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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Winter 2020

2020: Gone but Not Forgotten

As we close the books on 2020 and look out into 2021, we hope you and your loved ones are well.

Last year gave us one of the largest declines — and comebacks — in market history. To be down 34% through late March, and end the year up 16%, means that 2020 tied with 1987 as having the biggest drawdown, intra-year, while still ending the year positive. Other notable years include the Great Depression- influenced 1933 and 1938, and the Great Recession – influenced 2009. Many remember 2009 as the year the S&P 500 bottomed at the infamous 666 but ended the year at 948, an increase of 42%!

Truly unprecedented fiscal and monetary stimulus halted the market downturn and drove the ferocious rebound. The U.S. government passed $4.2 trillion in fiscal stimulus and the Fed injected $6.2 trillion in liquidity — $10.4 trillion in total, representing half of U.S. annual economic output. Globally, 2020 monetary and fiscal stimulus reached an astounding $28 trillion (33% of world economic output). Global debt loads have never been higher; and yet interest rates have never been lower.

The U.S. election — as messy as it was — provided further market support. Going into the vote, markets were bracing for a "blue wave" wherein Democrats controlled all three branches of government. While Democrats are set to have full control of the federal government, the "blue wave" turned out to be more of a "blue ripple". Investors subsequently cheered as the "blue wave" would have likely brought higher taxes and a less-friendly business environment. In other political news, Brexit was finalized, which also reduced uncertainty.

Markets received more good news shortly after the election. Pfizer's vaccine showed an impressive 95% efficacy rate, and Moderna matched that success rate a week later. Approximately one week after Moderna's promising results, AstraZeneca announced its COVID vaccine outcomes — less efficacious but easier logistics due to a higher allowable storage temperature. All current vaccines require two doses, and other vaccines are on the way. To the extent current supply and logistical challenges can be rectified, the ultimate issue will be acceptance of the vaccine, not administration.

There is a wide spectrum of potential market outcomes heading into 2021. A case can be made that 2021 will continue the momentum we saw over the last nine months of 2020. After the devastating pandemic impacts, the global economy is still growing into its former shell. As such, a great deal of economic demand can be generated before inflation becomes a problem. Central banks, including the US Fed, have either implicitly signaled or explicitly stated the need to keep monetary policy accommodative for an extended period of time. Interest rates farther out the yield curve may rise but, given the current 10-year rate of around 1%, these historically low rates will likely be an equity market tailwind — not a headwind. Further, continued pandemic and economic good news may add incremental fuel to the equity market rally as we move through the year. This outlook assumes the pandemic will be over by year's end, but the "newfound" efficiencies promoted by the pandemic — work from home, virtual meetings, virtual conferences, etc. — are here to stay, and will provide companies with increased flexibility to deal with future downturns.

A less optimistic scenario would include continued, heightened concerns about the virus, even with the vaccine. People may either refuse it or the virus mutates sufficiently that the myriad of vaccines are no longer effective. In the intermediate term, a potential oversupply of office and retail space might precipitate a financial liquidity issue. The main longer-term concern is the abundance of debt accumulated during the pandemic. Those in this pessimistic camp would also note that equity valuations have not been this high since the dotcom bubble of 20 years ago.

A third outlook involves a slow recovery from the pandemic, thus delaying the rebound of the leisure and hospitality industries. In this case, ongoing support from monetary and fiscal authorities, enabled by continued low inflation would portend modest equity gains and continued low interest rates.

In all probability, the future will be shaped by a combination of factors from each of these three scenarios. As always, we do not pretend to have any aptitude for predicting the future. Our goal is to capture the returns the markets are willing to give us within the context of our disciplined appetite for risk. This disciplined appetite is a function of our commitment to owning high-quality investments across equities, fixed income and funds in client portfolios.

We appreciate the opportunity to serve you. Please let us know if you have any questions

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