



FERGUSON WELLMAN  
CAPITAL MANAGEMENT



WEST BEARING INVESTMENTS  
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# Outlook 2017: How Will the Election, Global Economy and Monetary Policy Impact the Year?

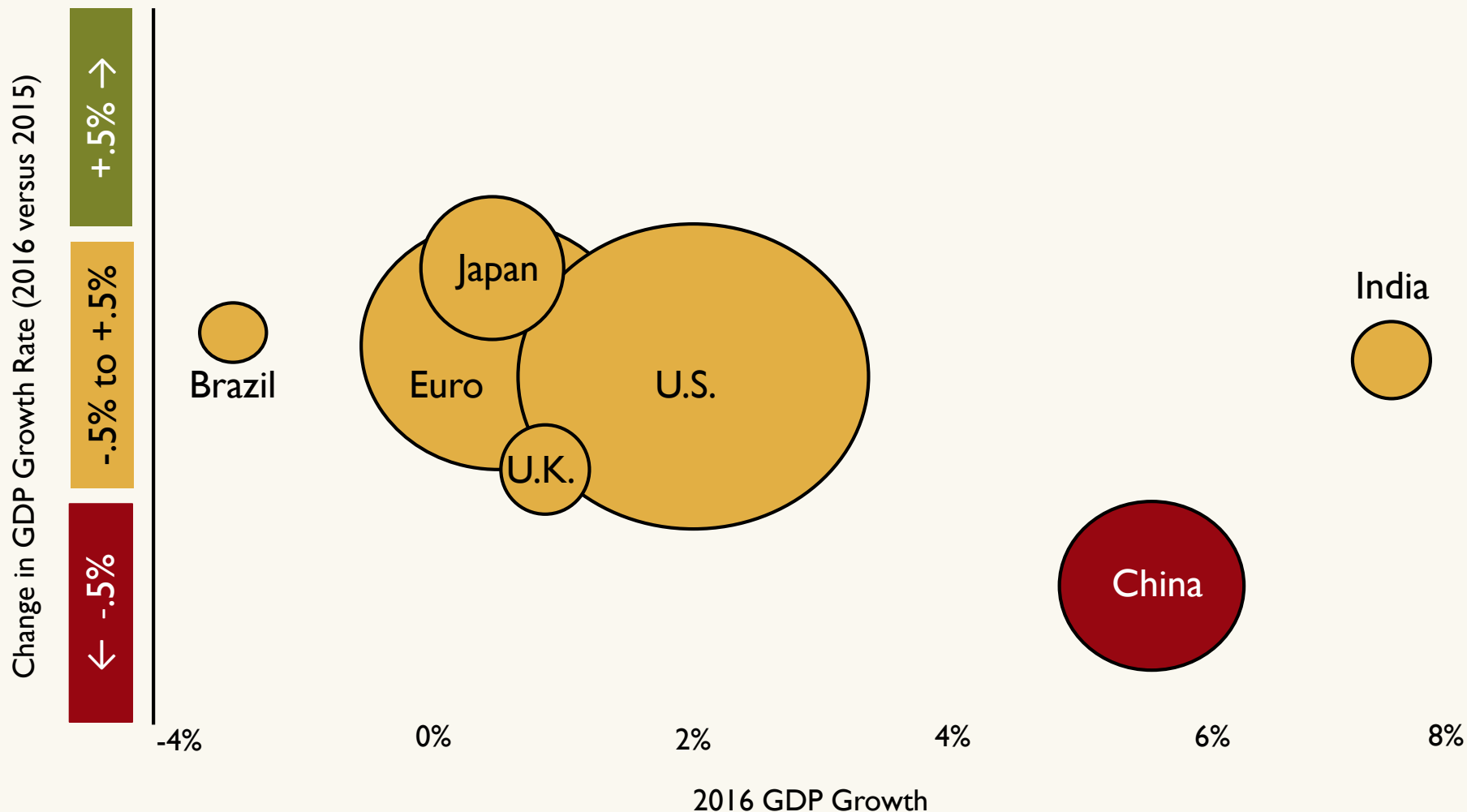
# Shifting to Neutral

A grayscale photograph of a hand holding a compass rose. The hand is positioned in the lower right quadrant, with the thumb and index finger gripping the edges of the compass. The compass face is visible, showing cardinal directions and numbers. The background is a soft, out-of-focus light gray.

## Investment Strategy Fourth Quarter 2016

# Economic Growth Is Anemic Across the Globe

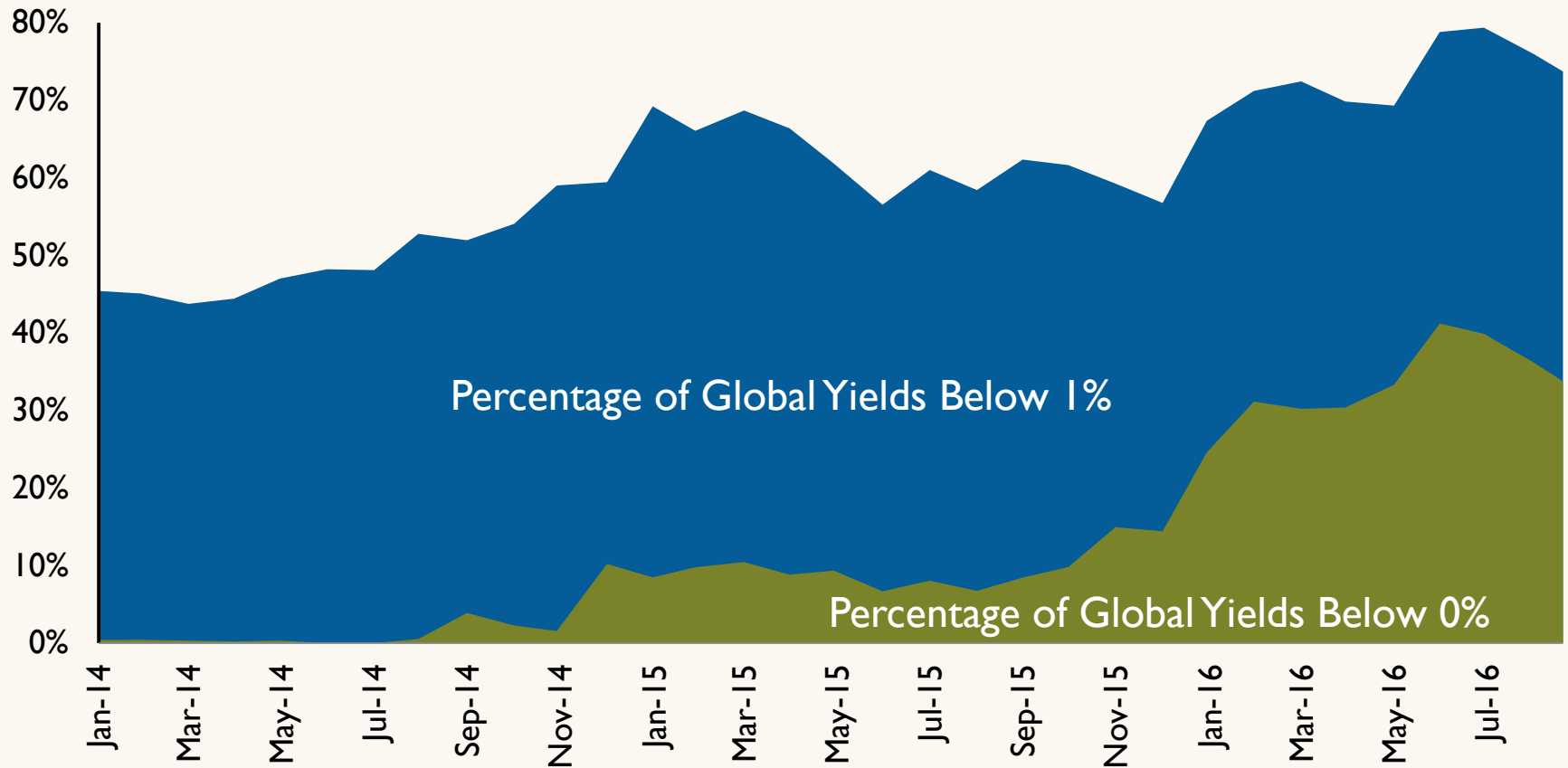
“Two” Is the New “Four”



Source: Citigroup

- The U.S. is struggling to grow 2 percent, China struggling to grow 5 percent, Europe 1 percent and Japan 0 percent
- Since 2008, world GDP transitioned from long-term growth of 3.4 percent to 2.1 percent

# We Are Importing Low Rates ... Lower, Longer



Sources: Bank of America, Merrill Lynch

- Our monetary policy is not our own
- Greater than 85 percent of the debt issued by sovereign nations has a yield that is lower than 1 percent
- More than 30 percent of the index has a yield that is negative
- Low interest rates are here to stay. Global investors are attracted to U.S. Treasury bonds because they yield more than most other sovereign bonds. This has bid up prices of U.S. Treasury bonds which correspondingly, lowers the yield

# Domestic Economy Is in Good Shape

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**\$88 trillion**

**U.S. Households Net Worth  
(All-Time High)**

**4.9%**

**Unemployment Rate**

**2.8%**

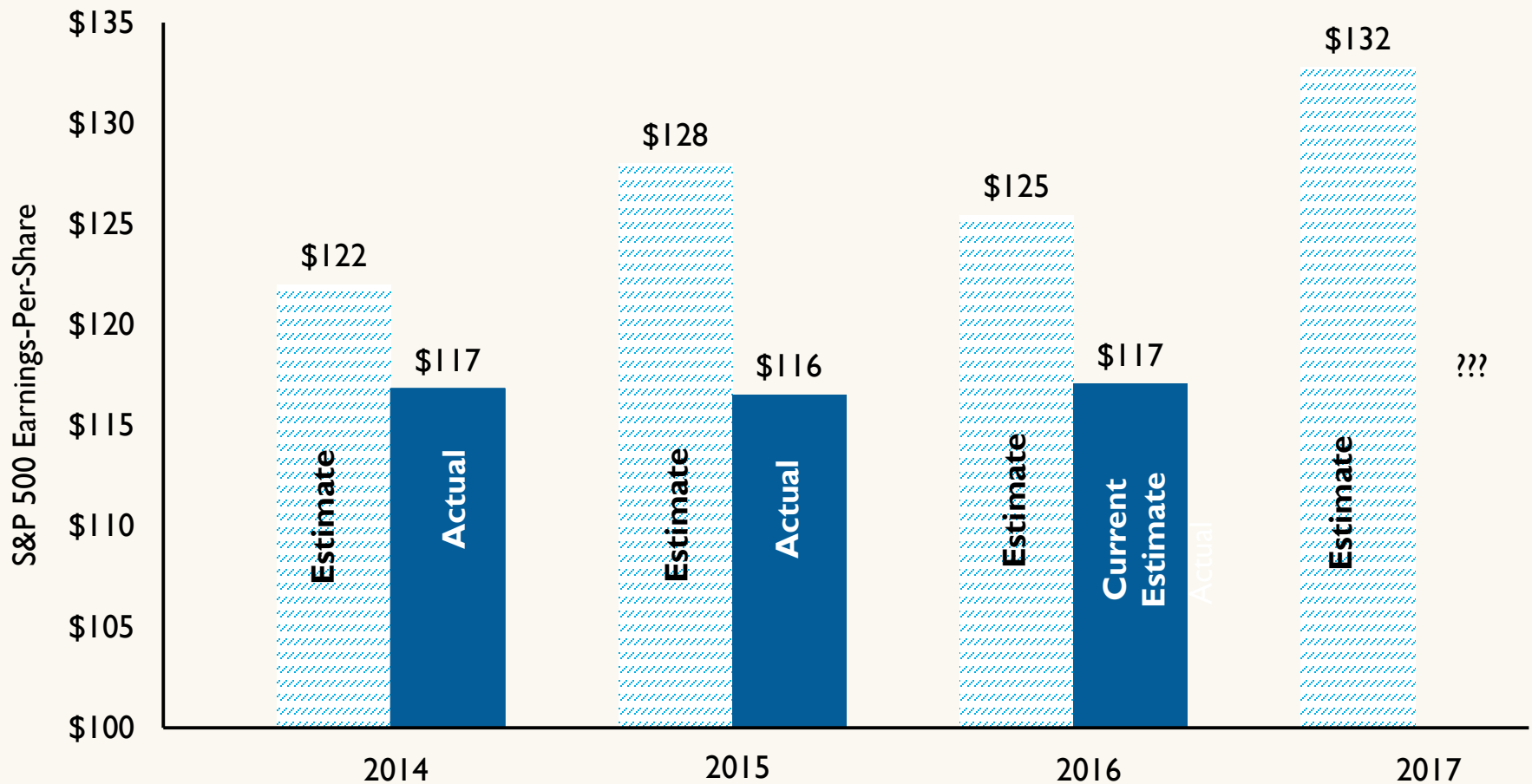
**Real Wage Growth  
(Highest in Nine Years)**

**5.7%**

**Personal Savings Rate  
(Highest Since 1982)**

Source: FactSet

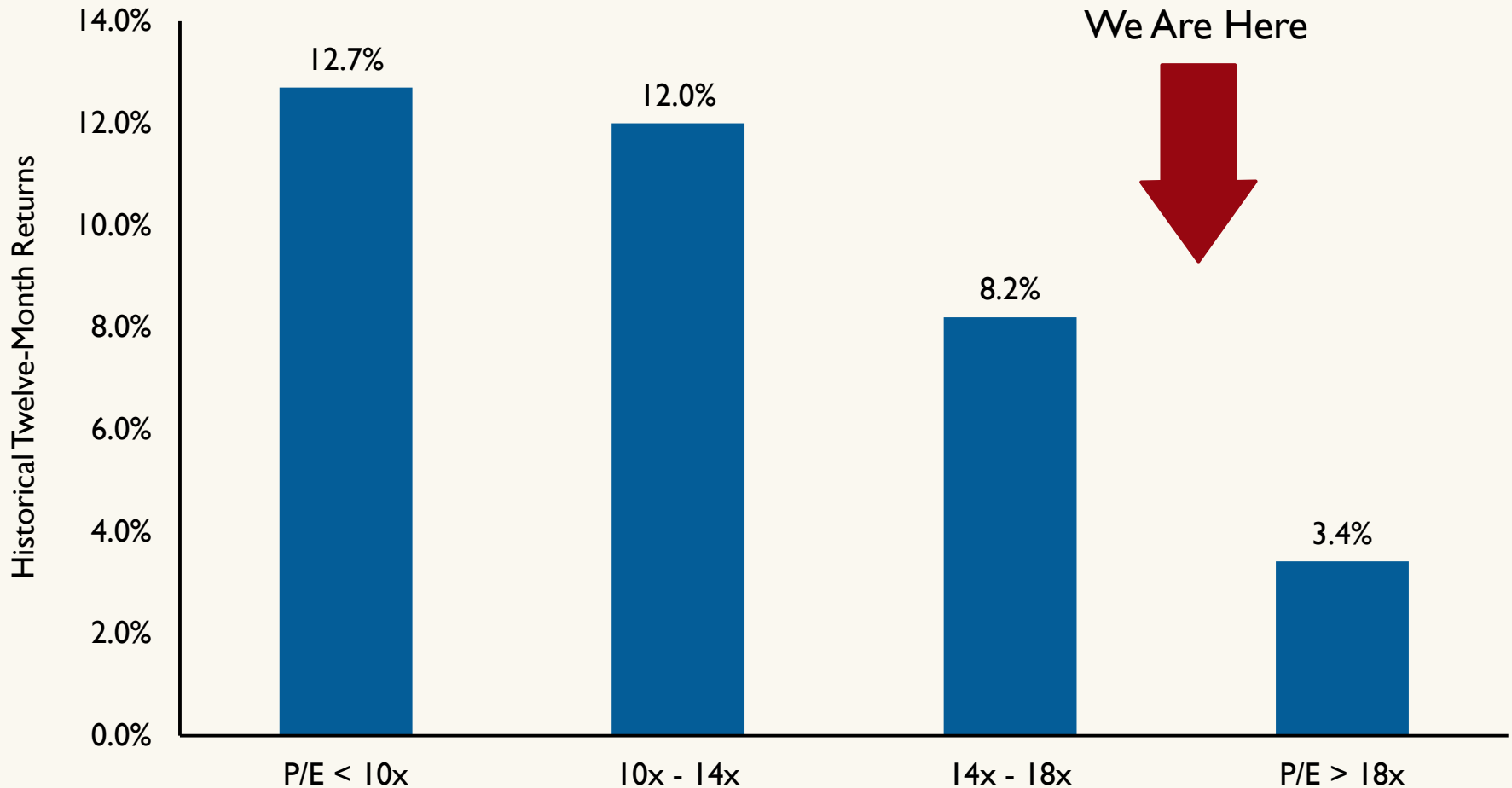
# Slow Economic Growth Has Weighed on Earnings



Source: FactSet

- Lack of earnings growth has resulted in flat equity markets
- We believe earnings have bottomed ... and higher energy prices and a stabilizing dollar should provide catalysts

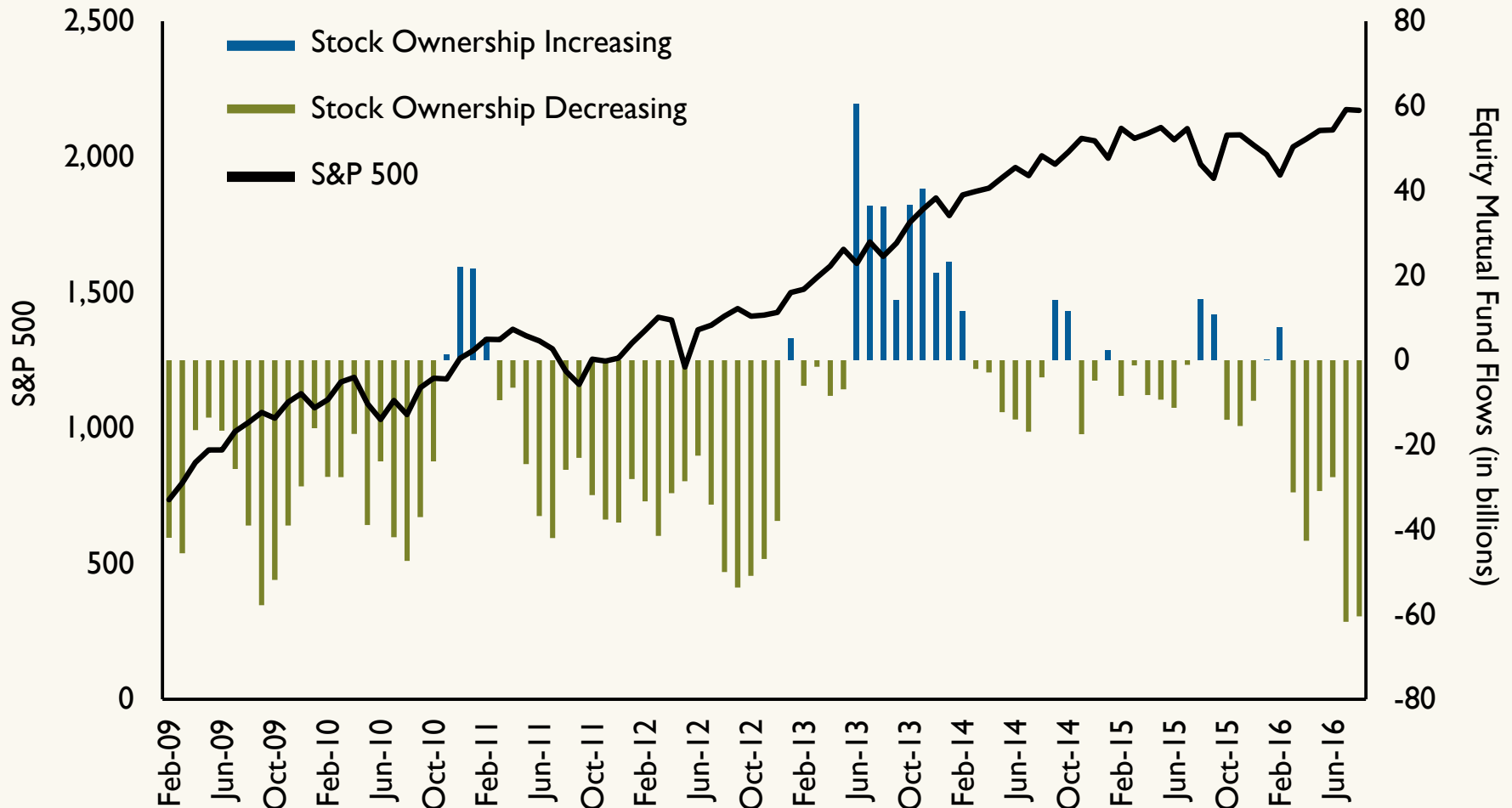
# Current Valuations (18x Trailing) Temper Expectations



Source: FactSet

- While we don't consider valuations unreasonable relative to interest rates, history tells us expected returns should be lowered

# The Rodney Dangerfield Equity Market



Source: FactSet

- Since the 2009 market bottom, investors have sold \$1.0 trillion in equities and bought \$1.5 trillion in bonds
- Stocks are up 220 percent and bonds are up 42 percent since the market bottom



# Election: Winners and Losers

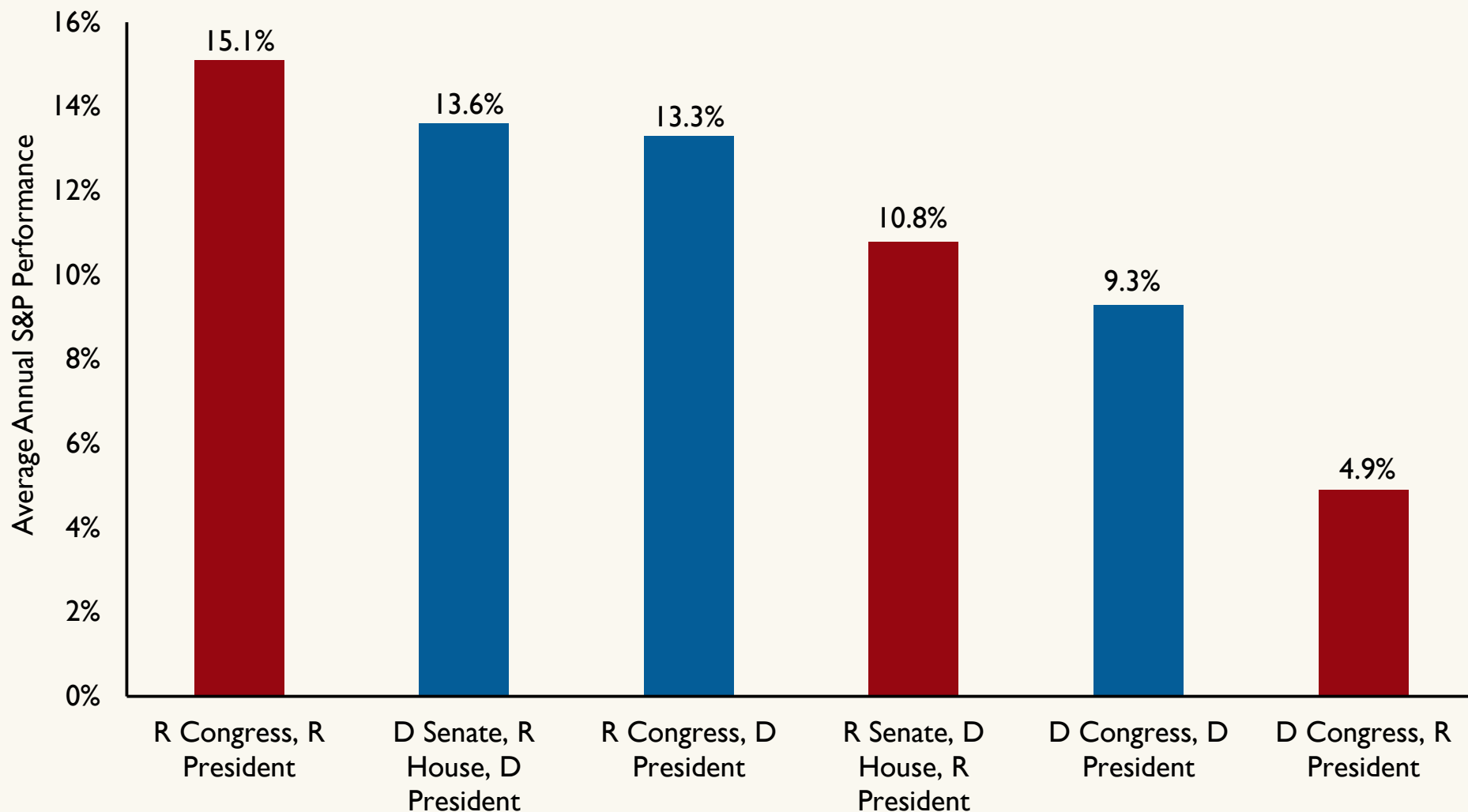
| Probability: | 10%  | 50%  | 15%  | 25%   |
|--------------|--|--|--|---|
|              | D - President<br>D – Senate<br>D – House of Reps                                   | D - President<br>D – Senate<br>R – House of Reps   | D - President<br>R – Senate<br>R – House of Reps | R - President<br>R – Senate<br>R – House of Reps  |
|              | + Defense<br>+ Alternative Energy<br>+ Infrastructure                              | + Infrastructure<br>+ Hospitals<br>+ Medicaid HMOs | + Defense<br>+ Infrastructure                    | + Defense<br>+ Pharma<br>+ Fossil Fuel Production |
|              | - Fossil Fuel Production<br>- Pharma<br>- Managed Care<br>- Restaurants<br>- Banks | - Fossil Fuel Production                           | - U.S. Multinationals                            | - U.S. Multinationals<br>- HMOs                   |

Source: Strategas

- Democrats are well positioned to take over at least four seats in the Senate
- Clinton has adopted Obama's zero emissions standard, which will cut production but could increase prices

# Washington and the Investment Landscape

1933-2015, Excluding 2001-2002



Source: Strategas

# S&P 500 Performance Three Months Prior to Presidential Election

| Year | S&P 500 Price Return | Incumbent Party |
|------|----------------------|-----------------|
| 1928 | 14.91%               | Won             |
| 1932 | -2.56%               | Lost            |
| 1936 | 7.92%                | Won             |
| 1940 | 8.56%                | Won             |
| 1944 | 2.29%                | Won             |
| 1948 | 5.36%                | Won             |
| 1952 | -3.26%               | Lost            |
| 1956 | -2.58%               | Won             |
| 1960 | -0.74%               | Lost            |
| 1964 | 2.63%                | Won             |
| 1968 | 6.45%                | Lost            |
| 1972 | 6.91%                | Won             |
| 1976 | -0.09%               | Lost            |
| 1980 | 6.73%                | Lost            |
| 1984 | 4.80%                | Won             |
| 1988 | 1.91%                | Won             |
| 1992 | -1.22%               | Lost            |
| 1996 | 8.17%                | Won             |
| 2000 | -3.21%               | Lost            |
| 2004 | 2.16%                | Won             |
| 2008 | -19.48%              | Lost            |
| 2012 | 2.45%                | Won             |

The S&P 500 has correctly picked the winning political party in a presidential election 19 of 22 times since 1928.

Source: Strategas

# Shifting to Neutral

A hand holding a compass rose, symbolizing navigation and direction. The background is a blurred image of a hand holding a compass, with the numbers 1 through 5 visible on the compass face.

- Neutral allocation stocks and bonds
- Emphasis upon yield and cash flow within large-cap equities
- Favor emerging markets within international equities
- Underweight commodities (except for energy)
- Anticipated electoral gridlock should be positive for equities