



Market Update: Oil Shock

Key Takeaways

- Saudi Arabia's weekend decision to lift oil production has pressured global oil prices lower to start the week.
- Equities and other risk assets are trading lower, consistent with investor expectations for lower global growth, inflation and interest rates.
- Reductions in earnings expectations for the first half of 2020, and possibly full year, are now likely.
- The weekend developments in the energy sector, coupled with elevated investor concerns regarding the ongoing global coronavirus outbreak (COVID-19), are resulting in continued market volatility and uncertainty.

Recent Developments

Saudi Arabia and Russia were unable to reach agreement on production cuts intended to stabilize global crude oil prices. Saudi Arabia's subsequent decision to lift production meaningfully represented a significant economic and capital market surprise for investors to consider. Prior to this weekend's developments, crude oil prices were 33% lower year-to-date, and plunged significantly further on this news. The trading reaction was immediate, with markets for equities and other risk assets opening significantly lower.

The dramatic fall in the price of crude oil adds to investor anxiety over the worrisome possibility of deflation and the incremental response from global central banks. Employment and earnings expectations from both the energy sector and linked suppliers are likely to be reduced in the days ahead.

The COVID-19 outbreak continues to disrupt certain supply chains and crowd-related activity directly, while the impact to other economic sectors and demand channels is unclear. Global containment efforts continue to move forward as public health officials seek to slow the velocity of new infection. Travel restrictions, factory shutdowns and other public safety measures, while prudent, will scale higher in the near term and contribute to the need for the market to adjust the 2020 earnings outlook .

Our Perspective

Continued market volatility does not change 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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