BH | *Beech Hill Advisors*

April 2018

Dear Clients,

The first quarter of 2018 had most all equity indexes gaining initially only to retreat into the close of the quarter with the S&P 500 off 1.22% for the period and all sectors showing declines. Bond investors suffered equally with portfolio losses as the US Ten year yield rose to 2.7% from 2.4% in line with the increase in the Federal Funds rate. Headwinds being negatively discounted in the latter half include fears of global trade wars, problems with the FANG stocks (both politically and socially), and concerted central bank tightening policies. Offsetting the negative news flow, we have ongoing robust global economic growth, enacted corporate tax rate reductions, and a reduced regulatory stance; investors are naturally reacting to the contrary mixed signals. Market indexes have reflected this in somewhat manic form with dramatic price reversals and heightened volatility. Unfortunately, this may be the new normal as the central bank era of easy money has officially ended. Fortunately, it does provide windows of opportunity for nimble portfolio revisions.

Our portfolios performed in similar fashion during the quarter. Income-oriented portfolios were off a bit more due to the aforementioned increase in interest rates while growth performed a bit better with their more technology-oriented mix. During the quarter, we have made some strategic sector revisions to increase both the diversity and stability of our portfolios in response to more turbulent market conditions. We have increased exposure in the consumer staples and basic materials segments. The former increases the defensive nature and adds yield to our portfolios while the latter should prosper from predicted increased inflation. We pared positions in the energy, financial, and REIT segments. We also tweaked our technology exposure, reducing the overweight positions in the aforementioned FANG companies, and adding to more mature technology and communications firms. These revisions helped insulate our portfolios from the most recent market declines, broadened our sector exposure, and reduced volatility. We still believe in the business models of the leading internet-related technology firms, however, their potential appreciation diminishes as they increase in size, attract unwanted political attention and regulation, and suffer declining growth rates due to maturation. We believe the narrow market leadership concentrated in these few names will broaden and have positioned our portfolios as such.

As discussed in our last commentary, we are tempered but continue to be constructive regarding equity investment returns for 2018. As detailed, we have revised our investment posture to benefit from the shifting backdrop and continue to expect positive returns as economic growth persists. S&P 500 first quarter estimated earnings growth has improved from 11% in late 2017 to 17% currently. We anticipate first quarter's earnings reports will confirm the upward revisions and do much to assuage investor concerns. We will be closely monitoring corporate guidance and economic data points and respond accordingly. Enjoy the ever elusive Spring!

Best regards,
Beech Hill Advisors