BH | Beech Hill Advisors

December 31, 2023

Dear Clients,

Equity markets continued their advance in December with the major indexes all rising mid-single digits adding to their quarterly gains with the S&P 500 rising 11.2%, the Dow Jones Industrial Average gaining 12.5%, and the Nasdaq Composite up 13.6%. providing for an exceptional 2023 finale. As discussed in earlier commentary the year-end rally is largely due to shifting interest-rate expectations for 2024, a continued resilient economy, better-than-expected quarterly earnings reports and improved corporate forecasts fueling an aggressive risk on investment posture.

For the year, results were no less impressive with the S&P 500 finishing with a gain of 24.2%, the Dow Jones Industrial Average rising 13.7%, and the Nasdaq Composite finishing with a historic appreciation of 43.4%. These results are more surprising considering the gloomy investor sentiment at the onset of 2023 and the slew of negative events throughout the year. The much-projected recession never arrived, consumer spending remained strong, GDP growth accelerated from approximately 2% in the first half to 4.9% in the third quarter and labor markets remained robust. This unexpected economic strength forced the Fed into a hawkish stance, raising interest rates higher and for longer than was consensus entering 2023 causing bond yields to spike and select regional banks to fail. Domestically, fiscal policy drama in Congress and weakness in commercial real estate were nonevents. Geopolitically, the ongoing war between Russia and Ukraine, the Hamas attack on Israel and subsequent escalation and threat of expanded war in both theatres failed to dim investor spirits. The bevy of risks was unable to derail significant market gains as the true driver of investor sentiment, the Federal Reserve, warmed to future rate cuts at their last meeting of 2023, interest rates declined, igniting a yearend rally, propelling the equity indexes to new highs. We were happily surprised with the result as our portfolios enjoyed robust gains.

Strategically, our growth portfolios performed well despite the fact we built higher than normal cash levels in anticipation of weakness as per the aforementioned factors. Our exposure to the "magnificent seven" (five in our case) more than compensated for the cash drag. Although many of the secular themes that drove performance including data center, AI, solar, etc. will persist we do not expect the same concentrated outperformance and have therefore begun to broaden our portfolio exposure and diversity. Balanced and income portfolios also performed well, slightly trailing growth due to their exposure to more value-oriented securities and fixed income but in line with expectations and achieving the goal of appreciation and income. We anticipate opportunities will arise in both the equity and fixed income markets as the investor sentiment pendulum swings in the opposite direction.

For 2024 a soft landing, non-recessionary economy appears priced into the market. Analyst consensus calls for S&P 500 earnings per share growth of more than 11% compared to overall flattish earnings in 2023, implying a meaningful reacceleration in profit growth. The combination of rosy projections and lower expected interest rates have boosted valuation multiples. We believe we will have continued inflationary pressures and interest rates will remain stubbornly above expectations containing investor enthusiasm and providing volatility and opportunity in both the equity and fixed income markets. We continue to search for quality, profitability, and strong balance sheets to comprise the core of our investment strategy.

As always do not hesitate to contact us if you have any questions. A happy, healthy, and prosperous New Year to all!

Best regards,

Beech Hill Advisors