Quarterly perspectives

The world is experiencing an event unlike anything we've seen in our lifetime, and there is a lot of uncertainty as things seem to be changing daily. As this pandemic continues to evolve, we're here to help you address any concerns you may have.

The economic consequences of COVID-19 have evolved dramatically. "While the market reaction has been swift and harsh over the past several months, market mechanics continue to function. Markets are repricing for this new and unexpected norm, and while painful, that's what markets do," the Wells Fargo Investment Institute (WFII) said. "Circuit breakers have been triggered numerous times to create a pause in trading to help cushion large market movements. Liquidity has been challenged, and the Federal Reserve has responded numerous times to shore up shallow liquidity pools and keep markets functioning properly."[1]

This special report is designed to address some of the more pressing items and share our perspective on how to navigate this new world we find ourselves in. When encountering market volatility during times of crisis, it is crucial to stay disciplined. We encourage you not to let emotions drive your long-term investment plans or portfolio decisions. Now is the time to speak with your financial professional to establish controls, manage risk, and make any necessary adjustments to your investment plan.

If you or your small business have been impacted due to quarantine or loss of income, Umpqua is offering relief programs that may help,* such as:

- Deferring loan payments for up to 90 days for individual consumer and small business loans
- Waiving all fees associated with deferred payments on existing loans and lines of credit
- Waiving all ATM fees to ensure you have access to your funds
- Processing Payment Protection Program (PPP) loan applications for small businesses

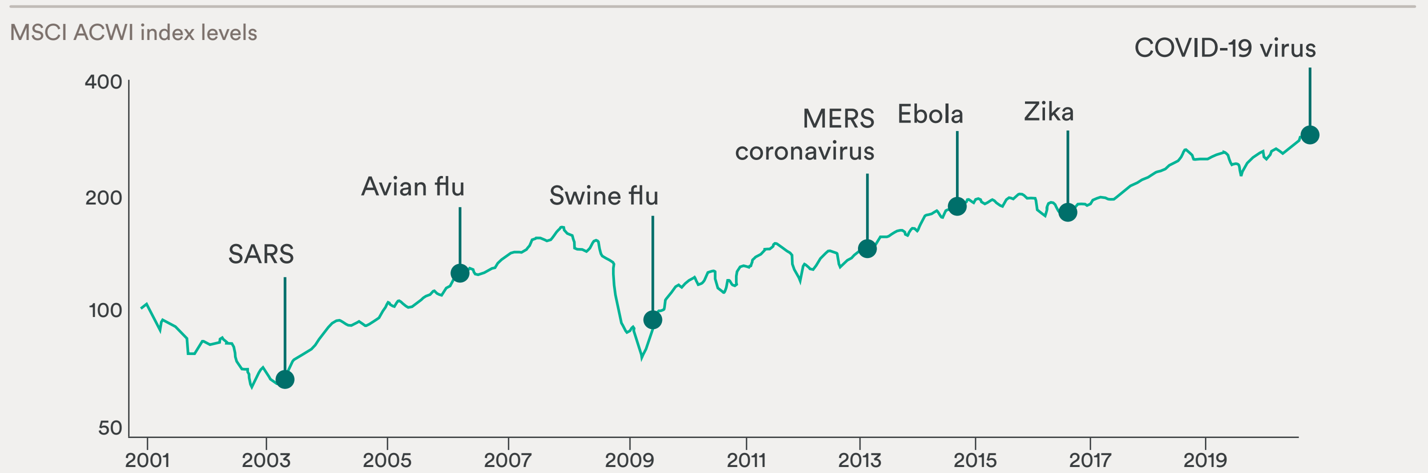
What has been the impact of the COVID-19 pandemic on the financial markets?

The opening of the economy is proceeding slowly and unevenly across the country, but we are starting to see signs that activity is picking up maybe a little faster than we had previously expected. "Even though people are still losing jobs and we think the economy is still contracting, we think that contraction is getting less and less all the time and the market is looking past that into recovery by the end of this year," said Paul Christopher, head of Global Market Strategy for WFII.[2]

COVID-19 has pushed global markets and economies to higher volatility and uncertainty over the duration and the extent of further containment policies. WFII remarked: "China posted its slowest industrial output and retail sales growth in a decade at year-end 2019, before widespread quarantines in January shuttered much of its economy. December and January data showed the Eurozone and Japanese economies at the precipice of economic contraction. Industrial production, export volume, retail sales (in general), and auto sales (in particular) fell during the year. More broadly, global export volumes were flat in 2019, with most emerging economies included."[3]

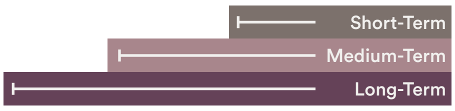
"The policy response has been forceful thus far, with around \$2.8 trillion of stimulus on the fiscal front and a \$2.4 trillion expansion of the Federal Reserve's balance sheet," WFII noted. "The breadth of measures taken by global central banks to maintain liquidity and flow of credit is also substantial, far exceeding initiatives taken during the 2008-2009 global financial crisis. Note that the four largest central bank balance sheets will surge to nearly 17% of GDP by year end – three times larger than the 6%-of-GDP level in the first year of the financial crisis. This rapid acceleration in money supply creates a sort of liquidity boom, with money growth far exceeding GDP growth. This shot of liquidity helps backstop investor confidence and inflate financial asset prices. Bond markets have been a larger beneficiary of this backstop and liquidity boom, as credit spreads narrow, bond prices rise, and issuance of new debt occurs at record levels. And because equities are currently the highest yielding liquid asset, acceleration in liquidity provides for additional lift to equity multiples, as well."[4]

Global equity markets have powered through past viral outbreaks



Sources: Centers for Disease Control and Prevention, RIMES, MSCI. As of 21/2/20. Chart shown on a logarithmic scale. Total return index levels in USD, indexed to 100 on 31/12/2000. Disease labels are estimates of when the outbreak was first reported. https://www.capitalgroup.com/advisor/insights/articles/coronavirus-rattles-markets.html

Sources: 1 Darrell L. Cronk, State of the Markets, "Four Reasons for Optimism", March 23, 2020 2 Financial Health, Market volatility update from Wells Fargo Investment Institute, June 4, 2020. 3 Darrell L. Cronk and Paul Christopher, First Analysis Institute Alert, "The Quarter the World Stood Still", Wells Fargo Investment Institute, March 17, 2020 4 Darrell L. Cronk, State of the Markets, "Bear Necessities", Wells Fargo Investment Institute, May 12, 2020



What financial structure should you have to weather the storm?

Most investors should have three buckets of money for short-term, medium-term, and long-term needs. Each bucket has a different risk classification. Periods like the one we are experiencing today highlight the importance of funding a short-term bucket that is not exposed to as much risk (or at least to the same extent medium- and long-term buckets are exposed to risk).

It all goes back to the planning process. You have worked hard for your money, and your plans and goals may be impacted by today's economic conditions. The value of human advice comes from the time we put in before we experience a critical situation.

As we work with our clients to help plan for their future financial needs, we look at how risk is factored into their plan. One often-overlooked definition of risk is the probability of your assets not being there to do what you need them to do. Therefore, allocating your assets into different buckets is a good place to start. During the planning process, you typically use projections of the next 6-12 months and identify what it would take to fund your current lifestyle over that timeframe. After that number is determined, it provides a starting point for factoring in risk. The amount of funds it would take to fund the next 6-12 months of your lifestyle should be the risk-free bucket... or close to it. Once you know you can weather a 6-month or year-long storm (or market volatility), you can then take a long-term look at your assets and the financial markets.

As financial professionals, our job is to be sure our clients understand that we have planned for short-term periods (6-12 months) where markets can be erratic and/or extremely volatile when the economy is experiencing some slow down or, in this case, a full seizure. By taking a short-, medium-, and long-term approach to asset management, it can help reduce your concerns about short-term trends and maintain your focus on the long-term goals you are trying to achieve.

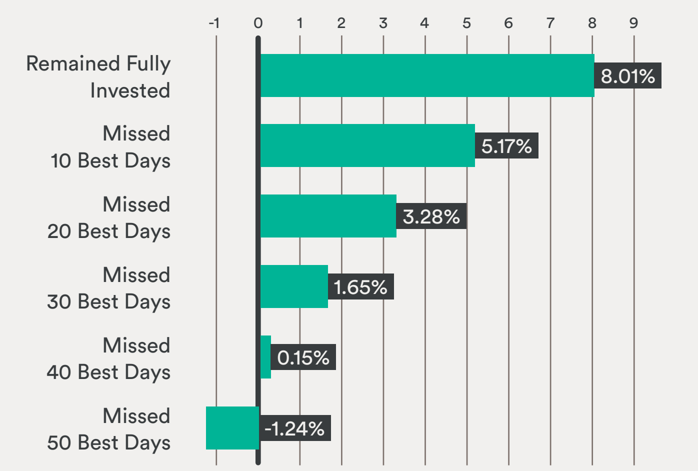
What does "staying invested" actually mean? And how do you do it?

Investors who have held onto their investments have been more successful than those who time the market. The chart to the right shows how timing the market may lead to missing out on higher returns when compared to leaving funds fully invested. Note that if you were to change paths, you have to find the right timing twice – once when you sell, and a second time when you buy back in.

"When the markets fluctuate, even the calmest investors may question their strategies," WFII states. "But much like the ocean's tide, it's natural for financial markets to move up and down. So, while the waves directly in front of you (the current financial market) may look turbulent, the water near the horizon line (your long-term investment goals) appears to be on an even keel. To help weather these economically turbulent times, here are some tips to consider."[5]

Source: 5 "Making Sense of Today's Markets", Personal, Wells Fargo Investment Institute, March 2020

S&P 500 Price Return on $1,000 (Jan 1989 to Dec. 2014)



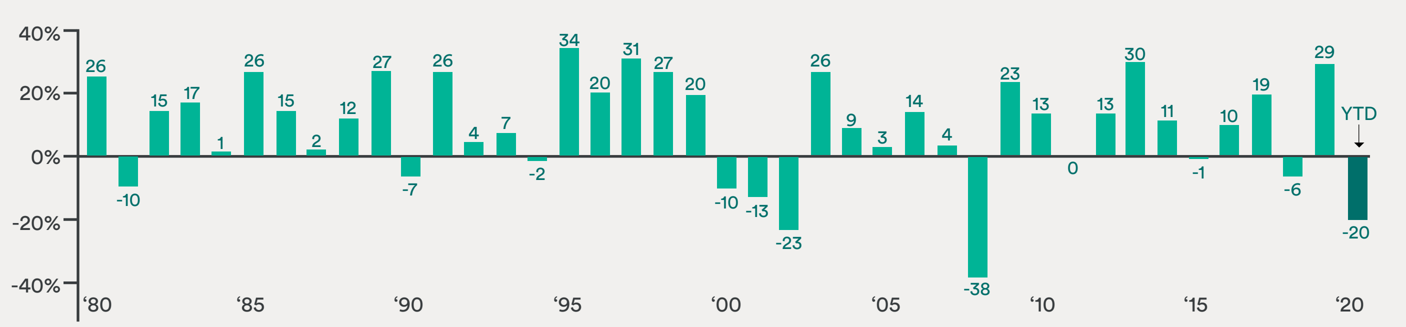
1 **Have a plan, set a course.** Understand what your overall goals are, what you are working towards, what is concrete, and what you can adjust, as well as what your priorities and timeline are. These are all helpful to build and articulate before setting sail. Your overall plan can help you stay on course through the journey as you focus on your destination, not on the waves along the way.

2 **Intentionally design your ship.** If you are on a long journey, building your ship for the long haul will look different than if you are trying to cross a short channel. Your ship should be built for the journey you are on. A canoe won't do you much good if you are trying to cross the Pacific Ocean. The same is true with investment options. If you need some of your money soon, consider short-term instruments with greater liquidity. However, for a long-term investment strategy of greater than five years, a diversified portfolio of stocks and bonds (or real estate and business ownership) may be more appropriate.

3 **Know what to expect.** Some investors lose confidence because they don't fully understand how their investments work. Educating yourself about your investments can help ensure your strategy is in line with your tolerance for risk and investment objectives. Don't just look at the potential upside – evaluate the potential downside as well. This chart shows the intra-year drop versus the calendar year return over the past 40 years.

Annual returns and intra-year declines

S&P 500 intra-year declines vs. calendar year returns | Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%. Guide to the Markets – U.S. Data are as of March 31, 2020.

How should you view today's market volatility?

It is important to recognize that short-term volatility in the stock market is typically driven by the emotions of buyers and sellers. Volatility is a natural occurrence of a marketplace and the price investors pay for the return premium of equities.

The recession caused by COVID-19 could optimistically be classified as an "event-driven" bear market by some. The market declined in 2008 due to structural issues with the economy, but the market drop now isn't about the economy. It's about fear. The Wall Street Journal reported in mid-March that in a dramatic shift since the Great Recession in 2008-2009, the market today is dominated by 1) computer-driven investors whose systems react to a series of technical and other data, and 2) traditional investors who rely on reams of fast-flying data. This has culminated in the fact that the market has never had so many sellers.

On many days, forces such as volatility, momentum, derivative activity, and market liquidity helped drive trading. Previously, investors weighed volatility to some extent, but it did not define what happens in the markets like it does today.

For our clients, we have worked with them to build an investment plan, so they have an idea of what their long-term objectives and cash needs are. We have already factored the possibility of a down market into their asset allocation and plan. This is helpful to remember during a time like this. With this foundation, you can overlay the current market and all its turmoil to frame your full financial picture.

What is Behavioral Finance and why is it so important to be aware of during COVID-19?

Behavioral finance is the application of psychology to financial behavior and its effect on markets. It has risen to the forefront in the financial services industry, fueled by research published by Daniel Kahneman and Amos Tversky that was awarded the Nobel Prize in Economic Sciences. The research reveals "repeated patterns of irrationality, inconsistency, and incompetence in the ways human beings arrive at decisions and choices when faced with uncertainty."

We all have different relationships with money and wealth, and during a downturn or high-stress periods, those relationships can be intensified or even altered. During those periods, we may change our decision-making process to be more emotional rather than rational. Trigger events can produce common emotional reactions called "cognitive behavioral errors and biases." A few of the common biases include:

Loss aversion
Feeling much worse about a loss compared to an equivalent gain

Herding
Tendency to conform to group behavior and follow the crowd

Recency effect
Overemphasizing recent experiences in decision-making

Availability bias
Overweighting top-of-mind information that comes most readily available

Confirmation bias
Our tendency to interpret new information that confirms what we already believe instead of viewing it in a new light

As we try to process and understand the new reality we find ourselves in, we may try to rely on past experiences to help define our current landscape. Possibly falling into the recency effect, we may look to other outbreaks to see how this might unfold. Our situations are changing daily, though, and it's apparent that this scenario is unprecedented and will require different responses. Your financial professional can help you keep your eye on the bigger picture by knowing about potential biases and understanding you, your life, and what your end goals truly are.

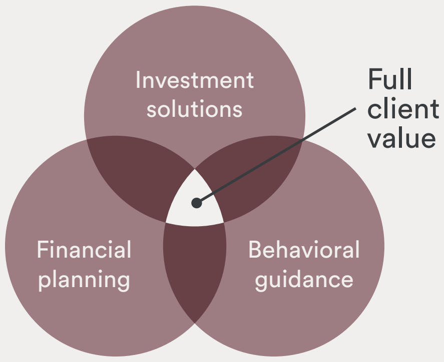
Research by Vanguard (2016), Russell Investments (2017), and others has quantified the value of behavioral guidance in terms of investor returns, estimating that it accounts for between one-third to one-half of annual returns.

Behavioral Wealth Management

Staying focused on the big picture helps put all of this in the proper context. This is where behavioral finance best practices recommend ensuring we are following the basic tenets of successful financial planning. We know obstacles will be thrown our way during our lives, but we will never be able to specifically predict or define them ahead of time. It's one thing to ensure you have had a market risk tolerance conversation with your financial professional, but it's something else entirely to actually see those numbers decline during market downturns. That's why following a disciplined approach to your goals can help you avoid making emotional decisions. If you follow the path knowing you will face obstacles and focus on the basics, it will help put you in a better position for success. These basics can include ensuring you have access to enough liquidity or cash to help you weather downturns in your business, or if you're a retiree, keeping yourself from being pulled out of the market while it's down. It's about going back to your financial path to see if things may have materially changed and, if so, working with your financial professional to find solutions to those changes.

