IRONWOOD
Investment Counsel, LLC

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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It's Going to be a Bumpy Ride

Markets in the third quarter of 2019 looked surprisingly similar to the second quarter, as more U.S.-China trade war uncertainty and a lack of clarity on future interest rate policy caused a sharp increase in volatility in the middle of the quarter. In spite of the uncertainty, the S&P 500 remained resilient and ultimately finished the quarter not far from the new all-time highs established in late July.

We continue to see stable economic growth and low interest rates for the near term. However, our experience has taught us that while markets may appear resilient and stable, risks need to be monitored very closely.

Economists expect GDP growth to decline from the 3.1% rate in Q3 2018, to 1.5% by the first quarter of 2020, a growth rate more typical of a mature economy. The US economy could grow at this lower rate for a long period of time, and does not necessarily mean a recession is just around the corner. Corporate earnings growth may not be sufficiently robust to justify an increase in equity prices, but current equity price levels reflect a reasonable valuation, especially given the current interest rate environment.

It is important to note that investor demand for stocks is at least as important as economic fundamentals to the upward movement in equity prices in the current market. This is principally due to the lack of return available in less risky marketable investments like bonds. The 10-year Treasury note is currently yielding about 1.7%. In 2007 an investor with $1million invested in a risk free 10-year Treasury note would have received $52,000 per year of interest. Today, the interest would be $17,000. This is a 67% drop in income. Therefore, many investors have no choice but to take equity market risk if they require a positive inflation-adjusted return.

What could cause a major disruption in equity prices? The most obvious events would be an increase in interest rates, a significant decline in consumer spending, or an accelerating global trade war. Interestingly, while current impeachment proceedings may have captured public attention, a presidential impeachment may have little long-term negative impact on the US economy or market valuations.

However, since we are in full blown presidential election mode, we can expect the news cycle of Trump, trade war, wealth tax, impeachment, Trump, recession, yield curve inversion, socialism, China, Trump etc. to increase anxiety in the market. And as the Democrat contenders sort themselves out, we will see increased scrutiny of their various tax (and spend) plans.

We are often asked by clients, on all sides of the political spectrum, what the impact of current events are on their portfolios and our management. The simple answer is we have to play the hand we are dealt. The more complicated answer is our focus will always be on the long term and company specifics, and not the short-term and news events.

To paraphrase Bette Davis in All About Eve, "Fasten your seatbelts. It's going to be a bumpy ride."

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

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