Q3 | 2025

# OUTLOOK *and* INSIGHTS

**A QUARTERLY PUBLICATION *of* FERGUSON WELLMAN, OCTAVIA GROUP *and* WEST BEARING**

## WHAT'S INSIDE



***Ferguson Wellman,*** founded in 1975 is a privately owned registered investment adviser, established in the Pacific Northwest. As of March 31, 2025, the firm manages $9 billion for 1,040 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of $4 million or more.

***West Bearing,*** a division of Ferguson Wellman, serves clients with assets starting at $1 million.

***Octavia Group***, a division of Ferguson Wellman, our private family office, provides fee-based personal financial services exclusively for Ferguson Wellman and West Bearing clients with a minimum of $10 million managed by our firm.

*Investment Excellence*
*Lifelong Relationships*

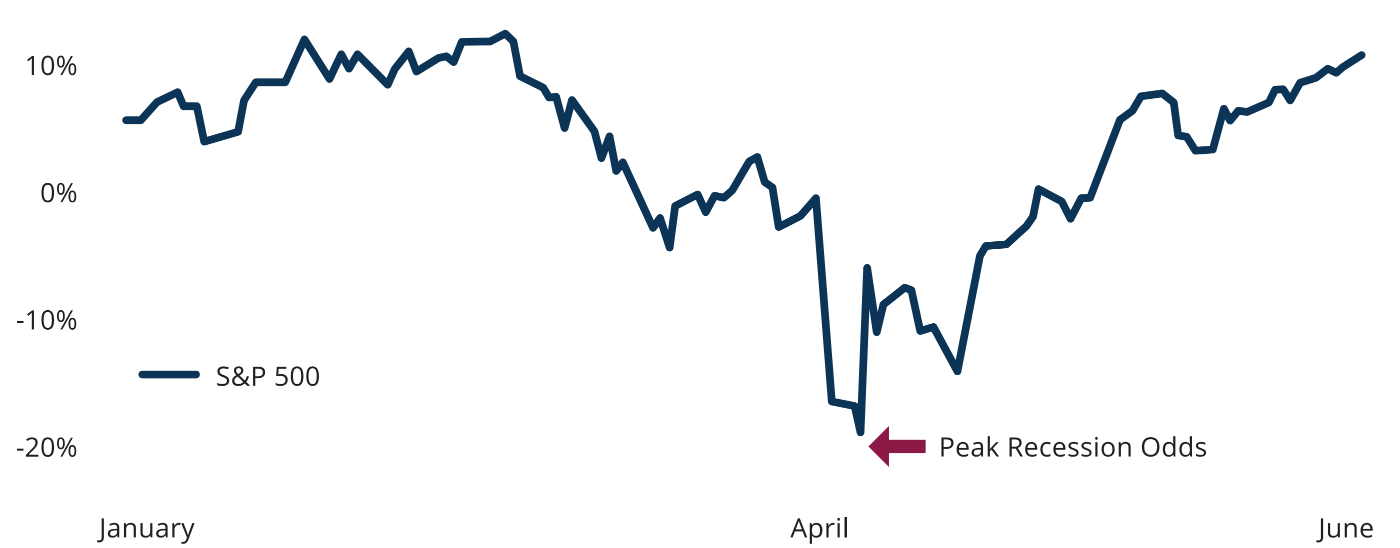
## Actions Over Words

**George Hosfield, CFA**
*Chief Investment Officer*
*Director*

**With the S&P 500 tumbling 18% in April from its February high, and subsequently rallying back to an all-time high, the second quarter was a wild rollercoaster for investors.** In typical reactionary fashion, at the market trough in April, the perceived likelihood of a recession soared to 65% from just 20% in January. Despite this, none of the underlying economic fundamentals materially changed. Rather, it was an emotionally driven reaction. Following the market, recession probability fell back to 20% by quarter end. Please see the piece titled "Turn Down the Volume" in last quarter's Outlook publication for a timely reminder to not fall prey to such market volatility.

