Q2 | 2025

OUTLOOK *and* INSIGHTS

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

A NEW DESIGN FOR OUR FIFTIETH YEAR

WHAT'S INSIDE

Ferguson Wellman, founded in 1975 is a privately owned registered investment adviser, established in the Pacific Northwest. As of December 31, 2024, the firm manages $8.9 billion for 1,026 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, 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.

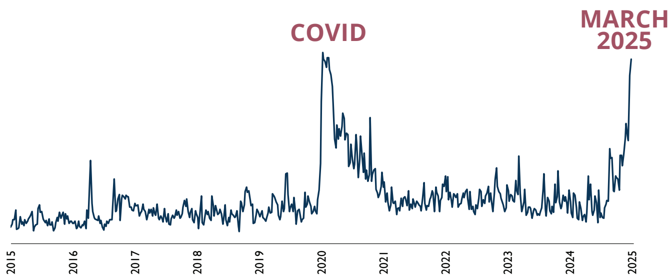
Investment Excellence
Lifelong Relationships

Turn Down the Volume

George Hosfield, CFA
Chief Investment Officer
Director

After a quick start that saw the S&P 500 jump 5% in the first three weeks of the year, markets abruptly reversed course and gave it all back and then some, with the blue-chip index posting a 4.3% loss for the quarter. Market action through the first three months of the year affords an opportunity to reprise the first of five lessons to successful investing that we shared in our 2025 capital market outlook: "Turn down the volume." By this we mean, it is imperative that investors endeavor to remove emotion and separate the signal from the noise when digesting market, economic and political news. Doing so, is proving to be a challenge, as can be seen from the accompanying "Economic Uncertainty Index" (which admittedly is heavily influenced by media headline data.) Incredulously, it has now reached the same level it did during peak COVID.

ECONOMIC POLICY UNCERTAINTY INDEX



Source: FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USEPUINDXD. Time frame: 3/20/2015 – 3/14/2025

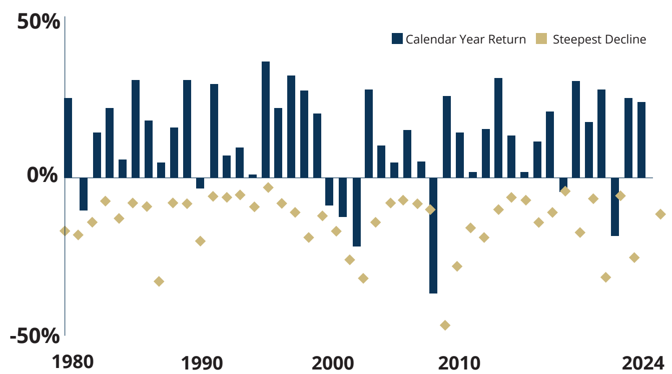
The current investment landscape has been dominated by noise and rhetoric surrounding tariffs. Understandably, one of the primary reasons for soaring investor anxiety is the prolonged uncertainty as to which tariff policy will ultimately be enacted.

This uncertainty has created a vacuum that emotions have rushed to fill, serving to impair objective economic analysis. To that point, the 10% pullback in the S&P 500 in March occurred at a time when the underlying economic fundamentals had remained largely unchanged. This disconnect highlights how sentiment, rather than fundamentals, can drive market behavior in the short term. From our vantage point, the economic backdrop we've observed throughout the year continues to show resilience, and it remains our expectation that key variables such as unemployment, inflation, GDP growth and interest rates will likely end 2025 near their current levels.

While the economic impact of tariffs is certainly not positive, we believe the damage to GDP growth, corporate earnings and the rate of inflation will be materially lower than people have been led to believe. Our full-year expectation is for GDP growth of 1.5% and inflation of around 3% for 2025. This relative stability in economic conditions stands in stark contrast to the volatility we're currently seeing in market sentiment.

Though market corrections are unsettling, it's worth remembering that market declines occur in even the healthiest bull markets. Since March 2009, we've experienced 30 corrections of 10% or more. These periodic resets are normal behaviors of markets and not necessarily harbingers of a protracted bear market.

VOLATILITY IS THE PRICE OF ADMISSION



Investors can not invest directly in an index. Source: FactSet

Supported by a healthy labor market with an unemployment rate of 4% and layoffs at very low levels, we do not foresee a recession in 2025. This foundation of employment stability provides crucial support for consumer spending, which remains a key driver of economic growth.

At Ferguson Wellman, we are committed to diversified portfolios designed to weather various market conditions. One benefit of the current environment is that bonds are appreciating in value, helping to offset stock price declines. With bonds offering attractive yields near 5%, they continue to play an important role in balanced portfolios.

We are closely monitoring both the implementation and magnitude of tariffs for any outsized negative impact on corporate earnings or economic vitality. That said, we believe that much of the negative sentiment is already priced into current market valuations. Furthermore, after two years of equity returns exceeding earnings growth, the recent pullback has provided a healthy reduction in market multiples and increased market breadth. Despite recent volatility, we are maintaining our overweight to large-cap U.S. equities while continuing to underweight both small-cap and international stocks. Our neutral weighting in fixed income reflects the attractive yields available in this asset class.

Though confident in our current positioning, we are not complacent and we continuously monitor a host of objective economic indicators for signs that would warrant a modification to our prevailing market thesis. To that end, three of the timeliest indicators we follow are (1) weekly unemployment claims (2) corporate earnings revisions and (3) yield spreads between U.S. Treasury and corporate bonds, which is a real time measure of investors' appetite for risk.

As we've learned over our firm's 50-year history, sometimes the hardest thing to do is nothing. This lesson seems particularly apt in the current environment, where patience and the ability to turn down the volume on market noise and focus on fundamentals are essential to attaining one's long-term financial goals. ■

Tariff Tensions

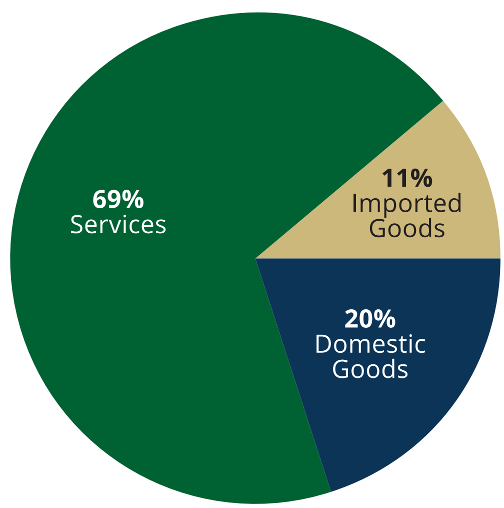
Joe Herrle, CFA, CAIA
Vice President, Alternative Assets and Portfolio Management

After last November's election, it was widely expected that tariffs would become a significant focus in 2025. Initially, markets downplayed these concerns, viewing them primarily as negotiating tools rather than serious economic threats. Sentiment, however, has shifted dramatically in recent months, with tariff concerns evolving from a minor issue to a genuine growth concern heavily impacting market performance. Consequently, the S&P 500 has relinquished its post-election gains and now trades below pre-election levels.

Much of the uncertainty stems from the lack of clarity surrounding tariff policies, their objectives and potential responses from trading partners. This ambiguity has amplified concerns about the economic and earnings impacts, that are contributing to the current "growth scare." To provide some perspective here are some key points:

- Proposed tariffs include rates of 25% on most imports from Canada and Mexico, 20% on imports from China and 25% on all steel and aluminum imports
- Canada, Mexico and China collectively account for over 40% of all imported goods into the U.S.
- Imported goods represent only 11% of total domestic consumer spending

IMPORTED GOODS WERE A FRACTION OF CONSUMER SPENDING IN 2024

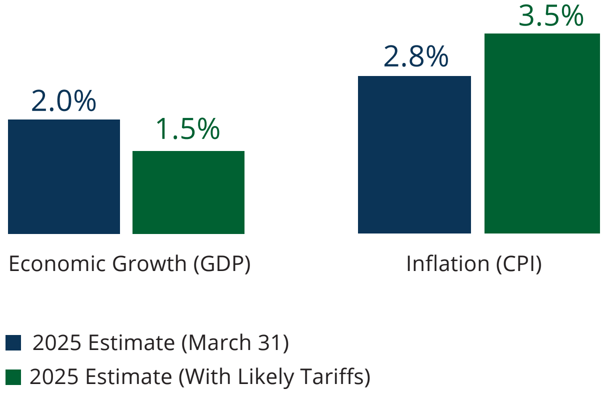


Source: FactSet

It's essential to note that while tariffs put upward pressure on prices and downward pressure on demand, their overall impact may not be as severe as many fear. While the tariff landscape is highly fluid and changing almost daily, as of this writing, (continued)

even the most aggressive tariff proposals announced so far would likely result in less than a 1% one-time increase in price levels and an even smaller impact on GDP growth.

TARIFFS: ECONOMIC IMPACT LIKELY LESS THAN FEARED



Source: Goldman Sachs and Strategas

In other words, we don't see the U.S. economy experiencing an ongoing rise in inflation or a sustained decline in economic output. If fully implemented, the effects of tariffs should peak within about one year, after which inflation and growth would likely return to trend levels over the following 12 months. So far, the greatest cost of tariffs is market volatility driven by uncertainty. Specifically, ambiguity about which products could be targeted, when tariffs will take effect and under what conditions they might be removed.

This uncertainty creates challenges for both investors and businesses. Investors are particularly concerned about four potential impacts:

- Companies may delay investment decisions due to the uncertain environment
- Tariffs could lead to higher inflation, reducing corporate earnings and dampening consumer demand
- Counter-tariffs from trade partners could erode demand for U.S. goods overseas
- The Federal Reserve might be unable to cut interest rates if inflation rises due to tariffs, even if economic growth slows

Without clear guidance on tariff policies, businesses may struggle to realize their economic potential fully. Until greater clarity emerges, this uncertainty will act as an unexpected headwind for capital markets activity.

It's important to remember that much of the current "growth scare" and recession speculation is based more on fear than concrete evidence.

Quantifiable signs of an impending recession remain limited. Historically, recessions typically involve several clear indicators:

- Rapidly accelerating job losses leading to reduced consumer spending
- Declining business investment
- Significant downward revisions to profit growth estimates
- Tightening financial conditions

Currently, none of these conditions have materialized. In fact, several concrete indicators suggest that the economy and market remain fundamentally solid:

- The unemployment rate remains very low at 4.1%
- S&P 500 earnings are still projected to grow around 10% this year (historically, earnings growth averages only around 2% immediately before recessions)
- Credit spreads—the difference in yield between U.S. Treasury and corporate bonds—remain very low. Typically, these spreads widen significantly ahead of recessions

Given these facts, we appear far from recession territory. Despite recent volatility, current data suggests we're experiencing a typical bull market pullback rather than entering a bear market decline.

Remember that bull markets often "climb a wall of worry," encountering bumps along their upward path. The best course of action during periods like this is patience and discipline. Staying invested over time greatly increases your odds of positive returns.

As Warren Buffett famously said, "The stock market is a device to transfer money from the impatient to the patient." ■

Trust Protector: A Tool for Flexibility in Estate Planning

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

In an era of evolving tax laws and shifting estate planning strategies, flexibility has become an important consideration in wealth planning. Over the years, significant changes to estate tax laws have reinforced the importance of structuring trusts in a way that allows them to adapt. While there are several avenues for altering an irrevocable trust, one tool that has gained popularity in recent years is adding a trust protector.

A trust protector is an individual or entity named in a trust document to perform certain functions regarding the trust and, in some cases, modify the trust. Unlike a trustee, who manages the trust's assets and distributions, a trust protector typically has a more limited role, stepping in only when specific circumstances arise.

Their powers might include removing or replacing a trustee, amending trust provisions to account for changes in tax laws, resolving disputes between trustees and beneficiaries, or modifying administrative provisions to improve trust management.

A trust protector allows for flexibility, particularly in trusts designed to last for multiple generations, where future changes in the tax and legal landscape, economic conditions and beneficiary circumstances cannot be predicted. Whether a trust protector is a good fit for a particular estate plan depends on the unique circumstances of your own estate goals, assets and beneficiaries.

Advantages may include adaptability and added oversight. For example, if estate or tax laws shift significantly, a trust protector can exercise powers to ensure the trust remains effective without requiring costly and time-consuming court intervention.

Additionally, a trust protector can serve as a form of checks and balances on the trustee, helping to prevent mismanagement or unintended outcomes, or resolving disputes if their powers allow.

When trusts are designed to last for decades, having a mechanism for thoughtful adjustment and oversight can be useful. Potential drawbacks include added complexity, potential for ambiguity regarding the trust protector's role and tension between the trust protector and beneficiaries.

If the trust document does not clearly define the trust protector's authority, disputes can arise between the parties involved. A trust protector also introduces an additional layer of administration, which can complicate trust management.

> "For individuals considering multi-generational trusts, a **trust protector** may be worth considering as a tool to incorporate flexibility over time."

Not every trust needs a trust protector. For simpler trusts or those with a shorter duration, the traditional trustee structure may be sufficient. However, for individuals considering multi-generational trusts—especially those designed to provide for children and grandchildren—a trust protector may be worth considering as a tool to incorporate flexibility over time.

Since the legal framework for trust protectors varies by state, it is important to consult with an estate planning attorney licensed in the appropriate state to determine whether incorporating one makes sense for your unique situation. If you would like to explore whether a trust protector could benefit your estate plan, our team can provide guidance, education, or referrals to experienced legal professionals.

Three Pitfalls to Avoid with 529 Plan Withdrawals

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

When it comes to saving for college, 529 accounts are a popular choice. These tax-advantaged savings plans are designed to help families set aside funds for future education expenses. You can choose from various investment options and enjoy tax-free growth and withdrawals for qualified education costs.

While these accounts offer significant benefits, it's important for account holders to be aware of potential pitfalls when withdrawing funds. Missteps can result in taxes, penalties and other financial repercussions.

NONQUALIFIED WITHDRAWALS

One of the most significant pitfalls is withdrawing 529 account funds to use on nonqualified expenses; doing so subjects you to income tax and a 10% penalty on the earnings portion of the withdrawal.

To avoid this pitfall, make sure to understand what qualifies before making a withdrawal and maintain records of your invoices and receipts. For example, qualified expenses include tuition at a college or trade school, books, supplies and apprenticeship-related expenses.

Room and board, both on and off campus, are also a qualified expense if the student is enrolled at least half time. Common nonqualified expenses include transportation, health insurance and fees for sports or club activities.

TIMING OF WITHDRAWALS

Timing is a key factor when withdrawing funds from a 529 account. Withdrawals should be made in the same calendar year the expenses are incurred, regardless of the academic year. Failure to align these withdrawals and expenses within the same year could result in nonqualified distributions.

This risk is particularly acute with second semester tuition bills that arrive in December and are not payable until January. To avoid this risk, account owners can ensure proper matching by requesting the distribution from the 529 be paid directly to the college.

TAX INCENTIVES AND COORDINATION RULES

Families cannot double-dip by using a 529 plan distribution and claiming the American Opportunity Tax Credit or the Lifetime Learning Credit for the same expenses.

These coordination rules stipulate that if a 529 plan distribution is used for qualifying education expenses, the amount of those expenses must be reduced by any tax-free educational assistance or credits received.

Additionally, while the federal government allows up to $10,000 per year to be withdrawn from 529 accounts for K-12 tuition expenses, not all states, including Oregon, have conformed to this change. In states that have not adopted this change, using funds for K-12 expenses could result in the prior state tax benefit being recaptured, along with potential taxes or penalties on earnings. It is important to review the specific rules of the state where the 529 plan is located before making any withdrawals.

> "A **529 account** is a powerful tool for funding education, but it requires careful planning and coordination to avoid unnecessary taxes and penalties."

In conclusion, a 529 account is a powerful tool for funding education, but it requires careful planning and coordination to avoid unnecessary taxes and penalties. Fortunately, if you inadvertently withdraw too much money from a 529 account, you have 60 days to recontribute the excess funds back into a 529 plan for the same beneficiary to avoid taxes or penalties on the overwithdrawal, essentially allowing you to "correct" the withdrawal.

To Gift or Not to Gift and Other Questions

Mary Lago, CFP®, CTFA
Chief Wealth Strategist
Principal

According to the latest report by Cerulli & Associates, $124 trillion is expected to change hands by 2048. Just under 15% is expected to be given to charity and the remaining balance will go to heirs.

When it comes to transferring wealth, individuals often grapple with the decision of whether to complete significant gifts during their lifetime or transfer all assets through their estate. The most thoughtful outcomes will be shaped by assessing financial capacity, specific motivations and the potential tax ramifications. Prior to completing gifts, it is important to communicate any expectations to heirs. Building alignment sets the stage for the gift to be rewarding for both the giver and receiver.

Capacity: An advisable first step in considering lifetime gifts is to determine your capacity to gift. In other words, based on your financial circumstances, risk tolerance and lifestyle goals, what is the excess that you can afford to share with others?

Specific motivations and structure: Gifting can take a variety of forms. Examples include supporting goals such as financial freedom for beneficiaries, reducing estate taxes while not creating dependency or limiting motivations for independent successes and building financial stewardship. For instance, sharing influence over philanthropic resources may also be used to open discussions about values and our responsibility to give back. Establishing educational accounts, such as 529 accounts, communicates the value placed on educating future generations. Helping early-career family members establish Roth IRAs can engage the next generation in building investment knowledge and awareness of tax-savvy planning. Irrevocable trusts can provide a stable income source or restrict access to funds until certain ages or life goals are achieved.

Tax considerations: With a 40% federal estate tax rate and some states imposing additional estate taxes, mitigating the tax bite is a worthy consideration. Under current law, each individual can gift up to $13.99 million either during their life or upon their death without incurring the federal estate tax. The potential tax advantages of gifting this amount during your life include:

- Future appreciation of the assets accrues to the beneficiary(ies) and occurs outside of your taxable estate.
- Certainty as to the existing tax rules. Using the current exemption, does not reduce your access to any future higher limits but it does protect you from potentially lower future exemptions as tax policy evolves.
- Avoiding most state-level taxes (only the state of Connecticut has a gift tax)

While lifetime gifting can reduce estate taxes, it may result in higher capital gains taxes for beneficiaries. When assets are gifted during the donor's lifetime, the recipient assumes the donor's original basis in the assets. If the recipient later sells the assets, they may owe capital gains tax on any appreciation that occurred since the donor acquired the assets. In contrast, assets retained until death benefit from the step-up in basis, potentially eliminating or significantly reducing capital gains tax liability for beneficiaries.

COMMON GIFTING CONSIDERATIONS

- Ensuring sufficient lifestyle resources
- Impacts on beneficiary(ies)
- Estate and income tax consequences
- Multigenerational opportunities
- Communicating values and expectations

Separate from the lifetime exemption, each individual may gift up to the annual exclusion limit ($19,000 for 2025) to other individuals each year. For example, a couple could give $38,000 to each of their children. This lifetime gifting approach can compound to meaningfully reduce one's taxable estate over time.

There are special rules that apply to funding 529 college savings plans that allow for up to five years of annual exclusion gifts (5 x $19,000 = $75,000) without triggering gift tax.

Perhaps less well known, in addition to the lifetime exclusion, annual exemption and (continued)

superfunding of 529 accounts, benefactors can pay for medical bills and tuition. To qualify, the funds must be sent directly to the health care provider or educational institution and meet certain rules.

Depending on specific assets and circumstances, a staged approach incorporating both lifetime gifting and retaining assets for personal use that will benefit from a step-up in cost basis may be most compelling from both a personal impact and tax perspective.

Before initiating significant gifts, it is important to have a strong understanding of how the various rules would apply to your specific circumstances to determine which strategies will be most effective in accomplishing your goals. ■

Taking the Time to Share Our Outlook

Mary Faulkner
Executive Vice President
Branding and Communications

One of the sayings most often heard in our firm is, "It's not about timing the market—it's about time in the market." With this long-term view in mind, one might ask why we spend so much time preparing our *Outlook* each year when the messaging has been consistent over the years. Simply put, each year brings new challenges for investors, but our commitment to clients is to stay focused on the long term.

As background, our *Outlook* planning starts a couple of weeks after we complete our last event, which this year is in early April due to some February snowstorm rescheduling.

We schedule 18 events for clients throughout Oregon, Washington, Idaho and California—as well as a webinar for clients who can't attend our in-person presentations. Once our investment and wealth management teams land on a framework, it's shared with all portfolio managers who provide additional insight and perspective.

After sifting through economic data and research, the presentation comes together and is rolled up into a theme. The goal is to make it memorable and the team builds upon it throughout the year in our videos, publications and speaking engagements.

With the start of our fiftieth year, our *Outlooks* gave us an opportunity to share some evergreen "Lessons Learned" themes that have been particularly poignant as the markets react to executive orders and nuanced negotiation strategies.

We also promoted how we support future investors and encourage financial freedom through our client education program, *DollarSense*™. To celebrate our 50th, *DollarSense*™ is available to the public, starting in April for Financial Literacy Month.

This year, more than 880 individuals attended our events and viewed our webinar. The considerable time and resources devoted to our *Outlook* season reflects our desire to be transparent about client portfolios and proactive in our communication. No one can predict the future but one thing is certain: Missed days in the market runs the risk of missing the best days in the market. ■
