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

Third Quarter Outlook

As of October 5, 2020

Economy In Review

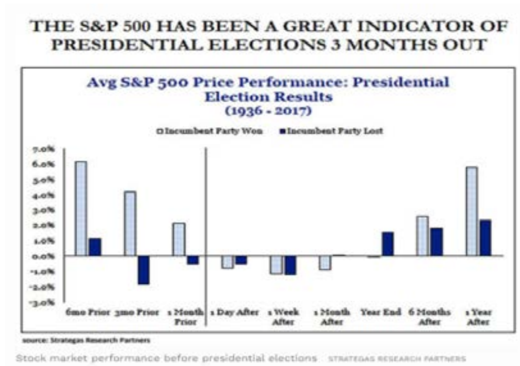
At Hudson Valley Investment Advisors ("HVIA") we continue to maintain the view that we would see a strong economic rebound from the economic shutdowns earlier in the 2020. As the year has progressed the risk of economic decline has lessened as the Government's quick response from the PPP monies and extended unemployment benefits supported the U.S. economy. Many industries have been flexible, maintaining operations and bouncing back from earlier in the year. While other, labor intensive industries continue to be negatively affected. They continue to see an economic drag until a fast COVID test and remedy are available. In spite of the drags, and to provide some context, a record GDP decline of over 30% in the second quarter will be followed by a GDP rebound in the third quarter of approximately 30%.

Adding to the heightened risk is the politicization of COVID and the individual state actions. States have seen varying economic results with states that have higher restrictions seeing a smaller economic rebound. Overall, demand levels were strong and increasing. We believe strongly that the economy will show continued resiliency. Economically, inventories and credit are two important measures that pointed to the future. First, wholesale inventories are the lowest they have been in over a decade. We anticipate that restocking will lead to growth for another two quarters at a minimum. Credit also factors into our thinking with the Federal Reserve adding capital to the markets and helping to provide liquidity. This has had the effect of increasing asset prices.

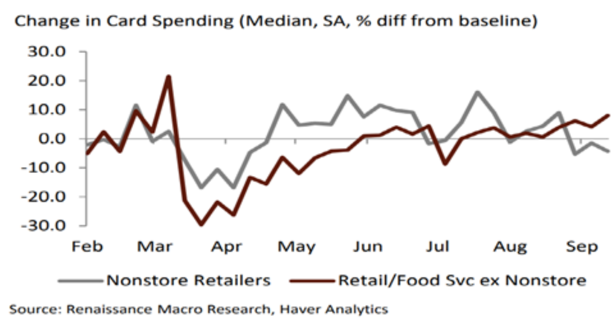
Faltering U.S.\China relations added additional risk to the markets. Deteriorating relations over the Wuhan flu has accelerated trade tensions. Technology transfer restrictions and economic retaliation have forced China to pull back while the U.S. focuses on unfair Chinese trade practices. The Chinese economic push into greater technology development is being restricted by U.S. efforts due to national security concerns.

The Federal Open Market Committee (FOMC) communicated that it wanted to allow for greater levels of inflation, above 2% for "some time". The FOMC also indicated that interest rates would remain "lower for longer" for an extended period. The economic impact from COVID put pressure on the FOMC to help support the economy and aid the recovery.

As we end the third quarter, we continue to expect greater market volatility leading into the Presidential election. Added to the potential risk from the election is the stress of a Supreme Court nominee confirmation process, heightened social unrest and fires on the West Coast of the U.S. Positive have been Mideast groups finding peace, less friction from Iran and North Korea, and the potential for a COVID cure. In terms of whoever is elected, historically, we see a positive response post-election. The markets are a great predictor, since the 1930's, as a positive market points to an incumbent winning the election 87% of time.



The strength of the economy can be seen in credit card spending. We expect that as States open up further, the level of economic activity will show improvement. States that are still in a quasi-lockdown have shown unemployment rates that are close to double that of states that are fully-opened. Re-openings should provide another level of economic growth.



Housing and automobile sales have seen a strong rebound which we believe will continue at least through year end. Limited inventories and low interest rates will help both industries for a number of quarters.

The S&P 500 recorded a gain of 8.93% for the third quarter. In terms of sectors, 10 groups reported positive returns for the quarter as many areas where more resilient to the downturn during the quarter. Positive quarterly returns included Consumer Discretionary (14.86%), Materials (12.73%), Industrials (11.99%), Technology (11.65%), Consumer Staples (9.61%), Consumer Services (8.68%), Healthcare (5.41%), Utilities (5.19%), Financials (3.84%) and Real Estate (1.18%). On the negative side of the ledger was Energy (-20.86%). The quarter's strength is economic data looks to have bottomed and showing signs of improvement across a number of sectors.

Outlook

At the end of the third quarter, the economy gained traction and has seen robust growth that is much better than anticipated from just a quarter ago. Inventories that need rebuilding, automobile and home purchases have helped spur the economic rebound. The expectation is that the growth will continue for a number of quarters. As the economy opens on a staggered and geographic basis, we expect job growth to accelerate. The U.S. consumer continues to have a strong level of savings. The PPP stimulus funds that have, in many cases, provided more money than individual's normal underlying incomes. As this was being written, Congress was working with the White House, to provide more stimulus in the hands of consumers, businesses and governments to continue to help support the economy. HVIA expects to see continued strength in spending over the coming quarters, again, if consumers feel safe and there is a return to normalization.

The Trump Administration's efforts to get monies into the hands of companies and consumers was early and aggressive. This limited the potential economic damage. The Government has been looking at another round of stimulus, with the size of the injection into the economy and which industries being sticking points. We believe something will get done but the current situation has Republican and Democratic members at crossroads which looks to currently be limiting.

We believe that earnings growth is what drives financial markets. The 2020 earnings expectations have come back from the brink. Earnings estimate were reduced for 2020 to less than $100 per share. This earnings estimates has rebounded to the $135 to $145 level and may end up higher with 2021 EPS estimates moving in the mid to high $170's. Based on current earnings expectations, we continue to believe the S&P 500 has a potential range of 3,250 to 3,650 over the coming twelve months. Hudson Valley Investment Advisors, Inc. continues to favor equities over fixed income.

Finally, we want to make you aware of a few items:

- We are currently in the process of updating our website, please be on the lookout for our new homepage in the coming weeks. The new site will allow for improved access to our TV and media appearances, as well as educational articles and pieces. Our current website is www.hviaonline.com, this will switch over automatically once the new site is complete.
- This has been a volatile year and would expect that we'll have another firm update before year end, but you can always call us regarding your account or our thoughts on markets.
- Lastly, in conjunction with Orange Bank and Trust, Co. we will hold another women's "Sip and Learn" event via zoom during the fourth quarter. Additional information to follow.

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