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 2024 Market Commentary

As the first quarter of 2024 quickly came and went, the threat of recession loomed less over markets. Though numerous Wall Street economists forecasted a recession by the end of 2023, most of them have now changed their tune and are sitting tight in the "soft landing" camp. Along with these changing economic perspectives came another robust quarter for the equity markets.

The S&P 500, tracking the performance of the 500 largest U.S. companies by market capitalization, rounded out the first quarter of 2024 with a gain of 10.2%. With respect to other domestic indices, the Russell 2000 Small Cap Index appreciated by 4.8% in the first quarter and the Dow Jones Industrial Average advanced by 5.6%.

International stocks offered respectable gains for the quarter as well. The MSCI EAFE Index showed a total return of 5.8% (USD) over the three-month period. Furthermore, Japanese equities hit a market high not seen in decades as the Nikkei Index reached the 40,000 level. The US Dollar Index, as measured against a basket of foreign currencies, increased 3.1% in the first quarter.

Fixed income did not fare as well as equity markets during the quarter. The Bloomberg U.S. Aggregate Index, a proxy for most taxable bonds, posted a 0.8% decline. Despite the attractive interest rates now offered by bonds relative to those of the last decade, prices moved lower over the three-month period. More specifically, the 10-year U.S. Treasury ticked up by 0.37%. There is an inverse relationship between the prices of bonds and interest rates.

As the new year began, predictions for the Federal Open Market Committee ("FOMC") to make a series of cuts to the benchmark rate dominated headlines along with robust earnings forecasts. In many ways, prognostications have moved from overly bearish at the beginning of 2023 to bullish at the beginning of 2024. At one time, Yogi Barra famously said it "feels like De ja vu all over again". We are hopeful market forecasters are correct this time around.

Other themes and factors that characterized the first quarter of 2024 from a financial and economic perspective included changing interest rate forecasts, job market strength, and increasing retail sales.

Inflation and Interest Rates

In order to move away from the stringent monetary policy implemented to combat inflation, there were rumblings of a benchmark rate reduction by as much as 1.5% early in 2024. The FOMC has now signaled they will not be making cuts of this magnitude and may now shelf rate cuts all together for 2024. While inflation has receded from the high point reached in 2022, recent readings have shown a modest uptick in prices. We will see what the summer holds with regard to possible rate cuts and inflation data.

Job Market and Small Business

Jobs grew at a torrid pace in March. According to the Labor Department, U.S. employers added a seasonally adjusted 303,000 positions, which was much more than the 200,000 forecasted. Unemployment slipped to 3.8% while, at the same time, wages remained virtually unchanged (a positive for inflation reduction efforts). Despite this positive news, the small business sector, which forms the backbone of the economy, has been challenged over the last few years with labor shortages. These small companies employ nearly half of the workforce and account for approximately 44% of the U.S. GDP. However, a recent NFIB survey showcased "Job Openings Unable to Fill Right Now" is down to 37% for small business whereas just 18 months ago, this number was closer to half. This measure indicates it is finally becoming easier for small businesses to find people to hire.

Retail Sales

The Commerce Department reported that U.S. retail sales climbed 0.7% in March compared with a month earlier (adjusted for seasonality). With regard to February data, the Census reported advanced estimates for U.S. retail and food services sales were $700.7 billion, up 0.6% from the prior month and up 1.5% from the same time period in 2023. Further, non-store retailers were up 6.4% from last year and overall food services were up 6.3% from February 2023. These trending figures validate consumer strength despite higher overall interest rates.

Summing it Up

Job market strength and low unemployment coupled with retail sales advances have many economists modifying their forecasts to more positive outcomes in 2024. One of the most widely respected viewpoints comes from Jan Hatzius, Goldman Sachs' award-winning Chief Economist, who rather early on predicted the 2008 recession. His prediction on the likelihood of a recession this year is just 15%. This perspective falls well below the current consensus of most economists' predictions, which hover around the 30% to 40% probability range.

While we would happily embrace the notion of a less likely economic recession, Ironwood Investment Counsel does not put emphasis on making bold economic predictions. Instead, we focus our efforts on placing capital in high-quality equities and fixed income instruments. We believe this emphasis on quality is what allows us to help our clients realize long-term financial success, whether in a tumultuous or strong market or an economy heading for a hard or soft landing.

We are grateful for your partnership and continued faith in our process. Should you wish to review your portfolio and wealth management goals in 2024, please contact us to schedule an appointment. We look forward to speaking with you.