The first quarter of 2023 started optimistically enough. Financial media and the investing community entered the new year cheering the slowing of U.S. inflation and the end of the Federal Reserve’s rate hiking cycle. It ended with several regional banks suffering collapses of varying magnitude and, on the global stage, an arranged marriage between Credit Suisse and UBS.

As we enter the second quarter, conditions feel fraught. With the Global Financial Crisis looming large in investors’ memories, circumstances seem custom-made to induce panic, particularly with folks glued to (and able to transact on) their smartphones.

Panic—defined as sudden, uncontrollable fear or anxiety, often causing wildly unthinking behavior—is understandable. After all, despite countless analysts covering the financial sector, few forecast the collision between declining asset values and disappearing deposits within regional banks. The inability for very smart people laser-focused on the sector to foresee this development underscores just how uncertain the future is.

However, while it may be understandable, panic may be the very worst mindset with which to approach an overall financial plan or an investment portfolio in particular.

So, in an effort to calm nerves, let me offer this reassurance. While we cannot consistently predict short-term developments in inflation, interest rates, or even the next bank run, we do not believe we need to in order to generate successful outcomes for our investment strategies. Over the long run, the values of companies and asset classes are driven by the cash they generate that is either returned to investors or reinvested in the companies. If we can properly estimate those values and aim to buy when the investments trade below those estimates, we believe we can deliver compelling long-term returns, irrespective of the market environment.

That’s not to say we disregard market conditions. On the contrary, we think deeply about how the values of investments may respond in different market conditions, aiming to find opportunities whose values are driven by different factors than what we already own. For example, when we added stocks within U.S. communication services to the asset-allocation portfolios in the back half of 2022, we liked not only...
the valuation of the sector, which our analysis suggested was better priced than other segments of the U.S. equity market, but also the high-quality, durable earnings that offset the economic sensitivity of some of the energy and financials exposure already in the portfolios.

What does this reminder of our fundamental, long-term, and opportunistic investment philosophy mean for you? Neatly put, that our nearly 100-member investment team is focused on analyzing markets and the associated opportunities and risks, so you don’t have to. In today’s market, our team’s research ranges from assessing the financials market in search of investments that may have been oversold to refreshing our views on global opportunities like China and Brazil. We’re also hard at work evaluating the potential impact higher inflation or rates could have on equities and fixed income over the long run.

By spending our efforts on investments, advisors and clients are free to focus their attention on the design of a personalized financial plan — no small task! — and the selection of the right portfolios that fit within that plan. This separation of duties is incredibly powerful. Even in today’s fraught climate, we are optimistic that it will yield compelling long-term results. As always, we are grateful for your trust in Morningstar Wealth.

Opinions expressed are those of Morningstar Investment Management LLC and are as of March 31, 2023; such opinions are subject to change without notice.

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Morningstar Portfolios

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Index Information

Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, we cannot guarantee its accuracy, completeness or reliability. Index data sources are as follows.

S&P 500 Index — An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index.

MSCI EAFE Index (Europe, Australasia, Far East) — A free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

Bloomberg Barclays U.S. Aggregate Index — A market value weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.