FERGUSON WELLMAN
CELEBRATING FIFTY YEARS

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 June 30, 2025, the firm manages $9 billion for 1,050 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

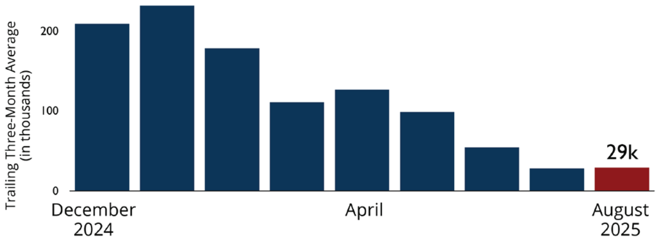
Stalemate

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

Over the course of the third quarter, the focus among investors, economists and the Fed itself shifted from tariff policy to jobs. We've arrived at a dynamic in the labor market that can best be described as a "stalemate." Both hiring and firing rates sit at low levels. Businesses, uncertain about the future, are holding onto the employees they have, while simultaneously hesitating to bring on new staff. Top of mind is whether the frozen labor market will thaw through a resumption of hiring or whether we are in the early stages of an eventual rise in the rate of unemployment.

The Federal Reserve has a dual mandate: price stability and full employment. Beginning in 2022, with the onset of surging prices, the Fed has been laser-focused on the inflation side of the mandate, raising interest rates by a cumulative 5.5% in just 16 months. While the Fed cut a percentage point in 2024, they have remained wary of a second wave of inflation, especially with the initiation of tariffs this spring. Although monthly tariff revenues have climbed from $5 billion in January to $30 billion in August, inflation has remained in a 2.5% - 3.0% range. At the same time, job growth has collapsed from 200,000 per month in January to 30,000 in August.

JOB GROWTH HAS STALLED OUT



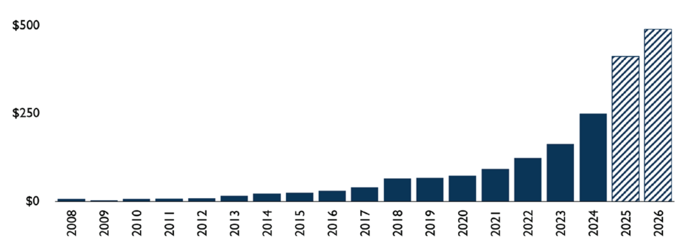
Time period: December 31, 2024 to August 31, 2025
Source: U.S. Bureau of Labor Statistics

As a result, the Fed has pivoted to the other side of the mandate—full employment. While inflation remains a consideration (the ultimate impact from tariffs remains unknown), the Fed's primary focus has clearly shifted toward the labor market. This shift was underscored by the Fed's decision to cut interest rates by 0.25% in September. This initial move signals the resuming of the easing cycle that has been on hold since December 2024, with further rate cuts likely over the next year as the central bank prioritizes sustaining the labor market. The Fed is signaling it would rather risk a minor rebound in inflation than a major downturn in jobs. Historically, easing Fed policy, in the absence of recession, provides a supportive backdrop for financial assets.

At first glance, the stock market's roaring performance seems disconnected from what the job market headlines suggest. While recent monthly payroll reports have stalled, it is crucial to recognize that this is a lagging economic indicator, telling market participants what has happened, as opposed to what will happen. We prefer to focus on more timely, forward-looking data. For this, we watch weekly unemployment claims, which are not subject to surveys or revisions and have consistently remained at levels that suggest a healthy labor market. The market, in our view, is looking past the old payroll data and focusing on leading indicators and the potential for a stronger economy in 2026.

Powering much of the optimism embedded in stock market prices is the sheer magnitude of investment flowing into artificial intelligence (AI). We are witnessing a capital expenditure cycle of historic proportions.

AI GOLD RUSH



*MSFT, AMZN, GOOGL, ORCL, META, CRWV
Source: Visual Capitalist, JP Morgan, FactSet

The billions of dollars being poured into AI are not confined to the technology sector: this wave of investment is fundamentally reshaping industries across the board. The demand for AI is driving massive buildouts in power infrastructure to fuel data centers, revitalizing domestic manufacturing for semiconductor production and creating ripple effects through countless other sectors. This investment is far from a plateau and will continue to be a powerful, durable engine of economic growth, providing a crucial buffer against potential slowdowns elsewhere.

Looking further ahead, the economic landscape is set to receive another boost from fiscal policy. Beyond direct government spending on infrastructure and domestic manufacturing, a supportive tax environment is also taking shape. The reload of bonus depreciation expensing for businesses and lifting the cap on the state and local tax (SALT) deduction for individuals is poised to put more money into the hands of corporations and consumers alike. This combination of direct spending and tax relief will act as a layer of support, emboldening corporate investment.

This confluence of positive factors—a supportive Fed, a resilient stock market, an AI-driven-investment boom, and forthcoming fiscal stimulus—has led to a market that is priced for perfection. Current valuations reflect a strong and stable economic outcome, leaving little room for error. The primary risk for investors today is not a deep recession, but rather a scenario where growth simply muddles through or inflation proves stickier than anticipated. In such an environment, the high expectations embedded in stock prices could be difficult to meet. After all, the S&P 500 has returned 80% since the beginning of 2023, a pace that will be difficult to sustain as we move toward 2026.

On one end, the labor market has clearly weakened—and the stock market is expensive. On the other hand, the Fed is lowering interest rates, we are amid a historic investment cycle for the buildout of AI infrastructure—and fiscal support is coming in 2026. Putting it all together, we maintain a balanced approach to asset allocation in client portfolios. Specifically, we hold a neutral allocation to both bonds and stocks. Within equity asset classes, we prefer U.S. large-cap stocks. This position allows us to maintain exposure to the most innovative and fastest-growing companies in the world while navigating the current environment with a disciplined, balanced approach. ■

Stuck in Neutral: Why the U.S. Job Market Is So Confusing Right Now

Brad Houle CFA
Principal, Head of Fixed Income

We're caught in a strange economic limbo with the U.S. employment market. Large-scale layoffs and a climb in the unemployment rate that signals a recession has not materialized; but the robust hiring that signals a healthy economy has vanished. The result is a labor market completely stuck in neutral, and the official numbers we've relied on for decades are looking shakier than ever.

At the center of the confusion is the Bureau of Labor Statistics (BLS), the institution that provides the "official" scorecard for the economy. Confidence in their monthly jobs report, a cornerstone for markets and policymakers, has lost credibility.

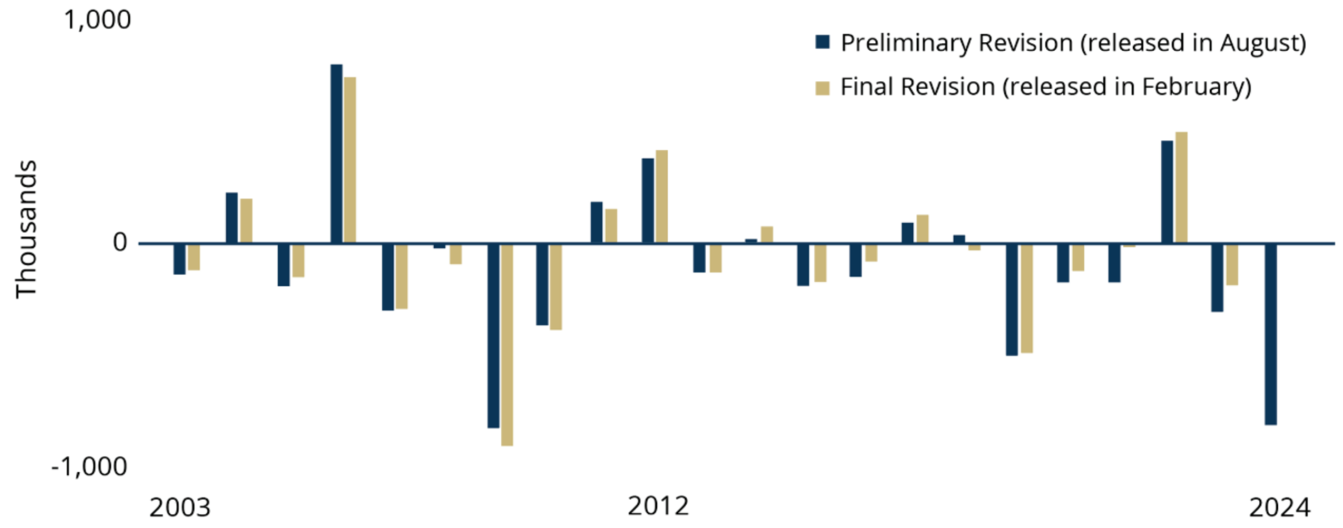
Erika McEntarfer, former commissioner of the Bureau of Labor Statistics (BLS), was fired in August 2025 by the current administration. The firing came after the BLS released a report showing weaker-than-expected job numbers for July, along with significant downward revisions to the previous two months' data. For a while now, economists have worried about a quiet crisis brewing within the data itself. Fewer and fewer people are responding to the government's surveys. When participation drops, the risk of getting the numbers wrong goes way up.

We saw this firsthand with the recent massive downward revision to payroll data, where hundreds of thousands of reported job gains simply vanished into thin air. It was a stark reminder that the headline number we see on the first Friday of each month might not characterize the health of the labor market.

In a world of questionable surveys, there's one number that's becoming more important than ever: weekly jobless claims. Unlike surveys estimating how many jobs were created, jobless claims are a hard count. It's administrative data, filed directly by people seeking unemployment benefits. It's real, it's in real-time, and not subject to the positive selection bias that happens with companies responding to surveys.

HISTORICAL PAYROLL BENCHMARK REVISIONS

Monthly job gains can shift dramatically when revisions to the survey data is released



Source: FRED

What are the claims telling us? Consistently, they show that companies are not firing people. Layoffs remain near historic lows. Businesses seem to be playing defense—holding onto employees they have, likely because they remember how hard it was to hire them in the first place.

While there are not mass layoffs happening, despite some high profile businesses such as-Intel-laying off thousands of people, there is a quiet but powerful slowdown in new job creation.

Businesses are holding steady, but they aren't expanding. They aren't adding new positions at anything close to the pace they were a year or two ago. This is what makes the market feel so stagnant. For anyone looking to switch careers, get a promotion, or negotiate a raise, the opportunities are drying up.

The job market is neither strong nor broken. On one hand, the reluctance of companies to lay off workers is providing a solid floor for the economy. On the other, the disappearing momentum in hiring means we're not going anywhere fast.

Weekly unemployment claims have held in historically low ranges even though new job creation has slowed.

Wrapping Up 2025: Practical Steps for Year-End Financial Planning

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

As we enter the final stretch of the year, it's a great time to set aside a few hours to review your financial picture and position yourself for a confident start to the new year. Here are seven practical steps you can take before year-end:

1. Revisit Your Financial Goals

Life evolves quickly, and your financial goals should evolve with it. Reflect on the plans you made at the beginning of the year. Are you still on track? Have priorities shifted? Use this time to adjust timelines and savings targets and ensure your investment strategy reflects both where you are now and where you want to be.

2. Review Cash Flow and Spending Patterns

Year-end offers a clear snapshot of your income, expenses and savings habits. Compare actual spending to your planned budget and note any recurring or unexpected patterns—positive or negative. This isn't about tracking every penny; rather, it's about gaining clarity and identifying opportunities to redirect resources toward your top priorities going forward.

3. Fine-Tune Your Investment Strategy

Review the allocation of any portfolios you manage independently, alongside those managed by your team at Ferguson Wellman, West Bearing or other investment firms. Ensure that your overall strategy remains aligned with your risk tolerance, time horizon and objectives. As markets and circumstances evolve, periodic adjustments help maintain discipline—especially after a volatile year.

4. Optimize Retirement Contributions or Distributions

If you're building toward retirement, check whether you're on pace to maximize contributions to retirement plans such as 401(k)s and IRAs. Even small increases before year-end can compound meaningfully over time. If you're already retired, collaborate with your tax advisor and portfolio manager to fulfill any distribution requirements and optimize for tax efficiency—strategically balancing withdrawals across account types and income brackets.

5. Consolidate and Organize Accounts

Having accounts across multiple institutions can complicate performance tracking, investment rebalancing, risk management and tax preparation. Consider whether consolidating accounts could simplify your financial life. Our team can help you evaluate the pros and cons, including fees and tax implications, and assist with paperwork and asset transfers, should you decide to consolidate.

6. Prepare for the Unexpected

Review your emergency fund (typically a minimum of three to six months of living expenses, depending on your situation) and personal insurance coverage. If your reserves are low, insurance policies haven't been updated in several years, or personal circumstances have changed—now is the time to review to ensure they still meet your needs.

7. Set a Strong Foundation for the New Year

Take a forward-looking approach and set a plan for your top priorities in the first quarter of 2026. Create a simple checklist—such as scheduling your annual portfolio review, updating beneficiary designations or setting up automated savings transfers. There are often important financial tasks we've all intended to tackle but haven't found time for. Planning now, for when you will get those done, makes them easier to achieve.

