BH | Beech Hill Advisors

June 30, 2024

Dear Clients,

Domestic equity markets advanced in June with the NASDAQ leading up by 5.9%, the S&P 500 rising 3.5% and the Dow Industrial Average gaining 1.1%. At the midyear mark, equity markets have produced gains in five of the past six months with April being the only loser. The performance story remains consistent, the artificial intelligence theme continues to attract investment capital and is responsible for the majority of S&P 500 and NADAQ index gains. It is estimated by Barron's magazine that "within the S&P 500, companies related to the (AI) theme gained 14.7% in market value this past quarter, whereas the rest lost 1.2%". This is reflected in the widely dispersed returns amongst the indexes as the more broadly constituted DJIA lags the more tech and growth populated NASDAQ and S&P 500. Year to date gains all remain positive with returns of 18.1%, 14.5% and 3.8% for the NASDAQ, the S&P 500, and the DJIA, respectively.

Sector results confirm this pattern of divergence as tech led the way in the second quarter, followed by communication services and then utilities, which have now become an AI play due to expectations of rising electricity demand from the high consumption rates required from new data centers serving AI platforms. Other segments lost value in the quarter including healthcare, real estate, financials, energy, industrials, and materials causing more diversified portfolios to lag market returns. Interesting to note, consumer staples, which include must- buy household products and food brands, have outpaced the more cyclical consumer discretionary firms such as apparel retailers, restaurants, and carmakers. Investors have begun to tilt their portfolios in a more defensive manner as economic optimism erodes amid mildly softening economic and inflation data that points directionally to lower corporate growth rates, AI plays aside.

The bond market and the yield on the ten-year US Treasury remained flat during the quarter at approximately 4.3%, up, however, from 3.87% at the onset of 2024 and we believe we may have seen the cycle high late in 2023 at approximately 4.7%. Markets have accepted that the Fed is not going to embark on the rate-cutting spree that was embedded into derivatives prices over the winter. Mid-quarter inflation data began to show signs of improvement leading to renewed optimism the Fed would cut rates with futures markets currently projecting a 1⁄4 point cut in September.

The Presidential debate concluded the quarter and has been the all-consuming lead story since. Politics will certainly make for uncertain times and can create short-term volatility. History would suggest there are many other larger forces in play that influence market sentiment and direction that are much more important to consider including interest rates, the direction of rates, where we are in the economic cycle, equity valuations, national economic projections and individual corporate reports and guidance, et. al. We do not believe there is a need to make dramatic portfolio revisions regardless of who wins the White House in November, and we urge investors to remain steadfast in their discipline; ongoing secular growth stories will continue, and undervalued equities will continue to offer appreciation potential. Fundamentally, there is no change in investment strategy and valuation criteria.

Our growth and balanced strategies have performed well due to our ongoing exposure to the AI theme. Prudent diversification and a value and dividend bias has limited appreciation in our income equity strategy, still these portfolios continue to deliver strong cash flows from interest and dividends. The rising markets limit the appreciation potential of future portfolio candidates, yet we remain flexible and opportunistic to make rapid tactical revisions when warranted.

As always do not hesitate to contact us if you have any questions. Enjoy the family, the warm weather, and safe travels. Summer goes too fast; we are nearly at the midpoint of the season!

Best regards,

Beech Hill Advisors