BH | Beech Hill Advisors

December 31, 2021

Dear Clients,

For the year domestic equity markets once again provided outsized returns marking the best three year stretch since 1999 for the S&P 500 Index. This index, as well as the Dow Industrials and Nasdaq returned 27%, 19% and 21% respectively for the year. The strong performance was despite recurring Covid strains, supply-chain disruptions, inflationary spikes, and difficult hiring conditions. Throughout the year investors decidedly took a long-term view weighing strong and recovering corporate earnings, increased demand, and accommodative central bank policies as an all clear for risk positioning. Outperforming segments include energy, REITS, financials and technology with laggard segments utilities, consumer staples and industrials. We believe investors have positioned themselves for continued inflationary pressures through energy commodity exposure as well as financials with improved prospects based on higher interest rates in the future.

Beech Hill returns once again exceeded our financial planning projections with balanced and income portfolios in line with comparable indexes. Our growth portfolios however lagged the index due to our lack of exposure to the traditional energy and financial sectors as these segments were two of the strongest performers for the year, up 48% and 32% respectively. In these portfolios we have chosen to concentrate in secular growth themes as opposed to fossil fuel exposure and big money center banks. Instead, we have added alternate energy with First Solar and EVs with ChargePoint and in the financial space we have positioned our investors in PayPal and Square (now Block) as they lead in the rapidly growing digital and online payment industries. We believe the secular growth themes will provide greater returns over the longer term as opposed to rotational trades into out of favor mature companies with limited growth opportunities. These high growth names feel out of favor during the final quarter; however, we believe their business models are sound and they will continue to prosper. We will continue to add such innovative firms to our growth portfolios as market opportunities arise.

As we enter 2022 there is a perceptible shift in investor sentiment. Elevated inflation, lingering beyond what most consider transitory as evidenced by the consumer price index climbing at an annual rate not seen since 1982, will begin to negatively impact living standards, spending, and growth if it does not abate. The Fed, rightly concerned about preserving our current economic expansion, is now positioning to counter inflation via reduced liquidity as they pare down monthly asset purchases. Additionally, they have shortened the timetable for rate hikes with futures markets now expecting three rate hikes beginning as soon as March, also intended to curb inflation. A secondary effect of higher rates is a reduction in the present value of future cash flows, especially in high growth

companies with the promise of realizing profitability many years out in the future. For example, $1 of earnings earned five years from now discounted by 1.5% per annum is worth much more today than when discounted by 3% per annum. This mathematical reset is currently being recalculated in the market based on a broad forecast of estimated future interest rates and current asset prices are being adjusted negatively, particularly in the emerging growth segment. On balance these measures will serve as headwinds for much traction in the equity markets until there is much more clarity on inflation and Fed policy response. The delicate balancing act requires the Fed to slow inflation without stagnating the economy. Failure would be continued inflation and slowing economic growth, otherwise known as stagflation, a result unfavorable to equity investors.

Covid. 2021 was supposed to be the return to normalcy and a farewell to Covid and its outsized effect on the world. We never dreamed we would be discussing Covid and its economic and investment impact two years on. The Omicron variant has once again extended our protective measures, mandatory masking, testing, and increased cognizance of the changing protocols against this new strain. This latest surge will result in reduced forecasts for economic growth with reductions in GDP and temporarily dent revenue and profit projects for the obviously affected industries for a portion of the final quarter of 2021 and most definitely in the first quarter of 2022. Already we have seen a negative impact on the labor market with a decrease in average hours worked among personal-services firms, cancellation of thousands of flights, business closures due to staffing shortages, shutting down of professional sports events and Broadway shows, reduced in-person dining and travel spend and extended work from home mandates. The upside, if any, is that although Omicron appears to be twice as transmissible it is half as virulent. Near term economic damage aside, economists expect a significant bounce back in the second and third quarters of 2022 as infections recede. As we have seen this before with the original variant and the Delta variant, we believe that businesses, employees, and consumers have developed a tolerance and familiarity to these outbreaks and the disruption should be shorter and shallower than in the past. Investor patience is required.

One statistic that we found interesting and sums up the national psyche was the University of Michigan Index of Consumer Sentiment 2021 year-end reading, coming in at 70.6%. This is the lowest year end figure since 2008. You may recall that year quite unfavorably as financial markets were in turmoil, banks and insurance companies were becoming insolvent and the S&P 500 index dropped 38%. Contrast that to year end 2021 with equity markets coming off three straight years of above average gains, strong employment numbers and an ongoing economic recovery. Covid has truly damaged our spirits. We believe as the Omicron gloom lifts there will be considerable upside to this datapoint spurring "animal spirits."

As you may have gleaned from our commentary, there are many crosscurrents at play in the current investment landscape. We do believe the Omicron variant will be temporary, the rate of inflation will diminish as supply chain and labor issues improve and the Fed leans hawkish, and the economic rebound will resume its upward trajectory. In the near to intermediate term, unresolved issues will most likely hamper significant market gains with choppy rangebound equity performance, however, we believe these issues will resolve favorably for investors. This volatility, although unpleasant, always provides opportunity to improve portfolio composition and future investment gains. We intend to be opportunistic in our approach and prudent in our revisions in times of turmoil.

We hope everyone was able to enjoy family and friends over the holidays before Omicron arrived in force. We wish a happy, healthy and prosperous new year to all. Please do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors