Bahl&Gaynor
Investment Counsel

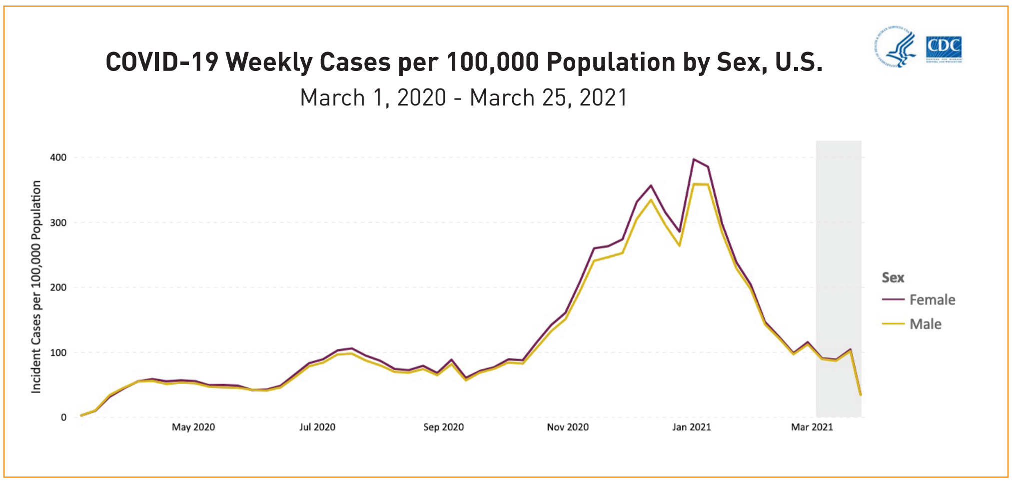
A letter from
Bahl & Gaynor

In this issue:

Feeling Stronger Every Day

We enter 2Q2021 cautiously optimistic, seeing some light at the end of the tunnel, and this time, not an oncoming train.

Many point to growing evidence there is actual progress against COVID-19 infections in recent weeks; a return to normalcy is within range. While it is far too early to claim victory, national daily infection numbers, *seen below*, and personal mobility data continue to improve. As one accomplished Ohioan once stated, ".... a giant leap for Mankind". Indeed!



Source: Centers for Disease Control and Prevention.

Big Problem, Big Response

Approved U.S. COVID fiscal funding, *seen on the following page*, now stands at $2 trillion (2020) and $3 trillion (2021) or 9.9% and 11% of GDP, respectfully. The March 2020 CARES Act was enacted at a time of 15% unemployment, a period of significant personal anxiety and economic uncertainty. The package was intended to offset the pandemic's negative economic impact, providing Americans a bridge to a time when the virus was contained and economic growth more self-sustaining.

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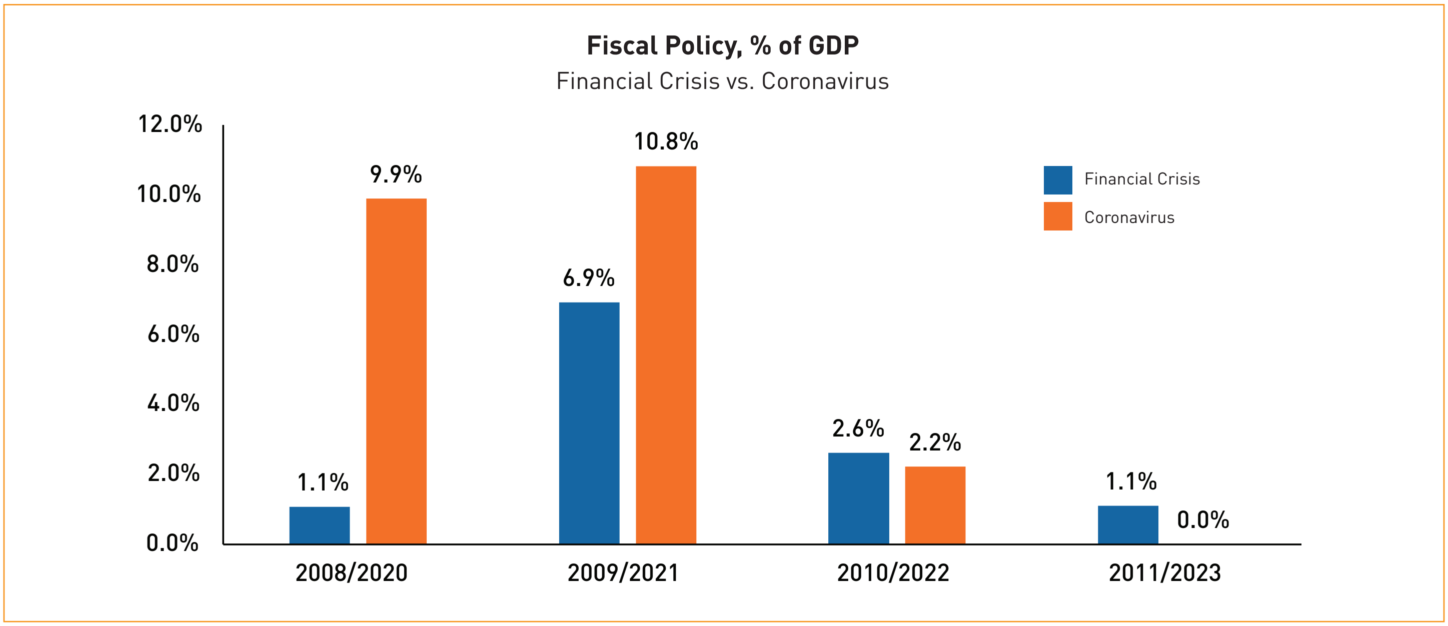
Big Problem *Continued*

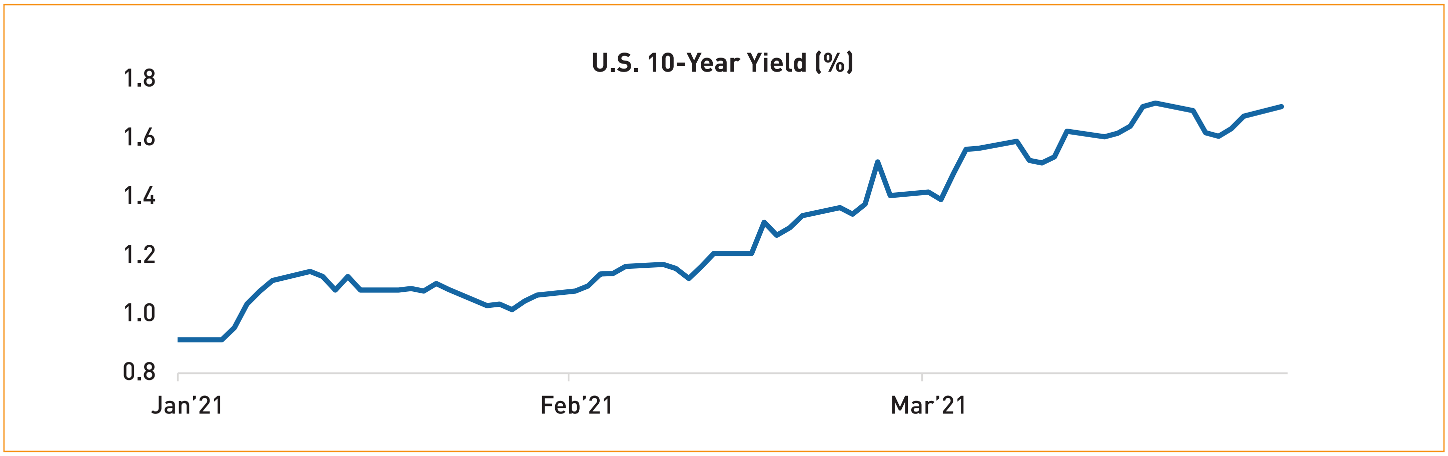
The recently enacted American Rescue Plan Act of 2021 is more comprehensive and economically stimulating, delivering $350 billion to states and municipalities, COVID aid, pension relief, and extension of enhanced unemployment benefits, while also supplementing educational funding. A second round of Paycheck Protection Program (PPP) loans and continued contributions from the Federal Reserve are incremental support levers for the U.S. economy. The scale of this stimulus is massive, resulting in quarterly GDP growth estimates of between 7% and 10% for each of the first two quarters in 2021.



