January 3, 2023

"Success is achieved and maintained by those who try and keep trying"
-*W Clement Stone*

While investing is a forward looking activity, the beginning of a New Year provides a moment to reflect upon what transpired in 2022 versus what we initially predicted. We were correct identifying the key themes as a hawkish Federal Reserve and rampant inflationary pressures. The Federal Reserve aggressively hiked rates from 0.8% to 4.4% during the year. Rates are likely to peak over 5% in 2023 as inflation moderates and the economy slows. Inflation, which reached 9.1% in July, is currently running at 7.1% which is still far above the target rate of 2%.

Our prediction that the stock market would tolerate higher interest rates because the economy would continue to grow fell short. GDP contracted in the first two quarters of 2022 and is expected to end the year up 1.9%. For 2023, GDP is likely to be flat. In previous years when economic growth slowed the Fed intervened by lowering interest rates and injecting money into the economy. That relief valve isn't available now that the Fed is focused on fighting inflation.

The stock and bond markets had a rough year. While we were bearish on bonds, we thought stocks would ride out the environment. Higher interest rates hurt the bond market and pressured stock valuations. The global supply chain, which had been disrupted during Covid created supply shortfalls that have only recently been resolved. Commodity costs, which were already rising, spiked further when Russia invaded Ukraine. Businesses compensated for raw material and supply cost increases by raising prices to consumers. The result of these moving parts was a slowing economy and declining earnings estimates for many businesses.

As we look toward the New Year, we think that the investing environment will improve as the year progresses. We believe the main headwind we'll face in early 2023 remains a hawkish Fed focused on fighting inflation. We believe that corporate earnings projections will be revised lower as companies share their outlooks with investors when reporting fourth quarter results. The S&P 500 declined 19% and the NASDAQ is 33% lower in 2022 so we think the market is already discounting much of this environment. We have sought to mitigate risk in client portfolios by purchasing short term treasuries in order to capture yields over 4% while also keeping powder dry. We are comfortable holding stocks through this cycle because the businesses we own on your behalf continue to generate free cash flow and are not dependent on outside financing to survive. Times like these allow talented management teams to differentiate themselves.

Thank you for entrusting Ayrshire Capital Management LLC with the management of your money. We wish you all a very Happy New Year.

Sincerely,

JM Sam Nevin, Jr
Managing Partner

W. Joseph Ryan III
Partner

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