Year-end financial planning is most helpful when it involves thoughtful, intentional steps to ensure your financial life is organized, aligned and ready for what's ahead. With a clear picture of where you stand and where you want to focus, you'll be better prepared to enter the new year with confidence and clarity. ■

The Ever-Evolving Landscape of Smart Charitable Giving

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

The tax act, adopted on July 4 of this year, extended or made permanent many personal income tax provisions and included significant changes for optimizing charitable giving strategies. The key changes to charitable income tax deductions for individuals that become effective in 2026 are highlighted below but must be considered in the broader context of other tax opportunities.

Taxpayers will generally choose to itemize their deductions if their available deductions exceed the standard deduction. The standard deduction, which was meaningfully increased by the Tax Cuts and Jobs Act (TCJA) in 2017, has received annual inflation adjustments and will be increased again for 2025 by the OBBBA to $15,750 for individual tax filers and $31,500 for those who are married filing jointly (MFJ).

COMMON ITEMIZED DEDUCTIONS

- SALT deductions including property taxes and state income taxes (limited to $10,000 by the TCJA, but temporarily increased to $40,000, subject to income levels)
- Qualifying mortgage interest
- Charitable deductions

Charitable deductions for non-itemized tax filers:

Traditionally, non-itemizers have not received an additional tax benefit for their charitable contributions because they were already assumed to have a base level of deductions, via the standard deduction. Starting in 2026, those who claim the standard deduction will also be able to claim charitable deductions up to $1,000 for individual tax filers and $2,000 for MFJ for cash gifts made to public charities.

A new floor and a permanent increase in the maximum charitable deduction:

Taxpayers who itemize deductions on their tax returns are subject to both minimum and maximum contribution limits. The OBBBA introduced a new floor on charitable deductions, meaning that itemized filers may only deduct charitable contributions to the degree they exceed 0.5% of their adjusted gross income (AGI).

For example, starting in 2026, a taxpayer who earns $300,000 may not deduct the first $1,500 (0.5% x $300,000) of their charitable contributions for the given year. Interestingly, so long as the taxpayer exceeds the floor for the year (in the example, exceed $1,500), then the amount under the floor ($1,500 in the example), may be carried forward and applied to future years. Taxpayers are also restricted from offsetting more than 60% of their AGI through charitable deductions.

This limit was scheduled to shrink back to the pre-Tax Cuts and Jobs Act amount of 50%, but the higher 60% limit has now been made "permanent." Contributing appreciated assets, such as stocks that have increased in value, has the double benefit of avoiding capital gains and sheltering income from taxation. Contributions of appreciated assets may be deducted up to 30% of AGI, while the balance of up to 60% must be made in cash. Tax deductions for gifts in excess of these limits may be carried forward for up to five additional years. To avoid this new 0.5% floor, taxpayers may wish to consider larger gifts in 2025.

Value of tax savings capped at 35% rather than the top income tax rate of 37%:

While the ability to deduct up to 60% of taxpayers' AGI may encourage larger charitable gifts, the OBBBA also caps the value of charitable-deductions at 35 cents per dollar. In other words, high income earners who are in the 37% federal tax bracket will receive a maximum tax deduction of 35%. For example, assume a MFJ couple who earn $1 million are in the 37% federal tax bracket and make a charitable gift of $100,000.

The tax benefit of their gift will be limited to $35,000 rather than $37,000 due to the cap of 35%. Because this provision goes into effect in 2026, high-income earners may want to accelerate sizable charitable gifts into 2025 to match the value of the charitable deduction to their effective tax rate.

As always, there are many ways to be strategic to maximize the tax benefits of your charitable giving, including the use of donor-advised funds, qualified charitable distributions and other charitable vehicles. We encourage you to work closely with your tax professional and portfolio manager to consider potential opportunities to enhance your giving strategy for 2025, 2026 and beyond. ■

The Hidden Weight of Adjusted Gross Income in the OBBBA Era

Casia Chappell, CFP®,CPWA®
Vice President, Wealth Planning and Portfolio Management

The tax landscape for individuals has shifted once again with the passage of OBBBA. While the legislation includes enhanced deductions and targeted tax relief, it also introduces several new income-based limitations that subtly yet significantly reshape tax efficiency.

When planning for tax efficiency in the post-OBBBA era, one figure stands above the rest: adjusted gross income (AGI). AGI, and its cousin, modified adjusted gross income (MAGI), have long played a crucial role in determining eligibility for many deductions, including those for medical expenses, charitable contributions and the catch-all miscellaneous itemized deductions.

With the passage of the OBBBA, AGI and MAGI now also govern access to key benefits including the expanded state and local tax (SALT) deduction and the new senior deduction enhancements, and a minimum floor on the deductibility of charitable contributions. For affluent families, understanding and managing AGI and MAGI is no longer optional—it's central to preserving wealth through tax efficiency.

OBBBA temporarily raises the SALT deduction cap from $10,000 to $40,000 through tax year 2029. While this presents a welcome opportunity for residents in high-tax jurisdictions, including parts of Oregon and California, the benefit is gated by income. The enhanced deduction begins to phase out rapidly once the $500,000 of MAGI has been reached and reverts down to $10,000 at $600,000.

This "SALT torpedo zone," between $500,000 and $600,000 of MAGI, creates a unique planning challenge. A taxpayer with $550,000 in MAGI may only receive a partial deduction, and furthermore, find their federal effective tax rate exceeds 40% in this zone. Strategic tools such as Roth conversions, deferred income structures and charitable giving vehicles are valuable ways to manage income recognition and preserve eligibility for this valuable deduction.

In addition to permanently increasing the standard deduction, the legislation also introduces a temporary additional deduction for taxpayers aged 65 and older for years 2025 through 2028. While the new deduction was a welcome addition to the complicated process of tax filing, it is also subject to AGI thresholds.

The senior deductions of $6,000 for single filers and $12,000 for joint filers begin to phase out at $75,000 and $150,000 of MAGI, respectively. They are fully phased out when MAGI exceeds $175,000 for single filers and $250,000 for joint filers.

Beginning in 2026, OBBBA introduces a formula that reduces itemized deductions by 2/37 of the lesser of total deductions or the excess over the top marginal tax bracket threshold. In practice, this means many affluent taxpayers will find the effective value of their deductions capped regardless of how much they contribute to charity or incur in deductible expenses.

This further emphasizes the need for careful orchestration of taxable account activity and retirement income streams including retirement account distributions, Social Security and pensions. Strategies like qualified charitable distributions (QCDs) from IRAs, donor-advised funds or tax-loss harvesting can help taxpayers manage their AGI within optimal ranges.

Maintaining AGI below targeted thresholds can meaningfully affect after-tax outcomes. Whether it's a year-end bonus, a business distribution or the timing of capital gains, seemingly routine decisions can now have material tax consequences. Working proactively with your professional team to understand your entire financial situation is more important than ever as the post-OBBBA tax environment rewards those who plan with precision and foresight. ■

A Long, Evolving History with Institutional Clients

Kirstin Havnaer
Senior Vice President, Private Family Office, Octavia Group

As we approach the close of 2025, we're reminded of a significant milestone—welcoming our first Octavia Group client five years ago. During a recent strategy meeting, our team reflected on the evolution of our family office, sharing insights into our growth, expanding services, and future plans—all with the aim of consistently exceeding our clients' expectations.

Today, we serve 24 individuals and their families, each entrusting us to improve their quality of life by delegating the management of their finances. Many of our clients are busy executives whose demanding schedules make it challenging to maintain a comprehensive view of their financial landscape. Octavia Group's services elevate their perspective, empowering them to make well-informed and quicker decisions about their future.

We also support retirees eager for simplification of their financial responsibilities without burdening the next generation. Working with our family office may allow them to devote more time to travel and other experiences they've anticipated in retirement. With our systems in place, the transition to new pursuits is smooth and worry-free.

Key services, such as financial reporting, expense management and the creation of Lifebooks—which consolidate essential financial information and documents—have become cornerstones for our clients. In addition to these, insurance assessments and tech support have helped ensure our clients remain both protected and connected. Our coordination of tax documents has streamlined the process for clients and their accountants, ensuring timely access to crucial information.

At the start of 2025, our investment team presented their "Lessons Learned" from five decades of economic cycles and capital market activity. Looking back on Octavia Group's journey, we believe our offerings have strengthened our relationships as trusted advisors, instilling confidence in clients as they make important life choices.

Financial decisions often carry emotional weight and can influence family dynamics. Relying on professionals helps navigate these complexities, and we've found our services especially valuable for families supporting aging parents.

Ultimately, the peace of mind that comes from having reliable systems in place allows clients to fully enjoy their wealth, rather than be burdened by its management. As we expand our offerings, we remain committed to a generational approach—to both running our business and serving our clients for years to come. ■

Publications Recognizing Ferguson Wellman Since March 2025

Barron's Top 100 RIA Firms

CNBC Financial Advisor 100

Forbes America's Top RIA Firms

Oregon Business Financial Planners Powerlist

Financial Advisor RIA Survey and Ranking

Portland and Puget Sound Business Journals

WealthManagement.com RIA Edge 100

Worth Top Registered Investment Advisor Firms

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