BH | *Beech Hill Advisors*

May 2019 Update

Dear Clients,

After the strong rally beginning in the final days of 2018, May has provided an overdue sell off in our domestic equity indexes with the S&P 500 declining 6.35%. Conversely, the ten year US Treasury saw yields decline, closing the month at a paltry 2.14% yield, as investors increasingly demanded safety and bid up bond prices as a result. As we have noted previously, US equities will typically experience modest corrections of 3-5% every 2-3 months. This most recent rally lasted approximately four and a half months and saw gains of 25% from the trough. Although not pleasant for investors, it is a healthy reset that provides opportunity as it tempers market exuberance.

The sentiment reversal can be entirely tied to the deterioration of the US/China trade negotiations. The rally began with a deal seemingly at hand and investors positioned for continued economic prosperity and the certainty a deal would provide corporate leaders. Predictably, as talks broke down with no deal in the offing, investors pivoted from risk to safety as the timing of a deal and the flow through effects of increased tariffs and retaliatory actions are great unknowns. Markets do not perform when there is uncertainty. Adding to that uncertainty at the end of May was the threat of tariffs on Mexico tied to immigration enforcement. Until there are more positive developments in these negotiations or outright resolutions equity markets will most likely be subdued and range bound.

We believe there will be an eventual deal as cooler heads prevail and both sides understand they will each prosper avoiding a lengthy trade war. We believe the escalation has been a bit of posturing on both sides that needs some time to subside to avoid the appearance of weakness on either side. As we near the next presidential election season it would seem obvious that a deal will get done.

Economically, we still enjoy strong consumer confidence, improving payrolls, and low unemployment. We have seen some ripples in industrial spending attributed to the aforementioned uncertainty. Assuming this stays temporary in nature, we believe we will continue our path of domestic expansion and, subsequently, a favorable investment climate. If trade talks deteriorate or the ripples grow larger we would look to reposition in a more defensive fashion.

As always, please do not hesitate to call if you have any questions.

Best regards,
Beech Hill Advisors