

March 31, 2020

Dear Clients,

That the first quarter of 2020 was eventful is a grand understatement. We avoided a near military conflict with Iran, witnessed a presidential impeachment trial, suffered through an ongoing oil price war, and remain amid a global pandemic causing untold human suffering, fatality, and virtual shutdown of the global economy. We have seen a market correction in hyper speed, dropping the S&P500 34% in 30 days from its high in late February until the 23<sup>rd</sup> of March. Positively, the equity indexes finished the quarter a bit better as indiscriminate selling finally abated with the S&P 500 and the Dow Industrial equity indexes finishing negative 19.5% and 22.6% respectively. Our portfolios finished in line as no strategy was spared the downdraft. With hindsight one can suppose the severe pullback was a result of an emotional response to an unprecedented pandemic and the uncertainty over how it would unfold. We do see cause for guarded optimism due to the US fiscal and central bank response, the effectiveness of our isolation and quarantine procedures on containment, and faith that those in the medical science profession will prevail.

The US Federal Reserve, educated in a trial by fire in the 2008 financial crisis, moved early, decisively, and in size to enact measures to enhance liquidity and support credit facilities. This ensured our equity, bond and esoteric credit markets would maintain functionality and assuage the fears of wary participants. The dramatic fiscal response followed suit with the CARES Act at an approximate cost of \$2 Trillion and indicated there will be more as needed to make up for the lost revenues and wages as a result of the forced closures. We believe these forceful actions and intentions cannot be understated in importance in providing much needed support until we are able to operate unrestricted economically. Federal Reserve Chair Jerome Powell's comments included that "we will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery" and "We should make them whole. They did not cause this." This crisis is uniquely different from others in the past as it was not caused by faulty investment or business decisions, irresponsible consumer behavior, or geopolitical acts but rather mandated for public safety. As such we can continue to expect the response to be dramatic as the US government has tacitly accepted responsibility for the economic stall and will continue to be all in as needed to cushion the downside and refuel future growth. If history is any guide, the strategy of "fighting the Fed" has been a losing proposition, meaning don't bet against a recovery both in the economy and financial markets.

Our guarded optimism is paired with the realization that the outbreak in the US is far from over. As we record datapoints indicating our social distancing and mandatory shutdowns are favorably changing the trajectory of the infection and fatality curve, we realize this is the beginning and not the end of the process. The re-opening policy is going to have an extended and deliberately slow and cautious pace. We will encounter seasonal and regional flare ups and we will be forced to necessitate the various forms of social distancing in identified hot spots. The only true and lasting solution to the virus and normalcy is an effective and readily available vaccine. Secondly, therapeutic success and widespread testing will also provide leaders the necessary margin of safety to loosen social constraints. Either option will allow investors to look through the current condition

and enable analysis pricing in future US growth. This timing is the single most important factor driving near term economic results and market response. Investors should not underestimate significant medical developments could quickly alter the landscape as there has been an enormous focused effort from most all healthcare professionals in the biotech and pharmaceutical sector in this pursuit.

As Investment Managers we balance all available information and projections to make our decisions regarding asset allocation and individual investment selection. Our initial response was to pare back positions most directly affected by the virus and raise cash well before isolation measures were implemented. As the virus trajectory rose, we continued to be net sellers. We then, as in all corrections, begin the screening process for companies that are “on sale” as prospects for future inclusion in our portfolios. As markets stabilize, we begin to prudently and consistently add partial positions with the knowledge that realizing when the bottom occurs is a luxury only available in hindsight. It is obvious that business conditions have suffered greatly over the past few months, forward revenue and earnings for the majority will be weakened with some experiencing catastrophic declines. Sadly, not all will survive and it will hasten the decline of firms and industries that are already suffering competitive pressures from disruptive upstarts and new technologies. We are looking to add these firms at price multiples discounted from their normal valuations. Additionally, we place greater emphasis on including companies with strong balance sheets, dominant market positions, and those that do not need access to the capital markets for survival. Expect to see portfolio revisions in this vein. We believe once the pandemic passes as vaccines and treatments appear and we reopen for business, the domestic economy will recover quickly and equity markets will react favorably.

Investors must remember that this condition is not permanent. We don't know when it will end but we do know it is temporary and the current anxiety of economic doom will surely pass along with the pandemic. We have seen remarkable instances of the best of humanity during the crisis and are awestruck at the tireless efforts of those in the front lines in the healthcare field as well as those providing us deliveries, food and other necessary items and services.

We hope you are happy with our new online access portal and once again thank you for your patience and understanding as we replace our usual statement process with a more timely (*in the future*) and ecologically friendly alternative. As always do not hesitate to call if you have any questions.

Best regards,  
*Beech Hill Advisors*