March 31, 2023

Dear Clients,

For the first quarter of 2023 domestic equity markets all provided gains with the DJIA up 1%, the S&P 500 rising 7% and, leading the pack, the NASDAQ up 17%. A surprisingly robust performance for the quarter which included the failure of two relatively large US banks (Silicon Valley and Signature), the bailout of a third (First Republic), and a bankruptcy/sale of a large global investment bank (Credit Suisse). The quarter provided an odd cadence, presenting strength in January as waning inflation data provided the usual hope the Fed was near done with rate hikes, and rate cuts forecast before the end of 2023. February datapoints reversed the trend with stronger than expected inflationary and economic reports casting doubt on the prospects of a more dovish Fed and markets declined in sympathy. The bank failures in March further pressured equity markets. However, by mid-month, as the FDIC guaranteed the previously uninsured deposits of the failing banks, the fear of global financial contagion subsided. Investors strategized the unforeseen banking crisis will position the Fed more cautionary to avoid other unintended consequences of their aggressive rate hike cycle. As such, positive sentiment prevailed, and markets rose into quarter end.

Sector-wise, as the general opinion regarding interest rates vacillated from higher for longer to possible rate cuts in the medium term, growth sectors outperformed while value and defensive categories lagged. Outperforming groups included information technology, telecom services, and consumer discretionary with the concentration of gains in the technology sectors as larger, market leading firms rebounded from their late 2022 lows. Underperforming groups include the obvious financial firms as well as utilities, healthcare and consumer staples as risk appetite improved throughout the quarter. Helping investors affirm the inflationary decline, commodities prices dropped on balance in the first quarter, with the energy components leading, natural-gas prices sank 53%, coal declined 56%, and benchmark crude fell 7% lower for the quarter. The US Ten Year treasury yield began the quarter at 3.9%, finishing at 3.5% with the Bloomberg U.S. Aggregate Bond Index gaining 2.5% as investors continue to add to their bond allocation anticipating we are at or near peak yields in the cycle.

The Fed, widely expected to increase rates by .5% at its March 23rd meeting, instead delivered a .25% hike as concerns about the financial system tipped the scales towards conservatism. They continue to note that additional policy firming may be necessary, however the phrase “ongoing increases” was omitted from the released statement. Additionally, they lowered economic growth forecasts for this year to .4% from .5%, and 1.2% from 1.6% for next. The mosaic of softening inflation, weaker economic projections,

and a banking crisis would indicate the threat of higher rates is considerably subdued as further tightening measures may place greater pressure on the financial system, reduce liquidity, and impinge economic expansion, aside from other undiscovered risks.

Our portfolios performed as expected with our growth strategy leading returns due to our large cap technology positions and growth bias. We continue to have an overweight cash position as we would judge the risk return environment somewhat balanced or slightly unfavorable due to the significant near-term appreciation. We continue to screen for discounted growth positions to improve our portfolio mix. Our balanced discipline and our equity income portfolios provided more subdued positive returns due to their more defensive composition and value bias. In these strategies we have begun adding select fixed income positions and maintain cash balances for improved position entry points. For fixed income, in a rising rate environment, we utilize floating rate corporate bonds which provide resetting coupons as rates increase to minimize interest rate risk. We anticipate continuing this allocation shift and will transition to fixed coupon bonds when we believe yields have peaked. Our money market fund currently yields approximately 3.9%, improving returns on idle capital. As for any cash concerns, Pershing provides $250K in standard SIPC insurance as well as an additional $1.9MM per account.

We continue to be cautious optimists in our portfolio management process recognizing uncertainty and rangebound markets will likely prevail until we have clarity with the Fed regarding interest rates and less economic uncertainty. At present, inflation pressures continue to abate favorably, our economic growth has not materially deteriorated, and our labor market remains robust. Conversely, high rates continue to pressure both corporate and individual borrowers and should continue to act as a negative force against economic expansion. Although repetitive, we will remain in a conservative investment stance and future data points will dictate portfolio strategy.

As always do not hesitate to contact us if you have any questions.

Best regards,

*Beech Hill Advisors*