



Market Update

Key Takeaways

- COVID-19 remains a unique crisis in that the health response necessary to stem the spread of the virus, namely social distancing measures, encourages consumers to stay home and avoid economic activity.
- A lack of clarity surrounding the severity and duration of this economic disruption is significantly pressuring growth projections and capital market price action in sympathy.
- Policymakers have responded to these economic and market pressures with astounding force and speed from a monetary and prospectively fiscal perspective.
- Global central banks have acted swiftly and decisively to address market liquidity and function through a series of both conventional and unconventional measures.
- Fiscal stimulus through both Congressional and Executive action is now operative and further actions are anticipated.
- After crafting smaller initial aid and stimulus measures, Congress and the White House have turned to a much larger stimulus package targeting direct and rapid support to individuals and private sector companies most acutely affected by the economic shutdown.
- 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

The COVID-19 health response, namely social distancing measures, has become increasingly apparent in both its effect on daily life and forward economic growth expectations. Consumer activity outside the home is actively discouraged by federal, state and local authorities, pressuring businesses and employment. Capital markets are attempting to price the severity and duration of these developments appropriately, which led to continued volatility, illiquidity and indiscriminate selling pressure last week.

Washington, through both Congressional legislation and Executive action, is actively implementing targeted aid packages intended to serve as rapid economic support for consumers and businesses. The recent introduction of "Phase 3" stimulus is expected to be the largest and most sweeping package to date, a recognition by policymakers of the immediate employment and liquidity risks posed by the public health-driven economic shutdown. Aid to individuals, small businesses and specific industries disproportionately affected by economic disruptions are the focus of this

package. While this or any stimulus package will not likely fully offset the negative economic impact of the virus, direct and rapid offsets to economic contraction may help shorten the duration and/or limit the severity of disruption.

The Federal Reserve has joined efforts by the Federal government to reduce economic pressure with a steady introduction of significant and decisive policy measures. One notable characteristic of the ongoing equity market drawdown has been compounding market dislocation, moving from short-term funding markets to Treasuries and outward across the spectrum of riskier assets. To address these dislocations and ease financial conditions, the Fed has implemented both conventional and unconventional tools with astounding speed and force. Conventional tools center upon significant policy interest rate cuts aimed at reducing the price of credit. Perhaps more importantly, unconventional measures including Treasury and mortgage-backed security purchases, US dollar swap lines with foreign central banks, and emergency authority actions

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addressing commercial paper, money market and primary dealer funding access address market function and liquidity. The cadence and form of these actions suggest the Fed is likely to continue implementing additional measures until it believes availability of credit, market liquidity and market function has been restored to adequate levels.

Our Perspective

What strikes us as encouraging about the unfolding crisis is how efficiently and forcefully policymakers are working together to solve challenges that lay before us. Amid the tremendous emotional strains of trying times, it is decisive and meaningful action that act as a salve to monumental disruptions. In many ways, the experiences of the Great Financial Crisis have taught various stakeholders the importance of collaboration and action to focus on what can be controlled in the face of seemingly intractable challenges.

In like manner, Bahl & Gaynor is an organization of individual experts committed to working together for the betterment

of our clients. We are not able to predict where we go from here, but we have worked together seamlessly in this crisis, as in past crises, to control what we are able through decisive and meaningful action.

Our singular investment approach of owning high-quality companies that grow their dividends over long periods of time remains at the center of everything we do. The frayed nerves of capital markets may not confirm this approach in the moment when more immediate concerns dominate. We would caution that the coming week may unleash a barrage of lagging indicators illustrating the serious extent of damage exacted on the economy by forces described earlier in this letter. This damage, though sobering, will ultimately prove temporary in the face of concerted action and within the context of a full market cycle. We are confident the world will get through this as we are confident Bahl & Gaynor will continue to execute on our time-tested philosophy

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

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