

2Q2026 Mid-Quarter Thoughts

Discipline Through the Whipsaw

First Quarter Commentary: A Flight to Quality

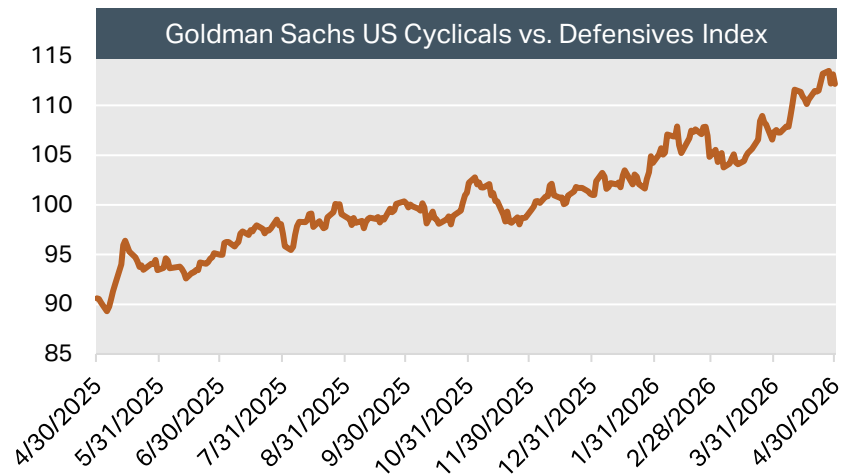
The first quarter of 2026 was defined by a rapid tightening of financial conditions as military conflict in Iran introduced significant geopolitical uncertainty to global markets. During this period of heightened uncertainty, investors often showed greater interest in companies with strong balance sheets, predictable cash flows, and established dividend policies.

Our investment approach emphasizes these characteristics as part of a broader focus on durability across market environments. While market conditions can evolve quickly and outcomes are inherently uncertain, we believe this emphasis is intended to support portfolio resilience over time.

The "All Clear" Sentiment

Markets are, by nature, discounting mechanisms. They reflect not just what is happening today, but what investors expect to happen in the future. While the ultimate impact of the Iran conflict on oil supply, inflation, and growth remains uncertain, the market has recently appeared to price in a more stable outcome.

We see this most clearly in the performance of Cyclical versus Defensive stocks (graph to the right). This pair has advanced materially, which may indicate that the market is looking past the worst-case economic scenarios. This is consistent with the view that US corporate profit growth entered the period from a relatively strong position.



Source: Bloomberg and Goldman Sachs, Trailing 12 months as of 4/30/2026, Cyclical and Defensive portfolios are equally-weighted.

The Factor Seesaw

However, the speed of the transition has been notable. We have moved from a "fear" regime to an "all clear" regime in a matter of weeks. This has created significant dispersion in factors or the specific characteristics that drive stock returns. In the tables below, we can see how factors that did well during the 1Q2026 period of volatility – such as dividend yield, value, and low volatility – have recently been outpaced by momentum, growth, and liquidity factors. Though Momentum and Dividend Yield are the top-performing factors over the full YTD period, Momentum has outpaced Dividend yield by approximately 1.5:1, with much of this strength coming in April.

Factor	Tightening FCI (12/31/25-3/30/26)
Dividend Yield	+4.44%
Value	+3.13%
Low Volatility	+2.19%
Quality	-5.00%
Momentum	-6.18%
Size	-6.74%
Liquidity	-8.44%
Growth	-15.09%

Factor	Easing FCI (3/31/26-4/30/26)
Momentum	+22.79%
Growth	+16.59%
Liquidity	+16.57%
Size	+11.20%
Quality	+6.93%
Value	+6.61%
Dividend Yield	+5.34%
Low Volatility	+0.87%

Factor	Entire YTD Period (12/31/25-4/30/26)
Momentum	+15.21%
Dividend Yield	+10.01%
Value	+9.94%
Liquidity	+6.73%
Size	+3.70%
Low Volatility	+3.08%
Quality	+1.58%
Growth	-1.00%

Source: Bloomberg, entire data set is 12/31/25 – 4/30/26; Tightening FCI table is 12/31/25 – 3/30/26, when FCI peaked, Easing FCI table is 3/31/26 – 4/30/26, after FCI peaked and began to ease. Figures do not reflect Bahl & Gaynor strategy performance.

Though the tables above consider the large-cap market, dispersion is wider in the small/mid-cap (SMID) equity space. This may reflect the higher percentage of unprofitable companies in SMID indices, whereas more cyclical large-cap constituents may be more economically sensitive than their defensive counterparts, but still generally remain profitable enterprises.

This whip-saw in sentiment is often driven more by positioning and emotion than by changes in underlying business fundamentals. While we participate in the upside of these relief rallies as equity investors, we do so within our intended risk profile. We have no intention of abandoning our discipline as we continue to manage our positioning despite strong returns for cyclical exposure.

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Outside Historical Norms

This dispersion in factor performance is also evident beneath the surface of the broader market. While momentum and growth-oriented factors have driven recent returns, participation has narrowed meaningfully at the stock level. In April, 23% of S&P 500 constituents beat the broader index, reaching among the weakest levels based on a 30-year historical sample from Citadel Securities¹.

This narrowing in breadth is consistent with the recent swings in momentum-driven leadership. As capital has favored a subset of perceived winners, the divergence between capitalization-weighted and equal-weighted index performance has widened, suggesting the “average” stock may not be advancing to the same degree as headline index levels. April 2026’s relative performance, as shown in the chart to the right, reflects a move of more than two standard deviations from the 20-year average, based on our internal calculations and the methodology described in the disclosures.

Periods of narrow leadership can persist as capital reinforces existing concentrations. This dynamic can leave outcomes more dependent on a limited set of companies. If leadership changes, that concentration may also increase dispersion and short-term variability in broader market performance.

Our Action: Quality on Sale

The rapid reversal in risk preference has created what we believe may be an opportunity to apply our investment approach. In the current market, investors appear to be placing a premium on higher-volatility growth exposure, while more durable, dividend-paying companies may be receiving less attention.

When market sentiment shifts away from companies with consistent cash flows and established dividend policies, we may seek to use those periods to reposition portfolios—adding to businesses we believe have strong underlying fundamentals and, where appropriate, trimming positions that have experienced significant price appreciation relative to their fundamentals.

More broadly, avoiding larger drawdowns may support long-term compounding, as losses require proportionally larger gains to recover. While no investment approach can eliminate risk or guarantee outcomes, we believe maintaining a focus on durability and downside awareness may help support more consistent portfolio behavior over time.

Navigating Conflicting Signals

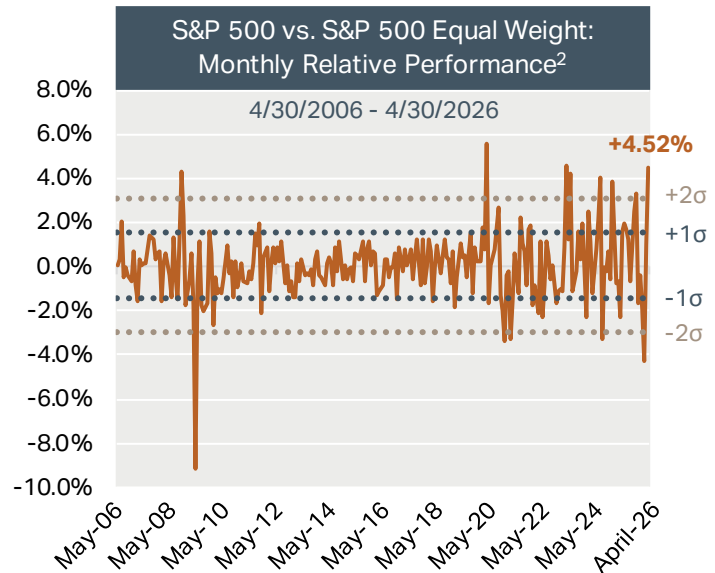
While current sentiment is bullish, a disciplined investor should acknowledge several conflicting signals that have yet to resolve, in our view. Being an even-keeled investor means recognizing that while the market may be pricing in a perfect landing, the data are often more nuanced:

- Rates vs. Oil:** Since the Iran conflict began, US Treasury yields have moved higher alongside oil prices. Equities, however, have diverged – suggesting that while the bond market may be pricing in a potential inflationary shock, the stock market may view any such conflict as temporary.
- Central Bank Inconsistency:** Markets expect the Fed to maintain policy rates over the next year, yet they expect the European Central Bank (ECB) to hike over the same period. This is a notable divergence, given the US economy is currently experiencing stronger growth and higher core inflation than the Eurozone.
- Credit Markets:** Despite the energy shock and lower growth expectations related to Iran, credit spreads (the extra yield investors demand to hold corporate debt) are tighter now than they were prior to the conflict. This may suggest a lack of concern regarding the potential for recent events to precipitate corporate defaults.
- Inflation:** The market continues to expect inflation to return to long-term targeted levels. This optimism persists despite several years of above-target inflation reports and the statistical and structural tendency for inflation to skew to the upside.

The Bottom Line

Our role as an active, fundamental dividend growth manager is not to guess which of the various signals describe in this update will “win,” but rather to ensure the portfolios we manage are constructed with the goal of being resilient across a range of potential outcomes. We are philosophically committed to an approach that prioritizes wealth preservation as well as consistent and growing income over speculative swings. By remaining disciplined amid changing market sentiment, we continue to focus on long-term compounding which is central to dividend growth investing.

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Source: Bahl & Gaynor and FactSet. Monthly excess returns from 4/30/2006 – 4/30/2026.

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IMPORTANT DISCLOSURES AND DEFINITIONS

¹FactSet and Citadel Securities, Global Market Intelligence—May Toolkit. Citadel's historical analysis of rolling 30-day S&P 500 stock returns spans the trailing 30-years through May 6, 2026.

²The chart illustrates the monthly excess return of the S&P 500 Index relative to the S&P 500 Equal Weight Index over the trailing 20 years (4/30/2006 – 4/30/2026). Excess return is calculated as the difference between the monthly total return of the S&P 500 Index and the monthly total return of the S&P 500 Equal Weight Index. The dotted bands represent one and two standard deviations above and below the average (mean) monthly excess return over the period. Standard deviation is calculated using the sample standard deviation of the monthly excess returns and measures the variability of relative performance around the average. While the mean excess return is used to calculate these bands, it is not shown in the chart. The indices referenced are unmanaged and cannot be invested in directly. Index returns do not reflect the deduction of fees, expenses, or transaction costs. Past performance is not indicative of future results. The statistical measures shown are based on historical data and are subject to limitations. The calculated average and standard deviation are sensitive to the time period selected and may not be indicative of future results.

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The Goldman Sachs US Cyclical Index is a proprietary, rules-based benchmark designed to track the performance of U.S. equities that are highly sensitive to macroeconomic shifts and the business cycle.

The Goldman Sachs Defensive Equity Index is a rules-based, quantitative index designed to provide exposure to a diversified portfolio of U.S. equities.

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Volatility refers to the degree of variation in the price of a security or portfolio over time. It is often used as a measure of risk and is typically expressed as the standard deviation of returns.