With the S&P 500 finishing up 11% on the quarter, and at an all-time high, it appears investors have concluded the tariff fog is starting to clear. While tariff rates are expected to be higher than they were at the beginning of the year, the current thinking is that tariffs will ultimately settle around 12%, an economically manageable level. Investors now can focus on market fundamentals … which remain healthy. Specifically, corporate earnings are forecasted to grow in high single digits in 2025. While stocks aren't cheap, we are reaffirming our expectation for a stock return less than earnings growth, which we may have already already experienced for the year.

**SOMETIMES THE HARDEST (BUT CORRECT) THING TO DO IS NOTHING**




*Investors cannot invest directly in an index. Source: FactSet*

Speaking of emotions, as the title of this quarter's piece alludes, there continues to be a significant disconnect between how consumers feel and how they behave. To illustrate this point, while measures of consumer confidence have never returned to their pre-COVID levels, consumer spending—the engine of the U.S. economy—has continued its climb to highs historically incongruent with such subdued levels of consumer sentiment. For more on this dichotomy, please see "Retail Therapy" that immediately follows this article. Of course, the primary reason for robust consumer spending has been a resilient labor market. With unemployment standing at 4.2%, wage growth of 3.9% and with as many job openings as there are people looking for work, this is somewhat of a "Goldilocks" situation. Unemployment is low, and yet, there is enough slack to keep wage pressures from stoking inflation.

With no interest rate moves year-to-date by the Federal Reserve and a 10-year Treasury yield that remained rangebound within 0.5%, bonds have performed quite well. Specifically, the Aggregate Index is now up over 4% through six months, and bonds served quite well as a ballast in balanced portfolios when equities faltered in April. Looking ahead to the second half of the year for the bond market, the major question is not *when* but *if* the Federal Reserve will want, or need, to cut rates. Investors have spent much of the last several months waiting for the proverbial hammer to drop regarding any effects from tariffs on either inflation or the labor market. So far, any impact has been minimal.

Federal Reserve Chair Jerome Powell is comfortable holding rates steady until either uncertainty from new tariff policy subsides, or any notable weakening to the labor market occurs. Our outlook remains for no more than two rate cuts by year end ... and we wouldn't be surprised if there were none.

Geopolitical risks have clearly risen in the aftermath of Israeli and U.S. strikes targeting Iran's nuclear program. To date, the geopolitical fallout has been surprisingly minimal. Economically, the primary risk is a spike in energy prices.

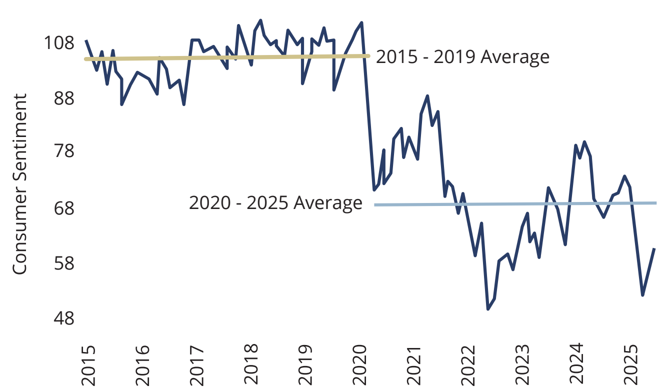
However, the impact on inflation and global GDP should be limited as most of the world has very limited trade exposure (apart from oil) to Iran, Israel and the Middle East more broadly. For investors already grappling with policy uncertainty, elevated tensions in the Middle East add an extra layer of complexity. In this time of increased anxiety, investors must be diligent to stay true to their long-term investment plans. ■

## Retail Therapy

**Peter Jones, CFA**
*Executive Vice President, Equity Research and Portfolio Management*

**The mood among American consumers, by many accounts, is grim. This sense of uncertainty and anxiety has been pervasive in 2025.** Both military and trade wars continue to simmer as political divisions widen. The cumulative weight of inflation, concerns about the U.S. fiscal situation and interest rates that remain higher than their pre-COVID levels—all contribute to a collective unease. The alarmist tone from much of media only serves to amplify these anxieties, creating a climate where apprehension seems to be the default setting. Since the pandemic, we have observed a persistent breakdown between consumer attitudes and underlying economic fundamentals.

**U.S. CONSUMER SENTIMENT REMAINS BELOW PRE-COVID LEVELS**




*Source: University of Michigan*

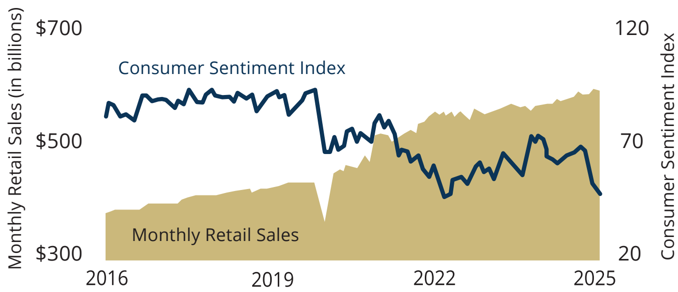
Historically, consumer confidence indices have served as reliable barometers of economic health. A confident consumer, one who feels secure in their job and financial future, is more likely to spend money and thereby drive economic growth. Conversely, a fearful consumer tightening their purse strings can create a self-fulfilling prophecy of economic slowdown.

This historical correlation has been thrown into question in recent years. "Soft data" indicators, such as consumer sentiment surveys and even manufacturing surveys, are consistently signaling weakness. "Hard data" continues to tell a story of resilience. This breakdown suggests that these sentiment-based surveys may no longer be as reliable in forecasting economic activity as they once were.

Consumer spending represents nearly 70% of U.S. economic output and is the most critical factor of economic growth. This is why we consistently emphasize that, "As goes the consumer, so goes the U.S. economy." Given this backdrop of widespread trepidation, one might expect to see a significant contraction in consumer spending. Yet, here lies the paradox: This negative sentiment is conspicuously absent from real-world data. Retail sales, a tangible measure of consumer behavior, continue to rise, defying prevailing pessimism. Whether it's online purchases, big-ticket items, or everyday essentials, Americans are, by and large, still opening their wallets.

While surveys and anecdotes paint a picture of a cautious consumer, their actual spending habits tell a different story. The resilience of retail sales suggests that, despite their stated anxieties, consumers are

**"RETAIL THERAPY" THE CONSUMER IS SPENDING**




*Date: April 2016 - April 2025*
*Source: University of Michigan, Federal Reserve Bank of St. Louis*

either finding ways to cope with economic pressures, or their concerns haven't yet translated into a significant curtailment of discretionary spending.

The underlying strength of the labor market is a key driver of continued consumer spending. As of May 2025, wage growth continues to be robust, increasing by approximately 4% year-over-year. Furthermore, the number of job openings remains high, roughly matching the number of unemployed individuals.

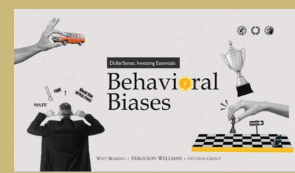
This ratio, hovering near 1-to-1, indicates a labor market that is effectively in equilibrium. There is a job available for every person seeking one. Although the demand for labor has softened in the last couple years, this isn't a sign of a market in distress. Rather it is one that is balanced, providing a strong foundation for consumer spending and job security, regardless of how they may feel about the headlines.

With healthy consumer spending and a robust labor market in terms of both employment and wages, we are inclined to base our investment decisions on what consumers are doing rather than what they are saying. We will continue to prioritize the empirical evidence of economic activity over the fluctuating tides of sentiment. We would change our view if we began to see undeniable cracks forming in the bedrock of the labor market—a sharp rise in unemployment or a material contraction in consumer spending.

For now, while the American consumer may be concerned about their future, they're still shopping. In the world of economics, action speaks louder than any lament. ■

# DOLLAR SEN$E

**To celebrate 50 years in business, we're offering our DollarSense financial education program — free to the public. These self-paced videos cover investing basics, saving, taxes and risk management.**


In support of financial literacy, **Ferguson Wellman** has pledged $50,000 to nonprofits, including Financial Beginnings and Junior Achievement. We'll also spotlight financial education at the Portland Timbers 50th anniversary game on July 19.

## Navigating the Retirement Shift

**Samantha Pahlow, CTFA, AWMA®**
*Wealth Management Chair*
*Executive Vice President*

**Retirement is a milestone most people spend decades planning for, ensuring they have a strong financial foundation to support their ideal retirement lifestyle.** Yet, stepping away from a lifelong career as well as shifting from saving to spending can be more emotionally impactful. While most are justifiably excited about the prospect of retirement, the transition can bring unexpected challenges.

Challenges in retirement can include:

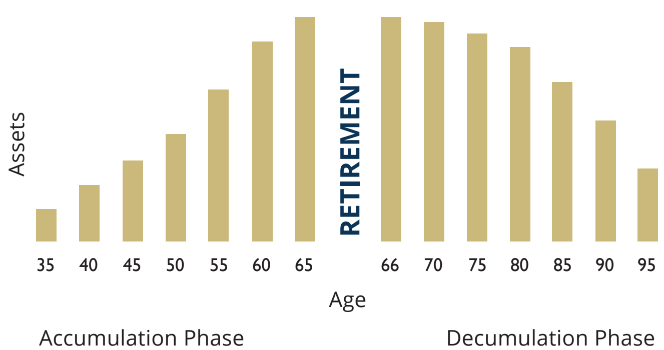
- **Distribution Mindset:** After years of accumulating wealth, the idea of drawing down those assets can feel counterintuitive or even guilt laden. It's important to recognize this emotional shift.
- **Loss of Career Identity:** For many, a career is a significant part of their identity. Leaving it behind can lead to a sense of loss and disconnection.

- **Disruption of Routine:** A structured daily routine provides a sense of purpose, predictability and organization. The sudden loss of your work-related routine can be disruptive and frustrating.

Despite these challenges, there are several steps you can take to lay the groundwork for an enjoyable transition into retirement.

1. **Build Financial Stability:** First and foremost is to have a solid financial plan, ideally starting many years before retirement. Knowing you have the financial means to support your lifestyle, especially in today's world of increasing longevity, can provide a feeling of security and alleviate the stress of living off your savings.

**ACCUMULATION AND DECUMULATION OF WEALTH**




2. **Find New Purpose and Social Connections:** With your increased time, consider volunteering, hobbies or community involvement. These activities can provide a sense of purpose and fulfillment. They can help maintain routine and structure, and foster a sense of belonging and community—all of which support emotional well-being.
3. **Stay Active and Healthy:** Prioritizing physical fitness and mental health can contribute to a more satisfying and enjoyable retirement. It's also wise to prioritize travel and other physically demanding "bucket list" goals early in your retirement. You are likely to be more physically fit and able to enjoy these experiences to their full potential.
4. **Consider Phased Retirement:** One effective way to ease into retirement is through a phased retirement—a gradual reduction in reducing work hours and responsibilities. According to a recent report from the Stanford Center on Longevity, phased retirement can help maintain a sense of purpose and social engagement. It also extends your earning years and may come with continued healthcare benefits, reducing the draw on your retirement assets.

The transition into retirement is an exciting one. Acknowledge the significance of this milestone and take proactive steps—such as ensuring a solid financial foundation, prioritizing physical and emotional health, finding new or renewed purpose and maintaining community and social connections. Retirees can navigate this next chapter with confidence and satisfaction. Embracing these needs can help ensure that your retirement years are not only financially secure but also richly rewarding. ■

## Why Clear Financial Goals Matter in Retirement Planning

**Chris Bixby, CFP®, EA**
*Senior Vice President, Portfolio and Wealth Management*

**Retirement represents the achievement of financial stability and being able to choose whether or not to work, a goal many of us share.** But what does retirement really mean from a financial standpoint?

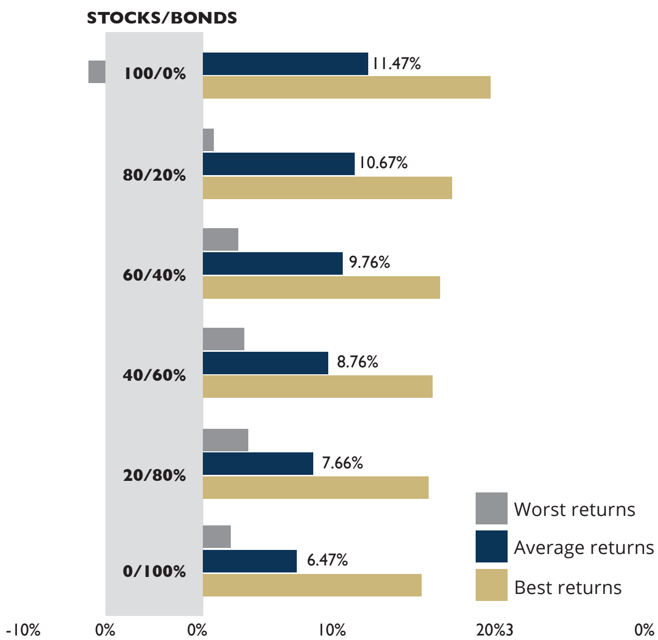
Clients often approach us with a desire to target a specific rate of return in their portfolio. An important question to consider is, "What does that rate of return get you?" The rate of return is only meaningful if it helps you achieve your goals. If the return is higher than necessary, you may be taking on excessive risk. Even worse, if it's too low, it may fall short of funding your lifestyle aspirations.

At the heart of retirement planning is establishing personalized goals that reflect your desired lifestyle. These typically include essential expenses (utilities, groceries, etc.), medical costs, travel plans, home improvements, vehicle purchases, charitable giving and more. The more personalized these figures are, the more effective your planning will be. This allows the critical question of having enough to retire with confidence to be answered with greater clarity. More importantly, these goals directly influence how your portfolio should be allocated.

Your portfolio should align with your goals. If you require significant monthly income to cover expenses, a higher allocation to income-producing investments, such as dividends and interest, may be appropriate. If many of your expenses are discretionary, you may

**ROLLING HISTORICAL RETURNS BASED ON ASSET ALLOCATION**

**10-YEAR RETURNS (1950-2024)**




*Data as of December 31, 2024*

*Stocks = S&P 500 Bonds = 35% Treasury bonds and 65% corporate bonds*

*Past performance may not be indicative of future results. Investors cannot invest directly in an index.*

*Source: NYU Stern School of Business*

need less income and can potentially aim for higher long-term returns. Planning for large expenses in the near future may call for a dedicated allocation to bonds or other stable assets to preserve capital for those needs.

In retirement, both short-term and long-term needs must be met, and each requires a different allocation. Expenses due in the next few years should be funded through more stable investments, while longer-term needs can be supported by investments with higher growth potential. Historically, equities have delivered strong returns over longer time horizons, making them well-suited for future spending needs. The balance between short-term and long-term goals influences the appropriate allocation needed to meet those goals.

Understanding your goals and how they influence the timing of your portfolio withdrawals helps your portfolio manager determine the right balance of bonds and equities for your unique situation. This allocation sets the foundation for your portfolio's expected return; one that is aligned with achieving your personal financial goals. ■

## Preparing for Fire Season and Other Potential Risks


**Mary Lago, CFP®, CTFA**
*Chief Wealth Strategist, Principal*


**What are the odds that two employees at Ferguson Wellman have parents who lost their homes in wildfires?** The chances seem pretty slim through the windshield, but very real through the rearview mirror. Unfortunately, it is all too easy to believe we are immune from these losses.

We assume disasters only happen to other people and fail to prepare for them. With the benefit of hindsight, we encourage a review of your insurance coverage and to take a few other precautionary measures to lessen the negative impact from fires, storms or other unexpected events.

Speaking from personal experience, the loss of a family home and personal belongings is disruptive from both a practical and sentimental perspective. Avoiding surprise gaps in insurance coverage can lessen the trauma. In reviewing your policy, be sure to consider (1) the amount and general nature of your coverage, (2) deductibles and (3) limitations for both your dwelling and personal property.

With rising building costs, it is important to re-evaluate your dwelling coverage limits with your insurance agent and make necessary adjustments. You will want to verify that you could rebuild your home including any remodels or home improvements, to the desired quality and current building codes. Some policies allow for a defined percentage of overages to cover higher rebuilding costs, and this may be a consideration in establishing your limit.

The contents of your home or personal property are often insured as a percentage of your dwelling coverage. Typical contents coverage ranges from 50% - 70% of your dwelling limits. In other words, you might be eligible for $500,000 - $700,000 of personal property reimbursement if the dwelling is insured for $1 million. To be eligible for reimbursement, you likely need a detailed list, evidence that you owned the items and their value. Documenting your belongings and ensuring access to that documentation—even if your home was destroyed—can greatly simplify the claims process and the emotional drain of recalling the items you no longer have.