We take a holistic and proactive approach to wealth management, creating a behavioral discipline in our client relationships designed to increase every client's confidence and minimize behavioral biases. This can only be realized when combining investment solutions, financial planning, and behavioral guidance, as illustrated in the chart below.

The Value of Working with a Financial Professional



Where is there opportunity today?

We are encouraged by how well the combination of diversification, discipline, rebalancing, and tax-loss harvesting have served our clients. While we don't know what the near-term future holds, we remain committed to the long-term investing tenets which we believe improve the odds of helping our clients achieve their stated goals.

Market sector insights:

1

Fixed Income

We can look at the municipal bond market segment and still use fundamental analysis. There's a lot of discrepancy between how different securities are trading, and those inefficiencies can create great opportunities as long as you understand what you own. One of the key things to recognize is whether or not you're currently on the same financial trajectory and plan; if these securities still line up with that plan, we believe there's no need to abandon course. However, recognize that volatility within this asset class should be expected. Though it can be unsettling at times, that volatility can offer tremendous opportunity.

2

Real Estate

Disruptions may be coming in the real estate sector, as companies look to have employees work from home and get a taste of those potential savings versus using high-cost real estate. Despite current challenges, real estate remains a key pillar of a well-diversified portfolio. We believe one of the primary focuses of real estate owners today should be preserving income and value at the property level. Uncertainty in the real estate market creates opportunity. As we move beyond the COVID-19 pandemic, there will be real estate opportunities for those with the risk tolerance and resources to take advantage of them.

3

Equities

Stock valuations were on the high side before this market correction. Now we're looking at better valuations. The market doesn't discriminate in its downward direction, so some high-quality stocks may be undervalued.

Lending Solutions – Business & Personal

When large, unexpected financial needs arise, clients often think they have no course of action but to liquidate part of their investment accounts. Talk to your financial professional about our securities-based line of credit that offers you access to funds backed by the value of eligible securities in your investment accounts without disrupting your investment portfolio. Lines of credit are typically tied to an index such as the U.S. Prime Rate, which has dropped 1.5% this year. Such a low interest rate means that this fast and flexible form of capital is very inexpensive right now.

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Light at the end of the tunnel

The CARES Act was passed on March 27 and is a $2 trillion stimulus bill that provides $500 billion in company loans, $350 billion in small business aid, $600 per week in unemployment benefits, and $1,200 stimulus checks for individuals earning less than certain amounts.

On April 24, Congress passed a new COVID-19 relief package totaling $484 billion that provides an additional $310 billion for the Paycheck Protection Program, $60 billion for small business aid, $75 billion for hospitals, and $25 billion for COVID-19 testing. Other stimulus measures have been passed allowing extended unemployment, sick leave, and family leave, while also delaying the tax filing and payment deadline to July 15.

CARES Act

$500 billion
in company loans

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in small business aid

$600 per week
in unemployment benefits

$1,200 stimulus checks
for individuals earning less than certain amounts

"As a country, we have shown our resilience many times in the face of past crises," WFII astutely observed. "After the darkest hours of the Great Recession of 2008-2009, and the events that followed September 11, 2001, we adapted to our new reality and innovated our way out of the situation. Great crises often begin with fear, and out of that fear comes a unity that bonds us even more strongly as a nation."[6]

Source: 6 Darrell L. Cronk, State of the Markets, "Four Reasons for Optimism", March 23, 2020

We're here for you

Social distancing doesn't mean you can't still get great advice and guidance. The financial professionals at Umpqua Wealth Management can help during times like these by:

- ✓ Helping you stay focused on the big picture.
- ✓ Bringing specific ideas and strategies to you based on your unique situation.
- ✓ Acting as a sounding board as you consider financial decisions.
- ✓ Partnering with you to navigate the ever-changing economic and market landscape.
- ✓ Providing insight into how current conditions affect your plans by modeling scenarios specific to your situation.

As always, our team is here to support you no matter what the future holds. We appreciate being your partners and the opportunity to continue with you on your journey.

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