BH | Beech Hill Advisors

August 2019 Update

Dear Clients,

Equity markets continue to exhibit whipsaw volatility as they declined approximately 6% from the July high water mark into early August. This repeats the same pattern exhibited in May as markets declined from the April peak a similar 6% only to recover and reach new highs in July. The underlying catalyst for both the declines and rapid recovery continues to be the status of our trade negotiations with China. The market will continue to pivot based on the prevailing viewpoint regarding a trade settlement and the certainty it brings to corporate decision makers and investors.

Domestically, the economy is beginning to reflect the impact of the trade dispute although in a bifurcated manner. Consumers, so far relatively unaffected by the negotiations aside from in their portfolios, continue to enjoy strong employment, report a high degree of economic confidence and continue their robust spending. Industrial figures, however, are beginning to erode revealing the impact of the prolonged conflict. The longer the dispute persists the more the ripples will be felt in domestic economic data acting as a governor to further expansion.

In response, we skew to a more conservative investment strategy. We have trimmed energy and industrial cyclicals as they are most exposed to the initial impact. We have favored more domestic focused businesses in the health care and utility segments as replacements as they are most insulated from any tariff impact. As the trade conflict continues, we anticipate an ongoing reduction of the most adversely affected cyclicals, industrials and energy positions. We are not projecting a recession but rather a recalibrated growth rate for those most affected and therefore a lower valuation accredited to their stock price.

We have observed that our President typically begins negotiations with inflammatory rhetoric only to come to a more centrist agreement. We believe he would like to continue with his present employer and is in every way incentivized to repeat this process with China in order to support future economic expansion, equity market performance, and re-election. The leaders in China have a similar risk reward scenario which leads us to believe a resolution should be in the offing before our election and therefore offsets much of the negativity in the mainstream mindset.

Happy belated Labor Day and welcome to the unofficial end of summer. As always, please do not hesitate to call if you have any questions.

Best regards,

Beech Hill Advisors