An important part of understanding your personal property coverage is to know the nature of your coverage and limitations. Some policies reimburse personal property at “actual cash value” and others at “replacement cost.” “Actual cash value” results in lower reimbursement rates as the value of items is reduced by depreciation. “Replacement cost” represents more comprehensive coverage and is worth exploring as an endorsement (if not included in your base policy).

*Paradise, California in 2018. Source: NBC*

*Pacific Palisades, California in 2025. Source: Getty Images*

Additionally, items such as jewelry, coins, precious metals, cash, guns, art, wine and other collectibles are subject to stringent limits without specific endorsements.

In reviewing your insurance, double check that your policy covers the named owner of the property. In other words, the title on the deed needs to match the listed insured on the policy. As we engage in estate planning, it is not uncommon to retitle our homes into the name of a revocable living trust, LLC or an irrevocable trust. Such changes should be coordinated with your insurance agent so that they can include any additional trustees, managers and/or entities in the policy.

Protecting the value of your home is important from a financial perspective. Being prepared with an emergency plan of how to connect with family, ensuring access to medications, protecting pets and preserving memories are also worthy of consideration.

**EXAMPLES OF GOOD PLANNING INCLUDE:**

- Developing a family plan in the event of an emergency including a key contact, evacuation route and meeting point.
- Keeping an emergency kit, extra medications and a cell phone charger in your vehicle
- Periodically documenting the contents in your home with a video or photos
- Backing up family photos, personal files and financial documents in the cloud
- Making a list of important items you would like to pack if there is adequate time
- Most of all, once disaster strikes, focus on personal safety!

If you have any questions, the team at Ferguson Wellman and West Bearing can assist, whether it be preparing for a disaster or recovering from an unexpected loss. ■

## A Long, Evolving History with Institutional Clients

**Jason Norris, CFA**
*Director, Equity Research and Portfolio Management*

**In 1975, the founders of Ferguson Wellman saw an opportunity to manage money for workers, setting the stage for a 50-year, evolving relationship with our institutional clients.**

*President Ford Signing ERISA, 1974. Source: Pension Benefit Guaranty Corporation*

On September 2, 1974, President Ford signed the Employee Retirement Income Security Act (ERISA). Our founders often reference this act as one of the catalysts for starting our firm. ERISA was designed to help Americans save for retirement and provide protections to workers regarding the funding of employer plans.

Our three founders left the brokerage business to become registered investment advisers (RIAs). This business approach provided more options for retirement plans using a fee-based model, rather than commissions, to construct client portfolios. This model was thought to better align the fiduciary responsibility of investment firms by acting in the best interest of clients' financial needs.

In the 1970s and 1980s, retirement funds, corporate reserves, nonprofit foundations and endowments represented 75% of Ferguson Wellman's total assets. As the firm built relationships with institutions throughout the West, trustees and their families began to hire our team to manage their personal assets. Today, Ferguson Wellman and West Bearing manage $2.2 billion for 125 institutional clients.

### OUR INSTITUTIONAL OFFERINGS

- Analysis of past market activity and economic trends
- Investment policy statements development
- Portfolio constructionand asset allocation strategies
- Plans for cash flow/operating fund contingencies
- Grants and capital campaign investments and distribution
- Investment education and philanthropic resources
- Institutional knowledge and guidance for new trustees

The institutional side of our business is very different from how we serve individuals and families—and the institutional category is also varied. They range from union pension plans and community colleges to cemeteries, social services and stewardship organizations, to name a few.

2025 has been a unique year for many of our institutional clients. In June, our firm invited nonprofit clients and leaders from boards we serve on to discuss recent executive orders, budget cuts and Supreme Court rulings. Colleagues Jim Coats and Mary Lago, CFP®, CTFA, led discussions with Erin Zollenkopf from SM Jones & Co. and Penny Serrurier from Stoel Rives. Their work with nonprofits helped set the stage for a productive conversation with regional executives on how to navigate uncertainty and stay focused on their respective mission and long-term goals. ■