

HAVERFORD

2026

# Haverford Annual Economic Outlook

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As of 12/15/25

## As we close out 2025, we do so with a deep sense of gratitude, accomplishment, and optimism.

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This past year, Haverford welcomed **147 new client relationships**, recognized **9.35% growth in AUM**, and strengthened existing client relationships with our unwavering focus on quality and service.

Our 2025 client survey results affirmed our role as a trusted advisor for the individuals, families, and institutions that choose Haverford. We earned an **average satisfaction score of 94%**, which is reflected in the high number of referrals and introductions we receive. Clients commended our personal approach to wealth management along with our deep investment expertise, while encouraging us to accelerate enhancements in digital capabilities. These insights are invaluable, and they shape our priorities for the year ahead.

We will build upon the successful 2025 technology platform conversion of our trading, billing, and reporting system. This transformative project enhanced both operational efficiency and client experience. With this investment made we will continue to focus on providing additional proactive account communications while integrating new technology such as AI into workflows.

Equally as important is the safety and soundness of our business. Haverford operates in a strictly regulated industry, which ensures we hold ourselves to the high standards of both our industry and our clients. And as technology evolves, we are continually monitoring information security risks and utilizing systems designed to detect and mitigate cybersecurity threats. We take a

multilayered approach to securing our digital assets, which may include your personal nonpublic information. Our Chief Technology Officer and Chief Compliance Officer work in tandem to ensure that we have assessed our information security risks and mitigated them to the best of our abilities.

Looking forward, 2026 will be defined by strategic initiatives reflecting our commitment to innovation without compromise: advancing wealth planning solutions for individuals and families along with advisory services for our nonprofit clients, deepening engagement with the rising generations of investors, and leveraging technology to deliver a digital experience that equals our focus on quality. Every enhancement is aimed at strengthening the relationships we have with our clients.

**Our promise remains unchanged—transparency, trust, and delivering 5-Star Service in every interaction.** Thank you for your confidence and partnership. Together, we will continue to build on our shared success for enduring growth.

Sincerely,



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

## 2026 OUTLOOK

Economic growth in 2026 is expected to be moderate with persistent inflation and significant Artificial Intelligence-driven capital expenditures shaping the investment landscape. U.S. GDP is projected to grow by 1.8% with inflation around 2.8% according to FactSet consensus data, while consumer spending remains supported by large tax refunds early in the year. AI-driven capital spending is set to continue while structural shifts driven by foreign policy will pressure trade and increase global fragmentation. The consumer sentiment remains soft; however, we expect first quarter tax refunds will support continued spending.

Above-target inflation, alongside a lackluster jobs market, should prompt additional yet cautious, monetary easing. Equity markets should continue to benefit from strong earnings growth and the AI investment cycle, although heightened investor scrutiny of massive capex spending, valuations, and market concentration pose risks and warrant vigilance. The fixed income markets continue to be supported by an easing Federal Reserve, strong demand and positive credit fundamentals. While there may be interim volatility, we believe that concerns regarding the independence of a new Fed Chair and possible credit problems in the economy are overstated.

### Key Themes Poised to Drive the Markets in 2026

- 01 Will the AI capex boom lead to broader productivity and profits?
- 02 Will the new Fed Chair maintain independence and retain market confidence?
- 03 Will the K-shaped economy increase volatility in a midterm election year?
- 04 Will trade wars and geo-politics lead to further global fragmentation?
- 05 Will diversification beyond the Magnificent Seven be rewarded?
- 06 Will corporate earnings grow by double digits for the 3rd straight year?
- 07 How will Fed rate cuts shape fixed income opportunities?

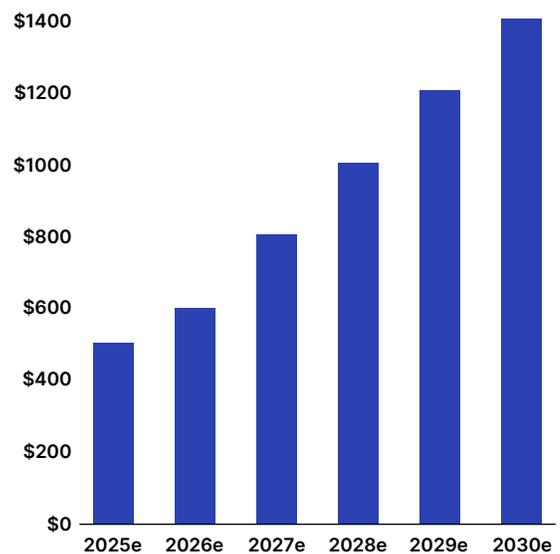
# 01 Will the AI capex boom lead to broader productivity and profits?

The AI race has become the most important investment story of our time and will certainly shape the investment narrative in 2026 and beyond. What JP Morgan calls “FOBO” (the fear of becoming obsolete) will continue to drive massive capital expenditures next year. The five largest Hyperscalers alone are expected to spend over \$450 billion in 2026, an increase of \$75 billion over 2025 levels. According to JP Morgan, the top 30 AI adjacent companies in the S&P 500 (the AI 30) are projected to invest \$585 billion next year, a 34% increase year-over-year, with global AI-related spending on data centers and model development estimated at \$1.0 to \$1.5 trillion annually.

While these figures are eye-popping, as a percentage of the economy they are neither unprecedented nor as large as past investment cycles driven by structural changes and new technologies. Goldman Sachs reports that AI investment as a share of U.S. GDP is smaller today at less than 1% than it was in prior investment cycles, which approached 2% to 5% of GDP. They compared investments in railroads, electricity, telecom, and the internet to determine that current spending is not yet in bubble territory.

Goldman analysis indicates that today’s capex spending will be well worth it to future economic growth. Their conservative estimate

**U.S. Data Center Projected Annual Capex (U.S.\$ bn)**



Source: JP Morgan Estimates. As of Nov 10, 2025.

assumes an 8% to 15% productivity uplift over the next 10 to 15 years leading to a present value of \$5 trillion to \$8 trillion dollars in economic uplift. Meanwhile, JP Morgan analysis shows that over 60% of S&P 500 companies are investing in AI, with 59% mentioning cost savings and efficiency gains. Companies outside the AI 30 will soon need to provide concrete examples of AI driven productivity and profit enhancement to validate

Goldman and Morgan projections. Otherwise, investors may begin to lose faith that current levels of capex spending are worth it.

Companies are embracing AI with remarkable enthusiasm but turning that enthusiasm into measurable business value remains a work in progress. Recent research from McKinsey & Company shows that while nearly 90% of companies report using AI in at least one business function, only about one-third have scaled those efforts across the enterprise, and just 39% cite a meaningful impact on profitability.

McKinsey reports that two-thirds of firms using AI remain stuck in pilot phases. MIT Sloan School of Management warns of a “J-curve” effect, where productivity initially drops by 1.3 percentage points before gains materialize, and Boston Consulting Group finds that 74% of companies fail to scale beyond proofs of concept, with just 4% consistently generating returns.

Firms face challenges implementing AI due to the complexity of redesigning workflows, integrating data, and aligning organizational processes to fully leverage AI’s potential. These headwinds highlight a critical risk: unless firms overcome integration challenges and deliver measurable outcomes, investor confidence in AI-driven capex could erode quickly. Contrary to Goldman’s forecast, studies from McKinsey, MIT Sloan & BCG show enterprise AI adoption may be slower, more difficult, and costly than optimists believe.

There is also high probability for periods of trading volatility among AI-related stocks in 2026, similar to February 2025 when strong model results from China’s DeepSeek R1 model claimed to rival top tier AI models at a fraction of the cost. We expect these periods to be short-lived as investors work through the headlines and recognize the scale of the AI growth and productivity opportunity that lies ahead.

*We believe AI does have the potential to drive meaningful productivity growth, but the timing will test investors’ patience.*

Even if Goldman’s most optimistic scenarios come to fruition, we expect bouts of volatility along the way. Excitement for the AI revolution has created several market risks, the greatest being elevated earnings multiples leading to lofty asset prices. Market concentration also poses risk if the AI ecosystem slows down. The JP Morgan AI 30 represents 45% of the market capitalization of the index, with the largest 8 stocks accounting for 39%.

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## 02 Will the new Fed Chair maintain independence and retain market confidence?

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The Federal Reserve faces a delicate transition in 2026 when Jerome Powell's eight year run as Chairman of the Federal Reserve ends in May. The next Chair will be expected to navigate the increasingly difficult dual mandates of stable prices and maximum employment. The President has stated that he wants someone in that role who is dovish on rates and aligned with his political ambitions, but the markets seem to demand the Fed Chair remain apolitical and set policy based on data, not politics. With the Fed's credibility at stake, the new Chairman will likely be tested by markets, the media, and Capitol Hill.

Inflation has remained closer to 3% than the Fed's preferred 2% target throughout all of 2025, and most economists expect the Fed's preferred measure of inflation – Core PCE – to stay above 2.7% throughout 2026. At the same time, employment growth is slowing. The unemployment rate has risen to near 4.6%. This compares to the monthly average of 55,000 new jobs in 2025, which was down from growth of 167,000 in 2024.

We expect the Fed to cut the Fed Funds rate to 3.5% by mid-year as the committee focuses on their goal for full employment in 2026 and tariffs prove to be less inflationary than originally thought. There is a chance that

forthcoming fiscal stimulus accelerates economic growth during the first half of the year, creating an environment where rate cuts are not required and putting the new Chairman at odds with the administration's desire for rate cuts through the midterm elections.

*We believe the Fed will maintain and exert its independence throughout 2026.*

We also expect rising tension between Fed officials seeking lower rates versus holding them steady. Thus, we expect 2026 Fed decisions to contain more dissenting views, potentially driving market volatility.

There are understandable concerns that the next Chair, likely Kevin Hassett, will yield to political pressure. We believe history and structure argue otherwise. With seven governors and a rotating roster of five of the twelve regional bank presidents, the Federal Open Market Committee creates a strong buffer against any single individual or administration. Past presidents from Johnson to Nixon have tried to influence the Fed, yet the institution has consistently upheld its dual mandate. Hassett himself is a seasoned economist with a reputation for clear communication, which should help reassure markets.

Moreover, a pending Supreme Court ruling is expected to reinforce legal protections for the Fed's autonomy, further reducing the risk of interference. While headlines may amplify

fears, these concerns are largely overblown in our opinion, the Fed's credibility and institutional safeguards will remain intact.

## 03 Will the K-shaped economy increase volatility in a midterm election year?

Midterm election years usually present difficulties for presidents and markets alike. If elections were held today, results would be defined by what has come to be known as the K-shaped economy and the affordability crisis. Over the past several years economic gains have been unevenly distributed, creating a stark divide between higher-income

households and everyone else. Recent Federal Reserve data show that inflation wage growth for the bottom quartile has slowed to just 1.5% annually, compared to 2.4% for the top quartile, while Bank of America reports that spending among wealthier households grew 2.7%, versus only 0.7% for lower-income groups.

The K-Shaped Economy



Source: The University of Michigan Consumer Sentiment Survey measures how optimistic or pessimistic consumers are about the economy. The S&P 500 index is a market capitalization weighted index of large cap stocks. For illustrative purposes only. Indices are unmanaged, do not incur fees or expenses and cannot be invested in directly. Past performance is not a guarantee of future results. As of Nov 28, 2025.

This divergence underscores the reality that richer households are getting richer and are more comfortable spending, while lower- and middle-income families feel increasingly squeezed.

Asset prices have compounded this imbalance. Since 2010, home prices have surged 74%, while average wages have risen only 54%, pushing the price-to-income ratio from roughly 4x median earnings to nearly 6x today. Meanwhile, equity markets remain near record highs, even as consumer sentiment languishes at 51, its lowest level in a decade. Nearly 95% of consumers say they worry about inflation eroding their purchasing power.

This disconnect between asset markets and lived reality has fueled widespread frustration. Lower- and middle-income households are spending more cautiously and relying more on credit while the top 10% of earners now account for nearly half of all consumption, according to Moody's. For many Americans the promise of prosperity feels increasingly out of reach.

Treasury Secretary Bessent's pledge to "bring prosperity back to Main Street" has yet to deliver broad-based relief. Despite the administration's best intentions, it appears the structural gap between Main Street and Wall Street is widening. Wage gains are concentrated in high-cost cities and affordability pressures persist nationwide. Policy initiatives like "baby Trump" savings accounts have generated headlines but not meaningful change for households

struggling with housing, childcare, and everyday expenses.

In short, the economic narrative heading into the midterm elections will be defined by rising inequality, stagnant real wages, and a pervasive sense that the system favors asset owners over wage earners. The K-shaped recovery is no longer an abstract concept—it's the lived experience of millions of voters.

Based on current polling of the President's approval rating and consumers' economic views, Republicans are poised to lose their slim House majority in November. However, the Congressional map favors the Senate remaining in Republican hands.

Market volatility typically increases during midterm elections due to greater political uncertainty, resulting in midterm election years being the most volatile of the four-year presidential cycle. Historically, the average intra-year decline for the S&P 500 is about 19% in these years, while high quality stocks in defensive sectors, such as Healthcare, tend to significantly outperform the market. According to Strategas Research, Healthcare has outperformed the S&P 500 in 11 of the past 13 midterm election years, with an average outperformance of 800 basis points.

In an attempt to mitigate incumbent losses, Congress could attempt to introduce more fiscal measures ahead of the elections to boost consumer spending. The OBBBA is already expected to provide households a cash flow jolt early in the new year. Household tax breaks

that became effective at the start of 2025, such as no-tax on tips and overtime, were not adjusted in the IRS income tax withholding schedules. These tax breaks should show up as a bumper crop of tax refunds early in 2026.

Strategas estimates 2026 Federal tax refunds will increase by \$150 billion, or approximately 44%. On a per job basis, refunds will increase on average by \$1,000 and could produce a 0.5% boost to GDP. More than \$230 billion in business tax cuts are also in the pipeline next year.

*Despite the administration's best efforts to stoke the economy into the election, investors should anticipate a split government by year end and a meaningful market correction sometime in 2026.*



It is also important to note that the S&P 500 has not declined in the 12 months following a midterm election since 1938, making historical sell-offs in these election years particularly good buying opportunities in the market.

## 04 Will trade wars and geo-politics lead to further global fragmentation?

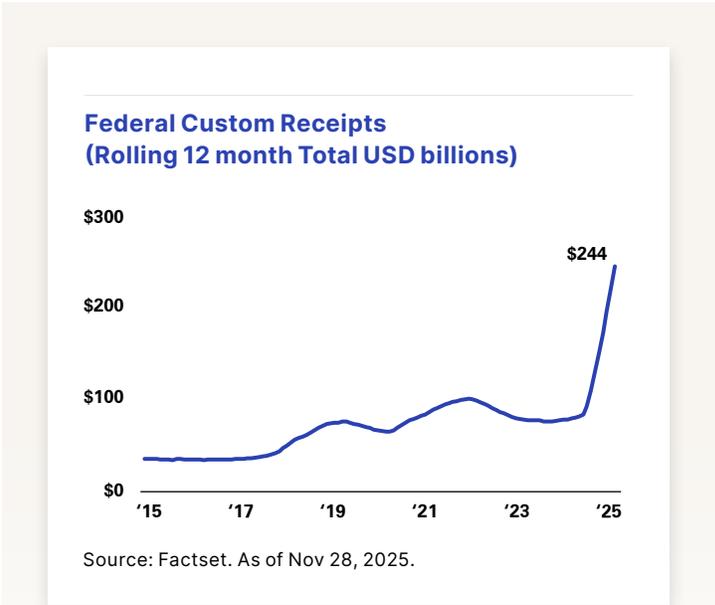
The Trump administration is purposefully upending a 50-year-old world order of financial and trade based global interdependence in favor of accelerated global fragmentation. We believe that the announcements of April 2025 can be considered peak tariff, and the actual

effective tariff rate moving forward will average 12-15% across all imports. The President is not focused merely on simple protectionism but also risk management. His foreign policy goals include shortening and diversifying supply chains toward politically aligned partners.

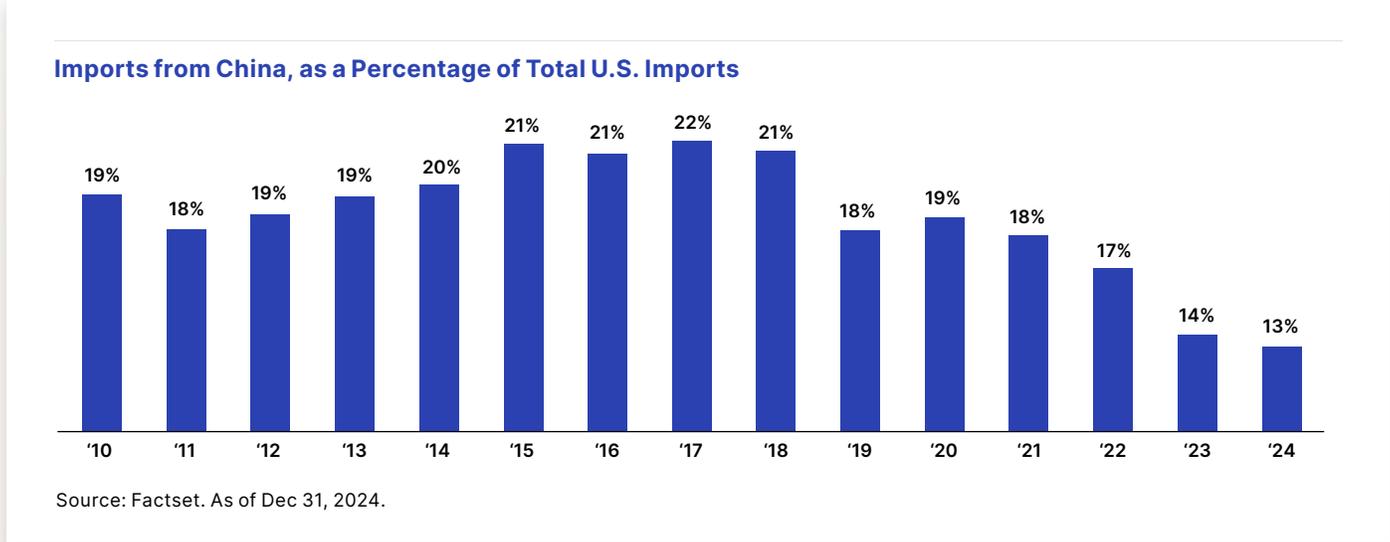
This administration's preferred supply chain does not optimize for cost, but instead for resiliency and strategic autonomy.

While the tariff windfall to the treasury is easily measured—about \$250 billion dollars is expected in 2026—their overall effect on prices has been more nuanced. Tariffs have not led to significantly higher inflation, but have likely created a floor effect on disinflation since they have raised prices across supply chains. Tariffs are contributing to sticky inflation. The SCOTUS decision will ultimately determine how, and not if, tariffs are implemented.

Despite the dollar's decline in the wake of these policies, we believe the administration has set the groundwork to maintain U.S. dollar dominance for years to come. The passage of the Genius Act creates a regulatory framework that allows stablecoins (aka crypto currency meant to hold a stable value) to proliferate as



long as they are backed 1:1 by U.S. Treasury bills. International consumers will now be able to access the liquidity and safety of the Treasury market via their smart phone apps.



CNBC cites scenarios where the stablecoin market could reach \$2 trillion in the next few years, implying commensurate incremental demand for U.S. Treasury debt.

Decoupling with China is no longer theoretical. There has been a persistent contraction in China/U.S. trade over the past decade and a bipartisan push for an embargo on leading edge tech exports to China on security grounds. In Europe, Russia's invasion forced an energy pivot resulting in a doubling of U.S. liquified natural gas exports to Europe.

*We believe global fragmentation is likely to deepen because tariffs, technology controls, energy security, and geopolitical alignment are mutually reinforcing.*

Investors should expect ongoing margin pressure in trade-based goods and sticky core inflation. We believe the dollar's dominance will remain intact long-term, but near-term confidence is shaky. Policies to reshore supply chains and drive energy security should benefit industrial companies leveraged to the capex buildout.

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## 05 Will diversification beyond the Magnificent Seven be rewarded?

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A recurring theme of our recent Outlooks has been market concentration and the need to keep investments diversified. The top 10 stocks now account for over 40% of the market capitalization of the S&P 500, up from 18% a decade ago. This narrow leadership makes index performance more vulnerable to shocks in a few dominant names and erodes diversification benefits. Broad benchmarks may appear diversified but are heavily exposed to similar business models and factor profiles that can amplify both correlations and volatility. On the other hand, these dominant companies have earned their way to these top spots through tremendous earnings growth and innovation.

The current market is often compared to the *Nifty Fifty Era* in the 1960s and 70s or the Tech Telecom boom of the late 1990s. Today's market is more concentrated than either of those periods, however there is more earnings support for today's market leaders than these historical corollaries. Today's concentration is focused in higher quality companies with strong profit margins, resilient cash flow growth, disciplined capital returns, and stronger balance sheets.

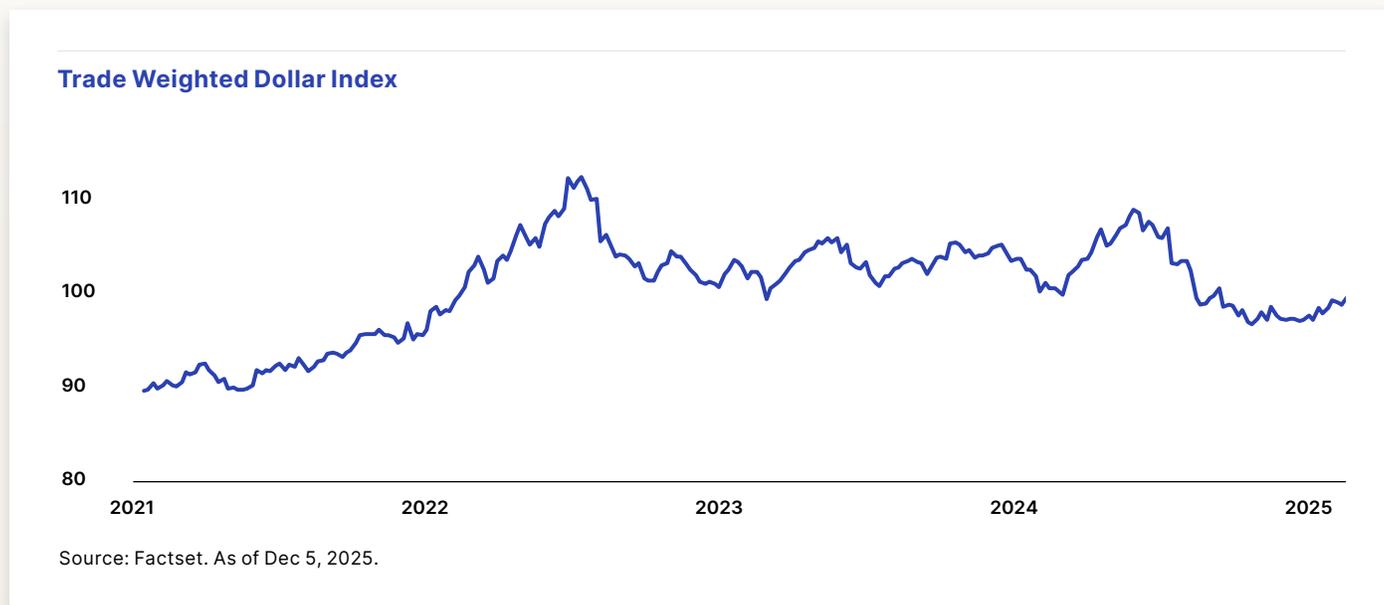
While the make-up of this market is different from past periods, our opinion is that market concentration should always be viewed as an indicator of heightened risk. We believe diversification will reward investors in the years ahead. Maintaining exposures across sectors, regions, and asset classes is a dependable way to benefit portfolios through risk mitigation, volatility reduction, and potentially improve risk-adjusted returns when market leadership broadens.

One area of opportunity exists in small caps, which have lagged large caps for years and now trade at meaningfully cheaper valuations with a higher expected earnings growth rate for next year. Historically, performance leadership between large and small cap stocks in the U.S. has run in cycles lasting nearly a decade. The current cycle of large cap dominance has

lasted 13 years, suggesting a shift in investor preference may be overdue.

Small caps also offer more diverse return drivers and less AI-related concentration risk. From a policy standpoint, small caps also should benefit from lower borrowing costs and a more relaxed regulatory environment, both of which could spur an increase in acquisition activity.

Meanwhile, international equities that benefited from a weaker dollar in 2025 remain attractively valued and can provide an additional avenue for investors to diversify their portfolios. The U.S. dollar weakened by 9% in 2025 and “the street” expects currency weakness to continue in 2026 as global central banks continue to diversify their reserves.



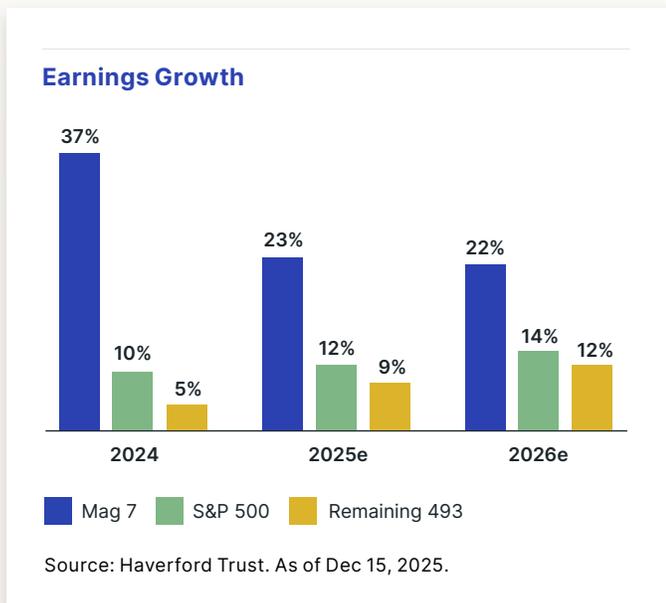
At the same time, growth outside of the U.S. is accelerating, led by increased infrastructure and defense spending in Europe, wage growth in Japan leading to stronger domestic demand, and supportive monetary policy in emerging

Asia. Lastly, developed international stocks have become much less correlated to U.S. markets over the past decade and are now more likely to help mitigate a significant drawdown in highly concentrated U.S. equities.

## 06 Will corporate earnings grow double digits for the 3rd straight year?

FactSet projects S&P 500 earnings growth of 14% for 2026, a third straight year of double-digit growth, and well above the long-term average of 6–8%. The index currently trades at 22x expected 2026 earnings.

Earnings estimates are driven by margin expansion, easing monetary policy, strong revenue growth from AI-related investments, and tax incentives under the OBBBA legislation.



As we mentioned earlier, earnings growth within the S&P 500 has been highly concentrated over the past several years, driven primarily by mega-cap technology and AI-related companies. In 2026, we expect this gap to narrow as earnings growth broadens.

Technology is still expected to lead the way in 2026 with sector EPS projected to grow an impressive 26% on average, fueled by continued strength in semiconductors, cloud services, and monetization of AI applications. Industrials and Materials, poised to benefit from infrastructure spending, reshoring trends, and automation investments are expected to grow 15% and 21% respectively. Consumer Discretionary earnings are forecast to rise by greater than 10%, supported by tax refunds and easing credit conditions. Financials are projected to grow 10%, due to reduced credit costs and increased fees related to capital markets activity, while defensive sectors like Healthcare are expected to post 9% EPS growth due to biopharma innovation, new drug launches, and steady demand from aging populations.

However, robust earnings expectations for next year are accompanied by elevated earnings multiples, which means greater market risk if forecasts fall short. We see two ways a decline in earnings estimates becomes a risk to the market. First, mega cap Tech could

underperform expectations of high double-digit earnings gains, and second, the remainder of the S&P 500 may be unable to close the earnings gap. The greater market risk likely lies in the former. Market performance is most vulnerable if Tech underperforms, given their higher valuations and heightened investor expectations; however, disappointment will be limited if Tech excels even as remaining companies lag behind.

*We anticipate double-digit earnings growth in 2026, which should underpin continued stock market gains.*

AI-related spending and investment are likely to persist, driven by competitive pressures and the fear of obsolescence. Additionally, easing monetary policy and tax incentives for individuals and corporations under the OBBBA are expected to provide sufficient support for the rest of the economy to deliver on expectations.

