting thousands of jobs as the companies deal with slowing growth

By WSJ Staff

UPDATED NOV. 14, 2022

TAP STORY >

Thousands at Meta, Twitter, Salesforce lost jobs this week—the shock could ripple through the economy for months

Thousands at Meta, Twitter, Salesforce lost jobs this week—the shock could ... in their job security through the summer, as news of layoffs...

4 days ago

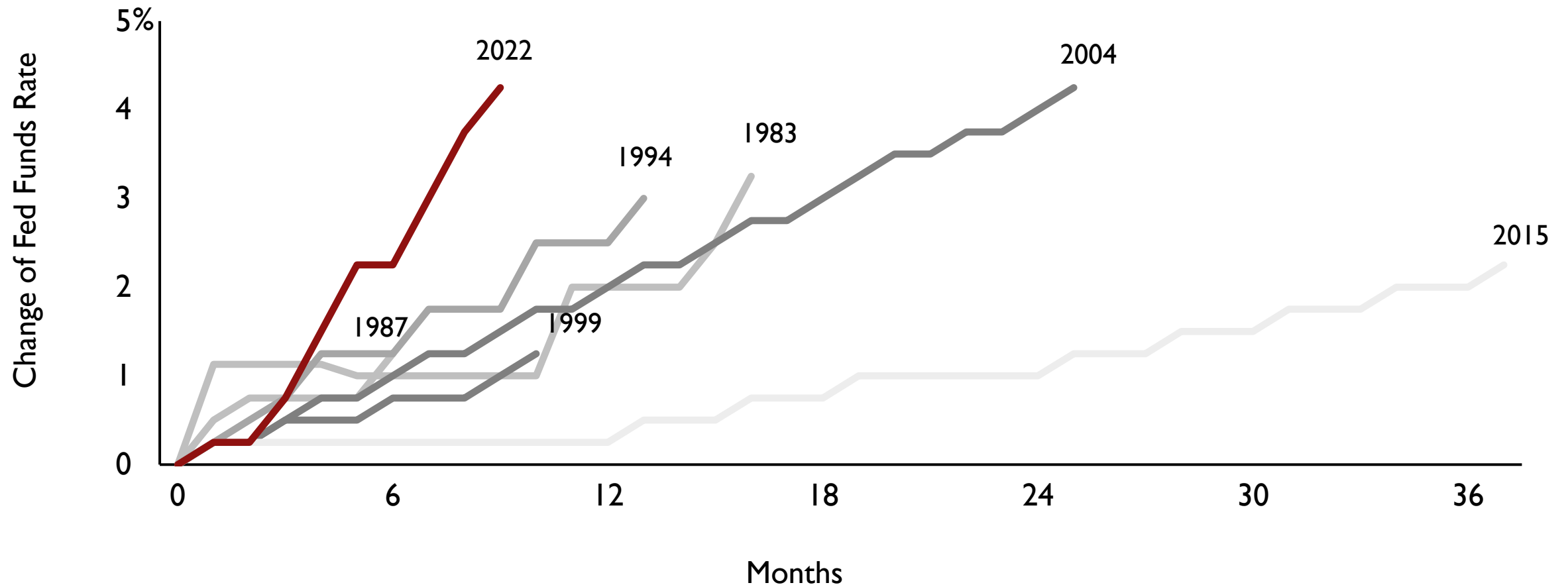


THE END IS IN SIGHT FOR RATE HIKES



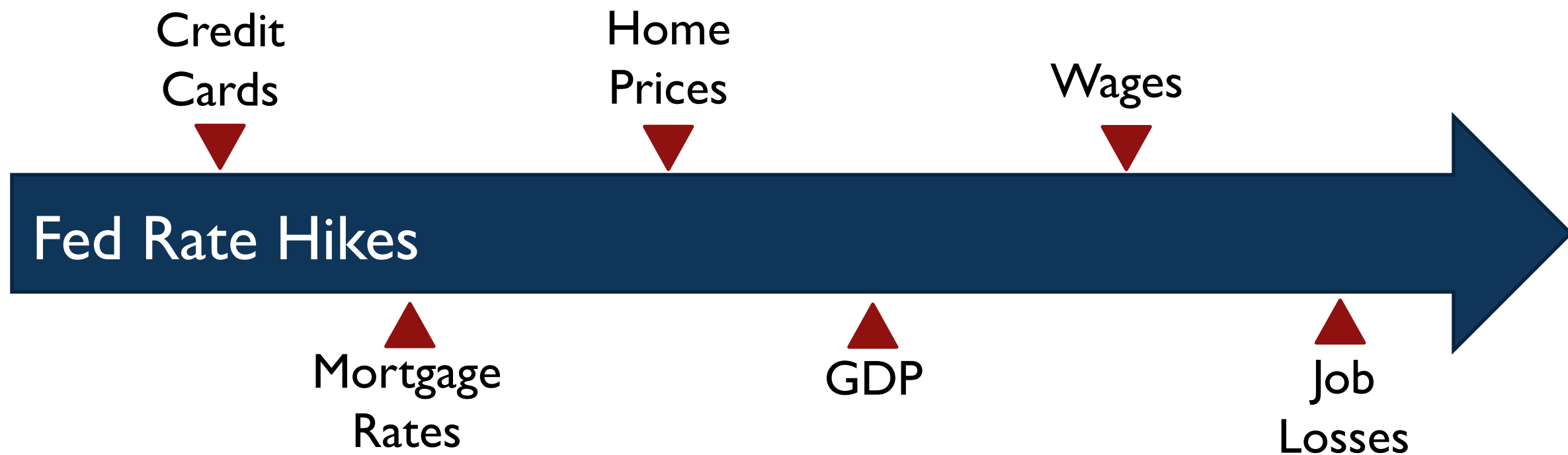
The End Is in Sight for Rate Hikes

Fastest Fed Tightening in 40 years




Source: Federal Reserve

Rate Hikes Take Time to Work



Time It Takes to Affect Real Economy

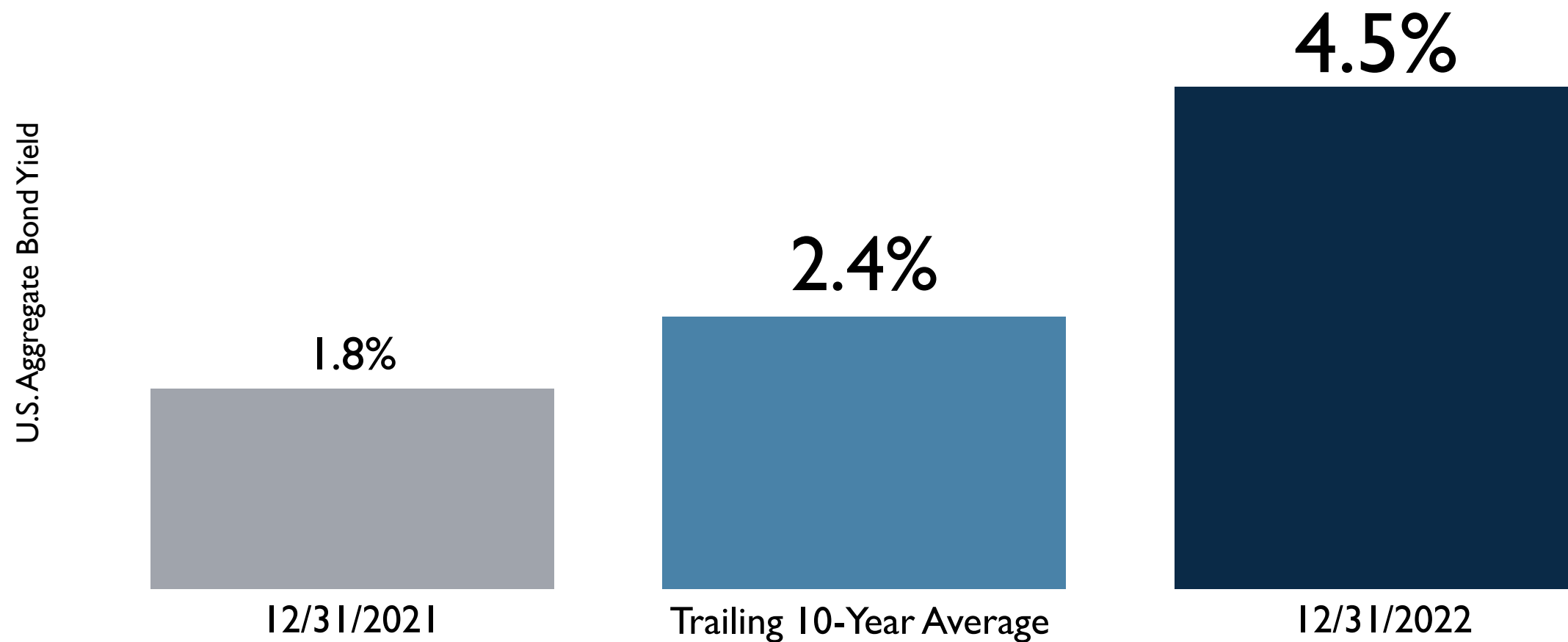
Source: Ferguson Wellman

A sword with a crossguard, set against a dark background with falling sparks. The sword is positioned vertically on the left side of the frame. The hilt is at the top, and the blade extends downwards. The crossguard is in the middle, and the blade is visible below it. The background is dark, and there are many small, white, spark-like particles falling from the bottom right towards the center.

“None of the post-war expansions died of natural causes. They were ‘murdered’ by the Fed while attempting to fight inflation.”

- Rudi Dornbusch, Former MIT Economist

Bonds Finally Offer Value

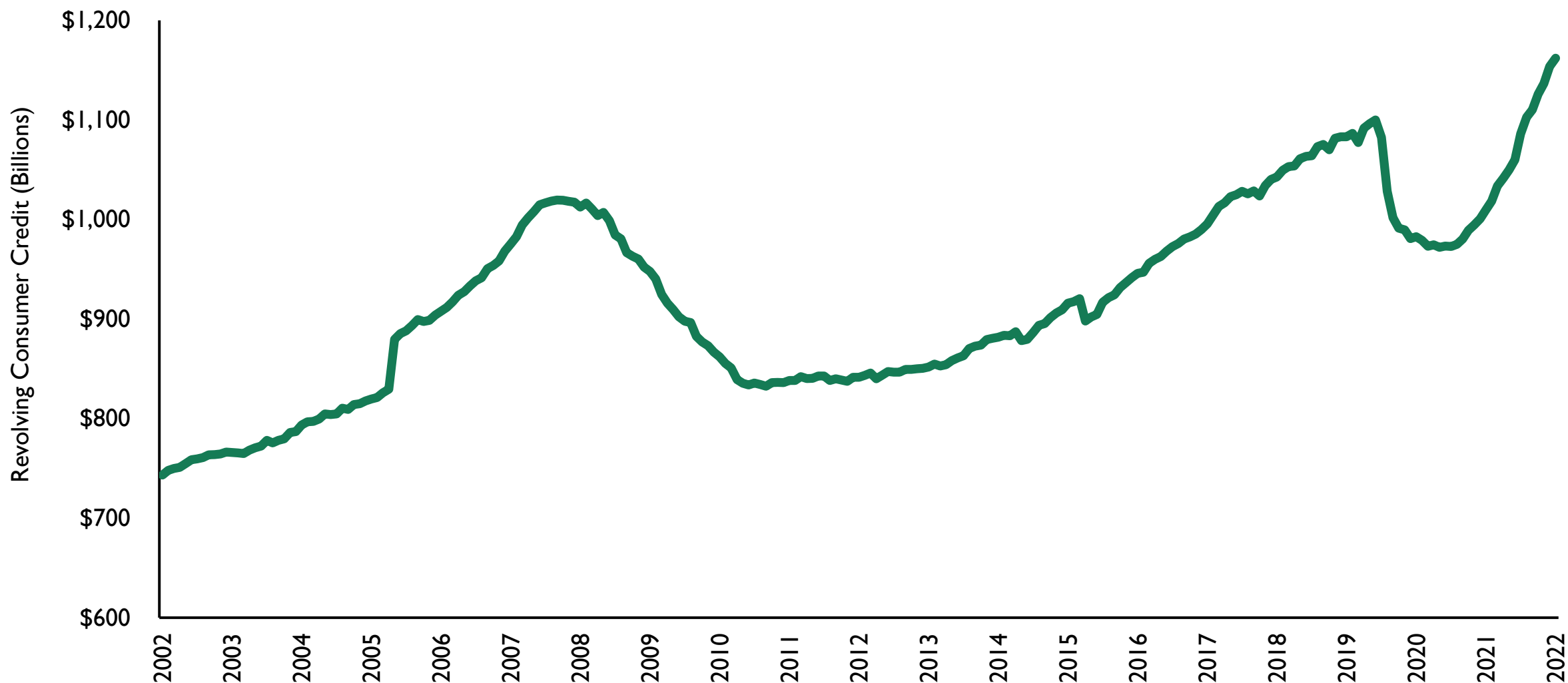


Source: Bloomberg

A person in a dark suit is playing a violin. In the background, there is a large, ornate shield with a circular design. The text is overlaid on the image in a dark red, serif font.

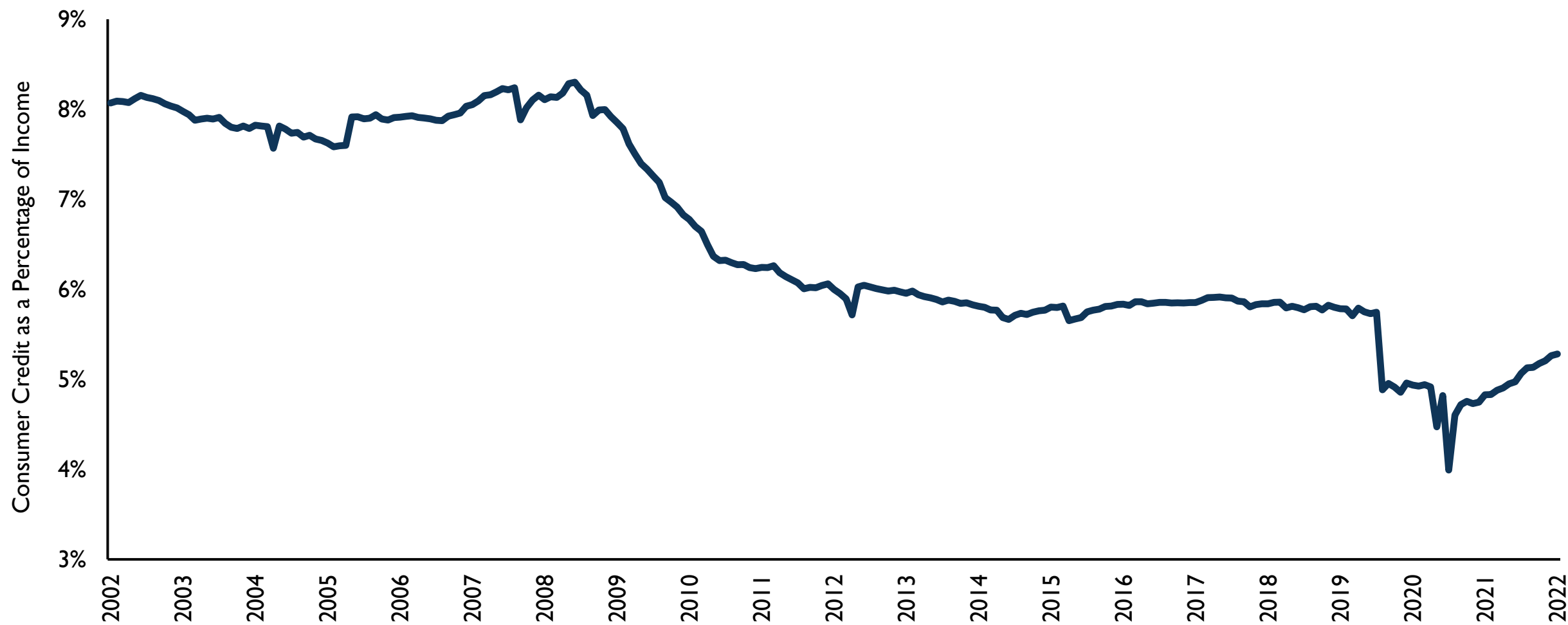
IF A RECESSION IS NEAR,
EXPECT IT TO BE
SHORT AND SHALLOW

Consumer Debt at All-Time Highs



Source: Eikon

... But Is Very Affordable



Source: Eikon

Consumer Remains in Great Shape

- \$2 trillion in excess savings
- 3.7% unemployment
- Credit card delinquencies at all-time lows
- Delinquencies on mortgages back to 2005 levels
- Only 5% of mortgages are adjustable vs. 35% in 2008

Percentage of Mortgage Originations with Excellent Credit Scores

25%

2005

65%

2021

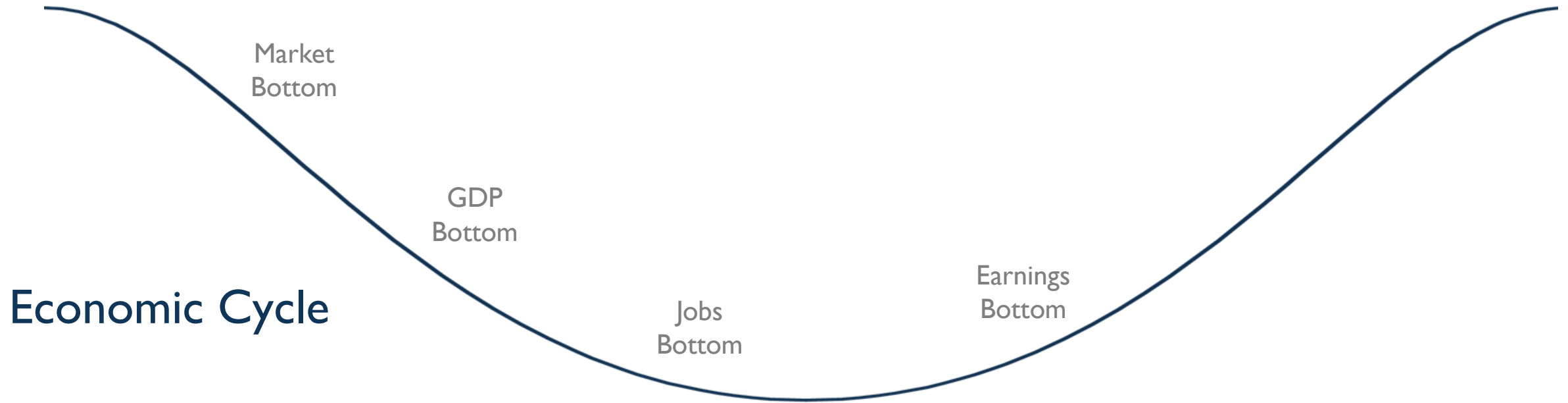
Pick Your Spots in Commercial Real Estate



A crystal ball with a metallic base, filled with glowing golden particles, set against a light blue background.

TODAY'S MARKET IS
TOMORROW'S ECONOMY

Today's Market Is Tomorrow's Economy

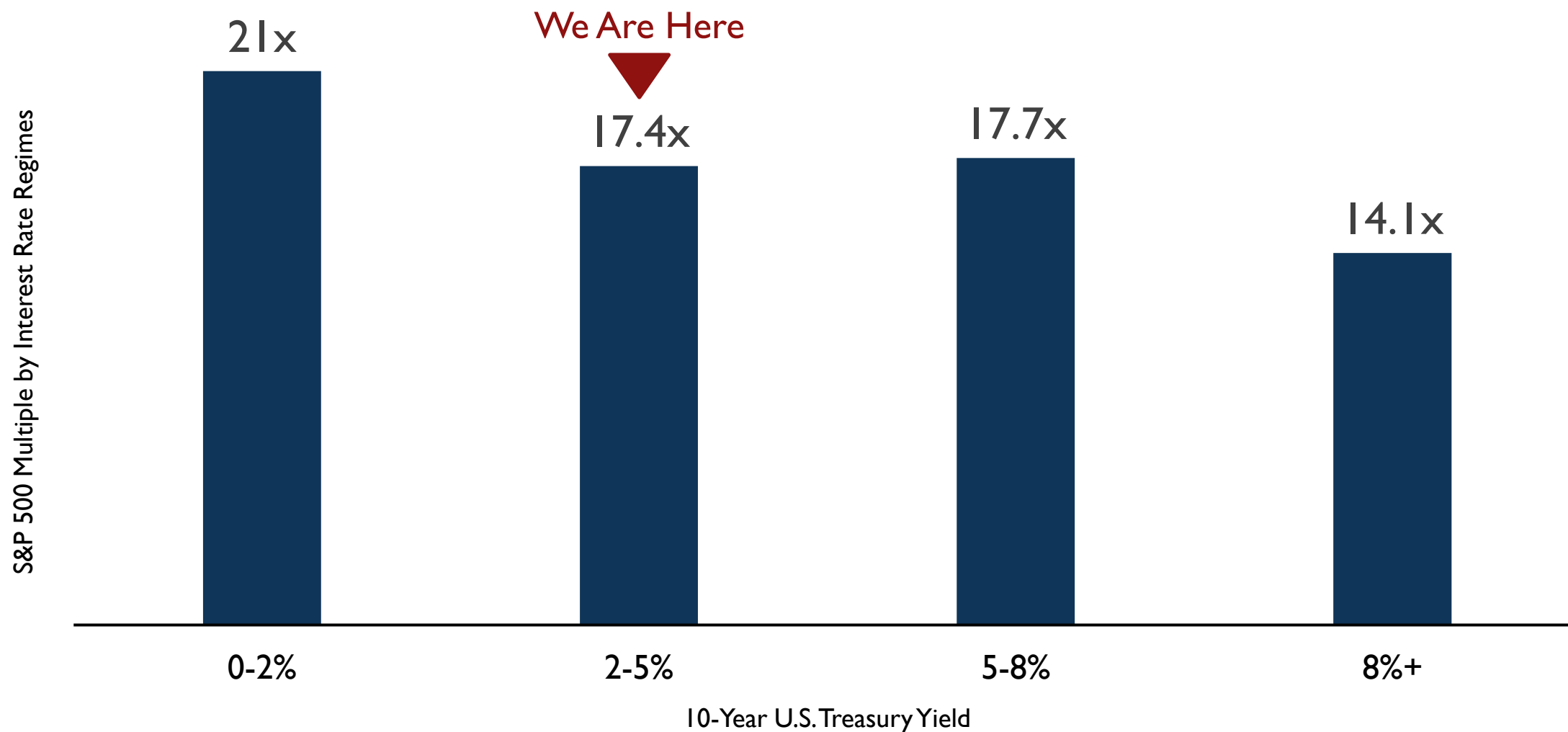


Average Stock Return by the time GDP starts rising ... **+32%**

Disclosure: Stock return was found by using the S&P 500 as proxy. Investors cannot invest directly in an index.

Source: Bloomberg

Stocks Have Priced in Higher Rates



Source: FactSet

Corporate Earnings Likely to Decline in 2023

\$224 Est.

2022 S&P 500 Earnings

\$208

2021 S&P 500 Earnings

\$205 Est.

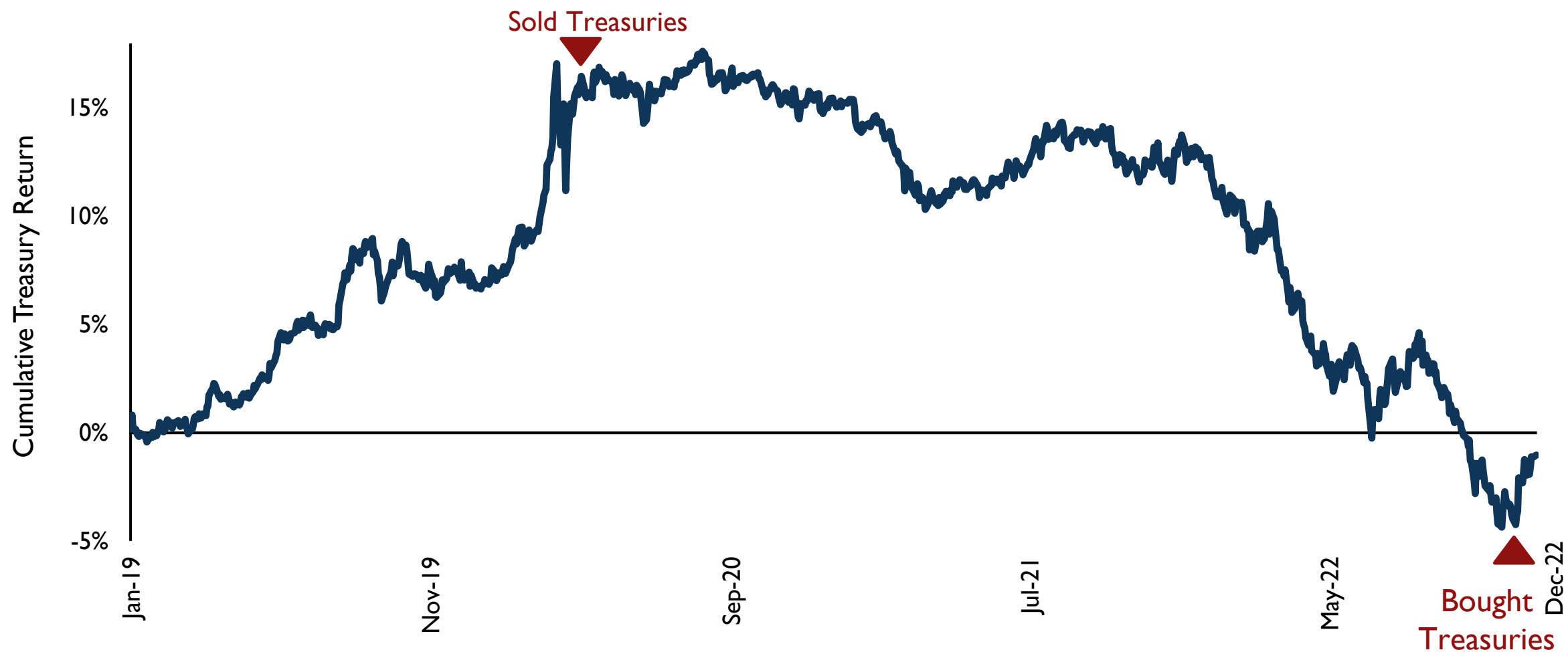
2023 S&P 500 Earnings

Source: Refinitiv

A MORE BALANCED ASSET ALLOCATION VIEW

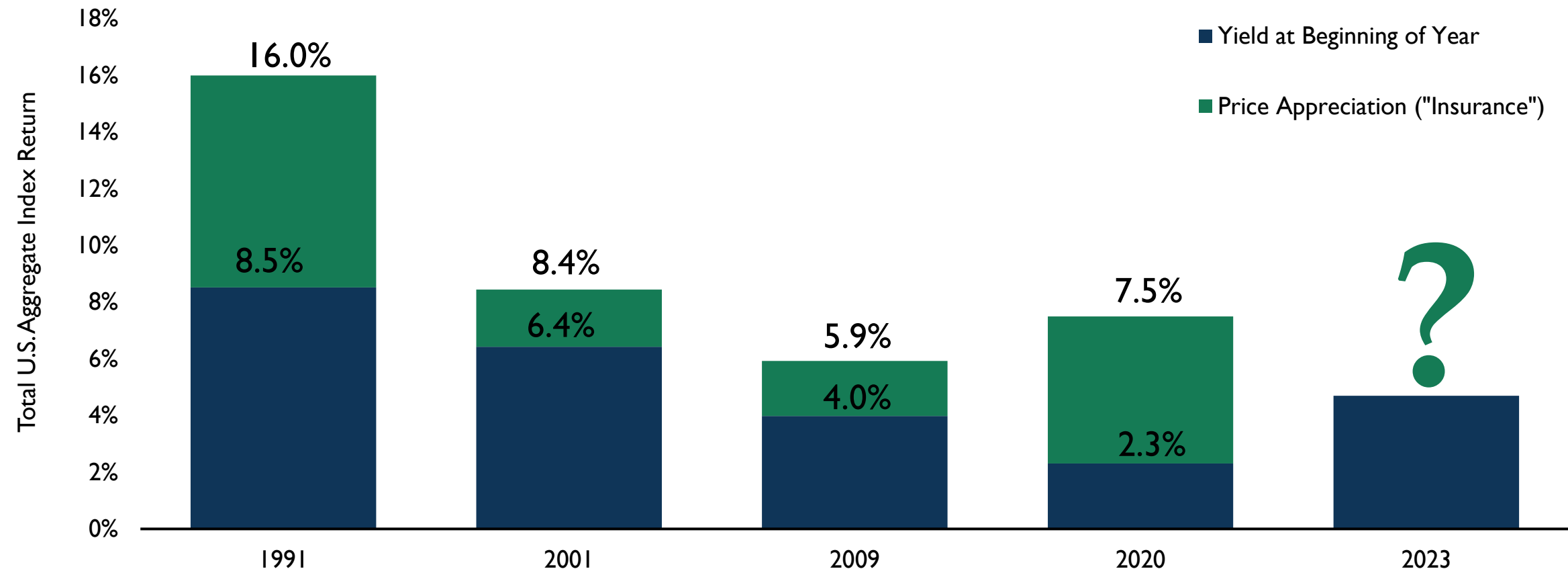


Sell High, Buy Low



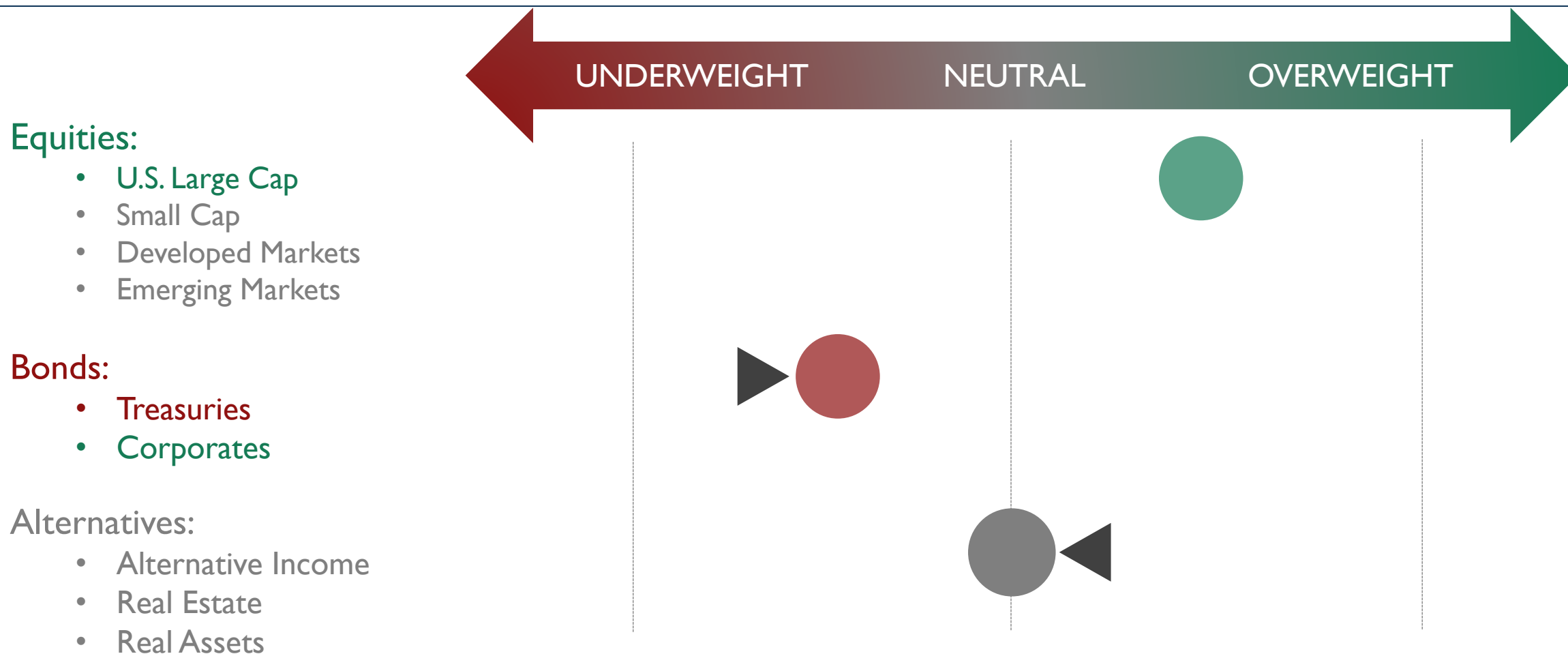
Source: Bloomberg

Bond Total Return Exceeds Yield During Recessions



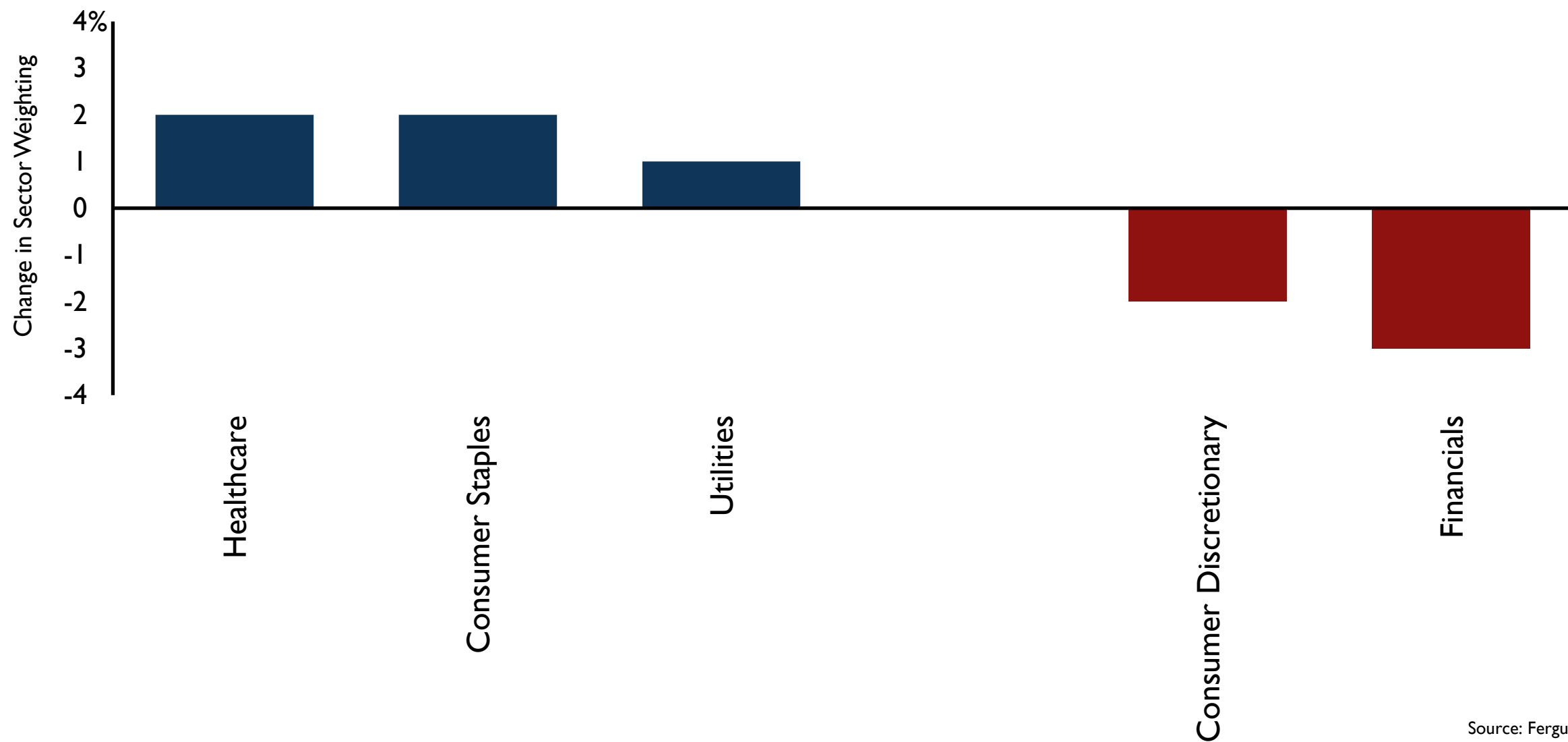
Disclosure: Investors cannot invest directly in an index.
Source: Eikon

Overweight Risk Assets



Source: Ferguson Wellman

Becoming More Defensive within Equity Portfolios



Source: Ferguson Wellman

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