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 September 30, 2025, the firm manages over $10 billion for 1,071 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

Mission: Impossible

George Hosfield, CFA
Director and Chief Investment Officer

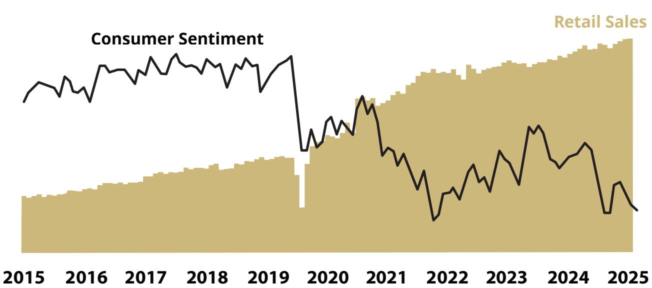
Investors had to contend with plenty of noise in 2025. Tariff uncertainty disrupted markets, the longest government shutdown in U.S. history delayed economic data and the Fed resumed its easing cycle. Nevertheless, economic growth held up and solid earnings growth propelled equity markets to post a double-digit gain for the third consecutive year. Three years ago, stocks (S&P 500) were trading at a price-to-earnings (P/E) multiple of 17x earnings. Today, the S&P 500 is trading at more than 22x earnings, which is at the high end of its historical range. Furthermore, this high-expectation market is being driven by a narrow list of increasingly expensive technology/AI-related titans. Against this backdrop, investors are asking if a fourth consecutive year of positive returns is attainable or simply a "Mission: Impossible."

The skeptics have a script ready, filled with obstacles that supposedly make a continued rally unsustainable. However, upon closer inspection, we believe these concerns look less like cycle-killing obstacles and more like hurdles that we will likely be able to clear.

Obstacle #1: Is the Consumer Tapped Out?

We reject the narrative that the U.S. consumer is exhausted. While consumer sentiment surveys remain historically poor, actual behavior tells a very different story. Households continue to display not just a willingness to spend, but also, as measured by debt-service-ratios and total debt load, ample capacity to spend.

Retail Therapy



Sources: Federal Reserve

Furthermore, looking ahead to 2026, consumers are set to receive a welcome "shot in the arm" in the form of fiscal stimulus, which we believe will provide a tailwind to disposable income and keep consumers ready, willing and able to spend.

Obstacle #2: Is the Fed Behind the Curve?

Critics argue the Federal Reserve has waited too long to cut rates, risking a recession. We disagree. We believe the Fed has acted appropriately to date, successfully balancing its dual mandate of price stability and full employment. Since tariffs were enacted, monetary policy has been on a knife-edge. Tariffs are inherently inflationary, placing the Fed in a difficult position: recognizing that short-term interest rates are higher than necessary while remaining cautious about inflationary pressures creeping back into the economy. In this context, patience was not a policy error; it was a prerequisite for stability.

Obstacle #3: Is AI a Bubble About to Burst?

We shouldn't mistake strong performance for a bubble. Comparisons to the year 2000 are frequent but flawed. Unlike the speculative mania of the dotcom era, today's leaders are cash-generating behemoths. Current capital expenditures as a percentage of gross domestic product (GDP) are lower than during past infrastructure booms, and crucially, their spending is primarily funded by massive internal cash flows rather than debt issuance. In short, this AI spending cycle continues to be driven by profit growth and not empty hype.

Obstacle #4: "Is the Stock Market Overvalued?"

With the S&P 500 trading at a P/E over 22x forward earnings, sticker shock is understandable. Yet, we believe these levels are justified. The bulk of the market's gains have come from earnings growth rather than multiple expansion.

For 2026, consensus expectations are for S&P 500 earnings to grow by 14%. Importantly, the drivers of

Magnificent Eight Stocks

- Alphabet (Google)
- Amazon
- Apple
- Meta Platforms
- Microsoft
- Netflix
- Nvidia
- Tesla

this growth are broadening; we expect accelerating contributions from the “other 492” companies outside the Magnificent Eight. Finally, a premium multiple is warranted given that 30% of the index’s profits are derived from eight companies delivering explosive, secular growth.

Our View

While we are not anticipating a recession in the coming year, in recent months, we found it prudent to modestly realize some profits and reduce exposure to a possible market correction in client portfolios. Though we do not believe we are in a “technology bubble” nor that the AI theme has run its course, we have nonetheless been mindful that many AI-leveraged technology stocks have exhibited very strong returns, and we therefore modestly reduced our target weight in this sector. Finding current yields attractive and believing that bonds will provide a meaningful degree of insurance to portfolios if equity markets suffer a correction, we increased client exposure to that asset class with the recent equity sale proceeds.

Though we still recommend a slight overweight to large-cap equities, we enter 2026 with the most conservative recommended asset allocation in over a decade, with balanced accounts having a slight overweight to bonds and underweights to small-cap equities, international equities and alternative assets. The mission to secure a fourth year of gains is not impossible; it is probable. While the market is vulnerable to a correction, both fiscal and monetary policy alongside broadening earnings contribution, lead us to expect the market to once again deliver a positive return in 2026 … albeit at a more moderate level than we’ve enjoyed over the last three years. ■

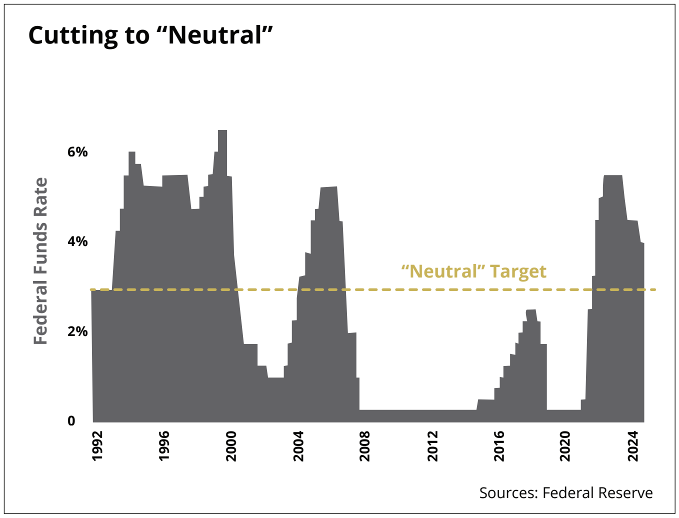
The Federal Reserve at a Crossroads

Blaine Dickason
Senior Vice President, Portfolio Management and Trading

After serving two full terms as chairman of the Federal Reserve, Jerome Powell enters 2026 with just three Fed meetings remaining under his leadership. Beginning in June, a new Fed Chair will preside over setting monetary policy for our country. While the list of potential nominees has been fluid, a critical step in this process is that the nominee, and likely new chair, gains the confidence of a wide variety of stakeholders. These include, but are not limited to, members of Congress the nominee will need for confirmation, participants in the global financial system that enable our country to run persistent deficits and the almighty United States consumer who counts on having a job and seeing stable prices. Another important dynamic regarding the selection of Chair Powell’s successor surrounds the independence of the Fed to set interest rate policy. As investor Ken Griffin of Citadel recently shared in a December Bloomberg interview, “The most important move the president and the incoming Fed chairman can make … is to create distance between the White House and the Fed.” Financial markets are keenly attuned to any development here and how it may affect long-term interest rates and the value of the dollar. Here are three of the Fed transitions we are focused on as we turn the calendar into 2026.

Transition #1: How many more rate cuts? Are we close to the end of the cutting cycle?

The Federal Reserve cut interest rates in December, its third rate cut of 2025. This was its sixth cut in the current cycle, which began in September 2024. For the last several years, the Fed’s policy rate has been set in restrictive territory, to combat legacy inflation from the pandemic and, more recently, to offset potential inflationary impulses from increased tariffs. Given strong corporate earnings and continued momentum in the U.S. economy, the Federal Reserve is likely targeting a return to a neutral interest rate, which, in their view, neither stimulates nor restricts our economy. Most estimates equate neutral with a roughly 3% federal funds rate. Given that framework, and as you can see from the chart below, this implies the Federal Reserve may have only a couple more rate cuts left in 2026.



Transition #2: A new chair for the Federal Reserve

Jerome Powell's term as chair concludes in May. It is up to President Trump to nominate a successor, who then must be confirmed by Congress. While a short list of likely candidates has already emerged, so have questions about maintaining the Fed's independence. An ideal candidate will leave financial markets confident that they will act to protect the long-term interests of the U.S. economy, which may lead to difficult decisions in the short term. Additionally, there has typically been a learning curve for both financial markets and a newly appointed Fed chair as they get used to one another. Each new Fed Chair has their own communication and leadership style that will need to be accounted for. In the past, this has meant additional market volatility early in their term as they steer monetary policy to achieve their dual mandate of maximum employment and price stability.

Transition #3: More polarization and therefore more competing mandates

This past year has brought increased tension to the Fed's targeting of its dual mandates for maximum employment and price stability (i.e., inflation). Inflation that continues to run above the Fed's 2% target has emboldened certain members of the Fed's board to become vocal "hawks," advocating for rates to remain in restrictive territory until inflation recedes further. Several of these hawks who were vocal opponents to additional rate cuts will not be voting members in 2026, which on its own suggests the committee will tilt more "dovish." Other members of the Fed board, including newly appointed Governor Stephen Miran, have strongly advocated for continued cuts to support full employment as the labor market has shown slowing momentum this year. The net of this more vocal debate is that there appears to be greater polarization among the members of the Fed board. For an institution that relies on strong communication with financial markets to conduct much of its policy work, a fractious membership is likely to make its job more challenging, which may have implications for heightened market volatility and the likelihood of policy errors.

There are many changes unfolding at the Federal Reserve that are likely to influence how monetary policy is conducted in the near term. Recent economic data suggesting slowing momentum in the labor market, along with moderating inflation pressures, should keep the Fed's bias towards additional rate cuts in 2026. Fiscal stimulus for both consumers and businesses from the One Big Beautiful Bill Act will likely limit the magnitude of any additional cuts. Regardless of who is the next Fed Chair, a return to a 'neutral' interest rate policy will allow other priorities by Congress and the administration to take the lead without either being stimulated or restricted by the Fed. ■

From "I Do" to Baby Steps: Financial Planning for New Chapters

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

Two joyful milestones—marriage and the arrival of a child—bring celebration, change and financial complexity. These transitions also create important opportunities to strengthen your financial foundation and ensure that the plans you have in place evolve to support the people you love. With thoughtful preparation, you can protect your family and approach the next chapter with confidence.

Marriage

The decision to marry reflects the blending of two lives—and two financial philosophies. Open and transparent conversations about how they each prefer to save, spend, manage debt and invest, help form the basis of a joint financial plan that aligns priorities and can improve both financial well-being and relationship satisfaction.

Differences in investment risk tolerance are common, and they don't need to be a source of tension. A joint plan can balance each partner's comfort level while still staying aligned with long-term goals. We often help couples find the right mix by blending risk perspectives—ensuring both partners feel confident and heard.

Once married, couples should revisit the key documents and structures that support their long-term financial life. Review beneficiary designations, update account titles, and revise estate and healthcare documents to reflect shared goals. Coordinating benefits, such as health insurance and retirement plan contributions, can uncover cost savings and improve overall coverage. Marriage also introduces tax considerations. Your filing status changes, which may shift tax brackets, deductions and credits. Reviewing your updated tax profile with your portfolio manager and tax advisor can help you anticipate meaningful changes and identify new planning opportunities.

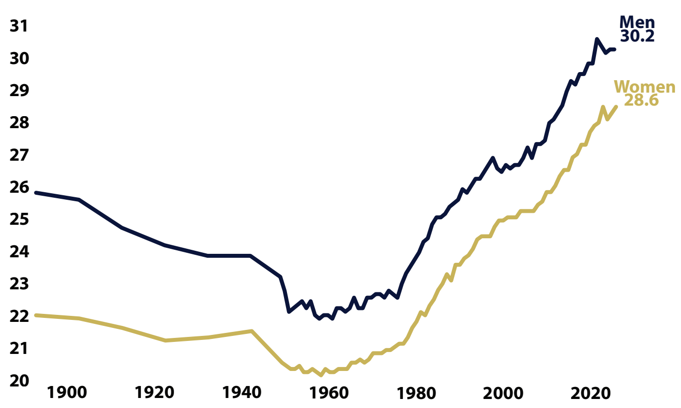
The age at which individuals marry today is the latest it has ever been. On average, women marry at age 28 and men at age 30. This means many couples come together with disproportionate wealth, significant premarital assets, or blended families and may benefit from using prenuptial agreements. A prenup is a practical planning tool that clarifies expectations around assets, debts, income, and long-term goals. The process promotes transparency, protects both partners, and often strengthens trust and communication.

Parenthood

Few events shift your perspective—or sleep schedule—as quickly as the birth of a child. Suddenly, long-term planning becomes critical. New parents should review and update their estate documents, including naming guardians, establishing wills or trusts, and ensuring beneficiary designations reflect their wishes. These decisions help safeguard your child's future. Parents should also revisit their budget and cashflow plan to account for childcare, healthcare, and new household expenses. Expanding emergency reserves can offer stability as responsibilities grow.

Risk management becomes increasingly important. Families may need to add or increase life and disability insurance to ensure income needs, care and education costs can be met if the unexpected occurs. Reviewing healthcare coverage and dependent benefits is also a valuable step.

Median Age of First Marriage, 1890 - 2024



Sources: U.S. Facts

Education is one of the largest long-term expenses families face. Saving early—through tax-advantaged savings vehicles such as 529 plans—can meaningfully expand future options.

Welcoming a child may also open access to tax benefits such as child-related credits or dependent-care flexible spending accounts, which allow families to cover eligible childcare costs using pre-tax dollars.

As families evolve, so do their goals. Marriage and parenthood are only the beginning of a lifetime of transitions that shape your financial life. A thoughtful review of your planning after major life events can help ensure your strategy stays aligned with your values, protects the people you care about, and supports the future you envision.

Things to Know Before You Sell Your Business

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

Selling a business is one of the most significant decisions an entrepreneur can make. Aside from being a meaningful financial transaction, it is also a life transition that impacts your legacy, family, employees and future. Approaching the process in the right way can lessen your anxiety, maximize value, reduce employee strain and ultimately help the transaction close more quickly.

Is a Third-Party Sale the Right Strategy?

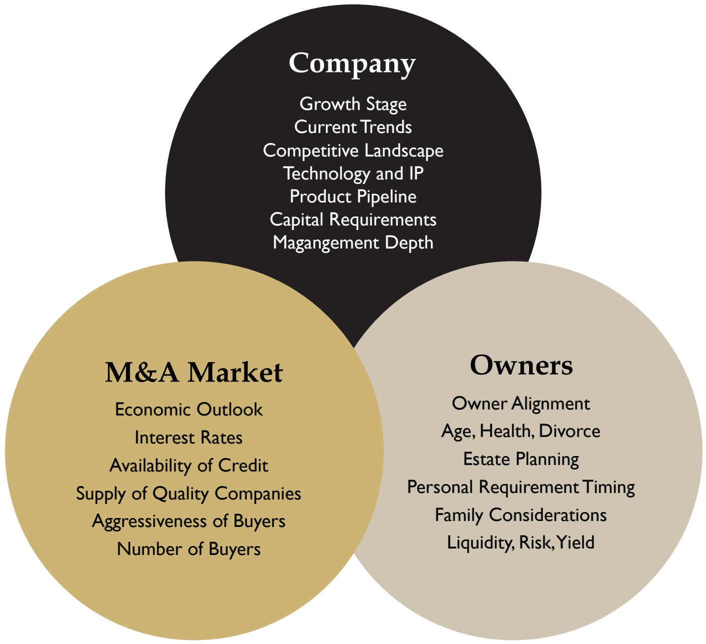
Owners should consider a variety of exit strategies before pursuing a sale. In addition to a third-party sale, common strategies include family transfer, transition to key employees and sales to an employee stock ownership plan (ESOP). Each path has unique advantages and challenges, and understanding which structure aligns most with your goals will help you approach the process with confidence and avoid costly missteps. Family transfers can be deeply rewarding but require careful consideration of value, cashflow and the next generation's readiness. Sales to key employees may offer continuity but often involve extended payment periods and increased risk for the seller. ESOPs can provide liquidity and tax benefits, but typically require long-term planning and may not deliver immediate proceeds.

Personal Motivation and Commitment

Business sales are generally more akin to a marathon than a sprint. Understanding motivations is crucial for the endurance required to get over the finish line. For many entrepreneurs, their business is more than an asset. It represents their life's work and is their identity. Sellers must honestly consider and embrace their reasons for selling, whether it's to optimize value, pursue new opportunities or achieve financial peace of mind. This self-reflection should be supported by a professional assessment of the financial impact of the decision.

Timing - The Three Realms

Timing is often driven by a combination of personal factors, company performance and market conditions. Successful exits require balancing these three realms. In evaluating the company factors, buyers will look for upside potential, while sellers aim to maximize value. Owner-specific issues, such as the desire to retire, financial security, family needs and estate planning, also play a pivotal role. Selling during a strong market can significantly increase transaction value, sometimes doubling or tripling earnings before interest, taxes, depreciation and amortization (EBITDA) multiples compared to average or poor markets. It can be tempting for owners to try to slightly improve financial performance when the greater value may come from leaning into the proper point in the merger and acquisition cycle.



Maximizing Value: Process and Preparation

A well-orchestrated sale process is key to maximizing value. This includes assembling a collaborative advisory team including an investment banker, transaction attorney, estate planning attorney, tax professional and wealth advisor. Normalizing financial statements by separating personal and company finances, paying competitive salaries and addressing real estate can simplify the due diligence process. Stabilizing the management team and establishing a realistic valuation range are also critical steps. Bringing all potential buyers into the process at the same time and avoiding the "bear hug", being seduced by a single buyer, helps maintain negotiating leverage and increases the likelihood of a successful outcome.

Preserving Versus Creating Value

It's often easier to preserve value than to create it. Effective income tax planning, charitable planning and transfer tax strategies can help owners retain more of their proceeds. Properly structuring the sale as a stock sale or asset sale, leveraging qualified small business stock, and using charitable trusts can all provide significant tax advantages. Owners should also consider their legacy plans and potential opportunities to gift shares at pre-liquidity valuations or using trusts to benefit heirs and philanthropic causes.

Personal Opportunities and Goals

Diversifying wealth is critical, especially as owners approach retirement age, since concentration risk or an unexpected health event can threaten long-term family financial security. Beyond financial considerations, owners should reflect on their identity and future relationships. Transitioning from CEO to consultant or retiree can be challenging. Understanding the benefits of liquidity and the impact on family and community can ease the transition.

Run a Process, Not Just a Sale

Running a comprehensive and competitive process maintains sellers' leverage to negotiate terms and optimize transaction value. Leveraging the expertise of an experienced professional team will help you more thoroughly prepare, consider broader impacts, negotiate and navigate a successful sale. After all, selling a business is about more than the numbers. It's about securing your legacy, supporting your family and setting the stage for your next chapter. ■

Informed Decision Making for Senior Living

Scott Christianson, CFP®
Executive Vice President, Portfolio and Wealth Management

As we grow older, many of us will need to decide where to live next when our current home becomes too difficult to manage, and assistance is required. Deciding when and where to move can feel daunting, as can the various financial arrangements available to pay for the move.

Senior living communities can be broken down into three broad categories with progressively more care available as needed: independent living, assisted living (and memory care) and nursing homes. A popular progressive care option, known as continuing care retirement communities (CCRCs), focuses on the principle of aging in place.

Senior Living Communities

Independent living communities serve seniors who are self-sufficient and prefer less maintenance and more social interaction. These communities offer private homes, dining, housekeeping, activities and occasional support. Ranging from urban high-rises to sprawling suburban communities, residents have plenty of options and autonomy within a community setting.

Assisted living communities help older adults with daily tasks while promoting independence. Residents may receive assistance with dressing, bathing, medication and enjoy amenities, social events and memory care in a safe environment.

Nursing homes provide 24/7 skilled care for those with major medical or personal needs. They offer nursing, daily living support, therapies and supervision for individuals needing consistent medical attention.

CCRCs offer a full spectrum of progressive care options: independent living to nursing care—within one community. Residents can transition between levels of care as needs change, providing long-term stability and convenience.

Buy-ins and CCRCs

CCRCs typically have two costs: an entrance fee (or buy-in) and ongoing monthly fees. Entrance fees vary widely depending on location, amenities and unit size, from tens of thousands to hundreds of thousands of dollars. Monthly fees depend on services and care levels and can be substantial. Many communities provide flexible payment options, often trading lower entrance fees for higher monthly fees. Some also refund 50%–90% of the entrance fee to the resident's estate. Depending on one's resources and estate plans, this can be a positive or negative arrangement.

Medical Expense Tax Deduction

A tax deduction may be available if part of the entrance and monthly fees are classified as medical expenses, typically ranging from 10% to 40% of the total. This is calculated by the administrator of the community. To qualify, eligible expenses must exceed 7.5% of your adjusted gross income (AGI). For example, with an AGI of $200,000, only expenses above $15,000 are deductible. The largest deductions usually occur in the first year due to the entrance fee. If part of the entrance fee is refundable to your estate, only the non-refundable portion counts toward the medical expense deduction; for instance, with 80% refundable, just 20% is considered, and of that, only the amount attributed to medical expenses is deductible.

For communities with substantial entrance fees, the medical expense deduction —which does not carry over to future years—may exceed your taxable income, limiting your ability to use the full deduction. In such cases, increasing your taxable income that year through strategies like a Roth IRA conversion or realizing capital gains can help maximize the tax benefit. Given the complexity and tax implications, we encourage reviewing your options with your Ferguson Wellman and West Bearing team as well as your tax advisor, well ahead of considering a move.

Selecting a senior living arrangement is a major decision. Understanding the types of communities, variability in offerings and financial implications can help ensure the next move is the right one. ■

How We Work to Keep You and Your Data Safe

David Quisenberry, GCIH, CSSLP
Chief Technology Officer
Chief Information Security Officer

We participate in information sharing and threat awareness through membership in the FS-ISAC, a 25-year-old nonprofit with 5,000 financial sector members. This membership includes daily threat bulletins, participation in working groups around key areas such as AI security and fraud, and two main conferences annually for best practices and learning. The information and techniques discussed are protected under a non-disclosure agreement and provide immense value for an organization our size.

We partner with Schwab to conduct NIST Cyber Security Framework audits, engage in peer cyber security round table discussions and brought the head of Schwab's Fraud Response team to our offices for an in-person training for our portfolio managers and client relationship associates on current fraud and scam techniques.

Here are a few scams to be mindful of:

Romance Scams: Fraudsters engage in fake romantic relationships to build emotional trust; these scams rely on emotional manipulation and fabricated identities. The scammer invents emergencies or opportunities that require money, gift cards or account access.

Relationship Scams: Scammers pose as friends, mentors, business contacts, service providers, or charitable helpers to establish a sense of familiarity or authority. After gaining trust, they ask for money, personal information or access to financial accounts. These schemes exploit social trust, not romance.

Fake Fraud Calls: Criminals impersonate banks, government agencies or fraud departments. They claim there's suspicious activity on the victim's account and pressure them to "verify" personal details or move money to a "safe account." The attackers leverage a sense of urgency and cognitive dissonance driven by fear.

We also conduct regular periodic tests of our defenses. These include both configuration reviews as well as adversarial simulations. Professional hackers test the way we handle client information, verify identities and expose ourselves through our web presence to make sure we are doing so securely.This matters because you entrust us with more than just the investment of your capital. The safety of your information and the resilience of our ability to serve you is paramount.

As threats evolve and bad actors keep attacking, know we are doing our best to keep you safe. ■

Investment Outlook 2026

Be informed, prepared and confident — don't miss our ***Investment Outlook*** presentations and webinar this quarter. If you aren't receiving our outlook event emails, contact info@fergwell.com.

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Bend, Oregon
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Corvallis, Oregon
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Klamath Falls, Oregon
Medford, Oregon
Paradise Valley, Arizona
Portland, Oregon
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Seattle, Washington
Spokane, Washington
Vancouver, Washington