BH | *Beech Hill Advisors*

June 2019

Dear Clients,

The second quarter of 2019 saw a dramatic reversal of fortune in the final month of June, erasing the entirety of the decline witnessed in May. The total return of low single digits for the major domestic equity indexes for the quarter belies the considerable strength and speed of the market rebound. Investors were rewarded with mid-teens returns year-to-date as this was the best June since 1938 for the Dow and best June since 1955 for the S&P 500. The shift in investor sentiment can be traced to a shift to accommodation from the Fed and the reengagement of trade talks with China.

The Fed has broken from its string of rate hikes that began in October of 2015 and restrictive policy stance with new language in their June policy release. Negative datapoints including a surprisingly weak June payroll number, continued below-target inflation, and tepid US manufacturing data, have prompted the Fed to modify forward strategy. One could infer the unspoken concerns include the dramatic market selloff in May as well as prolonged tariff and trade negotiations. Positively, they continue to see strong labor markets with solid job gains and low unemployment, continued moderate economic growth and increased household spending. The new mantra for the Fed: We are closely monitoring incoming information and will act as appropriate. Half of the Fed officials projected lower rates in 2019, buoying investor spirits as the futures market began to predict a July rate cut. The upside case for rate cuts include an extended recovery with growth above trend as monetary policy can offset the negative effects of a trade war and inflation, moving higher as capacity is utilized and future inflation and growth expectations are raised. This would presumably be a catalyst for continued equity market appreciation.

Leading sectors for the quarter include financials, information technology, and consumer discretionary as would be expected in a growth friendly climate. Laggards include the more defensive segments healthcare and consumer staples as well as energy-exposed companies due to the decline in the price of oil. Our portfolios were up in similar fashion for the quarter with our growth strategy expectedly outperforming our equity income strategy. Our sectors were mixed for the quarter with our largest concentrations in technology and healthcare somewhat offsetting one another along with strong performance in our financial and consumer discretionary holdings. We saw flattish returns from our energy and industrial names due to aforementioned reasons.

We remain positioned for continued economic expansion and we believe an accommodative Fed paired with an expected trade resolution will fuel ongoing growth. Strategically, we continue to favor technology, industrial and healthcare as our highest weighted segments. We look to continue to upgrade the portfolio with quality companies at attractive valuations as well as disruptors in more traditional industries. We have paused corporate bond buying in our income portfolios and will resume once rates are more favorable. We will remain optimistic until macroeconomic and corporate data indicate otherwise.

As always, please do not hesitate to call if you have any questions. Enjoy the summer!

Best regards,
Beech Hill Advisors