



OUTLOOK *and* INSIGHTS

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WHAT'S INSIDE



AI to the Rescue

George Hosfield, CFA
Chief Investment Officer and Director



Inside the Cloud

Joe Herrle, CFA, CAIA
Senior Vice President, Alternative Assets
and Portfolio Management



Where Are My Assets, Really? Understanding Counterparty and Custody Risk

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



Managing Impactful Risks – Aligning Your Financial Life with Your Values

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



Cybercrime is Evolving. Is Your Protection Keeping Pace?

Charissa Anderson, CFP®, CDFA®
Executive Vice President, Portfolio and Wealth Management



College and University Endowments Face a New Balancing Act

Jim Coats
Executive Vice President, Portfolio Management

Ferguson Wellman, founded in 1975 is a privately owned registered investment adviser, established in the Pacific Northwest. As of March 31, 2026, the firm managed over \$10.6 billion for 1,129 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of \$4 million or more.

Octavia Group, 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.

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

**Investment Excellence
Lifelong Relationships**





AI to the Rescue

George Hosfield, CFA
Chief Investment Officer and Director

At the close of the first quarter, the capital markets were digesting an array of economic shocks. Geopolitical tensions in the Middle East, rising energy costs and shifting expectations regarding Federal Reserve policy all contributed to the pullback in stocks. Additionally, early fears regarding artificial intelligence (AI) displacing traditional technology roles triggered a significant selloff in software equities. However, as the second quarter progressed, the market shifted its sights from the near-term economic risks associated with oil-driven inflation, to the substantial earnings potential currently being generated by the investments in AI infrastructure ... particularly benefiting semiconductor companies.

AI Investment is Propelling Economic Growth

The sheer scale of capital currently being allocated to AI is acting as a powerful tailwind for the broader economy. U.S. AI infrastructure capital expenditures are projected to double over the next year, increasing from \$380 billion in 2025 to \$760 billion in 2026. While this specific infrastructure investment represents only 1.5% of total U.S. gross domestic product, this investment will be an outsized contributor to the trajectory of the economy as it will account for 25% of the projected economic growth for all of 2026.

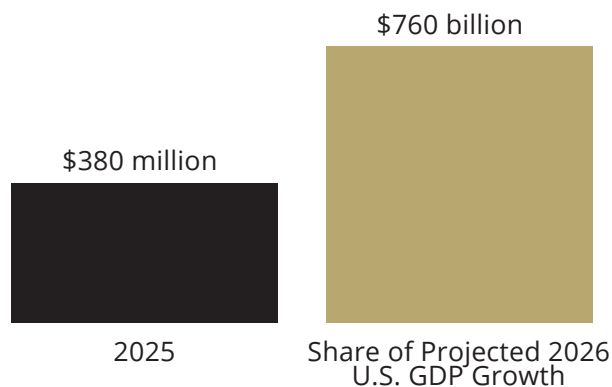
In round numbers, consumer spending is expected to make up 50% of 2026 economic growth, while government spending and other capital investments are expected to account for the remaining 25%.

Supported by these drivers, U.S. economic data continues to surprise to the upside. With unemployment at only 4.3% and payroll growth ahead of expectations, the labor market has improved compared to the second half of 2025. Furthermore, as a result of the capital spending required to build data centers, power generation and networking equipment for this "AI supercycle," manufacturing indicators have begun to turn higher after a prolonged period of weakness.

