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.

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

First Quarter 2022 Market Commentary

The first quarter was marked by several economic and geopolitical events that weighed on financial markets.

- Russia invaded Ukraine, marking the first pan-European war in over 70 years.
- Inflation surged to its highest level in four decades.
- Labor shortages became more pronounced.
- The Federal Reserve embarked on its first interest rate increase since 2018.

These noteworthy events created uncertainty for markets and economies, resulting in an unusual period of losses for both stock and bond investors.

The S&P 500, NASDAQ and Dow Jones indices declined by -4.6%, -8.9% and -4.1% respectively over the three-month period ending March 31st. Smaller domestic businesses trailed larger companies during the quarter as many grappled with rising fuel and borrowing costs. As such, the Russell 2000 index declined by -7.5% over the quarter. Despite their declines, domestic equities actually outperformed international companies as the MSCI EAFE lost -5.8%. Russian and Chinese markets fell substantially, which applied further pressure on global equity indices. The dollar continued to be a safe haven for capital and rallied by 2.8% for the quarter.

The Bloomberg U.S. Aggregate Bond Index declined by -5.9% over the three-month period. This marked the worst return for the index since 1980. While the overall level of interest rates is still low by historical standards, the 10-year Treasury Note climbed from 1.5% at the beginning of 2021 to 2.7% as of the time of this writing (April 10th). Bonds and preferred securities with lower credit quality also had a difficult time in the first quarter as the preferred index declined by -8%. While the increasing interest rate environment is challenging in the short run, savers should ultimately benefit as their conservative securities offer a higher yield going forward.

The Russian invasion of Ukraine dominated news and market headlines for the first quarter of 2022. Aside from the human tragedy and unfolding refugee crisis, the war added to already strained supply chains, forcing businesses and countries to readjust once again as the world struggles with oil and other commodity shortages. Most notably, oil exceeded $130 per barrel as Russia produces 10% of the world's oil and nearly 40% of the oil utilized by Europe. Further, wheat and corn futures increased by double digits in 2022. According to the USDA, Ukraine is the world's fourth and fifth largest exporter of corn and wheat, respectively. The war is likely to be a continued source of uncertainty as investors grapple with higher raw materials prices and tightening economic sanctions.

Domestically, inflationary pressures continued to weigh on markets. The Labor Department reported that the Consumer Price Index rose 8.5% in March relative to a year earlier. This reading marked the sharpest rise in nearly four decades. Robust consumer demand, supply chain bottlenecks, and commodity disruptions related to the war all contributed to the ongoing problem. Despite mounting inflation, the labor market continues to post healthy gains on the back of strong consumer and business spending.

According to the US Labor Department, employers added 431,000 jobs in March. This jobs report marked the 11th consecutive month with job gains exceeding 400,000. As a result, the unemployment rate declined to an impressive 3.6% in March, matching the 50 year low from February 2020. Surprisingly, Zip Recruiter indicated that employers had more than 10.8 million openings at the end of February. Labor force participation, the share of the adult population either working or looking for work, grew to 62.4% in February. While this reading is only slightly below the level reached in February 2020 of 63.4%, the difference represents around 3 million unaccounted for workers. As schools and child care centers continue to reopen, labor participation could continue to increase, closing the gap between job openings and the unemployed. This relationship should help alleviate the pressure on wages.

While the unemployment rate declines, the continued rise in the prices of goods and services prompted Federal Reserve officials to significantly modify their expectations for the magnitude of upcoming interest rate increases. Market participants now expect that the key Fed Funds Benchmark rate will be increased seven times during 2022 in an attempt to tame inflation and engineer a "soft landing" for the economy. The track record for the Federal Reserve has not been strong for managing this type of environment. There are a few time periods, however, where they were successful and did not pull the economy into recession, most recently in 1994. The key consideration will be if Fed Chair Powell and his colleagues can slow job demand and inflation without an adverse effect on growth.

Despite the many negative headlines, we remain confident in our investing philosophy and underlying portfolio holdings. The future economic setting may certainly be characterized by tighter monetary policy, labor constraints, and higher operating costs. Such an environment should be relatively accretive for Ironwood security selection as we favor high quality fixed income and equity holdings with strong balance sheets, consistent earnings, and competitive advantages. We favor diversified portfolios that can thrive in a variety of economic environments, including those characterized by inflation, rising interest rates and even war.

We thank you for the continued confidence you have placed in us. As always, please let us know if you would like to set up a time to review your financial objectives and portfolio structure

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