Bahl&Gaynor
Investment Counsel

Market Update

Key Takeaways

- The Federal Reserve and Congress implemented significant policies aimed at stabilizing capital markets and buffering economic growth expectations this past week.
- Both credit and equity markets reacted positively to monetary and fiscal actions, likely indicating reduced risk of a credit crisis along with appropriately sized and targeted fiscal action.
- Investors may begin to question if the equity market has reached the area of a bottom. The formation of a bottom in equity markets is a process, not a singular event, and lagging economic indicators are just starting to illustrate the negative economic impact of social distancing, which could drive continued capital market volatility.
- Ultimately, the future path of coronavirus infections is unknown, and therefore so is the extent of ensuing economic impact. Caution is likely warranted in positioning and a high-quality investment approach can offer an attractive balance between capturing reward while managing risk.
- Bahl & Gaynor remains highly active in our evaluation of fast-changing economic and market developments with our focus on dividend sustainability through underlying investment quality.

Recent Developments

Our March 23 note concluded as the Federal Reserve's various conventional and unconventional policy tools were being rolled out and Congress was finalizing details of a landmark fiscal stimulus bill. Since then, credit markets have allowed a representative cross-section of investment-grade issuers to price new bond offerings on attractive terms and the S&P 500 staged a three-day advance of +18% from its Monday nadir, the largest advance in such a short period since 1933. These dynamics would suggest market participants believe the Fed's actions have substantially reduced the risks off a full-blown credit crisis and Congressional action is appropriately large and well-targeted.

The speed and force of monetary and fiscal policy, combined with favorable market reactions last week left some investors wondering, "Have we seen the bottom in equity markets?" We have previously cautioned that the parade of weekly and monthly economic indicators will likely begin to illustrate the serious extent of damage exacted on the economy by social distancing measures. This was evident in the addition of 3.3 million people to last Thursday's initial jobless claims report. And no doubt, a similar spike in unemployment for the coming week's unemployment claims report could drive unemployment meaningfully above its current cycle-low level of 3.5%.

The stock market is a discounting tool in that its movements are part of a continuous judgement process of future economic fortune. While a strong up move could indicate a resolution to some of the most pressing investor concerns, the likely trend of negative economic data in future months could drive sustained volatility, if not additional market downside. The coronavirus pandemic remains a highly fluid, or "fat tail" event. Although monetary and fiscal policy can go a long way in addressing concerns around credit market health and economic contraction, the future path of coronavirus contagion is ultimately a function of health policy. Indeed, health policy will likely continue to dictate incremental optimism or pessimism as it relates to economic, and ultimately, market trends.

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Our Perspective

The path of market recovery is often fraught with twists and turns. We don't expect the current bear market's transition into the next bull market to be any more predictable than prior cycles. Although we are encouraged by the speed and force of enacted monetary and fiscal policy to date, the formation of a market bottom is a process, not a point in time. Therefore, we believe continued caution is warranted amid what is likely to be a tumultuous path toward normalization.

These characteristics of recovery, uncertain timing and path, underscore the value of Bahl & Gaynor's investment approach. Owning high quality companies through a bear market is critical in avoiding permanent impairments of capital. We endeavor to select companies that are not only sustainable through the least savory parts of a market cycle, but also likely to emerge stronger in the recovery to follow. In this way, it is not important to know whether equity markets have reached the area of a bottom, because the investor will have already balanced the benefits of long-term equity exposure with the risks of capital market volatility through a cycle transition.

Bahl & Gaynor appreciates your confidence in us during this difficult market environment.

Disclosure: