Bahl&Gaynor
Investment Counsel

Market Update: COVID-19

Key Takeaways

- Growing concern regarding the spread of COVID-19 (coronavirus) is pressuring the 2020 global economic growth outlook.
- Heightened market volatility has coincided with sharply lower global equity prices and bond yields.
- At Bahl & Gaynor, we focus on what we can control: building portfolios of high-quality companies that pay growing dividends. We continue to monitor the impact of coronavirus developments on the quality and dividend growth expectations of your portfolio holdings.
- Long-term investment success requires investors to look past short-term events driving market volatility, however unsettling.

Recent Developments

Coronavirus has recently emerged as a threat to public health and a source of disruption for the global economy. While the geographic footprint of the virus may continue to expand in the weeks ahead, there are reasons for optimism that the situation may prove temporary as warmer weather, eventual vaccine development, and public health measures produce measurable results in addressing the epidemic. Periods of market volatility that coincided with past epidemics (2002-03 SARS, 2013-16 West African Ebola) and pandemics (2009-10 H1N1/Swine Flu) were painful but ultimately temporary economic events. While the ultimate outcome in this case is impossible to predict, we would submit the following observations:

- Equity market volatility has significantly increased and closed Thursday at a two-year high. The spike in volatility appears to be driven by growing market uncertainty regarding the impact on global supply chains, travel, business investment, and basic everyday consumer activity. This volatility has coincided with sharply lower global equity prices and bond yields.
- Many companies with multi-national operations have communicated expectations of lower business activity levels as a result of storefront and factory closures associated with containment efforts in more affected geographic locations. Companies operating in more domestically-oriented sectors like utilities, telecom, and real estate may experience more limited disruptions.
- Despite the variability of business activity exposure to coronavirus disruptions, recent selling pressure among many publicly-traded companies has been indiscriminate. Moreover, even companies with lower disruption exposure have experienced stock price declines equal to or in excess of the broader market.
- In recent years, the size and market influence of quantitative investment strategies and passive exchange- traded funds (ETFs) have grown significantly. Many of these strategies utilize rules-based trading programs that target variables like equity momentum or volatility. Concentrated flows out of these vehicles or simple strategy rebalancing in response to changes in momentum or volatility can result in systematic and large-scale selling of securities, irrespective of underlying company fundamentals.

These observations reflect how an unexpected negative shock to economic activity, such as coronavirus, can become a catalyst for systematic pressure in equity markets.

Our Perspective

At Bahl & Gaynor, we focus on what we can control: an investment philosophy predicated on the time-tested merits of high-quality companies that pay growing dividends. We believe our philosophy is especially valuable during periods of heightened market volatility. Bahl & Gaynor will continue to work to ensure your portfolio is positioned to align with your investment goals in this and all market environments.

We firmly believe the weight of growing cash flows, balance sheet strength, tenured and skilled management teams, and rising dividends will continue to reward long-term investors. It is these investment characteristics that have historically provided attractive risk-adjusted returns to our clients over full market cycles.

Bahl & Gaynor appreciates your confidence in us during this difficult market environment. It's time in the market, not timing the market, that builds wealth and grows income over time.

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