

November 2020

Dear Clients,

November saw substantial gains in the major domestic equity markets as the S&P 500 and Dow Jones Industrial Indexes both reached new all-time highs erasing the losses in September and October, increasing approximately 11% and 12%, bringing year to date appreciation to 13.7% and 5.8%, respectively. The rally continues to exhibit a healthy broadening as the best performing sectors were the cyclical Energy, Industrials and Financials, indicating conviction in an ongoing economic recovery. Gains were attributable to a peaceful election process, positive Covid-19 vaccine news and improved visibility to normalcy.

Looking solely through the lens of an objective non-political investor the outcome of the November elections provides a comfortable and acceptable backdrop for economic growth and subsequent investment gains. With party divisions between the President and the Senate some of the more market unfriendly policies will assuredly not be enacted as feared, particularly the increase in corporate taxes and personal income tax rates. Additionally, another round of stimulus and support is more likely and should be delivered before year end as political rancor dissipates post-election. Nominating Janet Yellen as Treasury Secretary is a welcome centrist hire and as a previous chair of the US Federal Reserve should bring predictability to future fiscal policy and a closer coordination with the Fed. Yellen is publicly supportive of additional stimulus and has previously been critical of removing such measures too early. She should continue to provide market supportive policies investors have come to expect. Lastly, the Georgia Senate runoff races in January will be critically important as they will either confirm consensus or provide a dramatically different narrative for investors to consider.

Two vaccine candidates have demonstrated dramatic success and enable investors to envision an end to the economic lockdown. The leading messenger RNA (mRNA) vaccines from Pfizer/BioNTech and Moderna have provided phase 3 efficacy results of 95% and 94% respectively, much higher than anticipated. Both have applied for FDA Emergency Use and if approved we could see vaccinations for prioritized recipients by mid- December. Additionally, the more traditional vector vaccines from Astra Zeneca and Johnson & Johnson are in phase 3 trials with expected positive results as well. Production will be capacity constrained and non-priority candidates may not receive vaccinations until early spring, however, focusing on the at-risk segment should immediately reduce hospitalization rates and mortality figures. Distribution will also present a challenge as the mRNA vaccines will require -90-degree Fahrenheit storage temperatures while the vector vaccines require normal refrigeration. Once approved the vector vaccines will do much for

the general population especially in rural areas and developing nations. As we have written repeatedly in past commentaries a vaccine was of paramount importance in a return to normalcy. We are now able to visualize just that and invest accordingly.

Our portfolios have performed as expected with our growth discipline continuing to benefit from technology exposure and additions made during the early spring Covid-19 selloff. Our income portfolios have lagged due to their concentration in higher yielding, conservative value positions currently out of favor. Balanced portfolios present a mix of both and have performed accordingly. We continue to maintain elevated cash levels due to market appreciation, elevated valuation multiples and our hesitancy as we entered the election. We anticipate gradually reducing these cash levels as opportunities present themselves. Principal preservation remains a key tenet in our investment discipline and our prudence will reward investors as volatility returns.

To all we wish a healthy and peaceful holiday season and please do not hesitate to call with any questions or concerns. Thank you.

Best regards,

*Beech Hill Advisors*