June 30, 2020

Dear Clients,

Investors were able to breathe a sigh of relief as the second quarter of 2020 provided extraordinary gains in most all equity markets with the major US indexes outperforming those globally. We entered the quarter in quarantine lock down mode, at the height of uncertainty regarding the Covid-19 virus amid bleak and catastrophic economic projections. As we progressed through the quarter, investor confidence was instilled via the fiscal and central bank liquidity and lending programs. Continued improvement in virus statistics and gradual easing of lockdown restrictions paired with creatively evolving consumer and business practices began to provide early indications of an economic recovery. Subsequent economic data points have been surprising to the upside including retail sales and unemployment claims, etc. confirming the onset of an economic rebound.

These tailwinds lifted equity markets with the S&P 500 Index up approximately 20% and the Dow Industrial Index rising approximately 18% for quarter (however still down 4% and 9.5% respectively for the year). Greatest gains were seen in the technology and consumer discretionary sectors as investors added risk and more volatile names to profit from the rally; technology benefitting from the adoption of various internet enabled communication, collaboration, cloud storage and online commerce and services while the consumer discretionary group rebounded from the lows in March as spending exceeded projections. Defensive and more income-oriented groups such as utilities and consumer staples have lagged as their conservative growth profiles were more supportive during the downdraft of the first quarter thus providing lower "bounce" potential. Our portfolios performed in the same fashion, with growth leading income due to its much higher concentration in technology. Income investors, although lagging, continue to benefit from favorable yields and consistent cash flow and will profit when investor appetites inevitably broaden beyond large cap technology companies.

During the quarter we were active in repositioning portfolios. We reduced the elevated cash levels raised as a protective measure in the tumultuous first quarter. We were able to take advantage of the market decline to initiate positions in leading large cap companies at attractive multiples including those in the financial, technology and consumer discretionary sectors. We believe these purchases will provide superior capital appreciation as we move further to normalization and virus worries recede. Our upgrade process is ongoing, and we will consistently swap from those companies with reduced future appreciation potential or at full valuation into those that have improved growth trajectories and present undervalued multiples. We believe the snapback rally has largely run its course in the aggregate and the pace of continued gains will greatly moderate and become more company and industry selective.

As discussed in prior commentaries, continued markets gains will depend upon continued liquidity and payroll assistance, favorable virus progress both in medical science and containment, and ongoing progression to an open and untethered economy. We can make a case for an invested posture in the near term based on the first. Supportive comments continue from US Federal Reserve Chair Jerome Powell claiming they are "…not even thinking about thinking about raising rates" and indications are for extensions to the PPP loan program and expanded unemployment benefits as well as a significant infrastructure package approximating $1 trillion being introduced to Congress in the fall. Historically, equity market gains are strongly correlated to federal balance sheet expansion. There remains more risk in the latter components as investor optimism has been tempered as of late by a subsequent rise in Covid-19 cases prompting some states to rethink or reverse the easing of lockdown measures. Nationwide, the trend of new cases accelerated into the end of June in the states of Texas, Florida, California, and Arizona as testing has ramped up. Fortunately, mortality rates have declined significantly during the same period offering hope that the severity has diminished across a broader range of the population. It would seem we are suffering from quarantine fatigue which adds a question mark to the sustainability of continued macro-economic improvement. We continue to weigh the balance of information and will act accordingly to protect principal as appropriate and maintain a prudent and diversified investment strategy.

If you have not done so already, please access our new online portal. We can electronically deliver quarterly statements in a more timely and secure fashion as well as any requested reports directly to your personal archived vault. We also think you will find the simplified dashboard intuitive and informative in a straightforward manner. Please email Veronica Marton at vmarton@bh-adv.com if you need set up instructions. As we have not been able to provide in person review meetings, we have adapted with conference calls and video Zoom meetings and we encourage you to set up a convenient time to do so. Lastly, as always, do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors