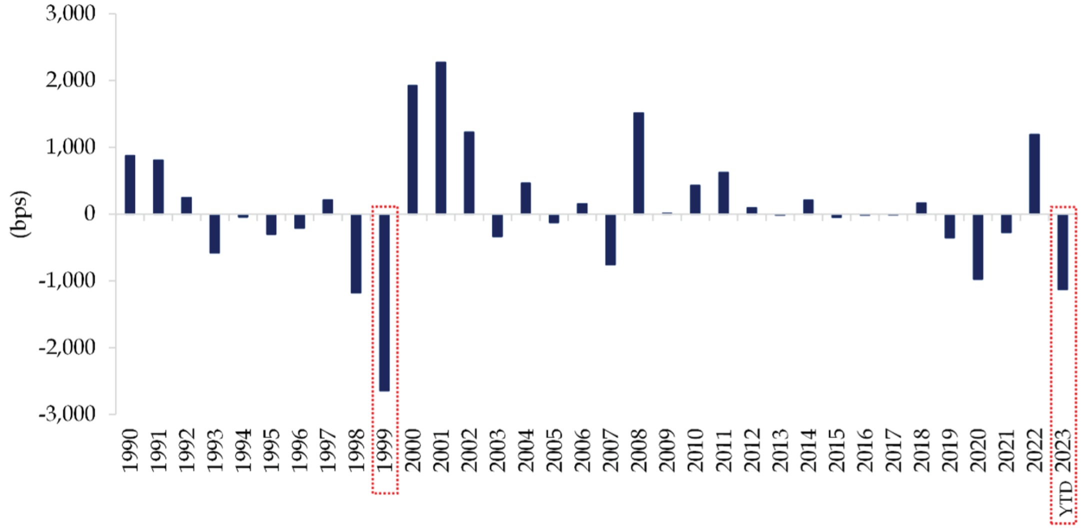
Bahl&Gaynor

2Q 2023 Market Review and Outlook

The All Important, Two Letter Word

As we close 1H2023, two letters have dominated headlines and helped propel the S&P 500 and NASDAQ indices into bull market territory – AI. The history of Artificial Intelligence ("AI") extends well before the November 2022 introduction of ChatGPT (machine learning was introduced in the 1950s), but with recent advances in computer processing, big data storage and cloud compute, generative AI is likely to become the next wave of innovation and monetization within the global economy. The mega-growth companies enabling the AI boom have been meaningful winners year-to-date, causing the largest underperformance of dividend stocks versus the S&P 500 since the dot-com bubble in 1999 *(Exhibit 1).*

Exhibit 1: S&P 500 Dividend Aristocrats Relative S&P 500



Source: Strategas Research, 2023.

While the introduction of the internet revolutionized the way we communicate, work, and access information, artificial intelligence goes a step further by enabling routine task automation and decision-making. To the extent AI will help spur productivity and profit gains across sectors of the market, we are cognizant of the threats felt by domestic and global regulators on data privacy, intellectual property, and especially workforce retention at a time when corporate profits as a share of U.S. GDP are rising while wages continue to trend lower (Source: Goldman Sachs Investment Research, 2023).

To be clear, we at Bahl & Gaynor remain excited about the productivity gains associated with Artificial Intelligence yet are aware of the high expectations investors are placing on this AI-centric group of stocks that are driving the index higher. The S&P 500's seven largest market-cap weighted stocks, most of which have AI exposure, have a mean Enterprise Value to Sales (EV/Sales) ratio of 11.8x relative to the 3.0x ratio assigned to the S&P 500 benchmark, meaning investors have rewarded these companies' growth potential with high valuations.[1] However, should any of the discussed risk factors cause sales and earnings growth rates to fall short of expectations, investors are likely to flee resulting in multiple compression. According to Goldman Sachs, firms that trade at EV/Sales multiples greater than 10x have typically gone on to lag peers over one-, three-, and five-year horizons ***regardless of realized sales growth.***

"Price is what you pay. Value is what you get." — Warren Buffett

[1] Source: Bloomberg. Data as of 6/26/2023.The seven largest stocks include Facebook (META), Apple (AAPL), Amazon (AMZN), Tesla (TSLA), Microsoft (MSFT), Alphabet (GOOG/L), and Nvidia (NVDA). EV / Sales ratios referenced herein compares a company's enterprise value (EV) to its last twelve months (LTM) annual sales.

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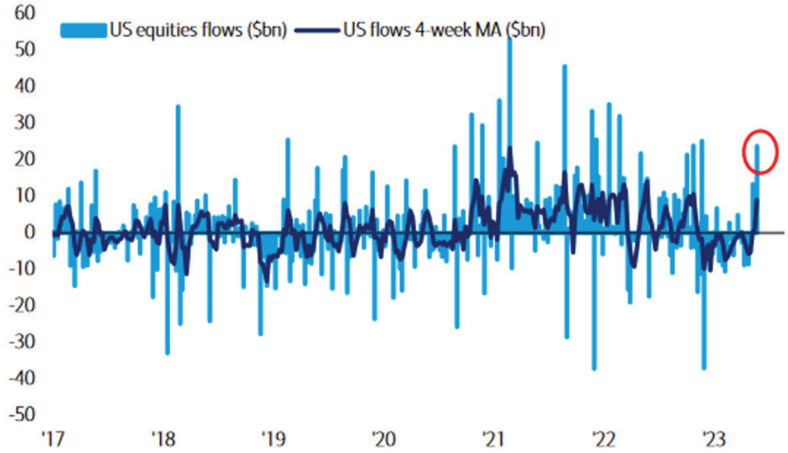
Chasing Market Rallies

Coming into the year, 2023 was one of very few years where market pundits directed investors to the sidelines and predicted a negative S&P 500 market return. However, halfway through 2023 market-cap weighted indices have refuted this expectation with the S&P 500 posting a double-digit total return through June. The pursuit of market timing has historically yielded little success with the "Market Timing Hall of Fame" remaining empty. Consequently, those waiting for a stock market bottom are now beginning to chase rallies (*Exhibit 2*), particularly in equity sectors like Technology and Consumer Discretionary that have significantly outperformed year-to-date.

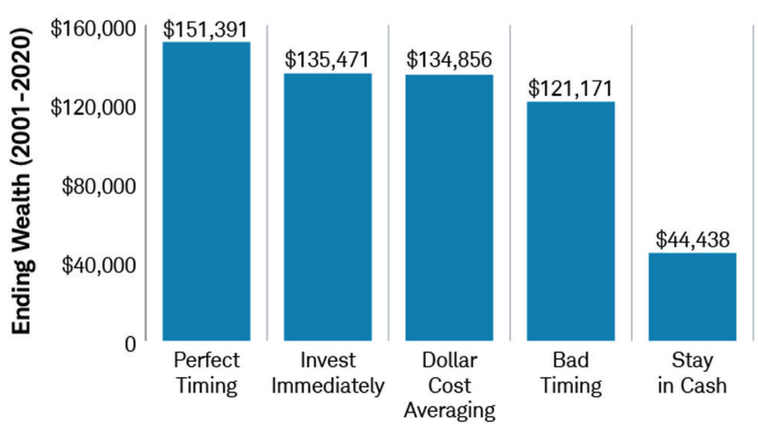
Exhibit 2: US Equities Fund Flows



Source: BofA Global Investment Strategy, EPFR, 2023.

Equity market inflows to outperforming sectors is somewhat akin to investors acting like "bad shoppers." Behavioral finance suggests that the herding effect and loss aversion contribute to 'buy' decisions often when equity prices and valuations are high; 'sell' decisions tend to come when prices decline. These psychological influences can affect investor behavior and often impact market flows, contrary to "good shopper" behavior. At Bahl & Gaynor, we are committed to remaining fully invested and believe that a consistent strategy and long-term approach allows us to avoid the pitfalls of market timing *(Exhibit 3)*.

Exhibit 3: Even Bad Timing Trumps Inertia



Source: Schwab Center for Financial Research. Invested $2,000 annually in a hypothetical portfolio that tracks the S&P 500® Index from 2001-2020.[2]

[2]The individual who never bought stocks in the example invested in a hypothetical portfolio that tracks the Ibbotson U.S. 30-day Treasury Bill Index. **Past performance is no guarantee of future results.** Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. The examples are hypothetical and provided for illustrative purposes only. They are not intended to represent a specific investment product, and investors may not achieve similar results. Dividends and interest are assumed to have been reinvested, and the examples do not reflect the effects of taxes, expenses, or fees. Had fees, expenses, or taxes been considered, returns would have been substantially lower.

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Bottom Line

We at Bahl & Gaynor invest client capital in companies with dividend growth potential and competitive advantages. In addition, we remain fully invested because time in the market, not timing the market, builds wealth. We believe our disciplined investment approach should afford our clients reasonably stable cash flows to support their goals, a favorable risk-adjusted return profile over a full market cycle and a measure of protection from the "unknowns" inevitably encountered on the path of wealth creation.

As always, please do not hesitate to reach out with any questions. We are continually humbled by the opportunity to manage capital in a responsible way and deliver exceptional service to our clients. We extend our sincere gratitude for your continued loyalty and trust.

Reliable Income = Reliable Outcome®

Disclosure: