June 2017

Dear Clients,

The second quarter of 2017 provided modest positive returns in the domestic equity markets with the S&P 500 up approximately 2.5% for the quarter bringing the year to date gain to 9%. The US economy continues on its muted expansionary path with ongoing gains in consumer spending and business fixed investment paired with elevated business optimism. Expectations have moderated somewhat from the first quarter and inflation expectations have also diminished as the pro-business presidential agenda has not found traction in Congress. The Federal Reserve has once again raised the effective rate by .25% to a 1.25% upper bound and continues to signal rates hikes in the foreseeable future as economic strength permits. Financial markets have generally shrugged off concerns of Russian election meddling and the constant partisan political bickering and have moved in tandem with the improving economic backdrop.

The best performing sectors for the quarter were Healthcare benefitting from the ongoing failure to repeal the ACA, Financials from increased interest rates and Industrials as global economic expansion persists. Laggards include Telecom Services and Utilities as they perform inversely with the direction of interest rates and Energy as Oil hovered near the $45 per barrel mark, declining from $53 during the quarter. Our portfolios performed more or less in line with the index and have provided similar gains for the year. During the quarter we further trimmed most all of our consumer staples weighting as valuations offer little upside and we were able to book handsome gains. We trimmed back many of our consumer discretionary names as they have reached target prices. We continue to believe the segment has continued upside, however, we have exercised prudent management and pared back overweight positions. We maintained our weighting in healthcare with portfolio revisions that should provide improved appreciation potential. Additions to the portfolio weightings were in the Financial and Industrial groups as per the aforementioned factors. We continue to overweight Technology as a disruptive force revolutionizing many industries and providing favorable revenue and earnings growth versus comparable old line firms. Our holdings in this segment have seen strong gains year to date, however, recent outperformance does not favor additional investment. We will patiently wait for improved entry points for portfolio additions. Our positions in the energy segment declined in sympathy with oil prices although we believe we are in the beginnings of a recovery in the energy space and will see improved prospects over time. We continue to avoid Utilities as they provide little or no revenue and earnings growth, are inversely correlated with rising interest rates, and are selling at the high end of their historic valuations therefore providing little if any upside potential.

All in all we continue the strategy outlined in the past quarterly commentary, broadening our portfolio diversity and adding additional investment themes in order to benefit from ongoing global growth. We continue to manage our individual positions in a consistent and careful manner, adding to them when valuations are compelling and pruning when valuations are rich. We strive to provide a balanced approach in our portfolio construction with both appreciation and yield adding to performance and reducing volatility. We believe current conditions merit a continued invested posture and as such we have positioned our portfolios accordingly. Enjoy the summer and as always do not hesitate to contact us if you have any questions on your portfolio or our commentary.

Best regards,
Beech Hill Advisors