IRONWOOD
Investment Counsel, LLC

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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.

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Resiliency and Rising Volatility

In sharp contrast to the quiet, steady gains of the first quarter, stock market performance in the second quarter was marked by extremes. The S&P 500 logged a 4% gain in April thanks to solid first quarter corporate earnings reports. Volatility returned in the first week of May, beginning a month-long 6% drop, as President Trump announced via Twitter that he would be raising tariffs on $200 billion in Chinese goods following the collapse of U.S.-China trade negotiations.

Further escalating the U.S.-China trade conflict was the decision by the Commerce Department to add the Chinese telecom company, Huawei, to its "Entity List," effectively banning U.S. companies from doing business with the telecom giant. Additionally, Federal Reserve Chairman Jerome Powell sewed doubts about any future interest rate cuts when he described low inflation as "transitory," and implied the Fed was not as open to an interest rate cut as investors anticipated. That combination of factors weighed on markets throughout May and the S&P 500 fell to its lowest levels since early March.

The stock market was able to find support and rebound strongly in June, as there was progress across the two main sources of volatility in the second quarter: U.S.-China trade and future Fed interest rate policy. First, at the June 19th meeting, the Federal Reserve reversed course from May and signaled an interest rate cut is likely in 2019. That shift helped to re-validate market expectations of lower interest rates in the near future, and stocks rebounded strongly. Second, President Trump and Chinese President Xi Jinping agreed to meet at the recently held G20 meeting, which resulted in a trade "truce" of no new tariffs while trade negotiations resume.

In sum, investors had to stomach roller coaster bouts of volatility in the second quarter in addition to elevated macroeconomic uncertainty compared to the first three months of 2019. More positively, underlying fundamentals for the economy and the markets remain generally solid, and investors are now anticipating the first Fed rate cut in over a decade as well as an extended "truce" in the U.S.-China trade conflict.
So, while we should prepare ourselves for more historically typical volatility, the outlook for markets remains generally positive as we begin the second half of the year.

Second Quarter Performance Review – A Mixed Quarter

Despite the uptick in volatility in the second quarter, U.S. stock market performance was positive as rising hopes for Fed rate cuts and a U.S.-China trade truce resulted in broad gains across most market segments and sectors. The S&P 500 returned 4.3% for the quarter and is up 18.5% year-to-date. The index of smaller stocks, the Russell 2000, returned approximately 17% through June 30.

Looking internationally, foreign markets also had positive returns for the second quarter, but once again underperformed the United States. The MSCI index of foreign and emerging markets were up a combined 13.6% year-to-date. Foreign developed markets outgained emerging markets as emerging markets were restrained by concerns about global economic growth and pressures from a mostly stronger U.S. dollar. However, a late-quarter decline in the dollar coupled with rising U.S.-China trade optimism helped emerging markets register a slightly positive gain for the quarter.

Switching to the fixed income markets, performance largely reflected investors' expectations for future Fed rate cuts, which was positive for the broad bond markets. The leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized more positive returns in the second quarter as rising anticipation of future rate cuts, combined with worries about economic growth and increased geopolitical concerns sent bond indices decidedly higher in the second quarter. Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations, indicative of a market that is forecasting future rate cuts and slower economic growth.

We continue to manage portfolios with an emphasis on risk reduction. We are well aware that this bull market in equities is over 10 years old and the economy appears to be slowing. We are paying close attention to clients' investment objectives, taking gains when prudent and allocating proceeds to companies and entities with strong cash flow profiles.

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