



FERGUSON WELLMAN  
CAPITAL MANAGEMENT



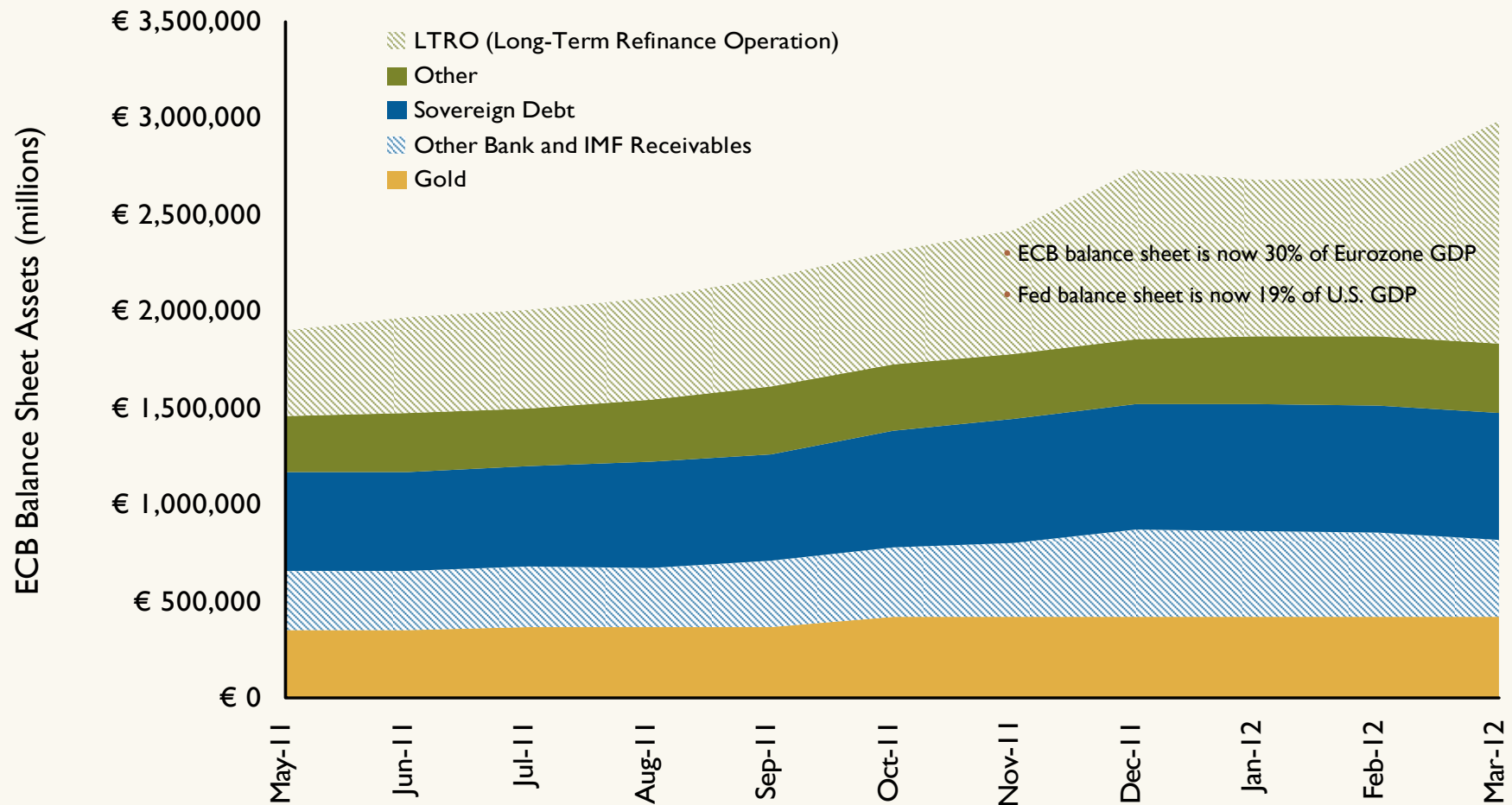
Second Quarter 2012  
Investment Outlook

“Is There Something More?”

presented by  
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# European Central Bank to the Rescue



Source: ISI

- ECB's new LTRO bank lending program has boosted its balance sheet by 57 percent since last summer
- LTRO has reliquified the European banks, thus avoiding a 2008 style contagion
- Greek default was not catastrophic and allows Europe to "kick the can" several years down the road



# Employment Is Turning the Corner



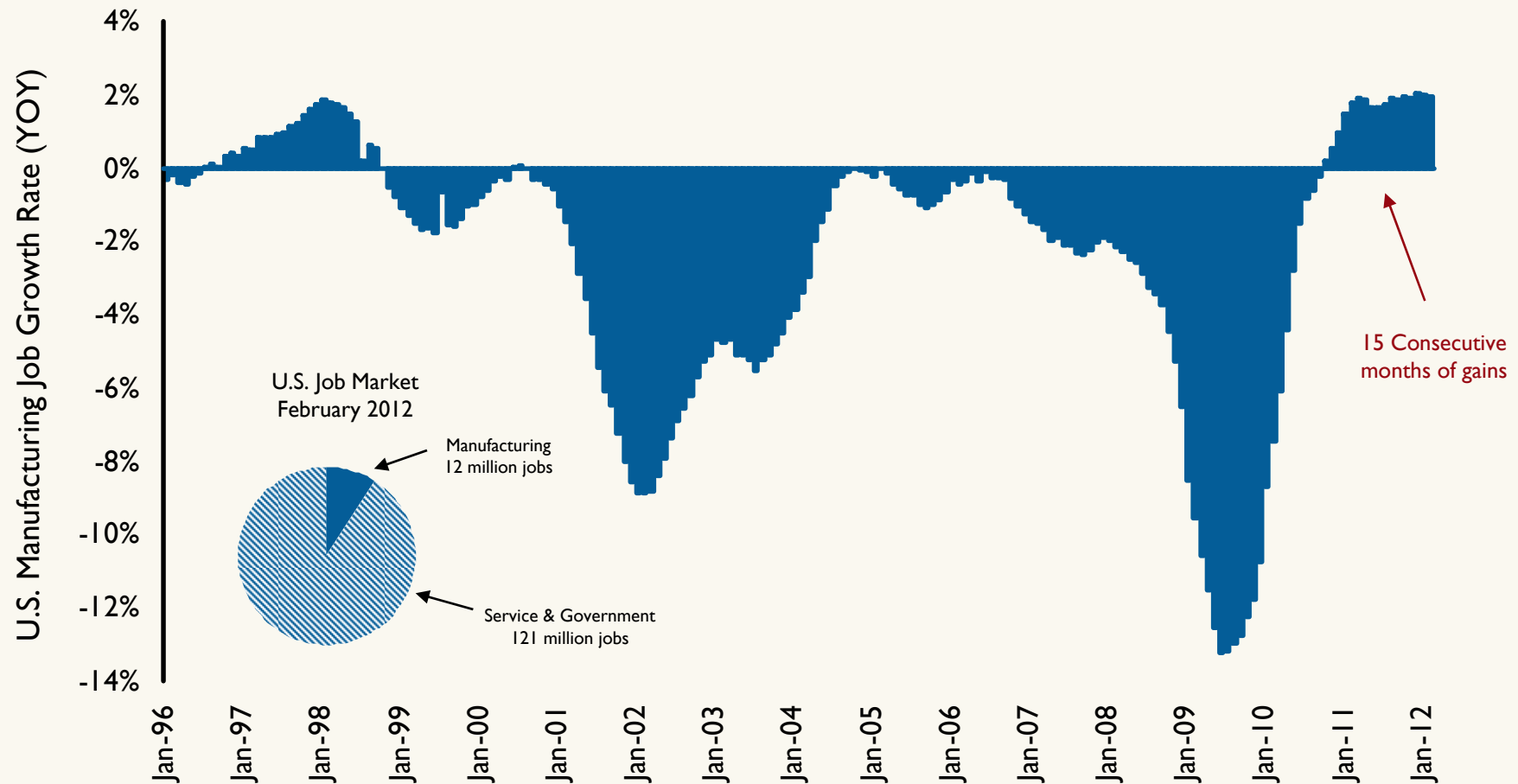
Source: Bureau of Labor Statistics

- A monthly gain in excess of 200,000 jobs is the threshold for positively impacting the national unemployment rate
- Weekly jobless claims have also improved materially, falling to the lowest level in four years



# U.S. Manufacturing Is Now Adding Jobs

Is the Lift a Short-Term Cyclical Rebound or a Long-Term Trend?



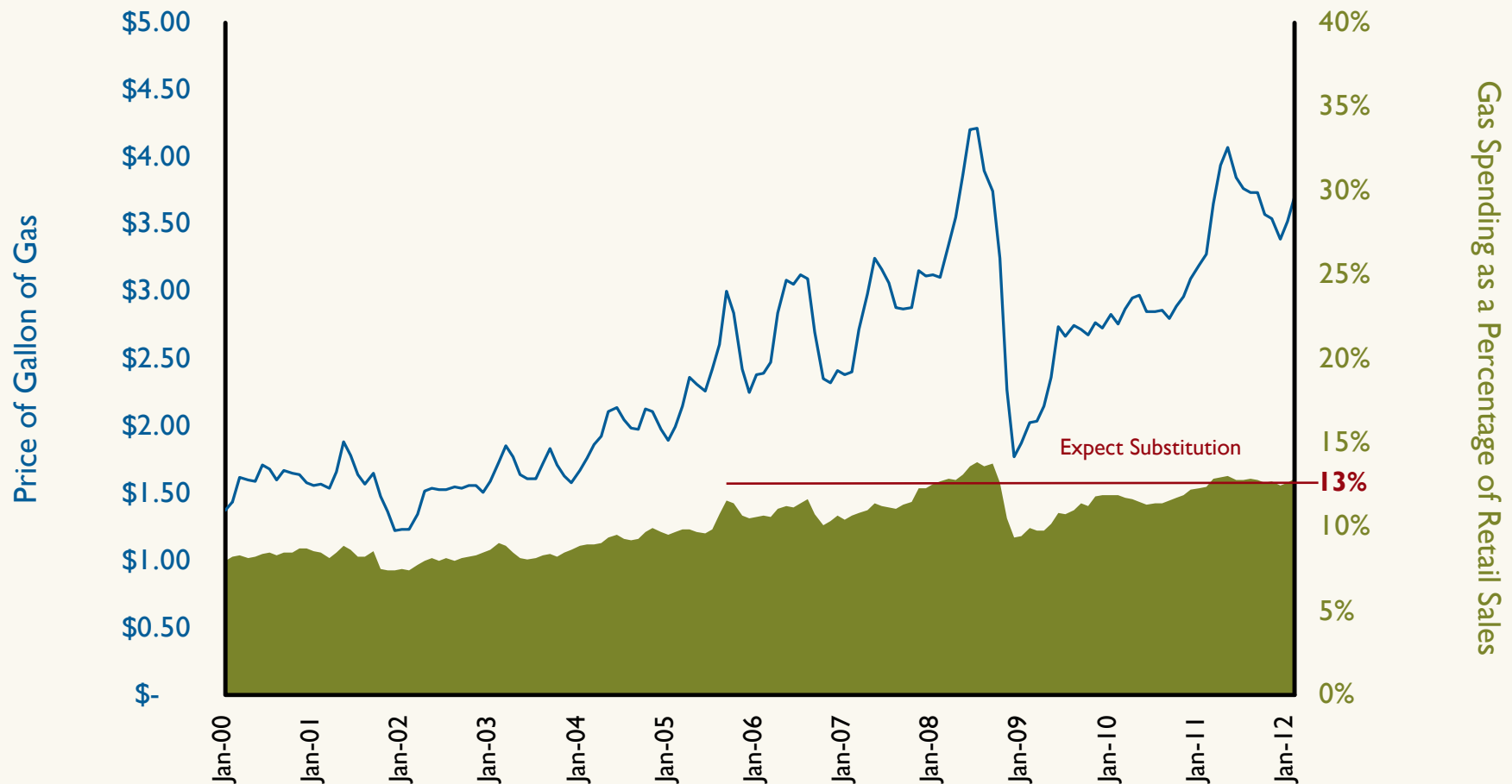
Source: ISI

- Rising emerging market wages, flat U.S. labor costs, a weak dollar, newfound U.S. natural gas resources and favorable demographics underpin the rebirth of U.S. manufacturing
- These are good jobs: The economic benefit of on-shoring is magnified by a manufacturing employment multiplier that is nearly twice that of retail and business services



# Oil Prices Likely Approaching Cyclical Peak

Nearing the Point of “Demand Destruction”

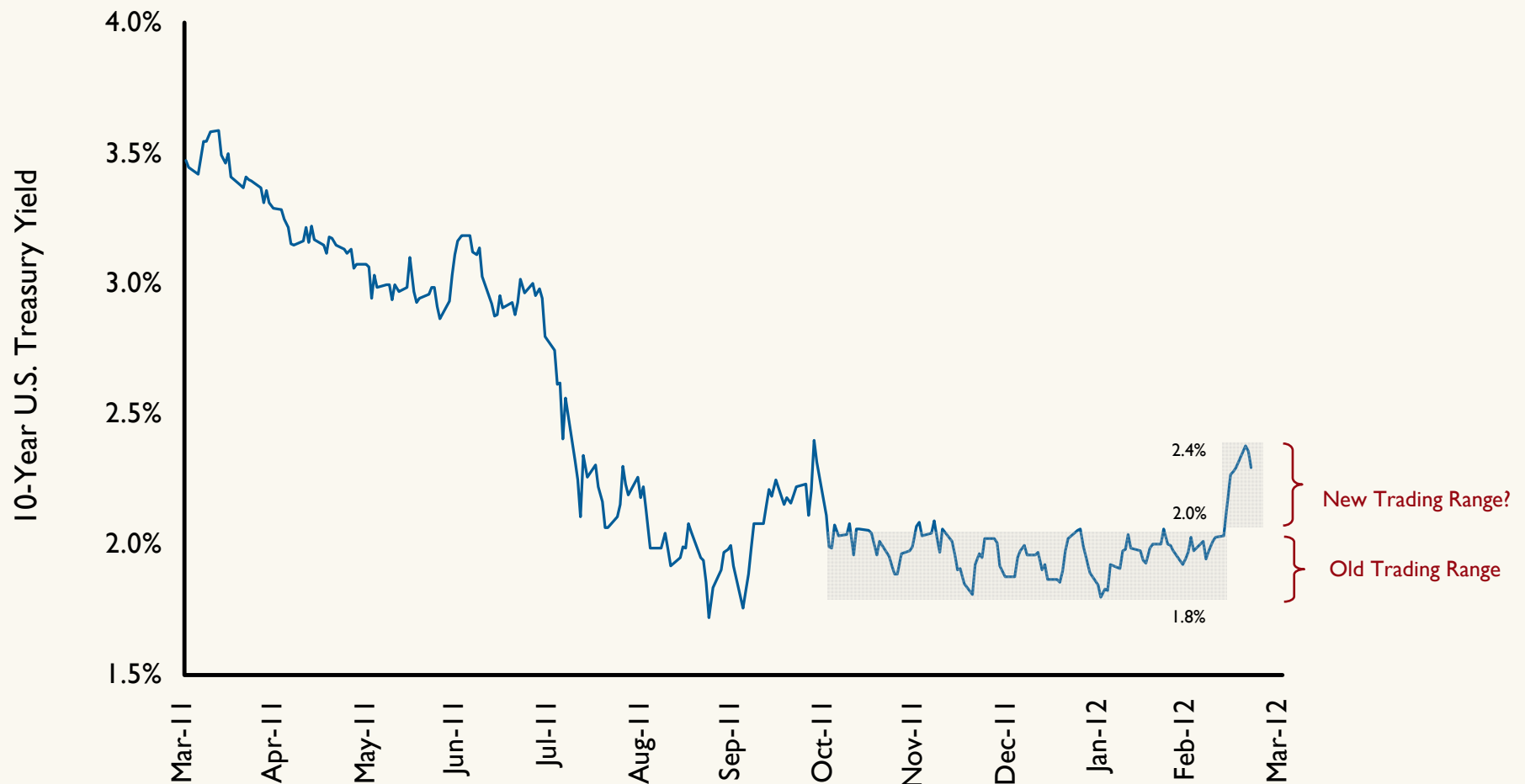


Source: Census Bureau

- Recent spike has been largely driven by an elevated “risk premium” stemming from Mideast tensions
- Consumers historically have aggressively pursued substitution or diminished consumption (i.e., “demand destruction”) once gasoline expenditures reach a threshold portion of their discretionary spending (approx. 13 percent of retail sales)
- All of the “wallet” share taken by gas has been out of auto sales



# Bond Yields Break Out of Their Range

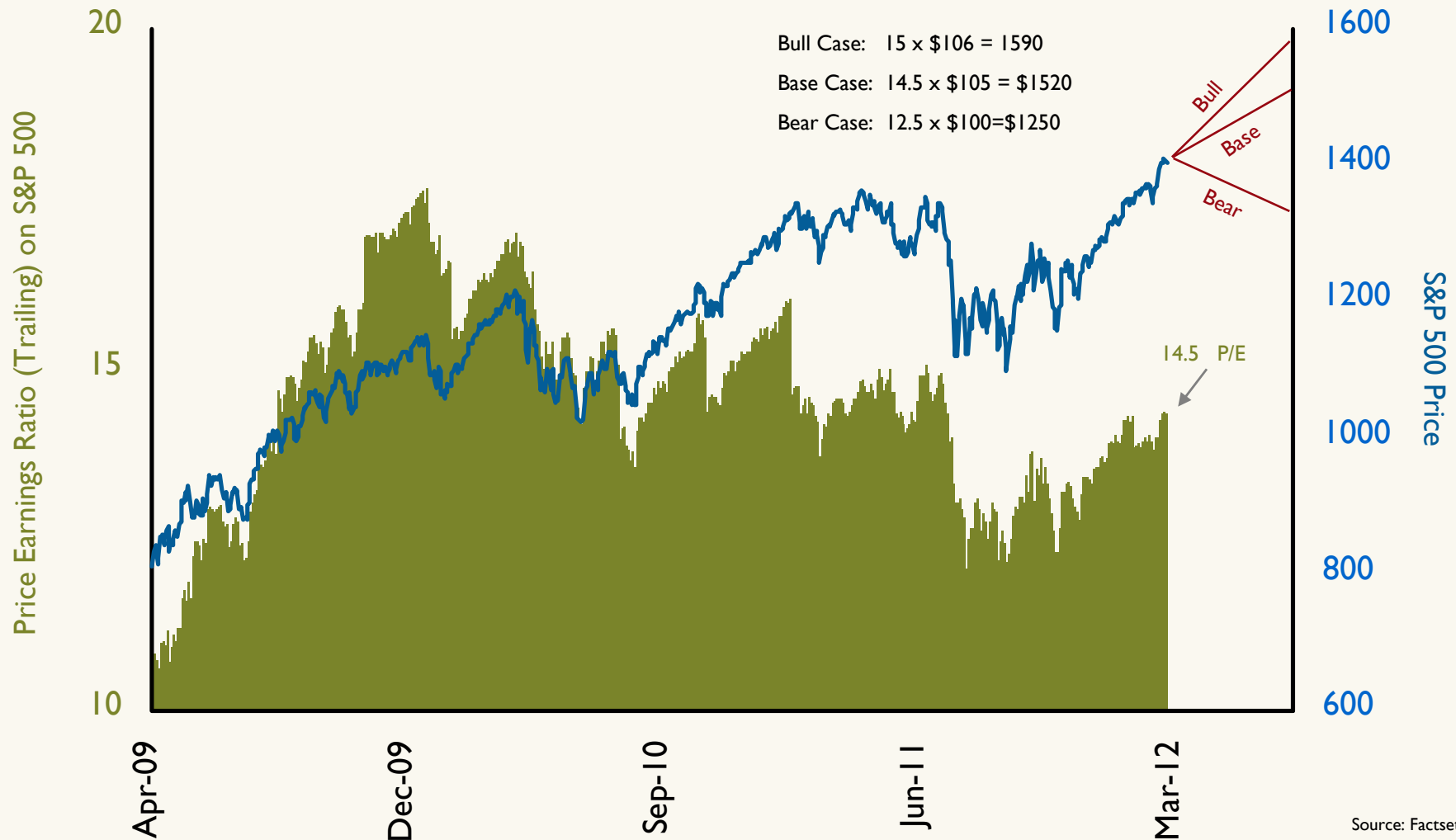


Source: Bloomberg Financial Markets

- Improving economic growth will ultimately translate to higher interest rates
- Though we expect a higher trading range, we do not anticipate a dramatic upward trend in rates



# Stocks Still Have Room to Climb



- Despite a strong start to the year, equity valuations remain reasonable
- Though market volatility has been exceptionally low, we remain positioned for a return to higher level



# Capital Market Outlook

## Macro

- Employment and economy are clearly gaining momentum
- Slowing growth in emerging mkts ... recession in Europe but not in U.S.
- Limited inflationary pressure and modest upward trend in interest rates
- Global easing cycle helping to offset the impact of higher gas prices
- Equities are up handsomely, but there is still room for multiple expansion
- Volatility is down ... but not out

## Risks

- Policy error on either side of the Atlantic
- Hard landing in China
- Fiscal cliff (higher taxes and moderating government expenditures) in 2013