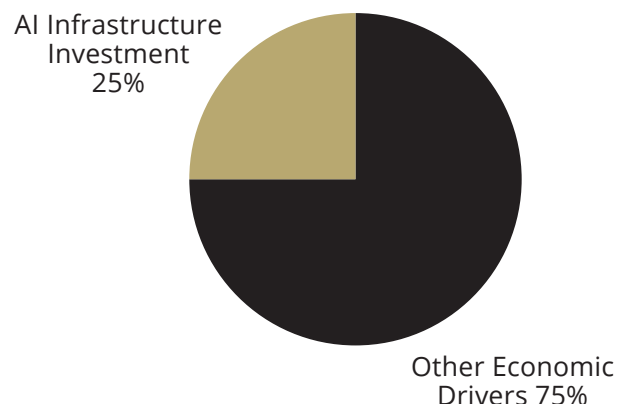
Earnings Estimates are Surging

This economic backdrop has led to steady and significant upward revisions for corporate profitability. Specifically, propelled by the technology and energy sectors, S&P 500 earnings growth estimates for 2026 have ballooned from 15% at the beginning of the year to 25% today. It is important to note that recent stock market gains have been fundamentally supported by underlying business performance rather than mere speculation. To that end, from a valuation standpoint, while the S&P 500 has enjoyed a return approaching double digits through the first half of the year, because corporate earnings are growing at a faster pace than price appreciation, the market valuation (e.g., price/earnings ratio) has actually contracted, resulting in a market that is 9% cheaper today than it was at the start of the year.

U.S. AI Infrastructure Capital Expenditures



Share of Projected 2026 U.S. GDP Growth



Source: Goldman Sachs

The AI Job Market Reality

Despite the early concerns that rattled software stocks in the first quarter, so far employment data indicates that AI is not eliminating software engineering roles on a net basis. On the contrary, software developer job postings have accelerated higher over the last few months, a trend that aligns directly with the overall increase in AI investment. As the practical applications and viability of AI as a revolutionary technology become clearer, companies recognize that human developers are strictly necessary. These professionals are required to validate, implement and secure the vast amounts of code generated by AI models, leading to job growth in the sector rather than workforce reduction.

Inflation and Interest Rates

While our outlook for the economy continues to be positive, inflation remains the key risk to our constructive thesis. Specifically, oil prices have pushed headline inflation higher in recent months, culminating in the May headline inflation reaching 4.2%. We recognize that sustained inflation above the 4% threshold presents tangible economic risks, including the erosion of consumer purchasing power, valuation compression for equities and the necessity for higher borrowing costs. However, at this juncture, we expect the near-term inflationary pressures driven by energy markets to moderate, and we anticipate inflation will settle between 3.5% and 4.0% by year-end. Though moderating, this level of inflation, combined with better-than-expected economic growth, supports the likelihood that interest rates will remain higher for longer as the Federal Reserve will likely place a priority on maintaining price stability.

Client Portfolios

Reflecting our confidence in the current economic environment, we have made modest, yet deliberate adjustments to client portfolios to align with these macroeconomic trends. Given the combination of strong economic growth and higher inflation, we reduced our exposure to defensive, interest rate sensitive sectors, specifically trimming our allocations to utilities and consumer staples. Conversely, the ongoing strength and visibility in AI capital spending prompted us to increase our exposure to technology and basic materials as these industries are positioned to benefit from providing the resources and raw materials, that are essential for the multi-year AI infrastructure build out. ■



Inside the Cloud

Joe Herrle, CFA, CAIA

*Senior Vice President, Alternative Assets
and Portfolio Management*

Although we appreciate access to a wealth of data in our offices, a site visit no doubt provides a more holistic perspective for us.

Our team recently spent a morning touring a sprawling data center campus in Hillsboro, Oregon. Even for a group that follows this industry closely, the scale was staggering. The roughly 90-acre site is split into five mega-facilities, more than a million square feet of computing space drawing over 250 megawatts of power, that could supply a small city. Walking the floors, we came away with a clearer picture of what these buildings actually do, with several of our long-held misconceptions corrected.

At its simplest, a data center is a heavily secured warehouse for computers. Rows of servers store the photos, emails, financial records and streaming videos we rely on every day and increasingly the artificial-intelligence models reshaping how we work. When you send a text, check a balance, or ask a chatbot a question, a building like this one does the work. The “cloud”—simply computing and storage delivered over the internet rather than from your own device—is not abstract. It is concrete, steel and silicon humming away in places like Hillsboro.

Two Myths Worth Correcting

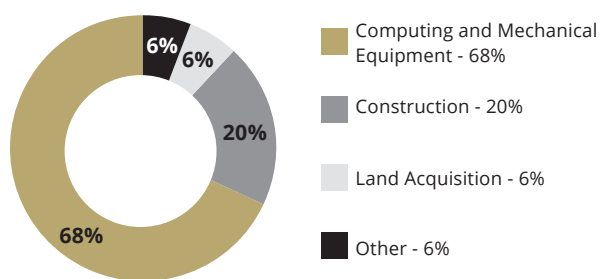
The first myth is water. Headlines often describe data centers as draining local water supplies for cooling. The campus we visited uses none; it relies on a closed, air-based cooling system that places no strain on the region’s water. The second myth is the grid. Critics argue that these facilities only consume electricity and push up rates for everyone else. This site is moving in the opposite direction: it plans to generate its own power on-site, paired with large-scale battery storage, and to feed electricity back to the grid at peak demand—a design that can stabilize and possibly lower local energy prices.

A Wider Economic Footprint

The economic impact reaches well beyond the fence line. Building one of these campuses is enormously capital-intensive, and most of that money flows outward. Roughly two-thirds of the spend goes to

computing and mechanical equipment (chips, servers, transformers and cooling systems), supporting semiconductor, electrical and manufacturing firms nationwide. Power utilities, fiber and networking providers, and real-estate developers benefit as well. An additional one-fifth funds construction, employing local tradespeople for years. The ripple is substantial: industry research estimates that each direct data center job supports more than seven additional jobs across the wider economy, from electricians and HVAC technicians, to truck drivers and restaurant staff. The facilities also have become major local taxpayers, helping fund schools, roads and public services.

Where the Money Goes Share of data capital spending



Source: Virginia JLARC analysis via IMPLAN modeling. Job multiplier: CBRE Research — each direct job supports ~7.4 ancillary jobs.

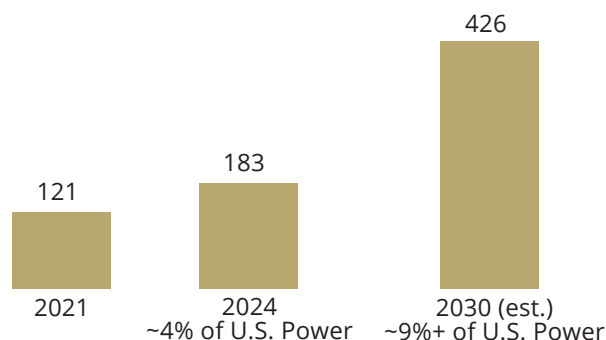
A Catalyst for an Energy Renaissance

Perhaps the most consequential effect is on energy itself. U.S. data centers consumed roughly 4% of the nation's electricity in 2024, and that share is expected to more than double by 2030 as AI scales. Rather than a strain, this demand is becoming a catalyst for an energy renaissance. To power these facilities reliably and cleanly, technology companies are funding new natural gas, advanced nuclear (including small modular reactors), geothermal, solar and grid-scale battery projects. These investments that may ultimately benefit all electricity users, not just data centers.

This matters beyond any balance sheet. Few inputs are as closely tied to human well-being as affordable, abundant energy. Reliable, low-cost power raises living standards, lowers the cost of goods and widens access to healthcare, education and opportunity. If the AI build-out accelerates innovation in how we generate and store electricity, the benefits could reach far beyond the server racks.

None of this is lost on us as investors. Data centers and the broader ecosystem around them, such as equipment makers, power producers, utilities and

U.S. Data Center Electricity Use is Set to Surge Annual consumption, terawatt-hours (TWh)



Source: International Energy Agency, "Energy and AI" (base case); Lawrence Berkeley National Laboratory; EPRI. 2030 figure is a projection.

infrastructure owners, sit at the center of a multi-year capital cycle. For that reason, this theme is a core thesis within our equity and alternative-asset strategies, and one we will continue to follow closely on your behalf. ■



Where Are My Assets, Really? Understanding Counterparty and Custody Risk

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

Investors often focus on what they own and how those investments may perform, paying less attention to where assets are held and who stands behind them. Past events, including the very different failures of FTX (2022) and Silicon Valley Bank (2023), have made those questions more tangible. If something goes wrong with the institution holding your assets, what happens next?

A common misconception is that money "in" a brokerage account works the same way as money "in" a bank account. It does not. The two arrangements differ in how your assets are held, who has a claim on them and what protections apply if the institution fails.

Banks and FDIC Coverage

When you deposit cash at a bank, the bank uses that money to make loans and conduct other activities, owing you the balance back and often paying interest. In effect, you are a creditor of the bank. If the bank fails, balances above applicable insurance limits may be at risk.

This is where Federal Deposit Insurance Corporation (FDIC) insurance comes in. It covers eligible deposits at FDIC-insured institutions up to \$250,000 per depositor, per insured bank, for each ownership category. It does not cover investment losses or securities.

For most depositors, this is low risk. Still, for balances well above the limits, it may help to review the location and titling of your cash. Because limits apply per depositor, per ownership category, titling can multiply coverage. A married couple, for example, may be able to qualify for \$1 million of coverage at one FDIC-insured bank through properly titled individual and joint accounts, assuming they have no other deposits at that bank in the same ownership categories. Coverage limits and ownership-category rules can be complex; individuals should consult with their financial professionals regarding their specific circumstances.

Brokerage Accounts and SIPC Protection

A brokerage account is structured differently. When you hold securities—stocks, bonds, mutual funds or exchange-traded funds (ETFs)—in a brokerage account, those assets are generally held for your benefit by the brokerage firm or custodian. The custodian provides safekeeping, recordkeeping, trade settlement and reporting, but fully paid securities are generally required to be kept separate from the custodian’s own assets. In the event of a custodian failure, if assets have been properly maintained, they continue to be the property of the investor and could be transferred to a new custodian.

Securities Investor Protection Corporation (SIPC) protection applies when a SIPC-member brokerage firm fails, and customer securities or cash are missing. Coverage is limited to \$500,000 per customer,

including up to \$250,000 for cash held for the purpose of purchasing securities. Many large custodians also carry additional private insurance, often referred to as “excess SIPC,” which may extend protection beyond statutory SIPC limits, subject to program terms, aggregate limits and exclusions. SIPC does not protect against market declines, unsuitable investments, bad advice or assets held outside a SIPC-member brokerage firm.

Ferguson Wellman is an investment adviser, not a custodian. Our clients’ assets are primarily held at Charles Schwab, an independent qualified custodian, in accounts titled in the client’s name. As of this writing, Schwab states that its combined SIPC and excess SIPC coverage provides protection up to an aggregate program limit of \$600 million. This is limited to a combined return of \$150 million per customer, including up to \$1.15 million in cash. Coverage is subject to program terms and does not protect against market losses. Where assets are custodied elsewhere, your portfolio manager or client relationship associate can help answer questions about applicable coverage.

A Note on Assets Held Outside Traditional Custody

Exercise caution with assets held outside traditional bank or brokerage custody. If an investment is held outside a qualified custodian—for example, certain private investments, crypto platforms or a promissory note from private issuers—it’s possible that neither the FDIC nor SIPC protections described below will apply. That does not necessarily make the investment inappropriate, but it changes the risk profile and warrants additional due diligence.

Putting It Together

Custody arrangements, account titles and insurance coverage may not be visible day-to-day, but they are important parts of your wealth architecture.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)	SECURITIES INVESTOR PROTECTION CORPORATION (SIPC)
Applies to eligible bank deposits	Applies to customers of SIPC- member broker-dealers
Helps cover cash losses if a bank fails	Helps restore missing securities and cash if a brokerage firm fails
Coverage generally up to \$250,000 per depositor, per ownership category	Coverage generally up to \$500,000 per customer
Does not cover stocks, bonds, mutual funds ETFs or market losses	Does not protect against market losses or poor investment performance

Established protections—including FDIC insurance, SIPC protection, SEC custody rules for advisers and customer protection rules for broker-dealers—are designed to provide meaningful safeguards. These protections, however, are not interchangeable and do not cover every type of risk. Understanding how they work can help you make more informed decisions about where and how your assets are held. ■



Managing Impactful Risks —Aligning Your Financial Life with Your Values

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

We can frame risks through many lenses, but the most common interpretations relate to insurance to mitigate the cost of low frequency, high severity events and managing the downside risk of investment assets. Most of us insure against losses such as car accidents, home damage, liability risks and unexpected death. A more progressive view of portfolio management frames risk as the likelihood of not being able to achieve your financial goals.

The advantage of this more progressive view is the recognition that accepting a tolerable level of risk may significantly improve the likelihood of achieving highly critical goals as time progresses. Fiduciary law has evolved dramatically over the last 30 years in recognition of Modern Portfolio Theory driving total return investing. These insurance and portfolio risks are well recognized by both clients and advisers.

Our experience suggests that there is a risk that is both high frequency and high severity that often goes unrecognized. This is the risk of misaligning our financial life with our deepest values. Are you underliving, undergiving or misaligning your financial future? What would you regret if you died tomorrow? These are risks worth managing.

Underliving: Ask yourself, what is your vision of your best life? What do you envy when you hear others are doing? You may say with a laugh, I would like to be on a beach in Hawaii, spend more time with the grandkids, take my adult children to Africa, retire, remodel, etc., but are you focused on achieving your dearest goals? Many have the financial ability to live their vision of their best life if they pause, evaluate and plan.

Under-giving: Do you watch your community or your family struggle and think to yourself that the resources they'll receive after you die will improve their circumstances? Have you considered gifting more now? When it comes to philanthropy, tax-wise giving can greatly reduce the financial cost, often to less than thirty cents on the dollar (depending on applicable tax rates), and structuring your gift for current impact, mission impact or an endowment into perpetuity can be deeply satisfying. Family giving requires thoughtful planning in terms of the life impact and motivations. Warren Buffett has shared that we often give to our children to create independence and gratitude, but careless giving can create dependence and resentment. Thoughtful family giving can allow you the pleasure of watching your family enjoy the bounty of your stewardship, increase the skills of future heirs and mitigate taxes.

Managing Your Biggest Risks

Aligning your financial life with your values



Underliving

Live your best life today. Your dreams are worth planning for.



Undergiving

Thoughtful giving creates impact today and a legacy that lasts.



Misaligning

Ensure your plans and documents align with your intentions.

Misaligning: Are you confident that all your financial accounts and estate planning documents are in order? As we begin relationships with clients or review their details, it is not uncommon for us to hear who their successor trustee will be, how their assets will be split or their understanding of the tax structure, only to see something quite different once we read the documents. Not only is it worth reviewing your documents to ensure things are aligned with your understanding, but it is worth asking yourself if any evolution is appropriate. Plans have stages and while some plans are designed to function differently during different phases (e.g., while our heirs are minors versus adults), our perspective can also change and so do the available financial structures.

One of the most rewarding aspects of our work as investment advisers is to help families align their

lifestyle, giving and legacy with their values. Few of us could quickly recite the vision of our perfect life or the exact impact we want our wealth to have on our community and family now or our precise legacy. Given the frequency of misalignment and magnitude of the impact, we encourage you to reflect on whether your financial life is fully aligned to your values. We are here to help you evaluate your financial capacity, structure smart giving and facilitate your legacy. ■



Cybercrime is Evolving. Is Your Protection Keeping Pace?

Charissa Anderson, CFP®, CDFA®
Executive Vice President, Portfolio and Wealth Management

As the digital landscape evolves, so does the nature of cybercrime. For many, the term once evoked images of hackers breaking into computer systems and stealing data. While system breaches remain a threat, today cybercrime more often relies on manipulating people. Through impersonation, spoofed communications and AI-generated content, criminals trick individuals into authorizing fraudulent transactions themselves.

In 2025, reported cybercrime losses exceeded \$20 billion, with the vast majority tied to cyber-enabled fraud rather than traditional hacking. Investment fraud was the largest single driver of those losses, followed by business email compromise. With both tactics relying on deception rather than system breaches, good individual judgment is just as important as secure systems.

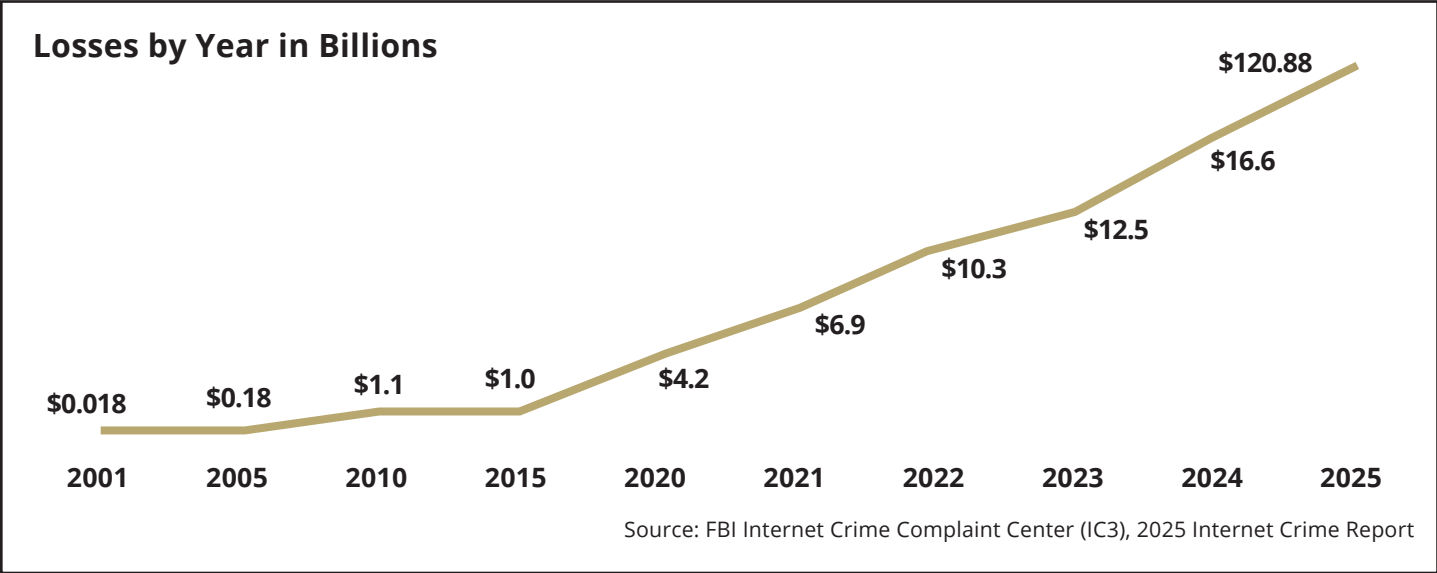
Good habits remain the first line of defense. Independently verifying requests, maintaining strong passwords with multifactor authentication and pausing before acting on financial requests can significantly reduce exposure.

When preventative measures fail, cyber insurance can serve as a financial safety net. Coverage varies by policy but may include damages related to social engineering, identity theft, ransomware and data recovery. Policies can be added to an existing homeowner’s or commercial policy or purchased as a standalone product, with pricing dependent on coverage limits and scope.

Not all policies, however, cover the same risks. Social engineering losses may require specific endorsements, and some policies exclude coverage when human behavior contributes to the breach. Reading the fine print and adding the appropriate endorsements before a loss occurs can help avoid surprises during a claim.

Beyond financial protection, many policies provide access to forensic specialists, legal counsel and assistance coordinating with financial institutions and law enforcement. This support is often most valuable immediately after an incident, when decisions about containment and recovery need to happen quickly. Without it, individuals and organizations may be left navigating those steps alone, often with added cost.

The need for cyber insurance depends on existing safeguards, current coverage and where gaps exist. For high-net-worth individuals, complexity from multiple custodians, entities or staff can increase exposure and the likelihood of an uncovered risk.



Nonprofits face a different set of vulnerabilities. Organizations that handle donor data, online gifts and wire transfers are attractive targets. Impersonation of board members and finance staff is a particular risk in environments with multiple decision makers.

As cyber threats continue to evolve, so too should one's approach to protection. Our team collaborates with insurance professionals to evaluate risk exposures as part of a client's broader financial picture. Through Octavia Group, our private family office, clients have access to an annual insurance review to ensure coverage remains current as circumstances change. ■



College and University Endowments Face a New Balancing Act

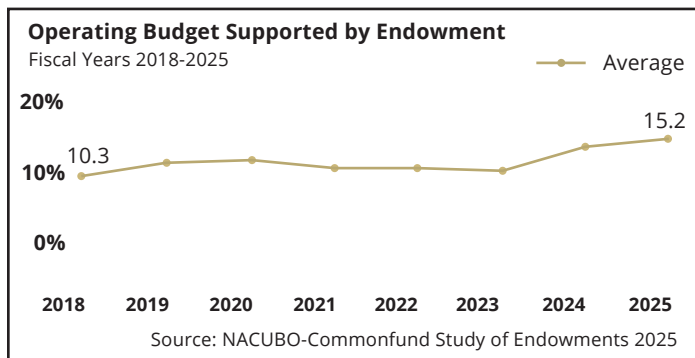
Jim Coats
Executive Vice President
Portfolio Management

The 2025 NACUBO-Commonfund Study of Endowments reveals a paradox facing colleges and universities: endowment portfolios are larger than ever, yet many institutions are becoming increasingly dependent on them to support day-to-day operations.

On the surface, the numbers are encouraging. Participating institutions in the study reported total endowment assets of \$944 billion, a 7.5% increase from the prior year. Strong capital markets helped drive growth, with endowments earning an average 10.9% return in fiscal year 2025. Yet beneath this positive performance lies a more complex story.

One area of concern is fundraising. New gifts to endowments declined 9.2% year over year, marking the second decline in the last three years. Total new gifts fell from \$15.4 billion to \$14.0 billion, despite favorable economic conditions and strong capital markets. While it is too early to call this a long-term trend, gifts remain a critical source of endowment growth. Only time will tell if there is a structural change for development professionals.

At the same time, institutions are drawing more heavily on endowments to fund operations. The study found that endowments supported an average 15.2% of operating budgets in fiscal year (FY) 2025—the highest level in the history of the survey. This compares with 14.0% in FY24 and just 10.9% in FY23. The increase is particularly notable among smaller institutions, which have rapidly expanded their reliance on endowment spending to cover operating needs.



This growing dependence raises questions about financial sustainability. Endowments are designed to support institutional missions in perpetuity, balancing current needs against future obligations. Higher spending today may limit flexibility tomorrow, especially if market returns moderate.

Compounding the challenge is inflation. The Higher Education Price Index (HEPI), which measures inflation specific to colleges and universities, rose 3.6% in FY25 and has averaged 3.8% annually over the past five years. HEPI has exceeded the Consumer Price Index in nine of the last 11 years, highlighting the persistent cost pressures facing higher education. Rising labor, technology and operating expenses are increasing demands on institutional budgets just as fundraising growth appears to be slowing.

Taken together, these trends suggest that higher education leaders face a delicate balancing act. Strong investment returns have provided institutions with valuable financial support, but declining growth from gifts, rising dependence on endowments to fund operating costs, and persistent inflationary pressures underscore the importance of prudent endowment management. The challenge ahead will be preserving long-term purchasing power while continuing to meet the immediate needs of students, faculty and institutional missions. ■

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