MARKET COMMENTARY: 2023 Spring Outlook

In our 2023 Outlook, we noted few signs of financial excess that would be cause for immediate concern. An excess of bank deposits was last on any list of possible problems one would expect to cause a financial panic, but that is what happened this month.

A rapid increase in bank deposits was at the root of Silicon Valley Bank's (SVB) recent demise. As consumers deposit cash, banks in turn find places to invest it. In SVB's case, they invested way too much in long duration, low yielding securities, that are now priced well below what they paid for them.

> On Wednesday the 22nd, we see the FOMC as making a decision between two likely choices:
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> **Hawkish Pause:** Recent events, economic, and inflation data give the FOMC ample cover to not raise rates. This decision is likely to be accompanied with a statement that inflation is still a concern.
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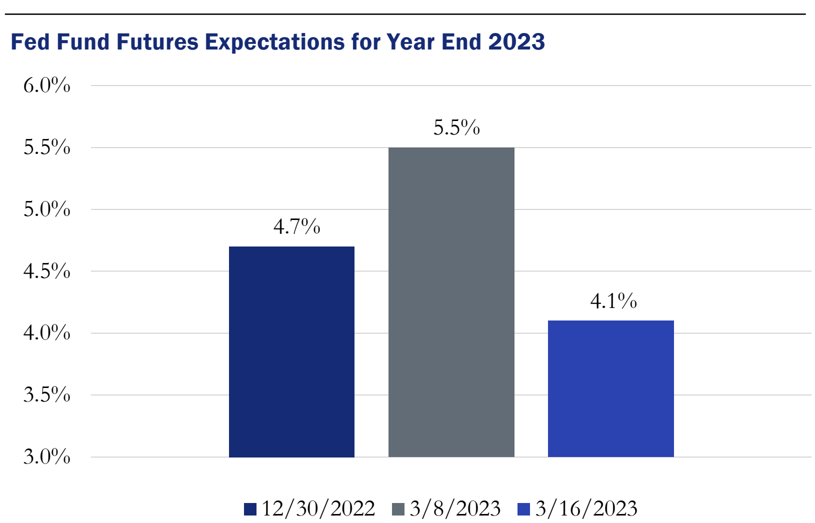
> **Dovish Increase:** They could raise 25 basis points and signal an extended pause to allow time for higher rates to work their way through the economy.

At present, every bank, no matter how well managed, has some exposure to these assets. Thankfully, most banks have more diversified investment exposures coupled with more diversified deposit bases, making them fundamentally stronger than SVB. The ensuing SVB contagion has spread to Credit Suisse and First Republic Bank over the weekend and regulators will be taking significant steps to shore up these institutions. Even if a bank is fundamentally solvent with ample liquidity, if depositors think there is a problem, there will be a problem. That is why it was so important for the FDIC and Federal Reserve to continue providing unwavering support and confidence to all depositors in every bank. The markets ended last week up slightly and remain up year-to-date. The last two weeks have dramatically reshaped investors' outlook for monetary policy, but not Haverford's economic or market outlook. We'd like to take this opportunity to provide you with our annual Spring Outlook.



Source: Haverford, FactSet

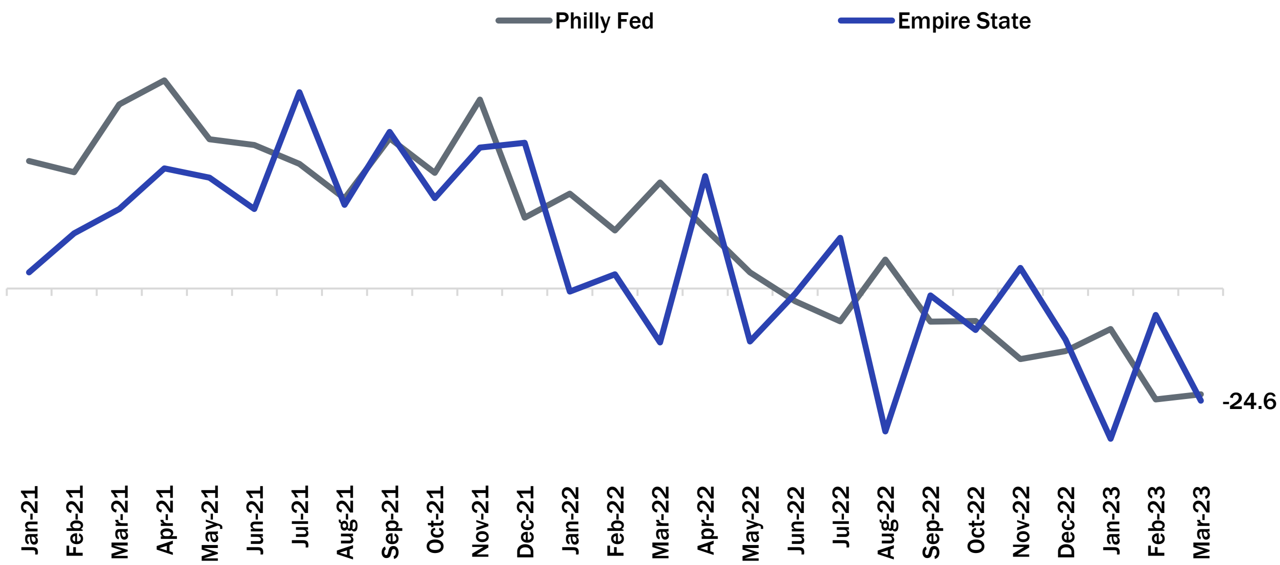
Monetary Policy Outlook: The Federal Reserve has been using interest rates to cool the economy and combat inflation. On March 8th, futures expectations for the Federal Funds rate were above 5.5%, with many economists calling for a 6% ceiling. As of March 13th, expectations dropped to near 3.75%.

This type of volatility has only been seen a few times in history including after 9/11 and after the Lehman Brother's collapse in 2008. We believe expectations of the last two weeks are too extreme. The Fed is likely to increase rates only once more this year, and by only 25 basis points.

Either way, we expect rates to remain constant through the year's end. Almost as likely is an immediate pause on interest rate hikes.

Economic Outlook: The economy is slowing, as recent survey data confirms. A benign recession, or so-called soft landing, ranks as the highest probable outcome. The inverted yield curve and recent stress in the financial system will likely weigh further on economic activity. And while consumer spending remains strong and job growth remains robust, cracks are appearing. Credit delinquencies are rising, higher prices continue to erode spending power, and the jobs market is not nearly as tight as it once was. The good news is that inflation is moderating, and the Fed will be ready to moderate policy accordingly.

Economic Data Confirms Slowing Economy



Source: Haverford, FactSet

Market Outlook: To start the year we stated, "2023 is likely to bring slower growth, but better markets." Despite the last few weeks, our outlook remains intact. Regardless of the volatility in rates, bonds remain attractively valued and investment in short-term investment grade bonds are paying 4-5%.

The equity investors' path is always circuitous and prudent investors should plan on a 10% price decline occurring almost every year; 2023 being no exception. However, there are several reasons to be optimistic that stocks can end this year in the black. Inflation is receding, the Fed is nearing the end of its tightening cycle, and stock valuations are more attractive than in 2022. Other tailwinds exist for equity prices as well. After a dramatic increase, the U.S. Dollar has weakened. This is supportive of foreign profits. China's reopening is progressing quickly, which is particularly supportive of consumer and industrial companies. And lastly, supply chain issues have largely abated; it will be much easier for companies to forecast and plan.

Investment Implications: Increased uncertainty and lower prices can trigger the investor's desire for action. One of the first actions should be a review of your short-term cash flow needs relative to long-term investment goals. Set aside the cash you need to meet your near-term needs, and help yourself sleep well at night. Then focus on the investments and allocations that would help meet your long-term goals. For the first time in more than a decade, investments in fixed income currently provide a relatively attractive yield. Diversifying into bonds may now provide more than just principal protection. However, equity returns should continue to outpace bonds over time.

The foundational principles of Haverford's *Quality Investing*® philosophy are to protect, to preserve, and lastly, to grow. Therefore, we don't often feel the need to alter portfolio positioning as uncertainty increases or conditions deteriorate. We view it as our job to build Quality portfolios proactively positioned for times of stress. However, we are always looking for ways to improve portfolio positioning at the margin, and volatility often offers opportunities.

As we see signs of opportunity, we will continue to work on your behalf to capitalize on those moments. Bringing calm and clarity to our clients during periods of chaos is a part of our 5-star Quality service at Haverford Trust. We look forward to talking with you further in the second quarter.