HUDSON VALLEY
INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

845.294.6127 • hviaonline.com

Hudson Valley Investment Advisors, Inc.

- It is likely that we have made it past the worst of the government-imposed recession that was put in place to stem the impact of the COVID – 19 virus.
- We are trying to assess what the other side of this recessionary impact looks like.
- <u>To gain understanding it is important to assess 1) Where we were, 2) Where we are, and 3) What are the possibilities as to where we can go.</u>
- Our insight comes from a mosaic of information. More specifically government reports, research firms and consultancies that we have access to.

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

How Investors View Capital Markets

- ***Capital market values are driven by the economy and the earnings that are generated in that economic environment.***

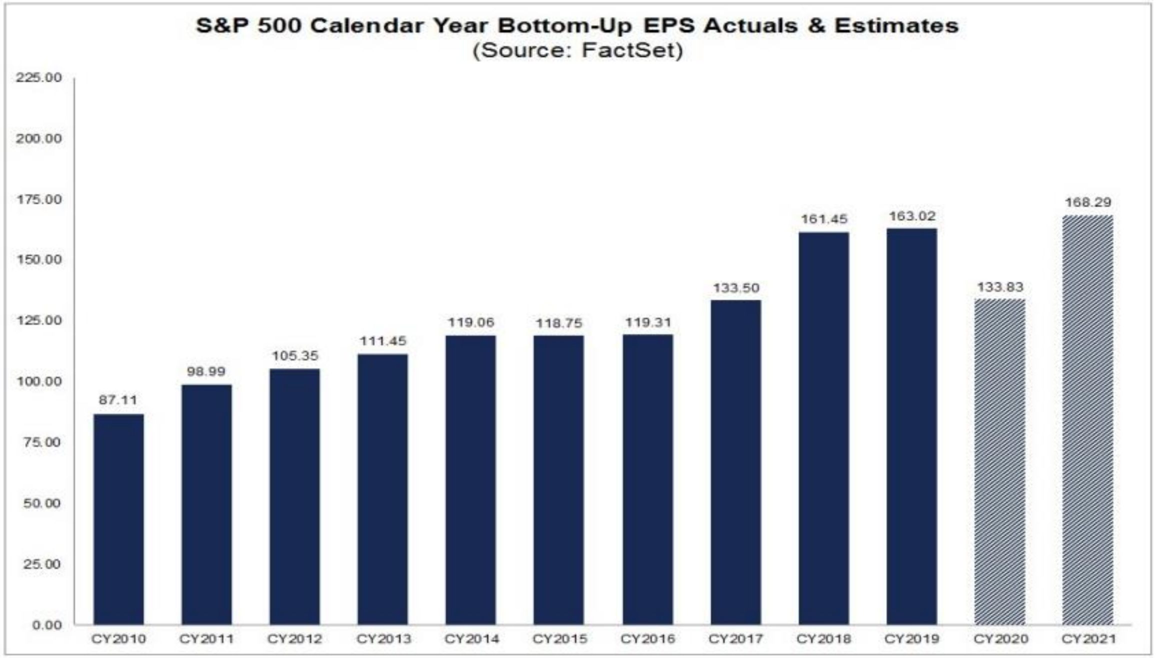
- ***The assessment of the future economic situation and the values of markets are incorporated in market multiples and valuations.***

WHERE WE WERE

- ***Coming into the year***
  - We had the strongest level of employment in the U.S. with unemployment at the lowest level in the history of the country.
  - Future expectations were strong as consumer confidence, home sales and various economic statistics were showing continued improvement.
  - Lastly, the U.S./China trade agreement was signed, interest rates were expected to remain stable and inflation limited.

Hudson Valley Investment Advisors, Inc.

- <u>Earnings expectations</u> - are determined by Wall St. analyst consensus estimates. Since the beginning of the year, estimates have been negatively impacted and the original $173 has been significantly downsized. We'll see greater clarity as the year progresses.



HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

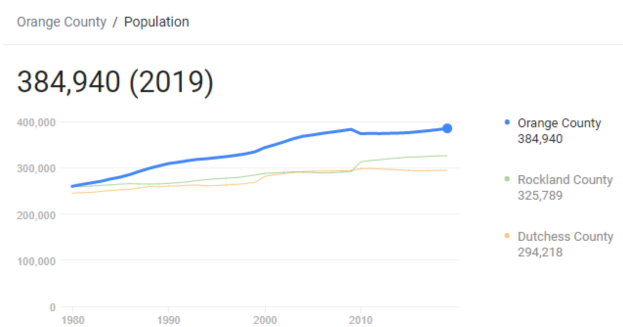
- The U.S. Economy was impacted in several ways during the first quarter. Each one of the following shocks can impede an economy. All three of these hit within days of one another.
  - <u>1) Supply shock</u>
  - <u>2) Demand shock</u>
  - <u>3) Energy markets became undone</u>
- The economic situation was not caused by a financial imbalance. The self imposed recession was due to a healthcare issue.
  - Traditional responses of lowering interest rates (used to spur demand) was not effective.
- Fiscal initiatives were put in place to steady, or bridge, the economy.

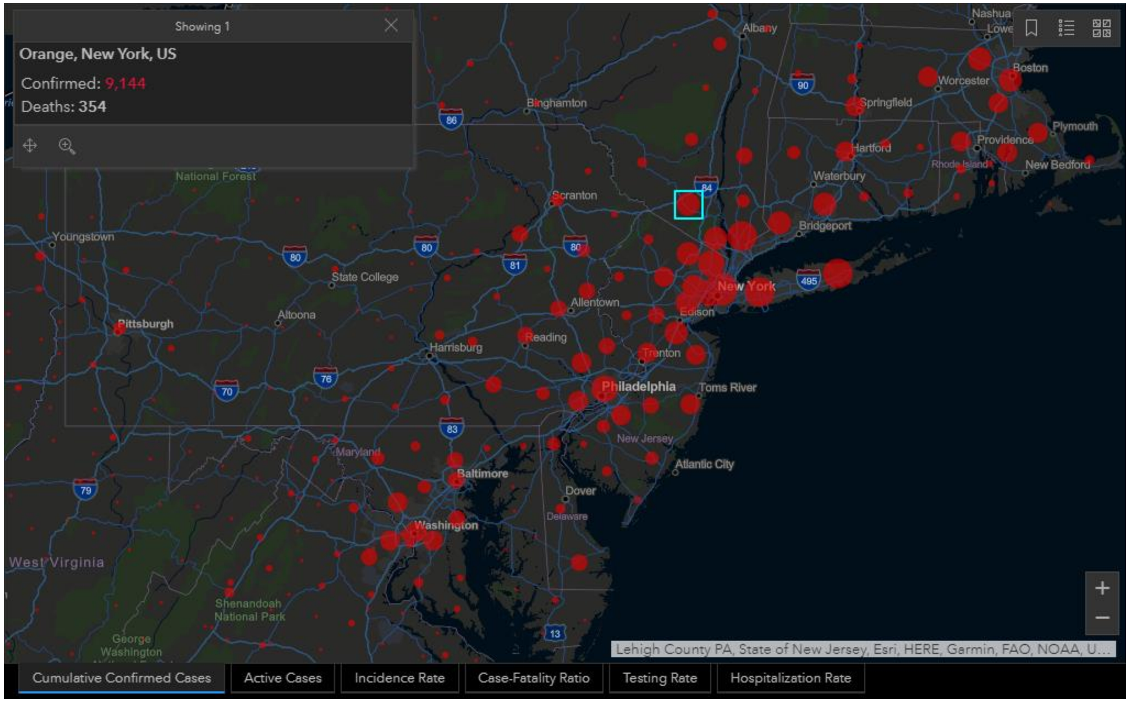
HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

WHERE WE ARE





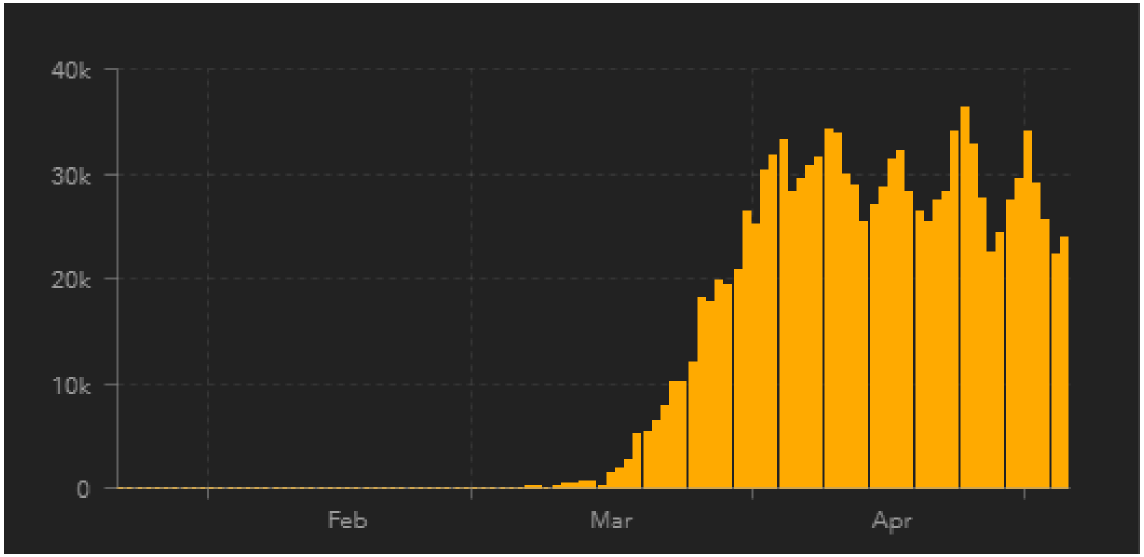
HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

U.S. Nationwide Daily Changes in Cases as of 5/6/20

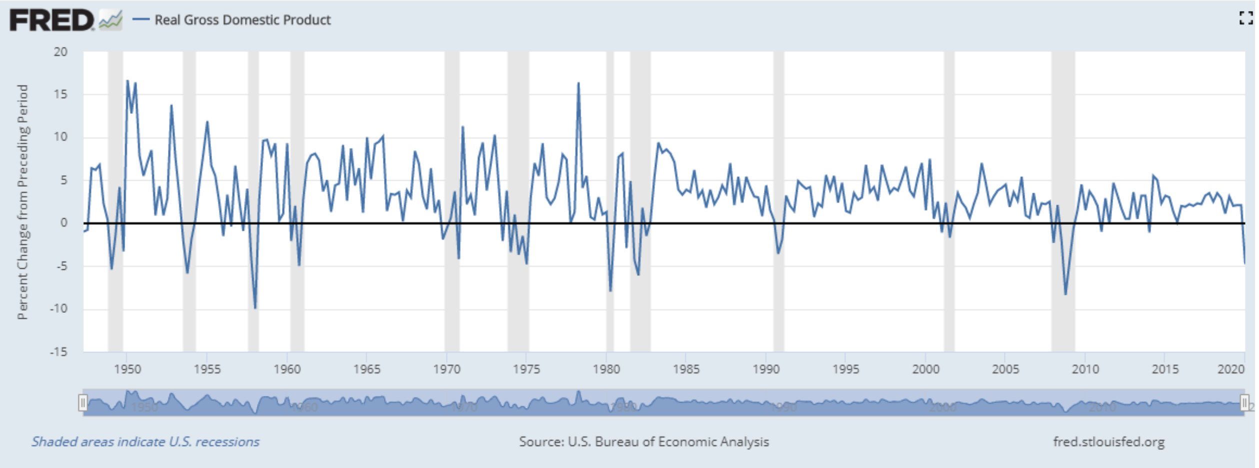
- The number of individuals affected are coming down



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

Hudson Valley Investment Advisors, Inc.

- U.S. fiscal stimulus.
  - The U.S. economy approximately $20 trillion/$5 trillion per quarter.
  - $2 trillion put to work in the program offsetting a 50% decline in quarterly GDP growth.
  - Q2 will be the worst quarter as Q1 only had two weeks of the economy being closed down.



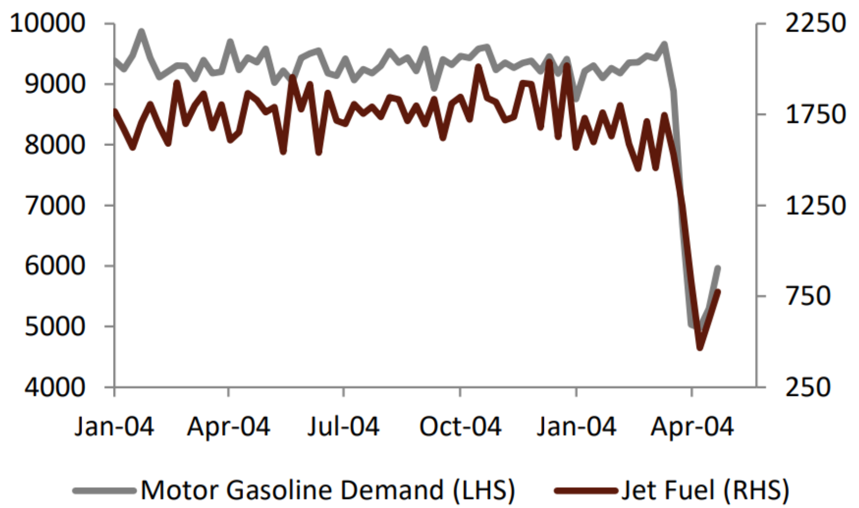
HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- Economically we hit bottom and are stabilizing at a low level.
- In spite of the economic hit, the fiscal response of supporting consumers will help with stabilizing the overall economy.

Starting to hit the road again
Thousand barrels per day

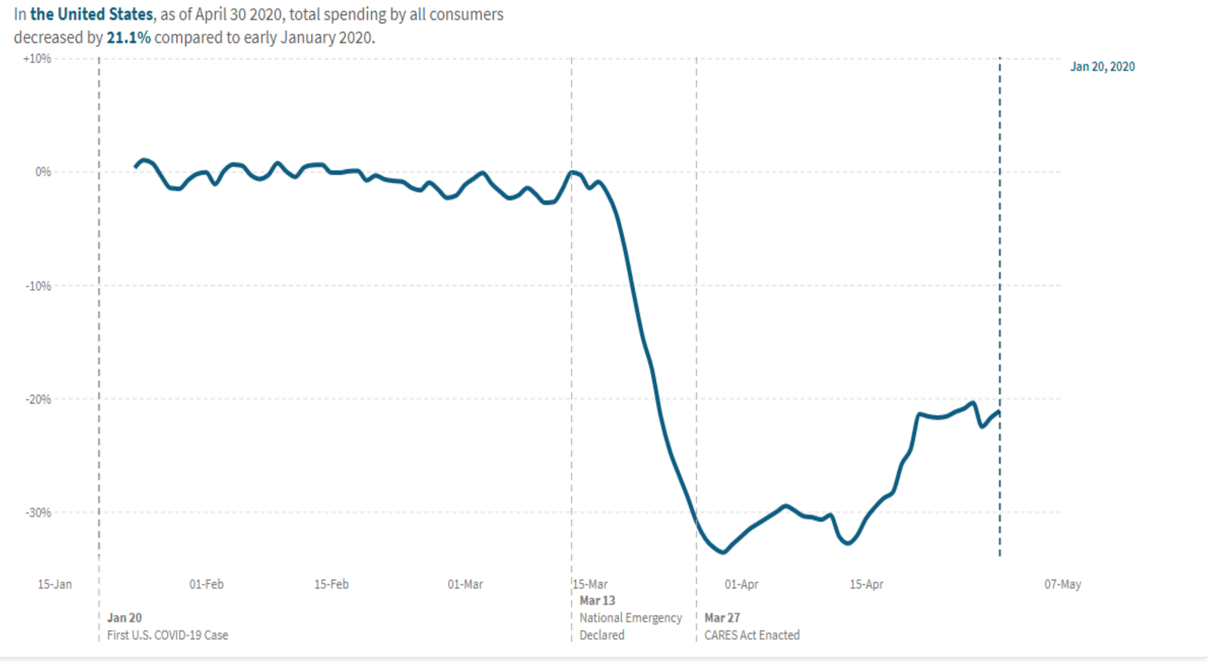


Source: Renaissance Macro Research, Haver Analytics

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

Hudson Valley Investment Advisors, Inc.

- Starting to see "green shoots" of consumer spending.
- This chart provides spending prior to the opening up of state economies.



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

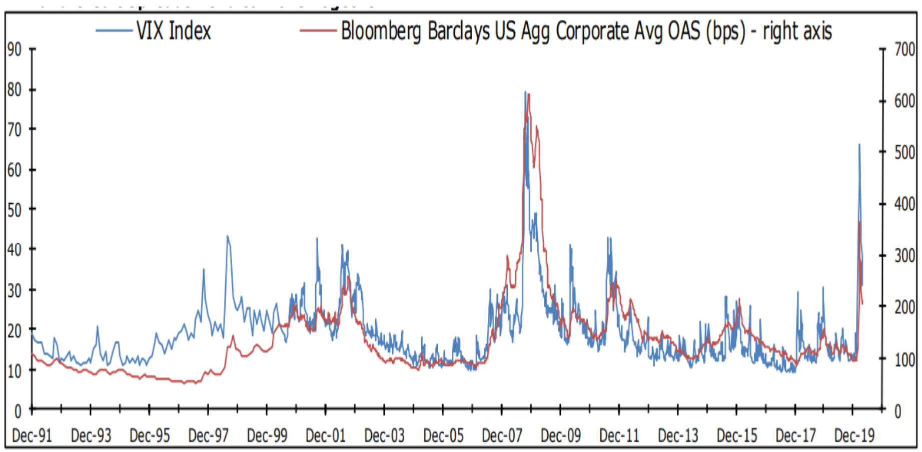
Hudson Valley Investment Advisors, Inc.

- Markets started by focusing on the Macro / technical and are migrating to fundamental / earnings focus.
- Stocks – the top performers have been asset light companies with solid balance sheets.
- Fixed income has been artificially held down due to governments around the world suppressing rates.
- Credit spreads, commodities and the U.S. dollar are an area which provide insights into world growth and outlook.

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

Hudson Valley Investment Advisors, Inc.

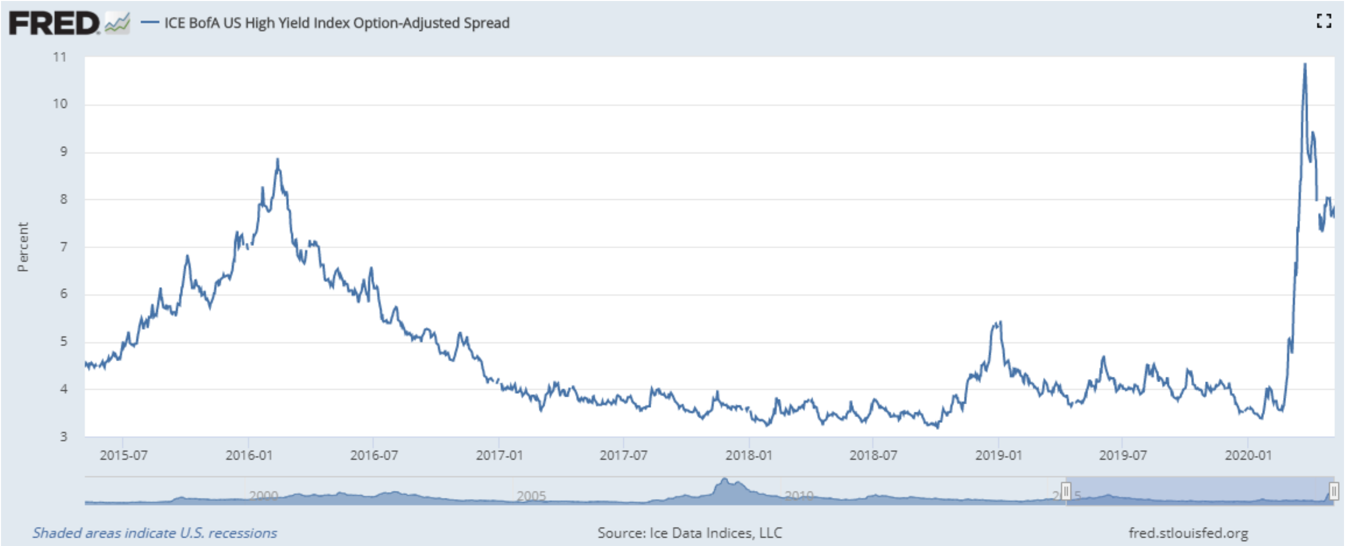
- Risk levels can be seen from interest rate spreads. There was definite dislocation in markets, which was addressed by the Fed. This helped to alleviate further price drop.



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

Hudson Valley Investment Advisors, Inc.

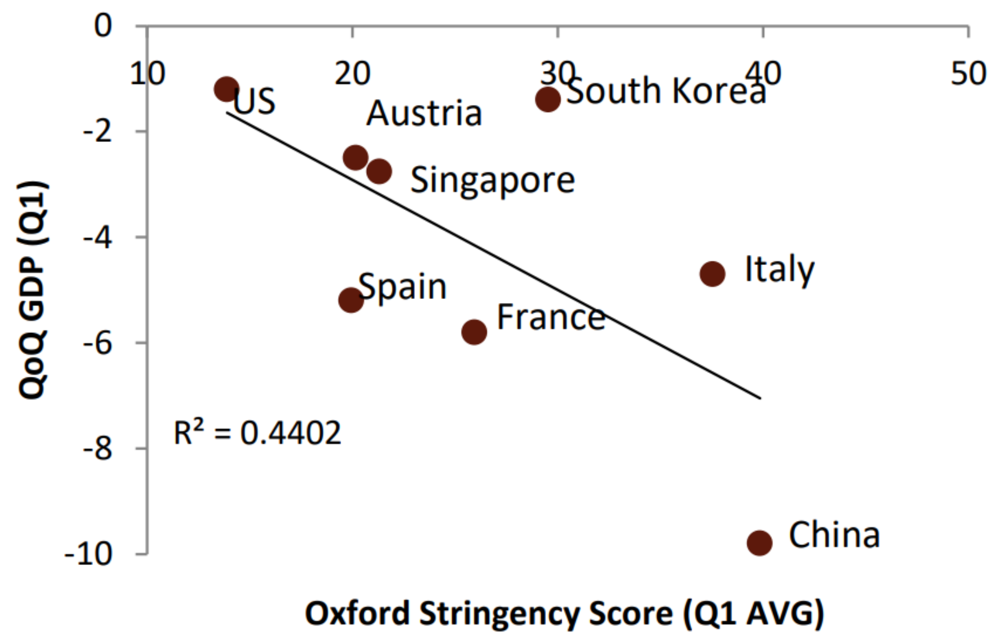
- The difference in credit spreads for high yield point to dislocation in markets and the rebound. This points to higher perceived risk.
- There was a significant amount of risk and a rebound but we remain at heightened levels. Based on the below balance sheets matter again.



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

Hudson Valley Investment Advisors, Inc.

Stricter lockdowns appear to translate to sharper GDP drop



Source: Renaissance Macro Research, Haver Analytics

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

WHERE WE ARE GOING

- Credit liquidity -is normalizing. The plumbing was almost broken.
- State restrictions are being lifted with 50% of the U.S. States now open in some form (a percentage of total coming back on line).
- GDP rebound - is expected to grow back to a strong level as things gradually come on line. Volatility levels will remain elevated but lower than seen earlier in the year.
- Political Risk – fractured environment that will increase both domestic and international issues. The forcing of companies to close will impact the election.
- Internationally we may see dislocation for an extended period due to funding of economies. The U.S. Fed used its balance sheet to support the economy. International measures were not an option at this point.
- EPS Growth for 2021. As the economy "normalizes" adjustments to outcome will be more apparent to the markets.
- Deflation may be more of a problem moving forward with interest rates staying lower for longer.

Hudson Valley Investment Advisors, Inc.

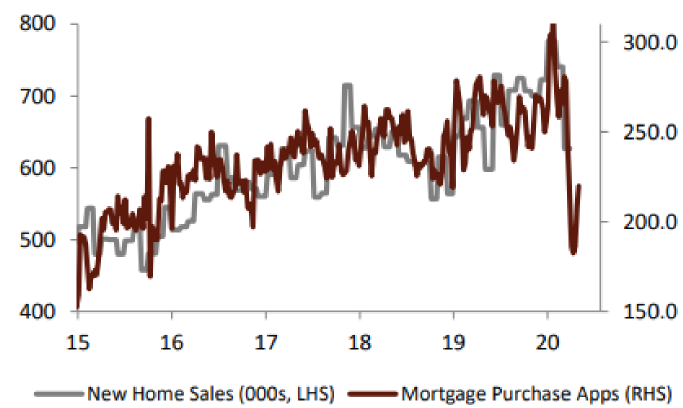
- The rebound?
- World wide there have been 179 central bank rate cuts. *<u>It takes six months on average to work those cuts into the economy</u>*.
- Global short rates are at just 0.87% (May 5th).

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

Hudson Valley Investment Advisors, Inc.

- The consumer accounts for close to 70% of U.S. GDP. We are keeping a close eye on jobs, confidence and spending.
- There was limited imbalances in the economy going into this recession.
- Any uptick in demand will help and move us back to normalization.

Mortgage purchase apps rise for the last three weeks

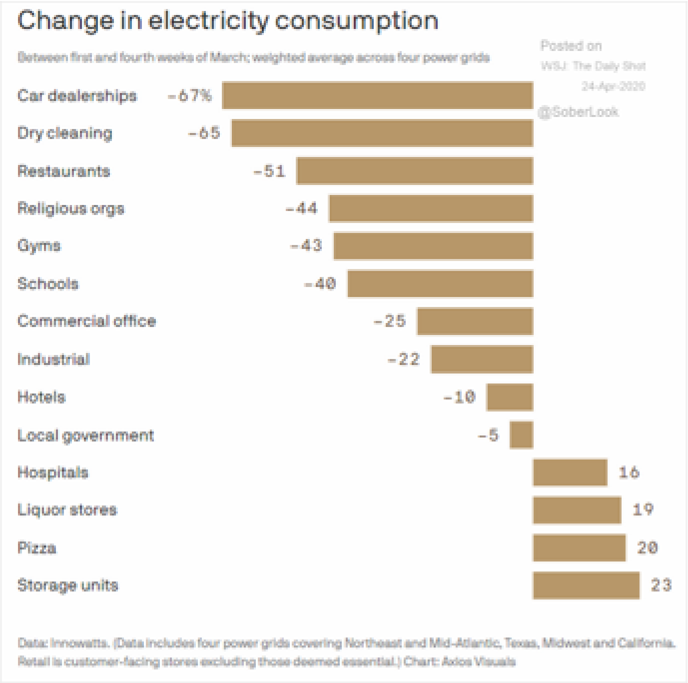


Source: Renaissance Macro Research, Haver Analytics

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

Hudson Valley Investment Advisors, Inc.

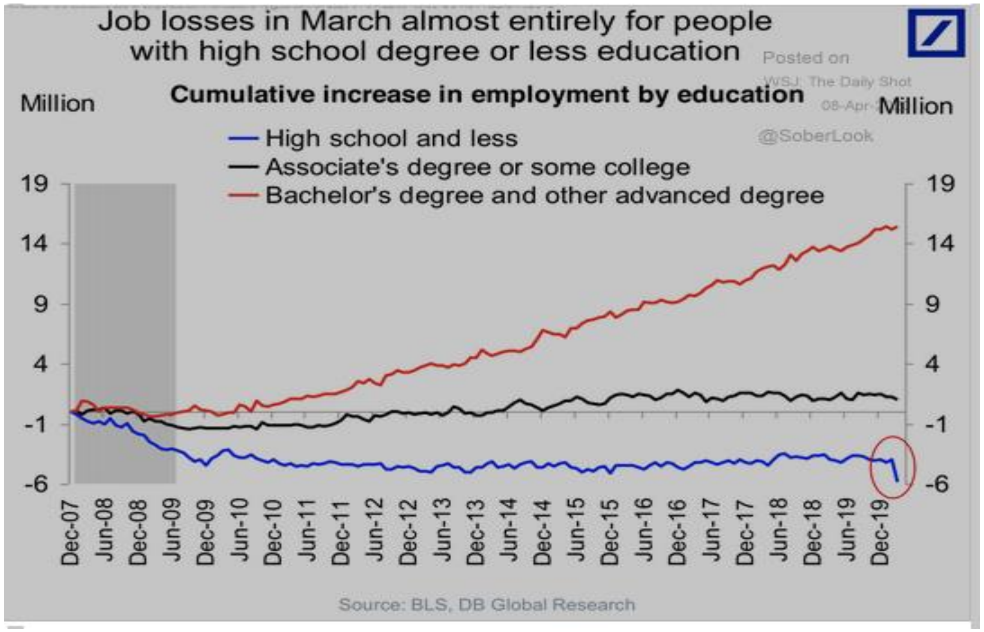
- A back ended way to see demand is through energy consumption.



Hudson Valley Investment Advisors, Inc.
A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

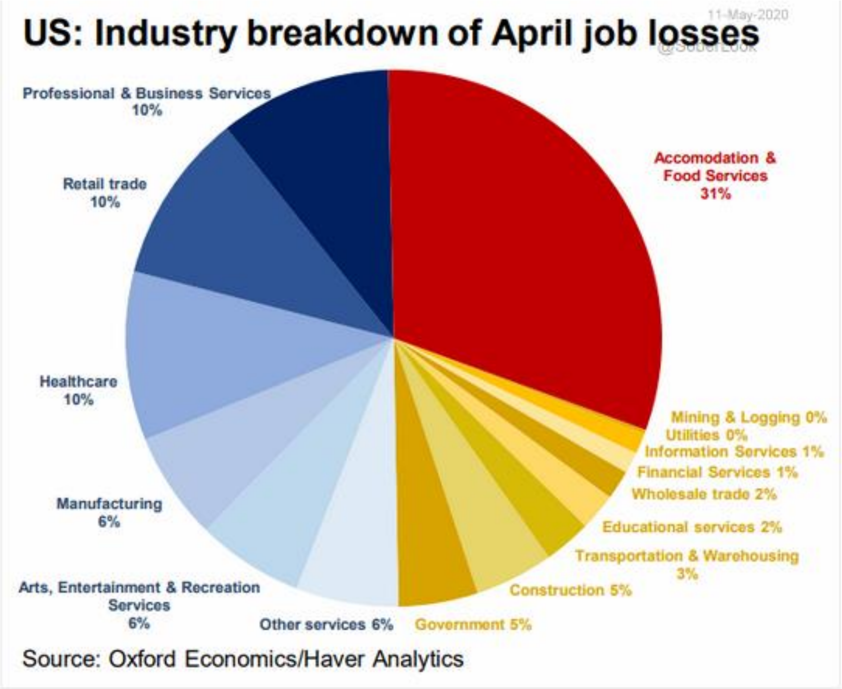
- Which group has been most impacted by job losses?



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

Hudson Valley Investment Advisors, Inc.

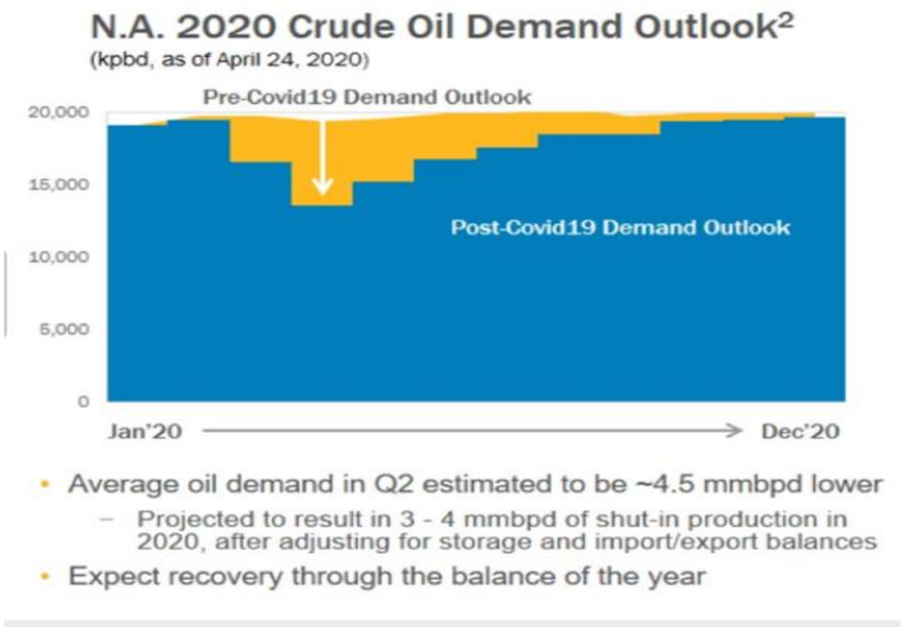
- The reversing of unemployment will be slower and layered.



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

Hudson Valley Investment Advisors, Inc.

- Public company insights: Honeywell, Enbridge, Marriott and JPM outlooks

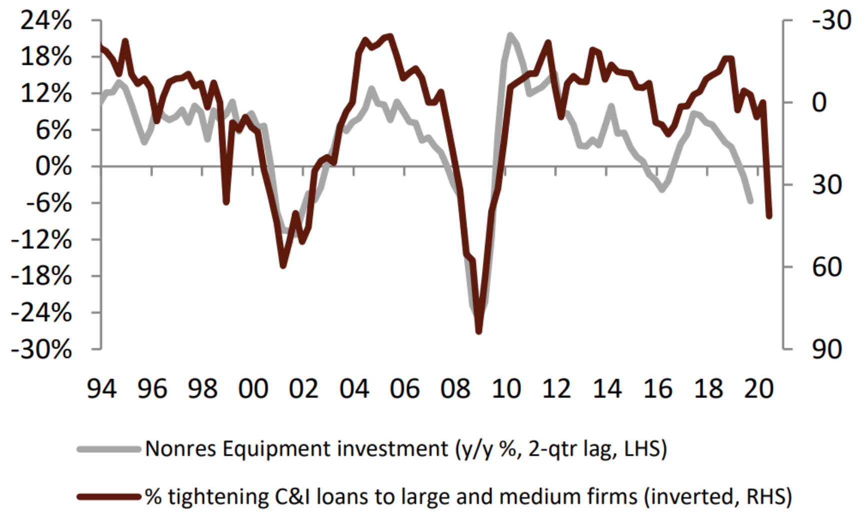


HUDSON VALLEY INVESTMENT ADVISORS, INC.
A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- The appetite to lend has been reduced as risk levels have risen.

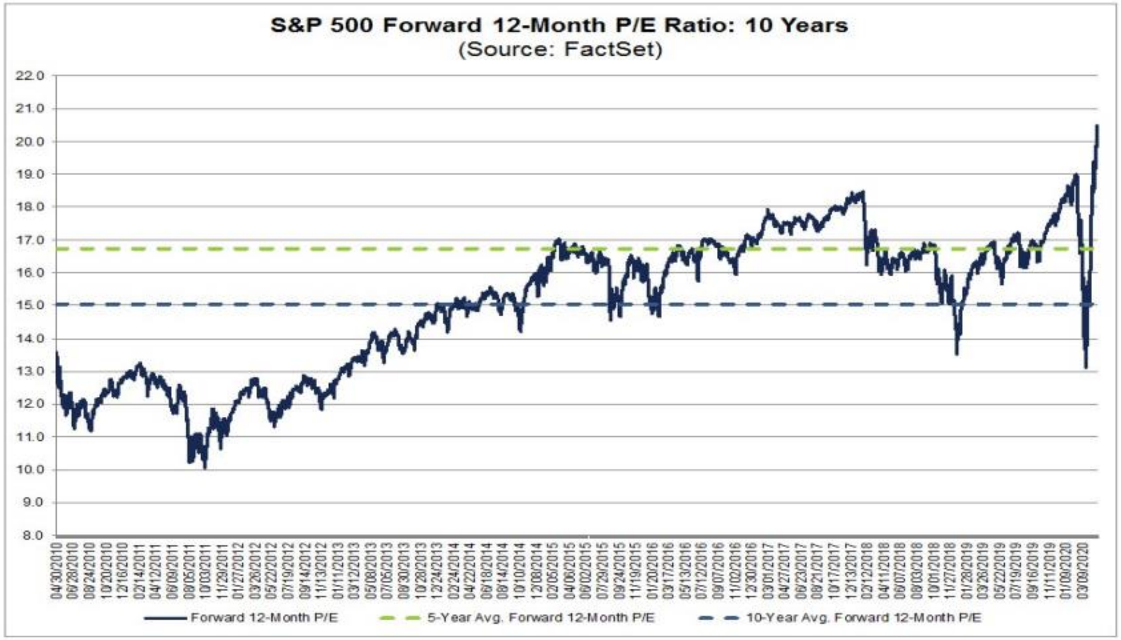
Lending standards point to weaker capex



Source: Renaissance Macro Research, Haver Analytics

Hudson Valley Investment Advisors, Inc.

- Price/Earning ratio incorporates risk levels and pricing. Markets are discounting a higher earnings level pushing P/E's higher compared to history.



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

Hudson Valley Investment Advisors, Inc.

- <u>Moving forward</u> – Uncharted territory in short term
- TINA is now in place – **<u>T</u>**here **<u>I</u>**s **<u>N</u>**o **<u>A</u>**lternative to stocks.
- <u>Economy</u> – things moving forward are changed in terms of sourcing and supply chains that all business will need to address moving forward.
- <u>When does the COVID-19 impact stop?</u>
  - China day 0 was Jan 15th day 21 later saw an increase of 2987 new cases per day or the top.
  - 36 day lag with the U.S. which had day 0 at Feb. 20th making something around the end of March early April as the top for the U.S. (which it was)
  - Expect less deaths and a focus on economic improvement as the White House changes the narrative.

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

Hudson Valley Investment Advisors, Inc.

- Looking back from our previous call on March 23.
- We came into this year with one of the strongest economic backdrops in recent memory and limited imbalances.
- This period differs from 2008 as banks are well capitalized; individuals maintained a high savings rate and there were limited imbalances that normally throw us into a recessionary period.
- Expectations are that the world will be continuing to pump stimulus into the economies which should help support the developing world.
- Things will look worse before getting better. We believe that the consumer will be gradual in moving back to their former way of doing things with more saving, less consumption until perceived risks are reduced/eliminated.

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

- Last thought –
- At times of market and/or economic stress we often see winning companies make significant gains in market share. We feel strongly that we'll see similar gains this time around.
- AMZN – greater percentage of home delivery
- V – Digital Payments
- AAPL – iPad demand has seen strong growth for tele-education (China is seeing record sales for iPads)
- 5G – Investment may be accelerated by potential U.S. Govt initiatives

Active Selection of Sectors, Market Capitalization and Geography

Sector	Outlook and Sector Rationale	Over(+)	Over	Equal	Under	Under (-)	SP500	HVIA
Overview	**Our positioning is based on the expectation that financial markets are stabilizing and will see a rebound**							
	as GDP improves in the back half of '20 and a strengthening economy in 2021							
Information Tech (XLK)	Technology has tailwinds that include the migration to 5G technology and the realization of both	Over					24.20%	27.0%
	companies and indivduals need to upgrade their systems for business and streaming							
Industrials (XLI)	Industrial space should come back faster than past cycles as there is limited inventory. A higher			Equal			9.00%	8.2%
	dollar and the need for GDP to improve first is a major headwind.							
Financials (XLF)	Financials will be hampered by (a) lower interest rates, (b) higher levels of bad debt, and © less				Under		12.60%	9.0%
	leverage used by companies and individuals as we move through recovery.							
Healthcare (XLV)	The headwind of Government pressure on prices will take a back seat as the COVID crisis persists.	Over					13.80%	17.5%
	COVID has highlighted the benefits of this group and the likihood of great investment in healthcare research							
Cons. Disc (XLY)	The consumer post COVID will remain a main driver for US GDP. Pent up demand should help a		Over				9.80%	12.0%
	a rebound in the economy as supply chains and the economy normalize.							
Energy (XLE)	Oversupply in the short term may be with us for an extended period. The need for significant					Under	3.90%	2.0%
	worldwide demand will be needed to help prop up prices. A strong dollar acts as headiwind in the short term							
Comm. Svs (XLC)	The COVID restrictions allowed for great usage of streaming services and the technology in this sector.	Over					10.50%	13.0%
	The upgrade to 5G should help with this sector into the future.							
Utilites (XLU)	This is an interest rate proxy which has limited benefit in the shorter term.				Under		3.50%	1.3%
Cons. Staples (XLP)	This industry is going through a major transition as brand goodwill has declined. Brand upstarts				Under		7.20%	5.5%
	have gained on established brands. Overall pricing is stagnent limiting another leg of growth.							
REIT's	Another interest rate proxy. Specific stock end markets such as logistics and technology			Equal			3.00%	3.0%
	should be a focus into the future.							
Materials	Sector remains out of favor and has negative momentum.					Under	2.50%	1.5%
							100.00%	100.0%
Small Cap	Small caps have been underperforming larger cap segment for several years as fund flows move into					Under		
	larger more liquid, less leveraged public companies.							
International Developed	The overhang for the region's banks and the need for agreement among various countries finance					Under		
	chiefs increases the likelihood that this sector's growth is limited.							
Emerging Markets	The need to stabilize markets via capital funds injections is limited in these markets which will			Equal				
	limit them over the longer term vis a vie the developed world.							
Fixed Income								
Long Term Corp	We are not fans as investors are not being compensated for the additional risk being taken					Under		
	by investors for the time that is incurred for holding these securiites.							
Intermediate Corp	These mid tier duration products also limit returns for the additional risk			Equal				
	investors take on when investing.							
Short Term Corp	The entire fixed income market is positioned for a continuation of low rates.	Over						
	We believe its prudent to take on limited risk due to the duration taken on.							

Hudson Valley Investment Advisors, Inc.

A subsidiary of Orange County Bancorp, Inc

845.294.6127 • hviaonline.com

Disclosures

The information and opinions in this report were prepared by Hudson Valley Investment Advisors, Inc.(“HVIA”). Information, opinions and estimates contained in this report reflect a judgment at its original date and are subject to change. HVIA and its employees shall have no obligation to update or amend any information contained herein The contents of this report do not constitute an offer or solicitation of any transaction in any securities referred to herein or investment advice to any person and HVIA will not treat recipients as its customers by virtue of their receiving this report. HVIA or its employees have or may have a position in securities or other related investments mentioned herein. This publication is being furnished to you for informational purposes and only on condition that it will not form a primary basis for any investment decision. These materials are based upon information generally available to the public from sources believed to be reliable. No representation is given with respect to accuracy or completeness, and they may change without notice. HVIA on its own behalf disclaims any and all liability relating to these materials, including, without limitation, any express or implied recommendations or warranties for statements or errors contained in, or omission from, these materials. The information and analyses contained herein are not intended as tax, legal or investment advice and may not be suitable for your specific circumstances. Investment process, strategies, philosophies and allocations are subject to change without prior notice. Nothing in this document should be construed to imply that services comparable to those offered by the Adviser cannot be found elsewhere.

Past performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.