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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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Fourth Quarter 2023 Market Commentary

As we look back at 2023, we are reminded of the famous Yogi Berra quote that, "It's tough to make predictions especially about the future". For much of last year, the market was shrouded in fear of an impending recession. However, as 2023 came to a close, the recession had yet to materialize — a reminder that while it is important to keep an eye on the markets and economic data, it is crucial to take Wall Street economic predictions with a "grain of salt". Here were some of the notable predictions coming into 2023:

- In the summer of 2022, Jamie Dimon (JP Morgan's CEO) said that an "economic hurricane" was ahead and "you'd better brace yourself".

- In November of 2022, Bank of America global research called for a severe and sustained recession in the US and Europe for the first half of 2023. Savita Subramanian, chief US Equity Strategist, predicted another 25% decline in stocks before bottoming (in 2023).

- In December of 2022, Jeff Gundlach (Portfolio Manager and CEO of Doubleline) told CNBC that there was a greater than 75% probability of a recession and that Fed would cut rates in 2023.

- Also in December of 2022, Morgan Stanley's Mike Wilson told Bloomberg "We're looking for an earnings recession that could be as big of a surprise to the market as it was in '08." He also said stocks would drop 20% in 2023 before recovering to finish flat on the year.

- Lastly, Blackrock's 2023 Outlook said the four-decade great moderation was over and that a recession in 2023 was "foretold" and will be unlike any other with the old playbooks not working.

Despite the concerns of an economic calamity, markets delivered strong performance in the fourth quarter and posted robust results for the year. Reflective of the unexpectedly strong economic performance, the Dow Jones Industrial Average hit multiple record highs on consecutive days in December and gained 16.2% in 2023. The S&P 500, which tracks the performance of 500 of the largest U.S companies by market capitalization, finished the fourth quarter with a gain of 11.7% and 26.3% for the year. The "Magnificent Seven" mega-cap stocks — Apple (AAPL), Amazon (AMZN), Alphabet (GOOG, GOOGL), Nvidia (NVDA), Meta Platforms (META), Microsoft (MSFT) and Tesla (TSLA) attributed more than 80% of the S&P 500 index returns for the year.

Throughout much of 2023, the market-cap weighted S&P 500 significantly outperformed the S&P equal weighted index, due to the performance of the largest companies in the index (notably, the aforementioned "Magnificent Seven"). However, the performance profile may be changing. From the beginning of November, the equal weighted S&P rose 16.2%, while the market-cap weighted S&P came in at 13.7% as 2023 came to a close. We are encouraged by the broadening rally as there are a number of companies outside of the "Magnificent Seven" primed for strong returns given their earnings growth and attractive valuations.

The Russell 2500 index, which serves as the benchmark for small-cap stocks from approximately $250 million to $2 billion in market capitalization, reported a double-digit gain in the fourth quarter at 13.3% and advanced to 17.4% for the year. Growth companies within the index out-performed those stocks considered "value" as the Russell 2000 Growth index gained 18.6% for the year and the value index appreciated by 14.6%.

In measuring larger international stocks, the MSCI EAFE produced a 10.5% result in the final quarter of 2023 and reported annual performance of 18.9%. Over the course of the year, the U.S. Dollar depreciated 4.2% in the final quarter of 2023 and depreciated 2.7% for the full year when comparing it to a basket of other major currencies.

Lastly, the Bloomberg U.S. Aggregate Bond Index, which tracks the performance of the country's investment-grade bond market, reported a gain of 6.8% in the fourth quarter and 5.5% for the year. Tax exempt bonds experienced a similar return profile as the Bloomberg 3-Year Municipal Bond Index produced a 3.5% return for 2023. The annual result for fixed income securities was a welcome change from 2022 returns which marked the worst year for bonds on record. We are enthusiastic that, going forward, the higher interest rate environment will provide a more meaningful return for fixed income which has been a "head wind" to portfolios for a number of years.

Overall, 2023 turned out to be a good year for investment returns despite the number of dire forecasts and recession predictions coming into the year.

Economic Notables – 2023

The moderation of inflation was likely a key contributor to the strong financial performance in 2023. The U.S. Department of Labor reported consumer prices rose at a seasonally adjusted 3.4% in December compared to the 9.1% reading in June of 2022. As a result, the Federal Reserve paused rate hikes at year end, after setting a 22-year high of 5.5% in July. In response, the benchmark 10-year U.S. Treasury note neared 5% at the beginning of the fourth quarter before settling back below 4% at year end. There was also a slight decline in mortgage rates, as the 30-year fixed-rate mortgage (FRM) averaged 6.6% as the year came to a close (peaked at over 8% in the fall).

Markets continued to be concerned about the growing level of debt in the U.S., and in August, Fitch, one of the three main credit rating agencies, downgraded the United States Long-Term Rating from AAA to AA+. According to Treasury data, the gap between spending and revenue had grown 170% during the first nine months of the fiscal year. Two main elements driving these deficits were higher interest costs and lower tax revenue. The Wall Street Journal reported tax revenue declined by 11% in 2023 and interest costs increased by more than $131 billion. While interest rates have been declining as of late, it will be interesting to see if buyers of U.S. Treasuries demand more return over time given the growing U.S. debt burden.

Consumer spending on retail sales exhibited strength throughout the holiday shopping season. According to the Commerce Department, retail sales rose by 5.6% from the year earlier (2023 compared to 2022). Despite higher borrowing costs, the consumer remained the stalwart growth engine of the economy in 2023, further evidenced by consistently higher consumer spending on services.

The labor market appeared healthy throughout 2023, holding at a 3.7% unemployment rate. According to the Labor Department, the economy added 216,000 jobs in December with most industries increasing employment. For all of 2023, employers added 2.7 million jobs. This was a slowdown from the 4.8 million jobs added in 2022. Towards the end of the year, reports showed 8.7 million open positions in the United States, which was down from 12 million in October 2022. While this is the lowest level since March 2021, it is still well above pre-pandemic levels and equivalent to 1.5 jobs for each person seeking employment. This slowing rate of job creation was likely another data point playing into the FED's decision to pause interest rate hikes.

Against daunting odds, the rate of inflation has come down to historically acceptable levels while the economy has maintained a robust level of employment and healthy rate of economic growth. These surprisingly positive outcomes may have enhanced the prospect of an economic "soft landing" in 2024.

Final Thoughts

Going into 2023, Wall Street forecasters widely predicted a recession given a variety of issues including inflation concerns, the U.S. debt downgrade, and slowing job growth. Yet as the year ended, markets closed with solid returns. This phenomenon further emphasizes the importance of maintaining a long-term approach rather than following predictions from Wall Street. In our opinion, listening to market prognosticators is generally not productive. We chose to spend our time on investment policy, asset allocation and researching high quality securities and funds that will meet our client's objectives.

We wish you a very Happy New Year and look forward to your continued partnership throughout 2024 and beyond. As always, we appreciate the trust you have placed in our team. If you wish to review your portfolio and wealth management goals, please feel free to schedule an appointment to speak with us.