BH | *Beech Hill Advisors*

September 2018

Dear Clients,

The third quarter of 2018 provided gains in most all domestic equity indexes with the S&P 500 rising just over 7%. In contrast most all large international equity market indexes have declined as the US continues to be the standout economic growth leader. Bond portfolios also suffered declines as the US ten year Treasury has firmly crossed the 3% yield threshold, currently trading at a multiyear high of 3.2%. Investors have discounted many of the recent headline risks, including trade wars, tariffs, higher interest rates and divisive partisan political rancor and continue to invest in the ongoing comparative strength of the US economy.

The strong U.S. economic data also supports expectations for continued Federal Reserve interest-rate increases. The Fed chairman detailed that current interest rates remain "accommodative" although policy is moving to a "neutral" stance but emphasized "we're a long way from neutral". Rising rates as a function of strong fiscal growth are a positive until they begin to pressure equity valuations. As we more normalize the market interest rate structure the artificial tailwind from deeply discounted rates will be curtailed and volatility will persist. We continue to emphasize strong balance sheets in our investment selection process as a hedge against rising rates.

Sector-wise we saw broad increases in both defensive and economically sensitive segments with healthcare care, transports, industrials and telecom services leading the gains. Laggards include energy, materials and REITS as inflation and interest rate sensitive groups were out of favor. Our portfolios rose in tandem with the markets for the quarter. We have maintained our invested posture, however, we have continued to strategically sell positions that have reached target multiples or exhibit diminished appreciation potential either due to valuation or underlying corporate performance. We have opportunistically added positions in the technology, industrial, materials and consumer staples sectors improving the growth profile of our holdings and broadening our diversity. We continue to believe equity markets will provide positive returns supported by the underlying strength of the economy. We are wary, however, of the eventual maturity of the current growth cycle and we continuously monitor economic data points as indicators of ongoing expansion.

As we approach third quarter earnings season we will once again hear from corporate chiefs regarding their industries, their observations and their projections. We anticipate a continued positive outlook and have positioned our portfolios for such. As always, please do not hesitate to call if you have any questions. Enjoy the fall.

Best regards,
Beech Hill Advisors