High Hopes

The year 2020 is one for the record books in every way. Unprecedented public health-driven personal and professional decrees, the daily embrace of Zoom and Webex and the delivery of everything from dinner and disinfectants to treats and toilet paper!

From a capital markets standpoint, extreme levels of uncertainty generated sharp, early year increases in volatility, swiftly answered by strong and effective measures enacted by global monetary and government leaders. The November election drama only added icing to the multi-layer 2020 anxiety cake. This year’s events underscore the importance of personal and financial readiness for the unpredictable market events that inevitably surface. They are also a strong argument for investors to continually embrace a thoughtful set of guiding financial principles; a time and market-tested investment philosophy providing reliable income streams and capital preservation. 2020 exemplifies, perhaps more than ever, why a durable investor roadmap is imperative.

An expectation for greater economic growth and stability is envisioned in 2021, however, it is not assured. We remain in a global pandemic. While early results are promising, the effort to reach global herd immunity is now a consensus expectation but still a herculean task. The Holiday gift of increased mobility and economic stability could be unwrapped gradually in the months ahead if expectations are met. Should this best-case scenario unfold as anticipated, a confirmation of consumer confidence and growing employment numbers will likely fuel global economic growth in 2021.
High Hopes  Continued

As equities increasingly register all-time highs seen before the pandemic as depicted below, investors appear to anticipate a smooth transition to normalcy. While we are hopeful that global herd immunity becomes a reality this year, we know the world remains an uncertain place.

![S&P 500 Chart](image)

Source: Strategas, 2021.

Housing a Significant Economic Driver

Strong housing activity has been a clear bright spot in an otherwise volatile and uneven 2020 domestic economic environment. The lowest mortgage rates in the 30-year history of the Mortgage Banker’s Survey provide strong motivation for first time home buyers, trade up activity and refinancing. New home sales are +19.1% higher through November when measured against 2019. Nationally, very low housing inventory at 3.6 months of supply is driving prices higher, adding equity for homeowners. Home prices nationally finished November at a 14-year high water mark seen in the chart to the right. There is a shift away from larger cities and growing demand for second homes, especially in telecommuting-friendly locations, and in states with lower taxes. Housing permit and new home construction activity is bustling in many communities to satisfy strong demand. The evidence: lots ready for new residential construction are +11% more expensive than they were last year. A healthy housing market is also good for the remodeling industry, positively impacting home improvement retailers, appliance manufacturers, furniture makers and landscapers. This welcome development means more jobs at a time when pandemic-driven weakness continues to provide employment headwinds.

![Housing Activity Charts](image)

Source: Strategas, 2021.
Corporate Liquidity - Unlit Dynamite for the 2021 Recovery

Unlike the Great Financial Crisis economic period, the corporate bond and equity capital markets have remained fully functional during the entire pandemic producing a cash heavy profile for the average large capitalization company.

2020’s high-grade and high yield bond debt issuance surpassed the high set in 2017 by over $600 billion shown in the graph below.

Lower levels of share repurchase activity and company-level austerity in 2020 have resulted in an aggregate cash balance of $2.1 trillion as of June 30th for domestic non-financial companies illustrated in the graph below with higher year end 2020 balances likely. Rising business confidence coupled with continued strong operating cash flow generation produced a corporate liquidity profile capable of spending heavily on a variety of capital projects and acquisitions. In addition, constructive liquidity conditions suggest the potential for an elevated level of capital return to shareholders in 2021 in the form of higher dividend payments and share repurchase activity.

Dividend Paying Equities Check Many Boxes for Investors

Individual and institutional investors seeking to build an attractive, reliable and growing stream of income may now elect to utilize a higher proportion of dividend paying equities to achieve their objectives. Traditionally, investors have utilized bond or fixed income exposure to, in part, provide a high percentage of portfolio income. However, the current yields on bonds and other fixed income alternatives remain at generational lows. Carefully selected dividend paying...
A New Year, a New Day, A Fresh Perspective

Finally, we can put 2020 in the rear view mirror. Circumstances demand that we continue to acknowledge the first responders, the front-line healthcare workers and everyone working diligently to defeat COVID-19. We must include anyone supporting those who lost jobs, homes, businesses and loved ones. While the pandemic continues to challenge all Americans, we owe our gratitude to the brave workers who chose to make a difference when we, as a country, needed it most.

A clear silver lining of the COVID-19 capital markets experience is the constructive reminder of the uncertainties we all face as investors. While we cannot anticipate every risk (global pandemic now heads the list), we know there are variables we can control; dividend growth dynamics, quality, and informed selection. Successful investors attempt to control these elements in any environment.

As stocks close the year at near record highs and elevated valuation levels, the safety, reliability and defensive qualities of dividend paying equities are in focus now more than ever. Should future market appreciation prove to be more modest than in the recent past, the dividend could be a more significant portion of total investor return. Dividend growth stocks also provide important inflation protection through the annual increase in income. Finally, they offer relative portfolio value stability in down market environments and competitive benchmark performance over a full market cycle. At Bahl & Gaynor, we have more than 30 years of history specializing in dividend growth equities, a history that is market tested, generating the outcomes of a rising stream of income, capital preservation and long-term wealth creation. We extend our sincere gratitude to you, our clients, for your continued loyalty and trust. We look forward to serving each one of you, whether through technology or (preferably) in person for many years to come!

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Financial Planning Update

Planning for a Successful 2021 and Beyond

If navigating our finances during a pandemic taught us anything, it is the importance of saving for a rainy day. Well, it stormed in 2020 and for the better part of ten months, COVID-19 challenged our health, economy, relationships, even our kids’ educations. The dawn of 2021 is the perfect time to start fresh with one thing we can control: our personal and/or family financial plan.

Here are 5 things we can all do to prepare for a successful year ahead:

1. Review Your Budget (No really. This year, do it!)
A big part of a successful financial plan is setting a realistic budget. The key to success here is reviewing that budget on a regular basis. This process needs to include both partners in the family and it is more than simply looking at your income and expenses. Setting financial goals, tracking these goals, and measuring your progress will help keep you on track and incentivize your success. We recommend you review your budget at the very least, once a year, more often when life occurrences threaten to change your course or undermine your growth. This process is not meant to confine your assets but to define your assets.

2. IRA, Retirement Plan, and HSA Contributions (Some change.)
The IRS updates contribution limits annually for retirement and health savings accounts. While the limits are not always increased, you should review your contributions each year to ensure that you are meeting your personal retirement goals. If possible, based on your personal budget, we encourage you to contribute the maximum amount allowed to one or more of these plans. It is important to speak with your financial planner to discuss what options are best for your retirement needs.

3. Required Minimum Distributions (They’re back.)
Due to the COVID-19 pandemic, required minimum distributions (RMD) from retirement accounts were suspended in 2020. This year, required minimum distributions will return for those account owners who turned age 70 ½ before 12/31/2019. If you turned 70 ½ after 12/31/2019, you have until age 72 before you are required to begin taking those minimum distributions. This includes anyone eligible to take an RMD from an Inherited IRA. If you have questions on how these changes affect you, please contact your financial planner.

4. Estate Planning (And reviewing that plan.)
Creating an estate plan defines how your assets will be distributed when you pass. Further, you can direct the handling of your health and financial decisions should you become unable to do so at any point in your lifetime. Documents critical to a comprehensive estate plan include your (and your partner’s) Will, Living Will, Healthcare Power of Attorney, Financial Power of Attorney, and Trust. We suggest collaborating with your attorney to create a formal estate plan, which should be reviewed on a regular basis. Once complete, your estate plan should be shared with other trusted advisors to ensure that beneficiary designations are up to date and account titling is correct.

5. Regular Meetings with Key Advisors (Collaboration matters.)
The other key lesson of 2020 is this: maintain routine communication with key advisors. Financial needs change over time. So do tax laws and retirement plans. It is important that you meet with your asset manager, financial planner, tax advisor, attorney, and insurance consultant on a regular basis. Working together, and with your particular objectives in mind, these trusted experts can best help you stay the course and reach your goals in 2021, and for years to come.

The information presented in this article are general topics that may affect your personal financial situation. These topics and more are addressed when you complete a comprehensive financial plan. If you would like to learn more about Bahl & Gaynor’s financial planning offering, please contact your Portfolio Manager.