BH | Beech Hill Advisors

September 30, 2021

Dear Clients,

The third quarter of 2021 provided flat results with the S&P 500 and Dow Industrial indexes returning 0.59% and –1.44% respectively. Historically, this was the worst September for both indexes since 2011, erasing all previous gains in the quarter. We credit increased worries concerning inventory and supply constraints, inflation, as well as rising bond yields as the Fed has begun to signal increased rates and reduced liquidity measures in the future. The post-Covid economic recovery stumbled a bit during the quarter, bleeding over to equity markets but we believe both the economy and the markets will regain their footing in the intermediate term. Positively, year to date gains remain in the low double digits.

Equity markets in their most simplistic form respond to the direction of change in expectations as was evidenced during the quarter. Estimates for future corporate earnings have declined in select cases as supply constraints persist, procurement costs have risen, companies cannot fill demand, thus reducing projected profit margins. As investors reset expectations on near term growth, multiples and valuations have declined. On an absolute basis, earnings are still projected to grow 22% for 2021 and a more normalized 9% in 2022 which should provide support for an invested posture as these transitory issues resolve themselves. We maintain a positive bias as we believe the subsiding of the Covid Delta variant paired with continued employment gains will fuel gains into year-end, however, the transition to the new, post-pandemic normal will not be linear and investors should expect increased volatility. If we continue to see an increase in public companies reduce guidance during third quarter earnings reports, we expect continued pressure on equity markets.

The Federal Reserve has announced it will begin to reduce its monthly bond purchases, known as quantitative easing, in the fourth quarter. They have yet to detail when they will start and to what extent which presents an uncomfortable unknown for investors. If the Fed starts sooner than expected or they reduce purchasing at a quicker pace than estimated, we expect additional market volatility. As mentioned earlier, investors will respond to the direction of change in expectations. We believe the Fed has been extremely transparent with their intentions and we assume they will be forthcoming in the future so as not to spook the markets.

Political events also present a risk factor. A stopgap funding bill was passed that extends government spending through December 3rd, however, we can expect more political theatre approaching that deadline. Topically, from a market perspective, will be the results of the infrastructure bills being presented and the accompanying tax implications. If increased corporate tax returns threaten profitability and/or increased personal rates likewise for consumption, expect a negative market response. Once again, the divergence from expectations will govern the market reaction.

Ideally, these risks will be transitory in nature and normalcy will return. Macroeconomic factors remain positive, and our expansion is intact albeit at a slower pace as our domestic economy continues to expand. We have raised cash levels in our portfolios and will continue to use the present volatility to add positions at reduced valuations. Strategically, we maintain our positive bias and will maintain a conservative invested posture.

Please enjoy the onset of fall and the coming holiday season. Please do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors