Hudson Valley
Investment Advisors, Inc.

A subsidiary of Orange County Bancorp, Inc.

845.294.6127 • hviaonline.com

Hudson Valley Investment Advisors, Inc.

- The U.S. in less than a month has just gone through one of the most rapid drops in market history. We want to have an understanding of:

- 1) Where we were
- 2) Where we are
- 3) What are the possibilities as to where we can go

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

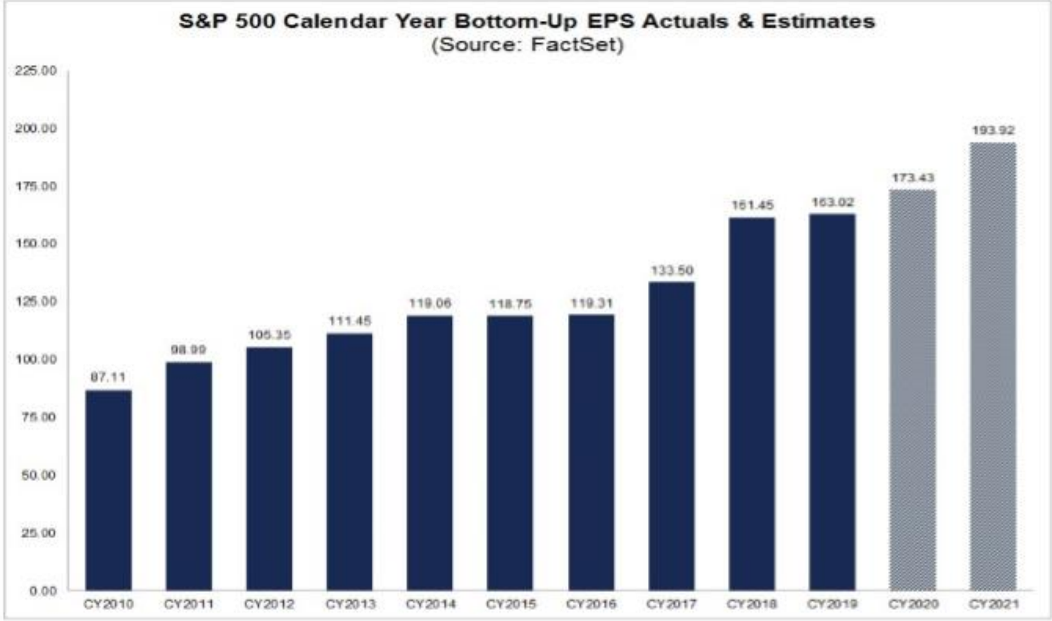
Hudson Valley Investment Advisors, Inc.

- Where we were
- As a basis for valuation: Equity markets are driven by the economy and the outlook for the future. Assessment of the future economic situation and the values of markets are incorporated in market multiples and valuations.
- At year end 12/31/19
  - 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 the 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.
A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- Earnings levels, that are determined by Wall St. analyst consensus, at the beginning of the year has been negatively impacted and the original $173 has been significantly downsized and need to provide direction before markets has finally stabilize.



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

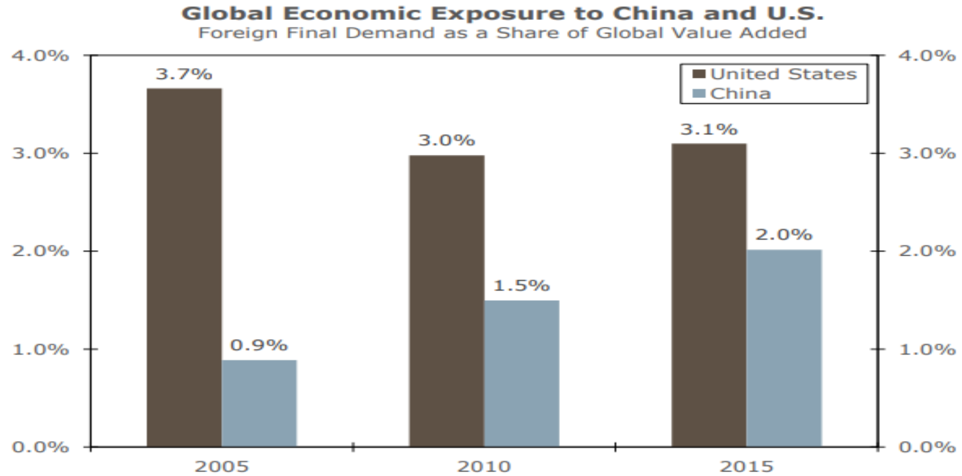
Hudson Valley Investment Advisors, Inc.

- <u>Where we are</u>
- The Coronavirus caused a Supply shock that limited the product available to U.S. and other international economies from China.
- Coupled with a shock of the drop in the price of oil and the forced pullback of the U.S. consumer from the virus hitting the U.S. put markets in a position that is unchartered.
- The current situation was not caused by a financial imbalance but a healthcare one. The traditional responses of lowering interest rates may not be sufficient to get the economy back on track.
- Fiscal initiatives need to be implemented in order to steady, or bridge, the current economic situation.

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

Hudson Valley Investment Advisors, Inc.

- For perspective the U.S. has the most important impact on a worldwide basis to the global economy with China playing a close second.
- Both will have to climb back from the initial impacts.



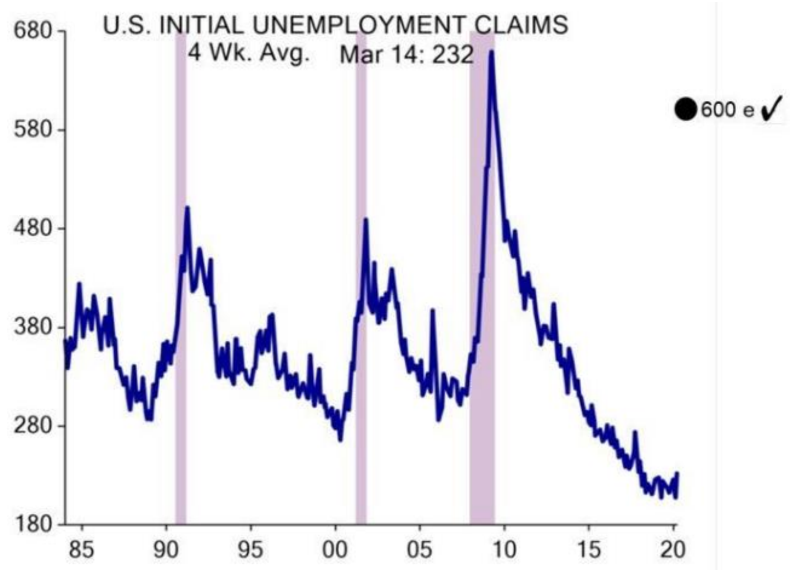
Source: OECD and Wells Fargo Securities, March 2020

HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- The shutdown of whole businesses will cause a significant increase in unemployment.
- The fiscal policy response is needed to damped this expected increase.



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

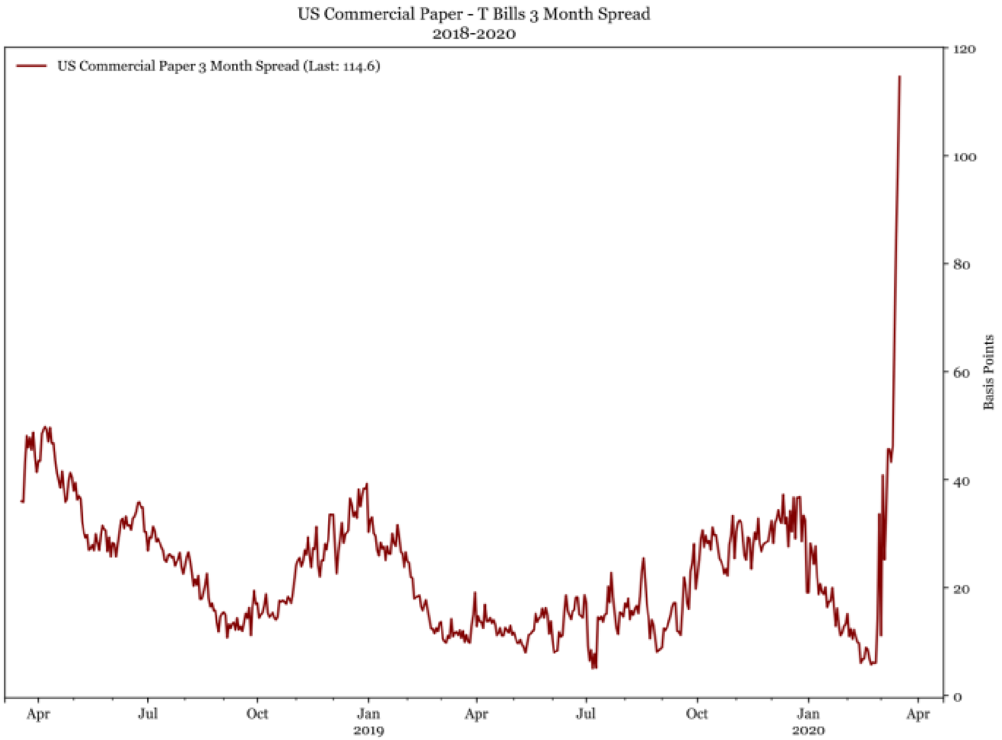
Hudson Valley Investment Advisors, Inc.
Our outlook

