BH | Beech Hill Advisors

March 31, 2022

Dear Clients,

March provided investors with some respite paring year to date losses with gains of 2.5%, 3.7% and 3.5% for the Dow Industrials, the S&P 500, and the NASDAQ indexes; however, year to date results remain negative with returns of –4.1%, –4.6% and –8.9% respectively. Growth stocks have been front and center in the selloff as evidenced by the NASDAQ performance, as investors gravitated to safe-haven segments such as utilities and healthcare as well as inflation beneficiaries especially in the energy sector and interest rate beneficiaries in the financial space. Several negative factors have combined to provide a rocky start to 2022 including increased inflation, higher interest rates and the Ukraine invasion all somewhat interrelated as we will discuss. Reassuringly, we have heard little to no discussion of Covid as the quarter concluded. As would be expected, our more conservative income accounts performed well, comparatively, while our growth and balance accounts were more or less in line due to their growth components.

As we entered 2022 the debate centered on whether inflation, on account of the overwhelming excess liquidity provided globally throughout the pandemic, was to be transitory in nature or imbedded in our new economic profile. We were of the mindset that inflationary forces would abate as Covid ebbed, supply chains improved, and liquidity was siphoned from global markets in the form of reduced asset purchases and rate hikes. The ongoing economic recovery would continue, and capitalist forces would reallocate supply and demand thus containing any significant adverse inflationary impact. An admittedly rosy view but we are optimists in nature on domestic growth and prosperity. The invasion of Ukraine and subsequent response has upended our optimistic ending and has dramatically exacerbated price moves in commodities sourced from Russia and the Ukraine. Through the first quarter, we saw price increases greater than 50% for oil and nickel, greater than 30% for natural gas, gasoline, and wheat and greater than 20% for aluminum, corn, soybeans, and hogs. Any reversion to mean has been derailed. The Fed is now somewhat hamstrung in their necessary response, and we will see aggressive interest hikes in the foreseeable future. The combination of supply constrained inflation and much higher interest rates presents a less favorable economic backdrop, and a real fear of recession has now crept into the range of possibilities supported by an inverted yield curve (meaning the yield on the Two-year US treasury exceeds that of the Ten-year) as an early indicator. These intertwined risks have heightened uncertainty and is driving the extreme volatility we are currently experiencing in equity markets. Until we have more clarity on the outcome in Ukraine, the subsequent easing of supply constraints and extent of the Fed's response, equity markets will most likely be range bound in the more immediate future.

Investors must now adapt to the new set of circumstances presented. We believe the investing environment since the 2008 financial crisis has shifted from one of moderate growth, low inflation, low interest rates and abundant liquidity to a world with heightened macro uncertainties, reduced globalization, rising rates, higher inflation, and reduced liquidity. This will present a challenge to company margins and cost structures. Companies that possess the pricing power to pass on costs and maintain profit margins will be rewarded. These would include brand names with minimal substitution risk, unique products, and durable cost advantages. Labor saving technology, equipment and software will be in demand to realize cost savings. As the future is less certain, near-term cash flows found in higher yielding sectors will also be increasingly rewarded. Investors will look to build positions that provide resilience and safety in these extraordinary times.

As we discussed in earlier commentaries investor patience is required. April brings the onset of first quarter earnings reports. We believe the aforementioned risk factors will weigh heavily on results and reduce clarity regarding future guidance thus eroding investor confidence. We believe opportunities will present themselves as growth expectations are tempered in the near term and we will be able to add positions unduly punished in a market downturn, especially in the high growth potential segments selling below what their fundamentals would merit. We believe near term turbulence will continue but our expectations are for a second half improvement as investors digest and reposition in the new opportunity set.

We look forward to warmer weather and more time outside. Please do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors