FERGUSON WELLMAN
CAPITAL MANAGEMENT

Beyond the Cliff

2013 Capital Market Outlook

- Ultimately, below-trend growth lies beyond the cliff
- Recession in Europe, soft landing in China and slow improvement in the U.S.
- Housing, energy and manufacturing are positives for the domestic economy
- Expecting market focus to shift from policy to fundamentals in 2013
- Will likely increase portfolio beta (risk) as the year progresses

Fiscal Cliff: How Far Do We Fall?

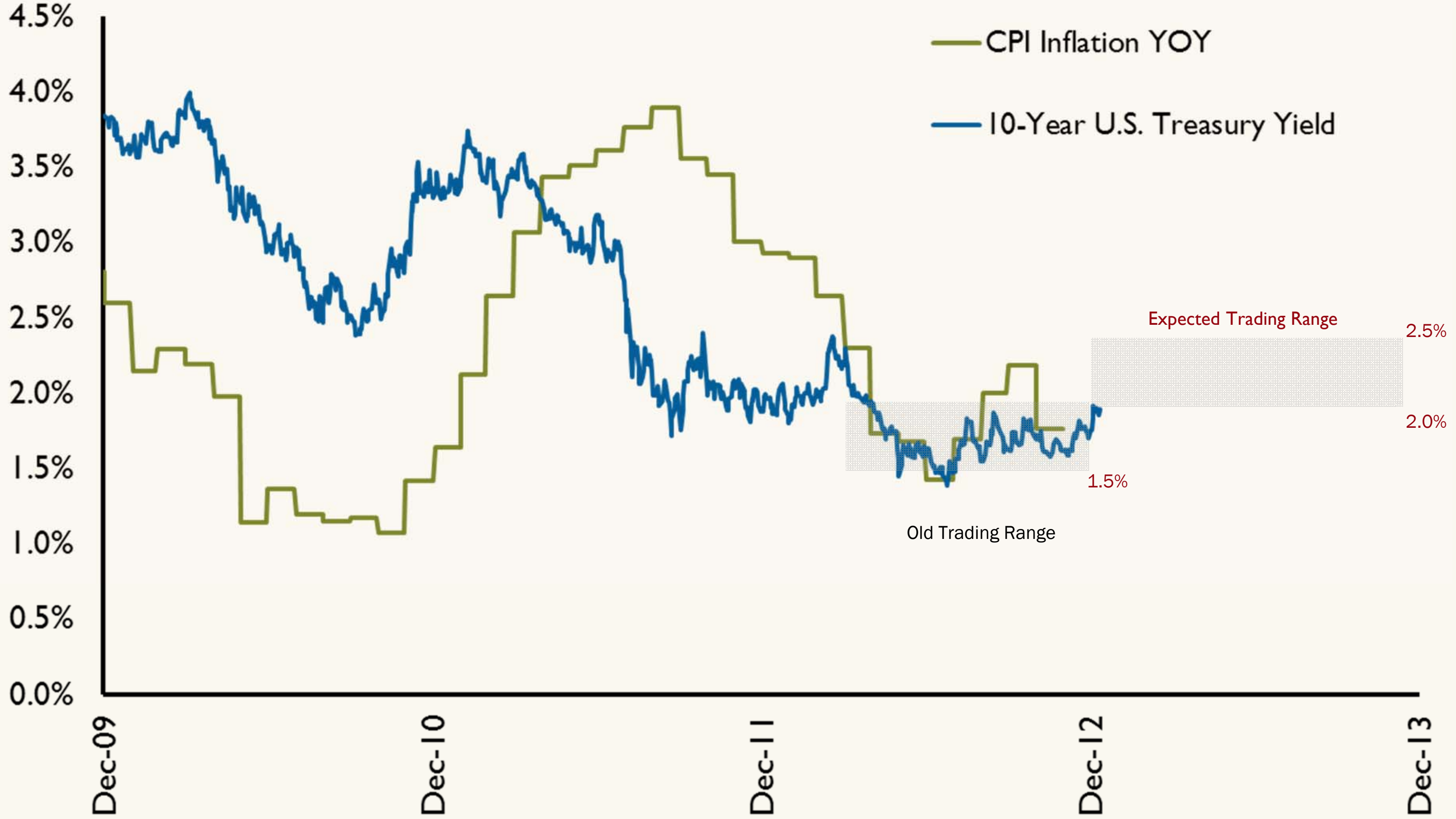
Impact of Key Components in 2013	Billions $
Repeal of payroll tax cut	-$126
Enacting Affordable Care Act personal taxes	-$56
Repeal of 2001/2003 "Bush tax cuts" (for top brackets)	-$56
Automatic spending cuts (aka "sequestration")	-$65
Net fiscal effect, (spending cuts and expiring policies)	-$303

Total Fiscal Effect (% of GDP)	-1.7%
Current GDP Growth Rate	2%

Source: ISI

- Is this enough to avoid a debt downgrade?
- All consumers will have less income to spend

Interest Rates: Low and Range Bound

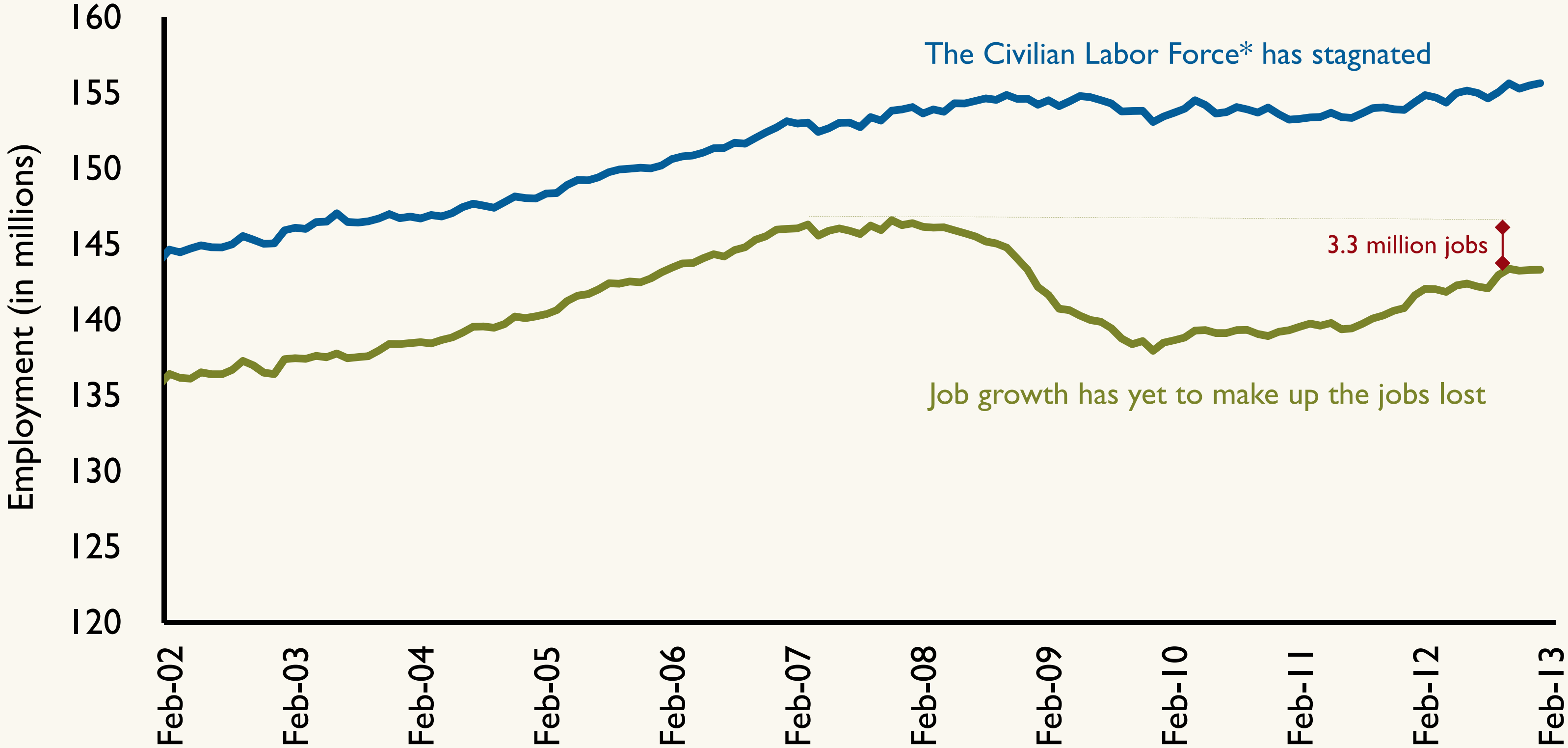


Source: Bloomberg Financial Markets

- CPI inflation is at or above the yield of the 10-year U.S. Treasury, thanks to quantitative easing by the Federal Reserve
- We expect the 10-year U.S. Treasury yield to move into a new, higher trading range of 2.0 percent to 2.5 percent
- If the 10-year Treasury yield climbs to 2.5 percent, the aggregate index will lose approximately 1 percent for the year
- Even with higher interest rates, the downside of bonds is limited. Bonds still offer "insurance" in down equity markets

Employment Improving … Slowly

Household Employment Data, Seasonally Adjusted



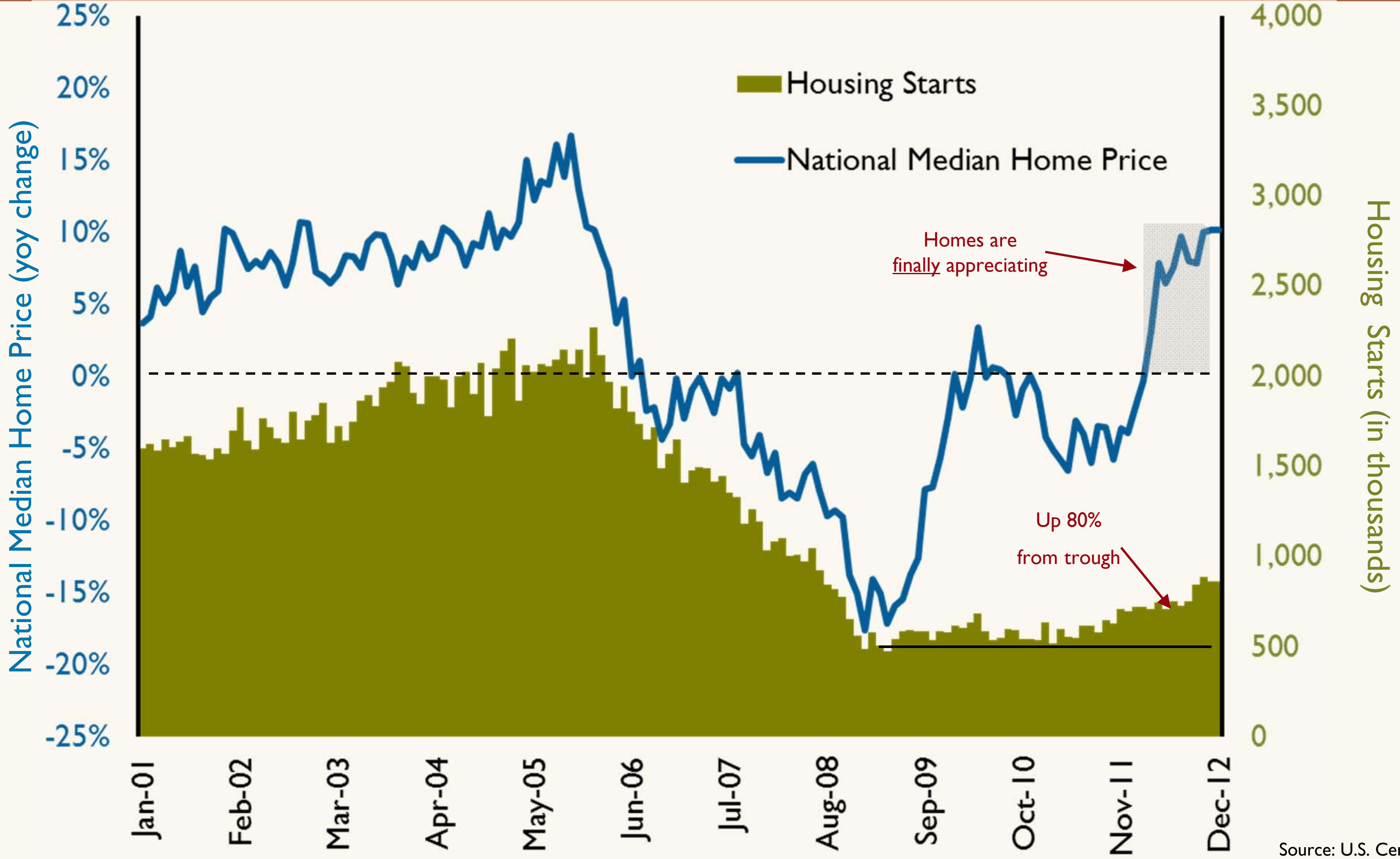
Source: BLS

- The unemployment rate has dropped from 8.5 percent in December 2011 to 7.9 percent in January 2013
- In the same period, jobs have grown 1.8 percent, but the labor force has grown 0.9 percent
- Lack of participation in the labor force is a hidden cost to the economy

* Civilian Labor Force: the employed and those seeking employment

Housing Recovery Is Real and Getting Stronger

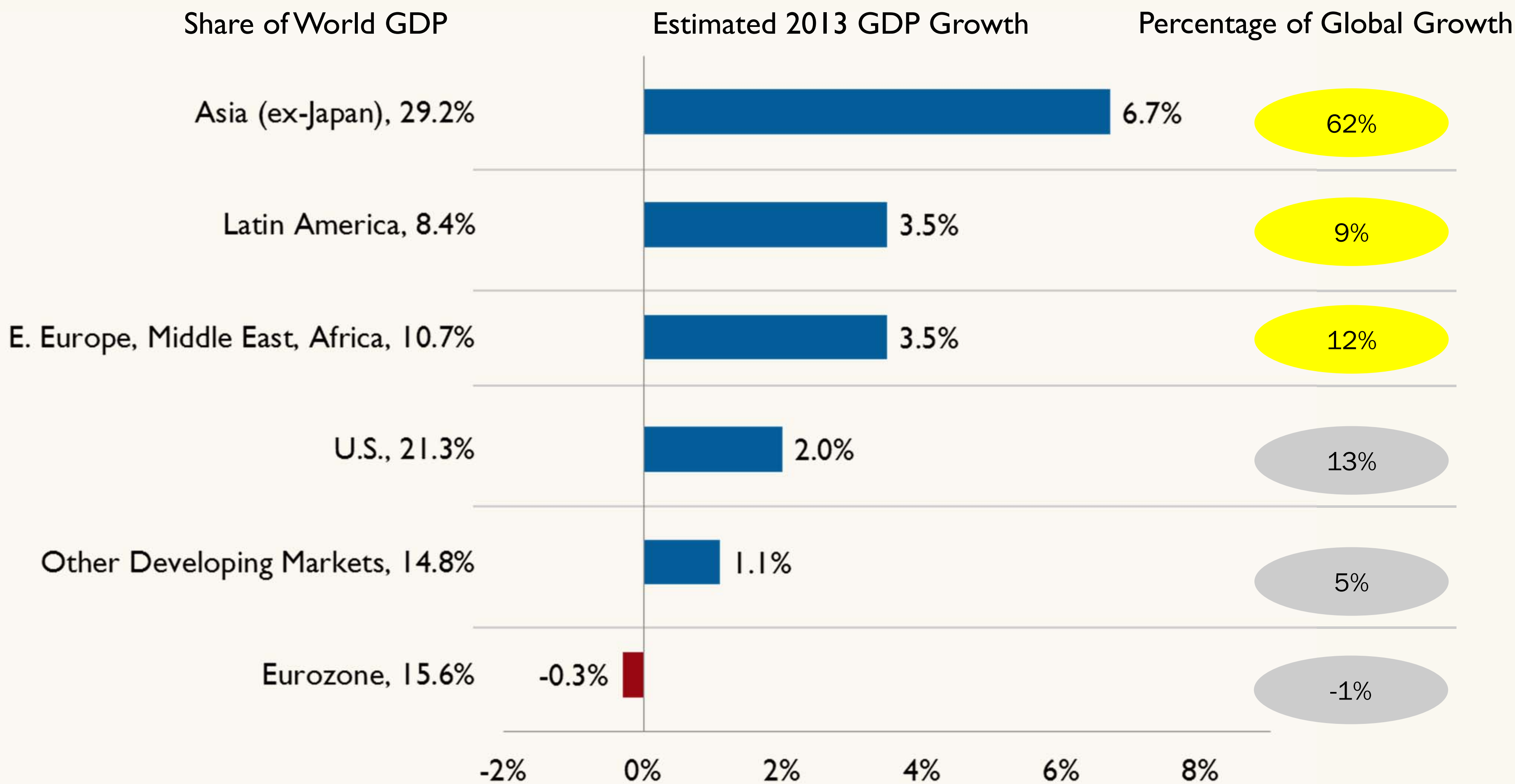
Housing Is Now Adding to GDP Growth



Source: U.S. Census Bureau

- Benefiting from record-low mortgages and affordable prices, the housing market is climbing out of its slump
- Housing could add between 0.5 percent and 1.0 percent to GDP growth in 2013
- Fed purchases of mortgage-backed securities should keep mortgage rates low for some time
- The housing recovery is an investable theme

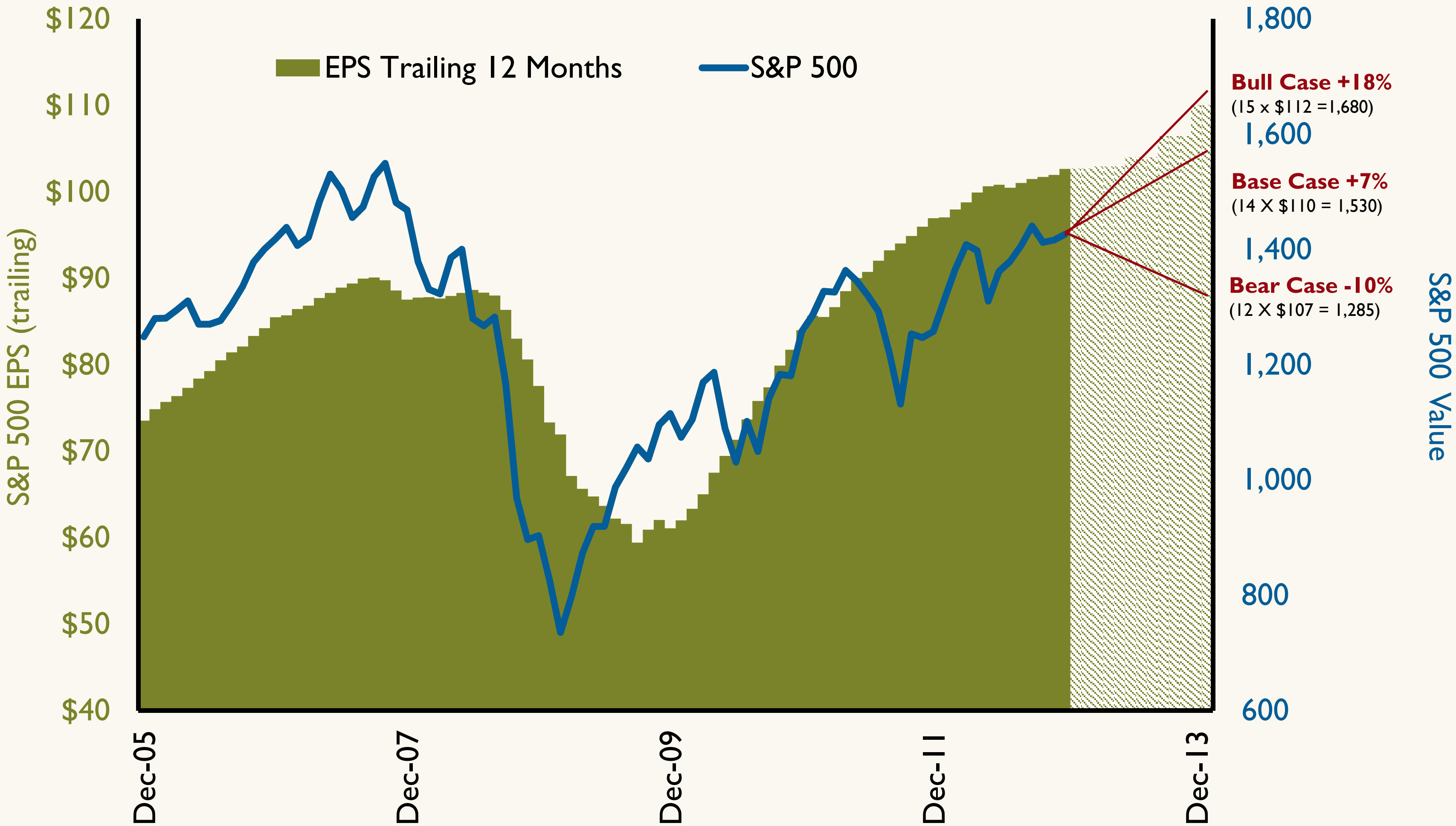
Emerging Markets Are the Global Growth Engine



Source: IMF, Deutsche Bank Research

- Global share of GDP is roughly equal between developed markets at 52 percent and emerging markets at 48 percent
- Estimated total global GDP growth in 2013 of 3.2 percent (5.4 percent from emerging markets and 1.0 percent from developed markets)

Equity Fundamentals Are Good, Not Great

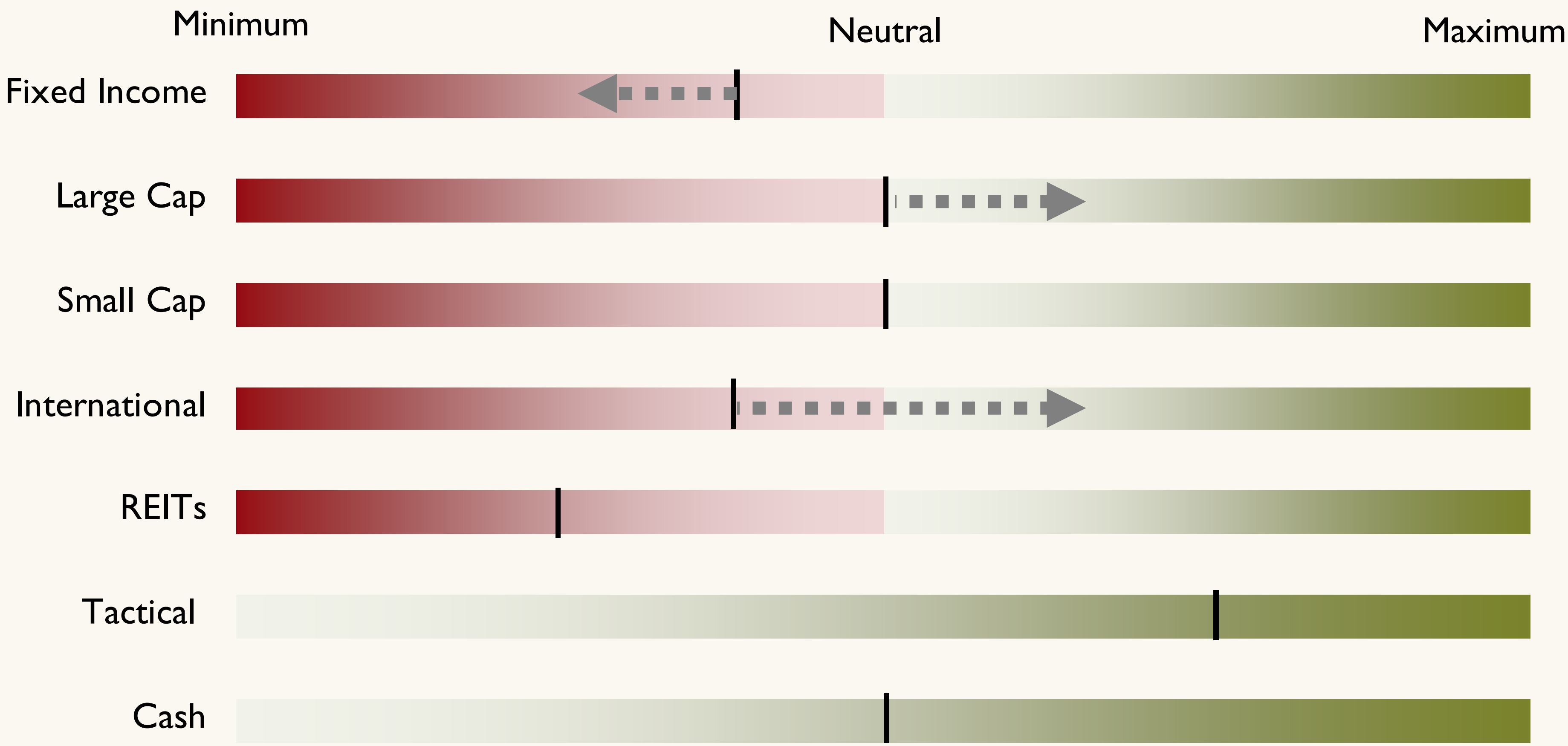


Source: FactSet

- Despite modest revenue growth, strong margins and share buybacks may result in 7 percent earnings growth
- We expect P/E multiples to remain relatively stable

Target Asset Allocation

Most Likely Next Moves – "Beyond the Cliff"



- We enter the year braced for heightened volatility
- Neutral allocation to domestic equities and slight underweight to fixed income
- Favor emerging markets over developed markets
- Expect to increasingly favor equity over debt as the year progresses

2013 Investment Outlook

"Beyond the Cliff"

Macro

- Until resolution of debt ceiling, we remain braced for volatility
- U.S. economic growth will likely accelerate in second half of year
- Expect interest rates to move up (modestly) in 2013
- Expect shift in investor focus from policy actions to fundamentals
- Capital market returns likely lower than 2012
- Gold remains a viable hedge against currency debasement

Risks

- Debt ceiling debate results in missed coupon payment
- Higher taxes restraining consumer spending
- Eurozone takes another economic leg down