HAVERFORD

2021 OUTLOOK

A Message from the Chairman

I was recently asked, "What did you learn about your business as a result of the Pandemic?" There are two things I learned:

The first is that no matter how many market risks you plan for, the next bear market can be triggered by something completely outside of even the most comprehensive plan. That is why we focus on the containment of risk throughout our security selection process. And while every crisis is unique, the market's interpretation of each crisis is not particularly unique. What I mean is, the pandemic is different than the 2008 subprime mortgage crisis, which is different than the 2001 tech bubble, which is different than the 1987 market crash. All of these bear markets were driven by fear followed by market rallies that were met with great skepticism. That is why it is important to stay invested. So you don't miss that rally.

The second lesson reinforced the importance of always being there for our clients. We are in a relationship business. In February and March, we didn't know anything more than anyone else about the future impact of the pandemic on the markets. As an entire firm, we started meeting daily. We kept an open mind, listened to you, and analyzed the data. Then we talked with as many clients as we could trying to provide guidance and good advice that would help steer you in the right direction. Just as we did in previous bear markets. That's the partnership we strive for.

I am extremely proud of our team of people and what we accomplished together in 2020. In addition to transitioning the entire company to work-from-home in early March...

- We remotely onboarded 15 new employees and 5 interns across the company in areas such as Information Technology, Operations, Trust Administration, Shared Services, Accounting, Research, and Compliance. We have grown to 106 full-time employees this year.
- We improved business processes, upgraded our technology platform, and continued our strong cybersecurity protocols. This allowed us to implement procedures so our clients can now initiate an ACH to make deposits to their accounts as opposed to writing a check.
- We continued to introduce more clients to financial planning, and it's been quite rewarding to see how they benefit from it.
- We produced countless webcasts to share our views on the markets and the economy to keep you better informed.
- Speaking of sharing information, we also transitioned all of our events to virtual and launched our social media presence on LinkedIn.
- We further integrated our ESG initiatives (Environmental, Social and Governance) into our research and security selection process.
- We delivered competitive risk adjusted returns in your portfolios.

2020 will be a year that you will tell future generations about. You'll never forget this year. The Pandemic, a presidential election, impeachment proceedings, protests for racial justice, wildfires, and hurricanes. We lost heroes, family members, and friends. We gained perspective and new ways to look at old-age problems. New ways to think about the future. And new ways to stay connected with each other.

On behalf of everyone on the Haverford Trust team, I want to say thank you for the relationship that we have and the trust you place with us. We wish you a happy, healthy, and safe New Year.

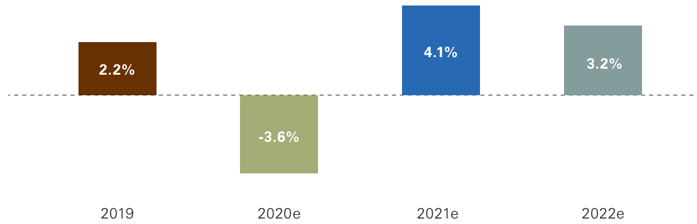
Sincerely,

JOSEPH J. MCLAUGHLIN, JR.
Chairman & CEO
The Haverford Trust Company

A Second Half Surge in GDP is Likely

After a year of surprises, we can only hope for a more pedestrian 2021. We believe that economic stimulus - both monetary and fiscal - will continue throughout the year and that a plurality of the population will be vaccinated by mid-year. This combination of stimulus and vaccine will likely lead to an explosion in GDP growth during the second half. We are forecasting that this back end dominated recovery will lead to full-year GDP well ahead of the current consensus expectation of 4.1%.

U.S. GDP

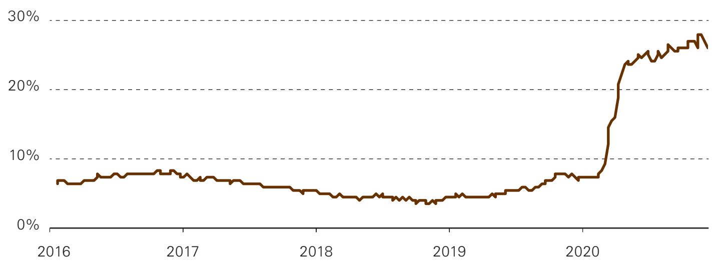


Source: FactSet

Equities Poised to Underperform the Economy

However, strong GDP growth is not likely to propel stocks to a third straight year of double-digit returns. The S&P 500 rewarded investors with a combined 55% return during 2019 and 2020. The market's disregard for pandemics and politics makes sense in the context of very low bond yields and a supercharged money supply. We anticipate that at some point in the year ahead, the stock market will have to come to grips with either higher rates or contracting money supply, maybe both. When this occurs, investors will have to fall back on fundamentals (i.e. earnings, cash flows, and dividend growth) as the foundation for equity prices. This doesn't mean equity prices are doomed to fall, but it does increase the likelihood that stocks run in place throughout 2021 as the economy catches up to asset prices.

Year Over Year Change in Money Supply

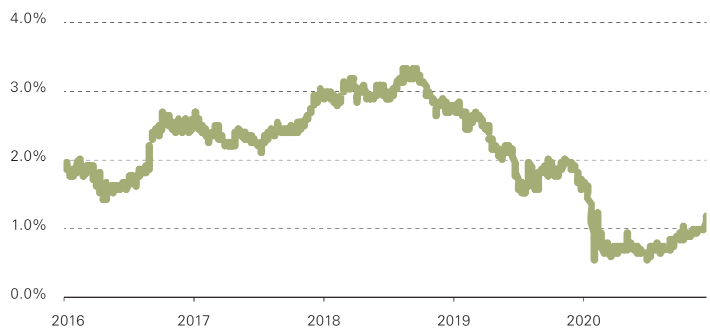


Source: FactSet

Short Duration Bonds Will Outperform if Rates Rise

Bond yields are widely anticipated to rise in 2021, and we find no reason to disagree with this consensus view. An economic reopening and one-party rule in D.C. should pressure rates higher. The benchmark 10-year yield has already increased from 0.77% before the Presidential election to 1.14% as of January 11th. We anticipate short duration (duration measures a bond's sensitivity to a change in interest rates) will outperform longer duration investments in 2021. Despite the paltry yield on fixed income investments, they will still serve a purpose in investment portfolios: dampening volatility and providing liquidity.

10-Year Treasury Yield



Source: FactSet

View the 2021 Outlook video [here](#).