BH | Beech Hill Advisors

September 30, 2023

Dear Clients,

U.S. equities finished lower for the second month in a row adding to the quarterly decline. The S&P 500 lost 3.6% during the third quarter, bringing its year-to-date return to 11.7%, the Dow Jones Industrial Average decreased 2.6% for the month, up 1% YTD, and the Nasdaq Composite declined 4.1%, still up 26% YTD. Investors were optimistic at the onset of the third quarter as they believed the Fed was near the end of its tightening cycle and inflation was abating, confident the economy had successfully navigated a soft landing and a rate lowering cycle was in the offing. Healthy employment and consumer spending datapoints were supportive.

The positive sentiment reversed in August and September as the Fed revised its so called "dot plot" (it's graphical depiction of projected interest rates), indicating higher and for much longer than market estimates, and comments from Fed policymakers leaned toward a further rate hike before the year end. In response, the leaders responsible for most of the market gain, the "Magnificent Seven" — Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia and Meta — were sold off as investors de-risked portfolios negatively impacting the overall equity market.

The bond market was not immune. Paired with the impact of projected higher rates, additional concerns over rising US debt issuance weighed on the Treasury market. US government bond yields peaked in September before slightly retreating at the quarter's end. The US 10-year yield rose from 3.81% to 4.57% while the two-year yield increased from 4.87% to 5.05%. Bond investors look to be on their third straight down year despite the highest yields in over 15 years. Adding to investor anxiety was the near government shutdown and elevated oil prices.

During the quarter the US Federal Reserve (Fed) raised rates in July by 0.25% to 5.5%. The Fed continues to have a near impossible mandate, reigning in inflation while not tipping the economy into recession. The Fed will need to see the labor market cooling if it's going to revise its higher and for longer narrative. The persistent employment strength seems to confound the Fed as they have had to adjust their forecast unemployment levels lower as the rate hikes have not played out as expected regarding the labor market. Investors are hamstrung as the hope for lower rates and improved investment performance would imply a weaker employment market and more than likely a recession, most definitely not good for investment performance.

Looking ahead, much as September lived up to its reputation for being a poor month for investor returns, we are entering a seasonal stretch that has historically been quite

strong finishing in December with what is known as the "Santa Claus rally". Third quarter earnings reports begin shortly and should provide support for the equity markets as not bad results may be enough to overcome the current investor pessimism. The economy continues to expand, and inflation trends are moderating, perhaps not on the Fed's preferred timetable but directionally positive for investors.

Our portfolios performed as expected, with more conservative equity income accounts outperforming the growth and balanced strategies due to the reduced exposure to the technology segment and other high growth companies. We continue to like our technology and growth positions and we believe they provide exposure to some of the most dynamic and revolutionary industries including AI, alternate energy, EVs, datacenters, medical screening, and genetic testing. Investors must patiently wade through the sell offs to realize the long-term potential and portfolio gains. We have held elevated cash positions anticipating a pullback as valuations were somewhat stretched. Our patience will be rewarded as we are able to add to our growth allocation at more reasonable valuations. We have held less cash in balanced and income portfolios to maximize cash flow from their more conservative positions. As we seem at or near the top in interest rates, we will look to add to the fixed income allocation via corporate bonds and preferred securities.

Our strategy remains the same, however, we have improved tactical options. As always do not hesitate to contact us if you have any questions. This quarter always seems to go by quickly, speeding from summer to winter, and with lots of holidays in the mix, enjoy the season.

Best regards,

Beech Hill Advisors