BH | Beech Hill Advisors

December 31, 2020

Dear Clients,

The final quarter of 2020 provided strong returns as the major domestic equity indexes, the Dow Industrial and S&P 500, rose 10% and 12% respectively. Investors reacted positively as Covid-19 vaccinations were initiated and election uncertainty was (mostly) removed, thereby assuaging market anxiety. Leading the quarter were the Energy, Financials and Materials sectors while Technology, Consumer Discretion and Communications maintained their top spots for the year. As we have noted in a previous commentary, the broadening of leadership bodes well for continued gains in equity markets and indicates conviction in continued economic expansion. The consensus view is that major global economies have weathered the pandemic and subsequent lockdowns without incurring much in the way of long-term economic damage. The effectiveness and magnitude of monetary and fiscal support has been instrumental as an interim crutch on our path to normalization as evidenced by lower US corporate bankruptcies and delinquency rates on consumer loans in the September 2020 quarter versus the same period in 2019. Obvious damage has been severe in the tourism, hospitality, transportation, and retail segments; however, balance sheet deterioration has been relatively limited in most corporations and households throughout the lockdown period.

Our growth and balanced strategies performed in line during the quarter due to the addition of high-quality growth companies added opportunistically during the initial market decline in March and subsequent corrections in September and October. We have maintained a barbell approach, including beneficiaries of quarantine measures as well as companies that will benefit as the economy is reopened. We believe the leading technology and communication service names will continue to benefit from ongoing work from home measures remaining in place for the first half of 2021. The surge in tech earnings has, however, peaked and we expect a slower growth profile in future quarters as pandemic technology spending was pulled forward. We believe the broadening rotation of stock leadership will persist as valuation differentials and comparable appreciation potential will motivate investor diversification as the economic recovery unfolds. We expect to take some profits on some of these pandemic beneficiaries as they exceed target prices and trade at relatively high valuations. Our income strategy performed well in the quarter benefiting from the broadening market leadership and we expect the catch-up move to continue. The value nature and high dividend yield of our income positions have been out of favor for most of the year as investor preference skewed toward high growth technology typically lacking dividends therefore not represented in the strategy. As we are still in the early stage of a recovery, we believe an invested posture will continue to be rewarded and we anticipate opportunistically deploying accumulated cash positions.

Near term, we have seen a slowing of the job gains and flattening growth in some economic measures as well as a rise in infections, hospitalizations, and travel quarantine restrictions. It is quite possible we will see a downturn or leveling of growth until we achieve a satisfactory herd immunity enabling state leaders to unlock their individual economies. Looking beyond the near-term, however, S&P 500 revenues and earnings are expected to grow by 8% and 22% respectively in 2021. We believe global economic activity will continue along the path of recovery. As we rollout vaccine distributions to more of the population we will see restrictions reversed benefiting impaired industries. The latest stimulus package will provide necessary support as well as provide liquidity measures that positively impact equity markets. We believe the robust projected growth and the vaccine efficacy will create an ever-improving backdrop that will continue to draw capital into the equity markets, providing another year of positive returns. Risks we are monitoring include swiftly higher interest rates drawing capital from the equity markets, geopolitical surprises from China, Iran or Russia as a new administration takes command, and domestic fiscal austerity and restrictive monetary policy.

As we review 2020 popular opinion is inevitably negative and the year is thought to be best forgotten. We come down in favor of the good that came about as adversity fueled creativity out of necessity in response to Covid-19 and lockdown measures. Scientifically, we developed several vaccines with new messenger RNA (mRNA) technology in record speed, boding well for future vaccine development. We saw the US monetary and fiscal policy move swiftly and preemptively to coordinate massive stimulus and support measures, direct to impacted citizens, softening the economic decline and employment dislocation. The work from home shift has forced adoption of technology and cooperative methods that ideally will improve efficiency and productivity while also enhancing quality of life as your physical location will no longer dictate employment and commuting times are reduced or eliminated. Lastly, and more anecdotal, has been the resiliency of business leaders either small and local or large and global in shifting gears, changing business models, and succeeding in this most difficult of environments. 2020 was certainly a year unlike any other we have experienced.

We wish a happy and healthy new year to all! Please do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors