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.

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

Summer 2020

Mid-Year Market Review 2020 – What's Next?

The year to date has been nothing if not volatile!

In the first quarter, global stock markets went from all-time highs to a bear market (conventionally defined as a 20% equity market decline) in just 22 days, falling 34% in the process. Since then, through the end of the second quarter, global equities have rallied 38%, flirting with the start of a new bull market. The rally has been supported by massive fiscal stimulus. Central banks around the world — such as the European Central Bank — have also been extremely aggressive in their monetary policy. Expansive monetary policy and aggressive global fiscal stimulus, when mixed with reopening economies, created the right environment for a vigorous rebound in equity and fixed income markets.

Currently, global stock markets have recouped almost all of the losses suffered in the first quarter. But can this continue? Bullish investors argue that the power of uber-aggressive monetary and fiscal policy, especially as the economy regains traction, should not be underestimated. U.S. new daily virus cases may be rising but daily deaths are falling, which may be the statistic most important to consumers considering a return to "normal" spending behaviors. Additionally, stock valuations may be stretched, but are supported by statements that the Fed will not consider raising interest rates until at least the end of 2022. Bond investors are starved for yield at current levels, so stocks offer one of the few attractive alternatives.

On the other hand, some argue there are still too many risks to call an end to the virus-induced bear market. Those less optimistic investors worry that equity markets have bounced too far too fast, leading to unjustifiably high valuations even in a low interest rate environment. In fact, if one removed the five largest stocks from the S&P 500 (which make up 23% of the index), most of which are trading at higher multiples, the remaining 495 stocks are still down over 7% for the year.

Finally, there is a U.S. presidential election this year. A Biden presidency, and a Democratic sweep of Congress, may lead to a rollback of the Trump administration tax and regulatory policy, while a Trump victory will facilitate the continued shift toward economic nationalism. The one certainty is that the next four months will be filled with *sturm und drang* as the competition intensifies.

Economic prospects (of lack thereof) for the intermediate term continue to support our focus on high quality, dividend paying stocks and preferred securities with significant yields over treasuries. These are typically larger companies, which have demonstrated the ability to consistently generate positive cash flow over long periods of time under most types of economic conditions. Of these prospects, we have particular interest in secular shifts to our domestic economy which might produce a new generation of dividend payers.

We have talked about the fact that the US economy is driven by services and other consumer-led businesses. Liz Ann Sonders, Chief Equity Strategist for Charles Schwab, is beginning to look for a secular shift in our economy away from consumer-driven growth to investment-led growth. The industries that are investment-led are likely to be healthcare, technology and supply chain manufacturing, among others. This shift will be bumpy and gradual but could have a significant, positive influence on our portfolios.

We made selective purchases in February, March and April, adding to current positions, as well as initiating new ones. We have also been opportunistic buyers of preferred securities and corporate bonds this quarter. In this time of great uncertainty, we seek quality, stability and opportunity in the assets we purchase for our clients.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review. During these strange times, we hope you and your loved ones are doing well, and we look forward to speaking with you soon.

Ironwood Investment Counsel, LLC