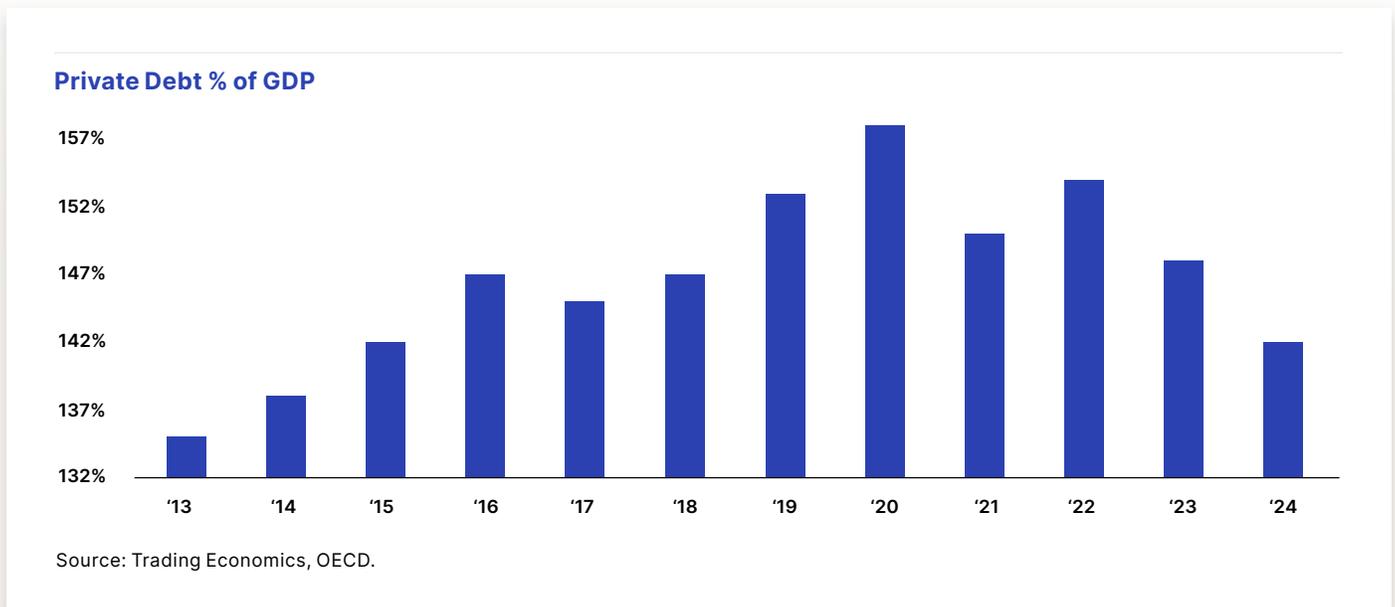
# 07 How will Fed rate cuts shape fixed income opportunities in 2026?

The fixed income markets should continue to be supported by a Federal Reserve that has lowered the Fed Funds rate to 3.75%, nearly 2 percentage points since September 2024. We expect the Fed to continue with additional cuts, albeit cautiously, as we know from history that policy moves impact the economy with a lag that is variable in terms of both time and magnitude. As discussed earlier, any fiscal stimulus ahead of the midterm elections could impact the timing of further Fed cuts.

While there are pockets of credit pressures around the fringes, we continue to believe that credit quality remains strong. Macro measures of credit such as the ratio of total private borrowings relative to GDP are showing

sequential improvement in recent quarters. Credit spreads on Investment Grade corporate bonds have tightened for ten consecutive quarters, according to Blackrock Inc. Reported Net Charge Offs (NCOs) from large banks have declined in recent quarters. Together these factors illustrate a lack of systematic quality deterioration. That said, we think that any additional outperformance from this starting point of multi-year tight credit spreads could be hard to come by.

We continue to favor U.S. Agency Mortgage-Backed Securities (MBS) as one of the most attractive combinations of yield and quality for investors.



The sector could benefit as the Federal Reserve stops shrinking its balance sheet in the near future. If all the Fed did was to stop the runoff of MBS and reinvest monthly payments, that would significantly improve the technical supply/demand position of the MBS sector.

While we continue to believe that bond market volatility favors a steeper yield curve in order to entice investors to lend for longer periods, investors are expected to reposition their funds away from lower yielding cash and equivalents into longer-term fixed income investments.

## SUMMARY

### **01 Will the AI capex boom lead to broader productivity and profits?**

We believe AI does have the potential to drive meaningful productivity growth, but the timing will test investors' patience.

### **02 Will the new Fed Chair maintain independence and retain market confidence?**

We believe the Fed will maintain and exert its independence throughout 2026

### **03 Will the K-shaped economy increase volatility in a midterm election year?**

Despite the administration's best efforts to stoke the economy into the election, investors should anticipate a split government by year-end and a meaningful market correction sometime in 2026.

### **04 Will trade wars and geo-politics lead to further global fragmentation?**

We believe global fragmentation is likely to deepen because tariffs, technology controls, energy security, and geopolitical alignment are mutually reinforcing.

### **05 Will diversification beyond the Magnificent Seven be rewarded?**

Market concentration should always be viewed as an indicator of heightened risk. We believe diversification will reward investors in the years ahead.

### **06 Will corporate earnings grow by double digits for the 3rd Straight Year?**

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