BH | *Beech Hill Advisors*

July 2018

Dear Clients,

The second quarter of 2018 saw slight gains with the S&P 500 rising approximately 3%, offsetting the declines in the first quarter, providing a meager return just over 2% for the year. Increased volatility persists and we have recorded fluctuations greater than 1% during one third of market calendar days. Investor conviction remains conflicted with strong underlying economic growth offset by rising rates and an unknown trade and tariff policy creating somewhat stagnant index performance.

Economically, we continue to benefit from the tax cuts and fiscal spending package passed in 2017. The Fed forecasting model indicates a greater than 3% GDP for the past quarter continuing our robust domestic growth pattern. Corporate profits continue to grow above trend, hiring persists, and inflation remains tame. We anticipate the stimulus should support continued expansion for the next year or so providing investors with a favorable backdrop.

The minutes to the FOMC's (Federal Open Market Committee) June meeting also detailed the positive backdrop prompting the Fed to raise rates last month. Additionally, they adopted a more hawkish tone raising their rate hike expectations for 2018 and 2019 by 25 bps each year with the long term rate expectations unchanged. Inflation remains tame at approximately 2%, an acceptable level for the Fed and will not prompt more aggressive policy measures. Investors are, however, increasingly concerned about future rate hikes and when they would theoretically start to constrict economic activity.

Trade tensions have increased over the past few weeks with growing concerns expressed from both business leaders and investors evaluating possible downsides from prolonged or permanent tariff implementation. Several corporate chiefs have reported postponing or suspending capital spending plans based on the uncertainty. As often noted in these commentaries, markets do not react well to uncertainty. Whether the pattern of inflammatory rhetoric and eventual more realistic and palatable compromise will hold and materialize in our trade negotiations, as in past debates, will do much to assuage investor trepidation.

During the quarter, we made small tactical revisions to the portfolios and pruned non-performers for improved appreciation potential. We continue to favor technology for its advantaged growth profile and financials for their continued recovery and discounted valuations. We continue to be constructive regarding equity investment for 2018 as the market should reflect the positive economic growth we are experiencing domestically. We will continue to revise portfolios as volatility provides opportunity. Wishing an enjoyable and relaxing summer to all!

Best regards,
Beech Hill Advisors