- The current environment is similar to the downturn in 1987 in terms of pace of the drop

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

Hudson Valley Investment Advisors, Inc.

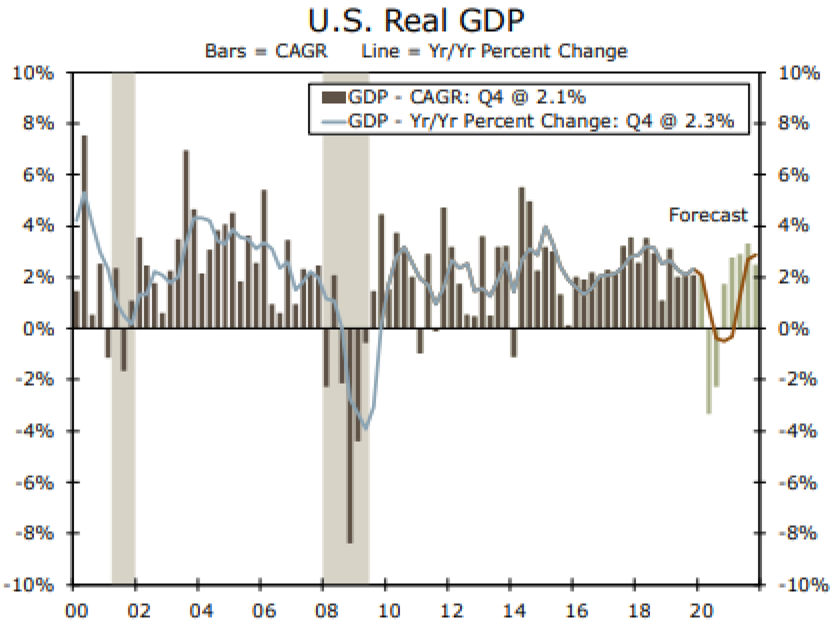
- The credit spreads in the commercial paper market indicate the illiquidity and the stress in the capital markets.
- This is also evident in the Repo market and is one of the reasons for the volatility across U.S. financial markets.



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

Hudson Valley Investment Advisors, Inc.

- The U.S. GDP has been impacted by both supply and demand shocks. We anticipate two quarters of flat to negative growth.
- We expect a normalization of growth as we move into the back half of the year.



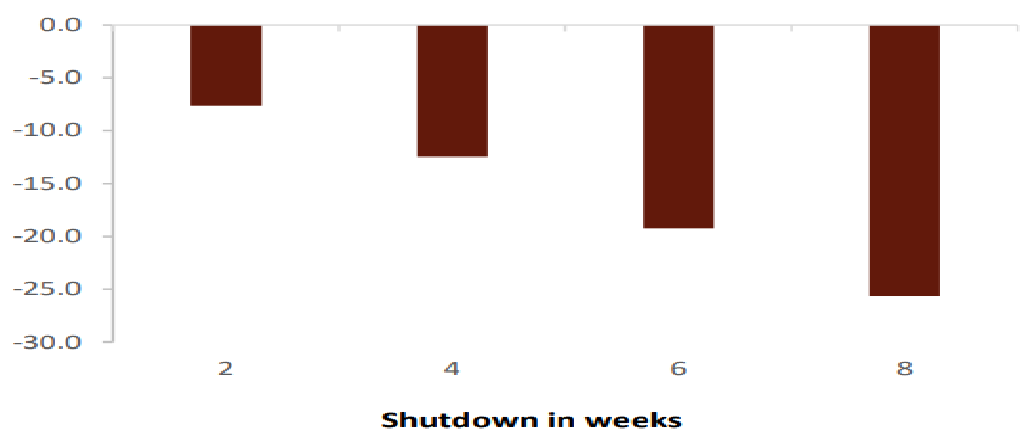
HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- The consumer is our most important economic driver.
- Using 9/11 as a framework. We saw a 70% decline in spending.
- How bad can it get?

Deviation from baseline (estimated loss of GDP if 50% of economy is shut, annualized percentage point)

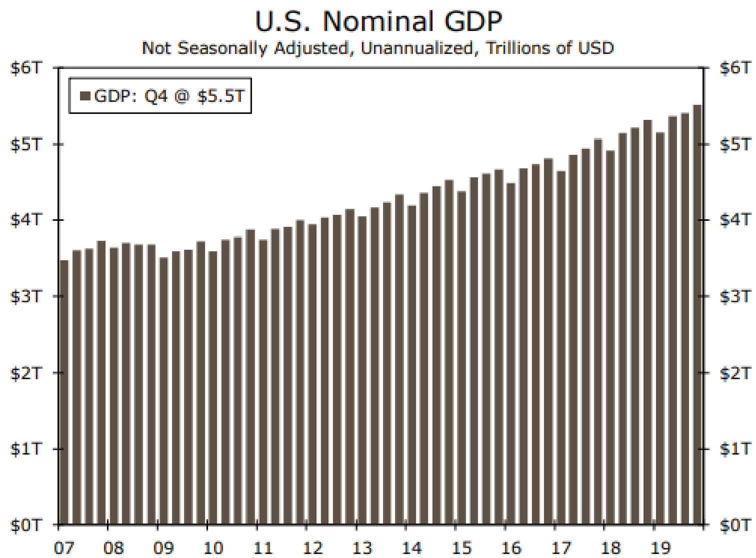


Source: Renaissance Macro Research, Haver Analytics

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

Hudson Valley Investment Advisors, Inc.

- GDP measures the total output in the country in a given period, usually a quarter.
- If monthly GDP were to have a monthly drop of 50% it would equal approximately $900 billion loss of income (this amount would be unprecedented and not expected)
- Policy makers are trying to offset the loss in income by offering up initiatives that provide a combination of incentives, direct dollars and tax incentives

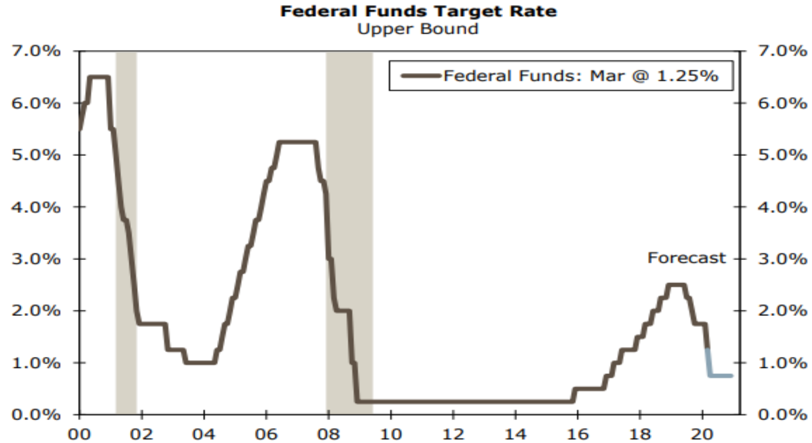


HUDSON VALLEY INVESTMENT ADVISORS, INC.

A subsidiary of Orange County Bancorp, Inc.

Hudson Valley Investment Advisors, Inc.

- At the time of this writing the Fed cut rates to 0%-.25%, but that could change depending on the economy evolves.
- Since this is a healthcare issue, this may not be the necessary medicine to get things moving.



Source: Federal Reserve Board and Wells Fargo Securities, March 2020

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

Hudson Valley Investment Advisors, Inc.

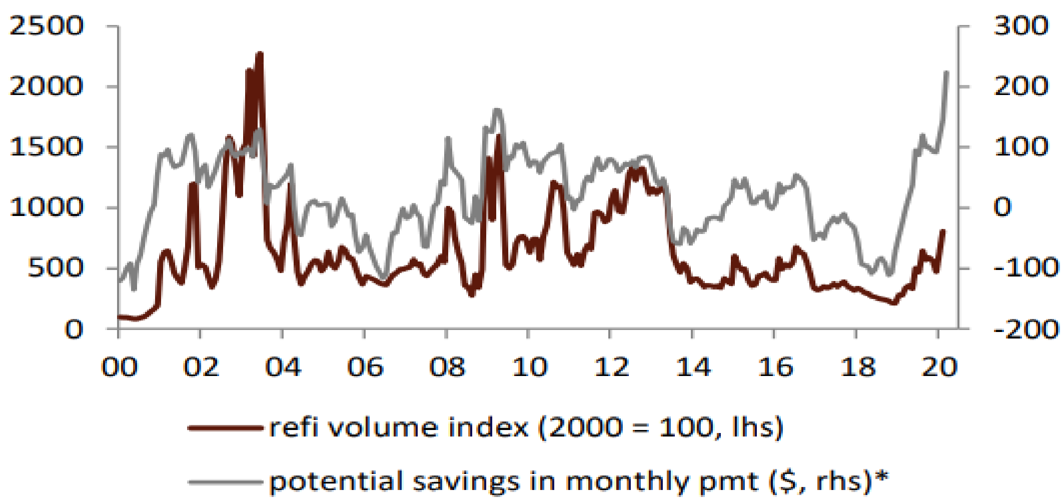
- Coronavirus was the main factor for the decline in the economy.
- Things have shifted to credit conditions and for governments around the world to get in front of the problem.
- Recent emergency cuts will be a negative for various industries over the longer term.
- Supply chain is in flux as China gets back to work. We expect this to be a non factor in a few weeks.
- Political Risk will increase as a Trump/Biden election will put forth potential risks and benefits.
- Unemployment will provide a negative shock and see a potential 600k increase.
- EPS Growth: in flux with approximately $142 - $155 as a potential range of 2020 earnings.

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

Hudson Valley Investment Advisors, Inc.

- <u>Where we are going?</u>
- Interest rates are now at 0% to .25% which would normally help to support asset prices.

Chart 3: Refi boom putting money back into pockets

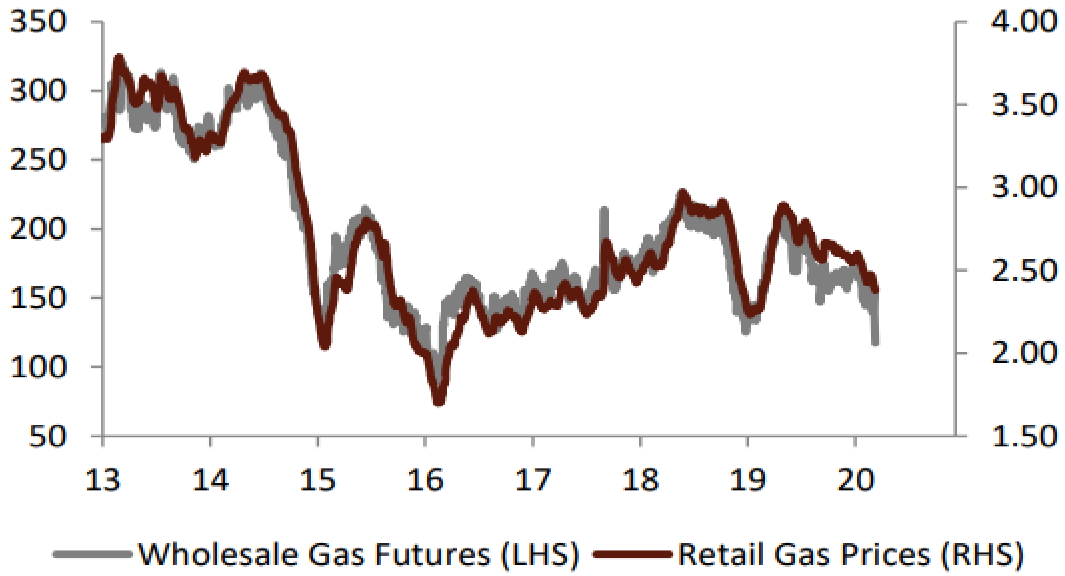


*compares payment if 30-year mortgage goes to 3.0% vs. trailing two year average
Source: Renaissance Macro Research, Haver Analytics

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

Hudson Valley Investment Advisors, Inc.

Chart 4: Retail gasoline prices are coming down



Source: Renaissance Macro Research, Haver Analytics

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

Hudson Valley Investment Advisors, Inc.

- The cut in rates should allow consumers to refinance homes at significant savings which should help support consumer spending
- Consumer confidence should be impacted negatively in the short term but resume as Americans get back to work.
- Longer term we are expecting a return to normalization.
- The duration, based on China's experience, will be approximately 4 to 5 weeks additional weeks here in the U.S.

Hudson Valley Investment Advisors, Inc.

- Moving forward – Uncharted territory in short term
- TINA is now in place – **T**here **I**s **N**o **A**lternative to stocks.
- Economy – things moving forward are changed in terms of sourcing and supply chains that all business will need to address moving forward.
- When does the flu impact stop?
  - 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.
  - Expect more deaths and headline risks before things quiet in the markets.

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

Hudson Valley Investment Advisors, Inc.

- In retrospect this could be one of the best points in time to invest based on U.S. economic vitality and conditions prior to market dislocations
- We came into this year with one of the strongest economic backdrops in recent memory.
- 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

Hudson Valley Investment Advisors, Inc.

- <u>Last thought</u> –
- 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 IPad in China)

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

Active Selection of Sectors, Market Capitalization and Geography

Sector	Outlook and Sector Rationale	Over(+)	Over	Equal	Under	Under (-)
Overview	**We believe markets are positioned without the current envrionment pointing to anything but continued GDP growth and an NON Recessionary envrionment.**					
Information Tech (XLK)	Technology has various secular tailwinds.Performance should outpace the S&P 500. Investments in cloud, increased use of data analysis, rollout of 5G are all helping to contribute to the sector's growth.	Over				
Industrials (XLI)	The Industrial space we believe puts us in a strong position expectations the continued focus on residential and commercial construction		Over			
Financials (XLF)	Banks and other financial institutions are negatively impacted in the short term but exptations are for consolidation with technology being the focus for institutions to gain market share				Under	
Healthcare (XLV)	The aging of population bases, pricing increases and new drug discovery help with top line growth. The political environment may put a cap on appreciation until after U.S. elections.	Over				
Cons. Disc (XLY)	The well positioned consumer and job market should all contribute to continued appreication. The segments outside of the AMZN effect, such as housing should provide growth		Over			
Energy (XLE)	Oversupply and deminishing returns have hurt companies in the short term. Only 6 companies generate positive free cash flow. We would contine to tactically underweight portfolios.					Under
Comm. Svs (XLC)	This area is transformative but is offset by tougher pricing and the movement of consumers to cord cutting. Changing tastes are increasing data usage.	Over				
Utilites (XLU)	This is a "bond like" proxy that should continue to deliver solid returns as efficenies are increasing and the strong economic backdrop driving consumption levels.			Equal		
Cons. Staples (XLP)	This industry is going through a major transition as brand goodwill has declined. Brand upstarts have gained on established brands. Overall pricing is stagnent limiting another leg of growth.				Under	
REIT's	Our REIT names are not traditional. I have conviction on PLD outperforming and would therefore = weight			Equal		
Materials	Sector remains out of favor and has negative momentum.					Under
Small Cap	Small caps have been underperforming larger cap segment due to fund flows, indexes and the limited amount of liquidity that they confront.					Under
International Developed	Brexit concerns and the slowdown in German GDP has capped returns.					Under
Emerging Markets	Chinese / US trade disputes, Coronavirus and overdependence on select industries to stimualte demand may ultimately provide greater volatility and lower returns.			Equal		
Fixed Income						
Long Term Corp	We are not fans as investors are not being compensated for the additional risk being taken by investors for the time that is incurred for holding these securiites.					Under
Intermediate Corp	These mid tier duration products also limit returns for the additional risk investors take on when investing.			Equal		
Short Term Corp	The entire fixed income market is positioned for a continuation of low rates. We believe its prudent to take on limited risk due to the duration taken on.	Over				

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.