BH | Beech Hill Advisors

June 30, 2022

Dear Clients,

The first half of 2022 presented losses in most all asset categories, including stocks, bonds, and cryptocurrencies, with only commodities rising in price. To put it into historical perspective, the S&P 500 index dropped 20.6%, the worst first half of the year since 1970, the Dow Jones Industrial Average fell 15.3%, the worst start since 1962 and the NASDAQ decline of 29.5% is it's poorest beginning on record. Investor sentiment turned decidedly negative as Fed. Chairman Powell surprised the market with a higher-than-expected interest rate hike of 75 basis points in June and all but promised a similar hike in July. The combination of high inflation, uncertainty regarding future interest rates, and the possibility of a recession does not present a supportive background for substantial equity gains. In an odd mental twist, investors have begun to conclude any economic weakness will reverse the rate hike cycle and force the Fed to begin to cut rates to prevent deterioration of the economy, thus supportive of equity markets. Futures currently price Fed Fund rate reductions beginning in May of 2023; for equity investors bad news can be good news. If the past is any indicator, equity indexes typically begin to rise before rate hikes are completed.

The second half of 2022 presents a great deal of uncertainty as investors position themselves for either a Fed-induced recession or the current projected soft landing and continued economic growth. Positively, we are beginning to see commodity price declines which should flow through to reduced inflationary expectations and provide the Fed with an opportunity to end interest rate hikes. Unemployment has remained historically low, and consumers continue to spend, albeit on services and travel at the expense of goods in a post-Covid shift. Negatively, we are seeing the housing market cool which, combined with portfolio declines, could inhibit consumer spending in a reverse wealth effect. Consumer sentiment figures have also declined indicating increased pessimism regarding future economic prosperity. Also of concern are corporate earnings estimates for the remainder of 2022. We believe analysts have not adequately adjusted expectations as higher inflation, labor costs, and logistics complications will erode margins. We will begin to get more color regarding the remainder of the year when second quarter earnings report begin in earnest mid-month. This mixed bag of data and expectations provides a complicated backdrop for near term positioning.

As such, we continue to position conservatively and are hesitant to add risk to our seasoned portfolios with so many unanswered questions. We intend to moderately rebalance our holdings, looking to add to the best in breed in an industry and cull those companies we feel present the most risk for underperformance as well as add to cash weightings opportunistically. We will continue to tilt portfolios to those companies with strong balance sheets, rising dividends, and exposure to secular growth themes.

Enjoy the summer and please do not hesitate to call if you have any questions.

Best regards,

*Beech Hill Advisors*