Third Quarter Outlook

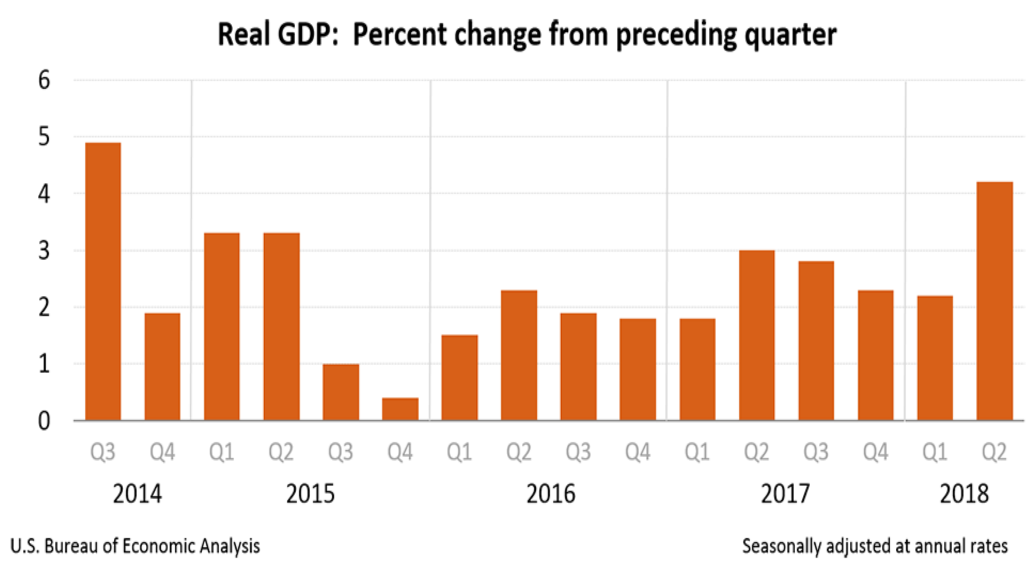
As of October 2, 2018

During the third quarter the U.S. economic fundamentals were clearly bullish helping to support equity prices. Strong economic drivers in the U.S. have shielded equities from an array of geopolitical risk. The current U.S. markets, based on continuing revenue growth of +10% and earnings growth of over +20%, would normally have seen a strong upward bias to stock prices, but the influence of international and domestic political headwinds have raised the overall market risk. Added risks also included the global economic environment moving from a synchronized upswing to one where the United States economy is the strongest while developing economies have slowed.

Part of the geopolitical tension is from the Trump administration putting increased pressure on major trading partners. This has been in an effort to lower tariffs and remove trade impediments in order to level the international economic playing field. These moves have dialed up pressure on overseas economies, caused threats of retaliation and strengthened the U.S. Dollar. As a result, there has been a divergence between the stronger U.S. GDP growth supporting equity markets and the declines seen in a majority of overseas markets.

Fundamentals are clearly driving a bullish tape in the U.S. equity markets. The growth story has been a well-documented catalyst for the relative outperformance of domestic equity markets. Investors have also focused on a flattening yield curve, unresolved trade wars, and the potential spillover from emerging markets concerns. Based on the evidence, current risks/rewards appear balanced and we suspect the market will continue to maintain an upward bias post the midterm election. Macroeconomic indicators, like consumer confidence, show no signs of a recession as many leading economic indicators point to continued solid growth.

In spite of the increased trade rhetoric the economic strength in the U.S. has continued to increase. The stronger results saw GDP accelerate to 4.2% in Q2 which we expect to continue. Potentially offsetting this could be higher inflation. Recent inflationary pressures have been restricted. A perceived higher level of inflation could have investors expecting the Federal Reserve to become more aggressive in raising rates to dampen any inflationary advance.



HUDSON VALLEY INVESTMENT ADVISORS, INC.
A subsidiary of Orange County Bancorp, Inc.

Third Quarter Outlook

As of October 2, 2018

The Trump Administration has continued to move forward with tariff threats and daily bluster via Twitter. The EU and Mexico have put in place working agreements to finalize trade deals that are thought to lower tariffs and improve U.S. trade. The U.S. is also expected to come to an agreement with Canada, one of our largest trading partners. Negotiations with China seem to have been put on a back burner until after the midterm elections. The Chinese government believes Trump will be in a weaker position post-election and will start the process at that time. However, China's economy appears to be slowing and may come to the negotiating table with a weaker economic environment back home.

As earnings continue to expand and GDP grows at almost double the rate from a few years ago, we would anticipate a continued upward bias for equities and a trading range for interest rates. At HVIA we are maintaining our positive outlook as we enter the remainder of 2018. We anticipate the S&P 500 to maintain double digit earnings growth. We are on the outlook for higher level of potential risks which we don't currently foresee. At HVIA, we are sensitive to potential economic or Fed policy mistake which we believe is more likely than a downward move in the economy.

Since our founding in 1995, our returns have been driven by a formulated investment process that starts with our top down analysis of economic inputs. Our equity investment focus is Growth at a Reasonable Price (GARP) while concentrating our fixed income on quality income producing investments. Of the S&P 500 groups, eight of eleven groups reported positive returns for the quarter. Quarterly returns included Healthcare (14.0%), Industrials (9.5%), Technology (8.5%), Communication Services (8.4%), Consumer Discretionary (7.8%), Staples (4.9%), Financials (3.9%), and Utilities (1.5%). Negative returns were seen in Materials (-.0.1%), Energy (-0.1%) and REITs (-.02%). At quarter end we are expect continued economic strength and the Federal Reserve to be consistent on normalization of interest rates.

Outlook

GDP growth has continued to outpace expectations. Consumers and businesses are reporting continued strength in confidence. Investment in capital equipment has expanded and is a missing component to help further extend the current economic expansion. Trade tensions remain a focus but based on the second quarter 4.2% GDP number and further stimulus expected in 2019, the current expansion has room to run.

Headwinds to the current environment include tight labor markets, higher input costs and the potential for disruption in supply chains. In spite of these concerns, reduced regulation and the cut in tax rates have helped support growth in investment and spending. Commercial construction, energy investment and housing continue to expand with productivity showing signs of improvement. These benefits should continue and provide a further tailwind to businesses.

In spite of the economic positives and noted risks, the markets appear to be close to being neither over nor undervalued. As the U.S. economy continues to expand, the consensus 2018 earnings growth is 20.6% for the S&P 500, which is currently trading at 16.8x P/E with expected earnings per share of $162.05. We continue to believe that the economy may outpace the stock market in the short run with both having an upward bias. On the fixed income side, economic strength and the Federal Reserve raising of interest rates may put bonds in a trading range for the foreseeable future. An increase in interest rates is likely as we head into the future. To summarize, expectations are for a continuation of earnings growth with the prospects for higher interest rates as we finish the back half of 2018 and move into 2019.

Hudson Valley Investment Advisors, Inc. continues to favor equities over fixed income. The Federal Reserve is in the middle of normalizing rates, the economy is now working in a more traditional manner and differentiation among investments has begun. Interest rates have been declining for close to 30 years and that is changing. Keep in mind changes to rates happen slowly and this may be the start of a multiyear process. Overall, we feel that equities are positioned to have future appreciation.

Hudson Valley Investment Advisors, Inc. continually strives to meet your investment goals in the forever changing market environment. We will continue to apply our process to allow your portfolio to benefit from our insight and investment strategy.

We welcome you to take a look at our website http://www.hviaonline.com which now has educational videos, market updates, thought pieces and recent TV appearances. In addition, our Facebook page, Hudson Valley Investment Advisors, Inc., provides insight that investors should find useful. We welcome your feedback and thank you for your support as clients.