Source: Strategas, 2021.

Interest Rates on the Move

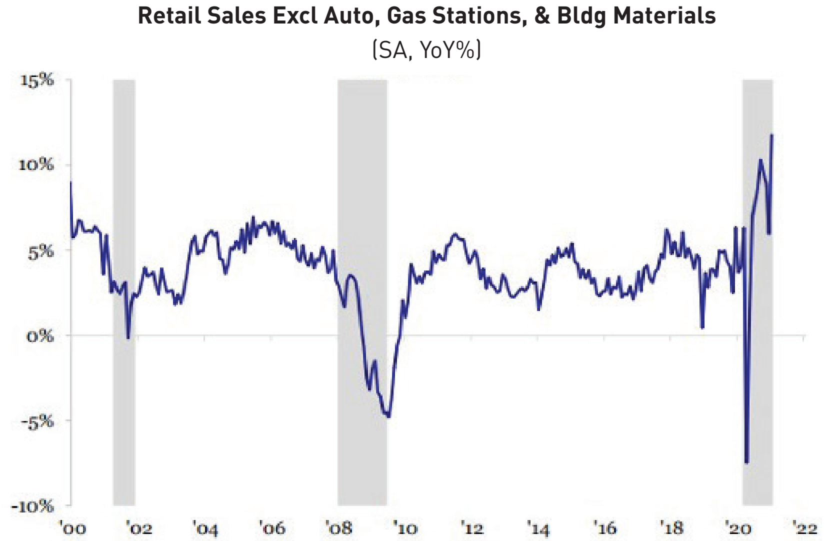
Consistent with expectations for a robust global economic rebound, interest rates are now on the rise. The increase in inflation expectations and interest rates began abruptly in late 2020, correlating with U.S. virus spread slowdown. **Bahl & Gaynor considers higher nominal interest rates one of the most important variables impacting capital markets moving forward,** impacting all asset classes to varying degrees. Investors have favored more economically sensitive sectors (such as Energy and Industrials) and commodities as stronger earnings trends have moved alongside economic improvement. On the contrary, long-dated bonds that have long enjoyed a steady decline in interest rates have underperformed. While the future scope, speed or persistence of the interest rate trending, *seen below*, is currently unknown, the influence of this important change in the investment landscape deserves close attention.



Source: Strategas, 2021.

The U.S. Consumer at the Starting Line

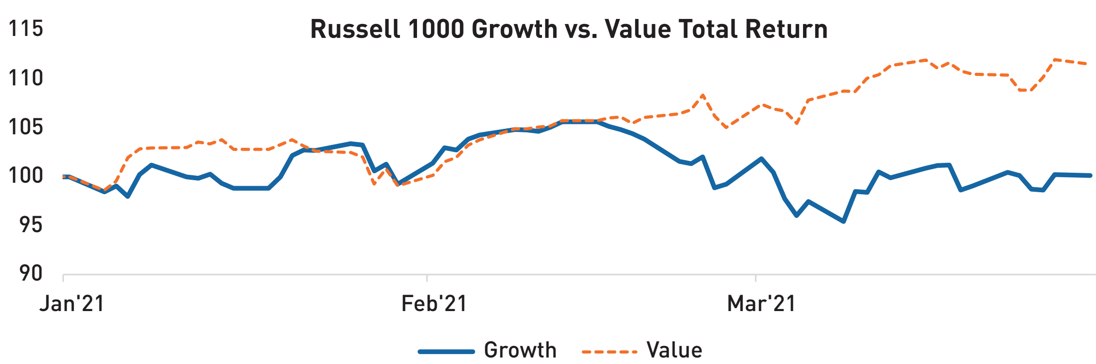
Supplemented by three stimulus checks and savings rates of 20%, U.S. consumer cash balances are 21% higher at $2.7 trillion year over year as of 12/31/2020. The latest round of stimulus checks are being received by more than 85% of all U.S. households and include transfer payments for eligible children and adult dependents. Additionally, consumer net worth registered all-time highs, driven by buoyant residential home prices and the rebound in capital markets. This record has not been enjoyed by all. The nature of the 2020 pandemic-induced recession delivered a disproportionally harsh blow to service industry employees. However, the economic recovery is lifting those affected industries (travel, food, leisure, etc.) as Americans cautiously return to pre-COVID daily lifestyles *as seen in the graph below*. Play ball. Game on!



Source: Strategas, 2021.

The Times are a Changin', or are They?

As stated, a change in investor preference has been evident. Companies categorized as lower valuation and possessing a higher degree of economic sensitivity are currently in the performance spotlight. Commonly labeled as "value", these stocks usually trade higher with domestic economic improvement. Investors currently in this equity "class" will likely enjoy much stronger earnings growth relative to companies categorized as "growth" in 2021. Analogous to the higher trend in interest rates, it remains unclear if these growth and value trends of the past several months, *seen below,* will endure or prove cyclical and temporary.



Source: Strategas, 2021.

We thank each of our partners and clients for their continued trust in Bahl and Gaynor.

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Financial Planning Update

Considering Duration

It's an investment fundamental. **Capital allocation decisions should always be made with long-term goals in mind.** However, this past year (marked by a pandemic and the quickest and most severe contraction the world economy has ever seen) has conditioned investors to become accustomed to a succession of short-term market downturns followed by all-time market highs. The whiplash effect can make choices for day to day living difficult. We want to remind you, **even when faced with extraordinary variables, there remain avenues your investment advisor can help you take to achieve your long-term goals.**

At Bahl & Gaynor, we firmly believe in the value of dividend growth investing as the best defense against market downturns regardless of financial position. However, when an investor finds that he or she requires the use of their investments for cash needs, certain additional risks are worth reviewing with your advisory team.

Capital allocation decisions – assigning a portion of your assets to stocks, bonds and cash – are the usual way to offset duration risk during a market drawdown. The frustrating persistence of the current, extremely low interest rate environment for investors in need of income has made allocations to cash and fixed-income more difficult to digest. Despite the historically low rates available, it's important to consider if these investments have a place in a carefully constructed game plan. **Factors such as cashflow needs, downside tolerance and shorter-term financial goals all play a vital role in determining individual capital allocation decisions.**

No one can predict the length or magnitude of a market pullback, so it is wise to strategically evaluate the need for exposure to less volatile investment vehicles, such as fixed-income and cash. **An investor's goal is to avoid the sale of their long-term growth assets (stocks) during a market downturn.**

A time-tested method to achieve this: assign a hierarchy to available sources for distribution needs:

Category 1	Portfolio Income *(stock dividends & bond interest)*
Category 2	Cash Equivalents
Category 3	High Quality Fixed Income *(bonds)*
Category 4	Equities *(stocks)*

By having some exposure to the historically less-volatile categories 1 – 3, investors have the ability to use these categories for cashflow needs while the equity market (category 4) is given additional time to stabilize and recover.

We firmly believe in the power of income generation and long-term growth that dividend paying companies afford investors. As a result, **we strive to maximize our client's allocation towards types of companies within category 4. Our core philosophy is to seek high-quality, dividend-growing companies that historically provide lower than market risk.** This philosophy seeks to give the investor the ability to allocate larger percentages to equities (category 4) while at the same time increasing portfolio income (category 1). As a result, the need for an investor to use assets from categories 2 – 4 (your "principal") should be reduced.

During market downturns, a thoughtful capital allocation strategy works to maximize category 1 (income) which, in turn, allows categories 2 – 4 to recover and continue to generate income over time. When a market downturn lasts for an extended period, this methodology should give an investor the confidence that comes with understanding the source of his or her cash flow needs.

Since the future short-term direction of the market is impossible to predict, **the decision to allocate capital to anything but equities becomes a form of insurance; protection from risk you hope is not realized.** While not every investor needs to consider this dynamic of portfolio construction or "principal burn" risk, those investors who plan on distributing more than the income earned on their investments should be aware of the part that duration plays in market pullbacks.

If you'd like to discuss your cash flow needs and adjusting your portfolio to meet those needs, please contact your Bahl & Gaynor Portfolio Manager.

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