



IRONWOOD

Investment Counsel, LLC

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Flatten the Curve...Flatten the Economy?

Ironwood Investment Counsel, LLC constructs and manages customized investment and wealth management programs designed to meet our clients' unique goals and objectives. Our distinctive process maximizes performance through return enhancement, risk reduction, tax efficiency, and cost containment.

Paul W. Alston III, CFA
Partner
palston@ironwoodic.com

Matthew J. Carter, CFA, CFP®
Partner
mcarter@ironwoodic.com

Jeffrey E. Shiffra, CFA, CPA
Partner
jshiffra@ironwoodic.com

Bruce C. Williams, CFA
Partner
bwilliams@ironwoodic.com

14646 North Kierland Boulevard
Suite 135
Scottsdale, Arizona 85254
480-609-4700
Fax 480-609-4725
www.ironwoodic.com

And just like that...Market volatility surged in the first quarter to levels last seen more than a decade ago during the financial crisis, as the COVID-19 pandemic swept the globe and prompted the partial shutdown of most major global economies, including the U.S., Europe and most of Asia. Starting February 20th, market volatility rose sharply as the number of active coronavirus cases began to dramatically accelerate in South Korea, Iran and Italy. The swift spike in new coronavirus cases outside of China resulted in a sharp drop in stocks in late February. Those declines were then compounded throughout March as the number of active coronavirus cases in the U.S. began to increase rapidly. The S&P 500 tumbled more than 34% from the mid-February highs to the late-March lows, amid rising fears that “social distancing” measures being implemented globally, would have a broad and substantially negative economic impact.

Positively, the U.S. government has acted to support the economy as the Federal Reserve cut interest rates to zero percent and implemented several important measures to provide short-term cash for corporations and ensure there's plenty of capital for the broader banking system. Congress also passed multiple economic relief bills, the largest of which was a \$2.2 trillion stimulus package aimed at providing support for businesses and displaced workers. Stocks reacted to these positive events by rallying sharply during the last week of March, although the major equity indices still finished the first quarter with large declines.

Some fixed income markets also found out that volatility and liquidity concerns can play havoc with prices. Corporate debt, both investment grade and high yield, had negative returns for the quarter. The impact of passive exchange-traded funds (ETFs) on markets was no doubt significant. As investors sold shares of the ETFs, the funds were forced to sell the underlying securities. This led to large price swings in normally stable investment securities.

As we begin the second quarter of 2020, it's fair to say investors and markets are facing a level of uncertainty that we have not seen in over a decade. But it is also true that the government has acted in a historically forceful way to support the economy and foster growth once the coronavirus pandemic has passed. How quickly these measures can be implemented and how effective they will be, have yet to be determined. The initial \$350 billion for the Paycheck Protection Plan was quickly used up and many small businesses across the country did not receive funding. A second round of funding has just been passed by both the Senate and the House.

The underlying questions yet to be answered are what is the ultimate cost of shutting down the economy in order to slow, not stop, the spread? And what is an essential business? Some Governors have decided that elective surgeries are non-essential. But if you are a doctor running a medical clinic with five employees that you have to lay off (or furlough as it is now being termed) then you might deem yourself essential. As of this writing in mid-April, workers across all industries and now including so called "white collar" workers are being laid off.

As we do not know the answers to these questions (we believe no one does), we choose to focus on high quality securities and funds to grow and protect client capital over long-term time periods. Over the near-term, we have taken advantage of this unprecedented market disruption to purchase both equity and fixed income securities for clients at very attractive long-term yields. We will continue to work diligently on investment objectives and asset allocations to help our clients reach their goals.

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