

The Ironwood Small Cap Focus

Capitalizing on
Market Dynamics
and Economic Shifts

Ironwood Investment Management, LLC, has long been a specialist in the small cap equity space, leveraging their expertise to identify high-quality companies with growth potential. Their focus on small cap stocks is not just a niche strategy, but a well-reasoned approach based on historical market trends and economic cycles. As we look ahead to potential economic shifts, particularly in interest rates, it's worth examining how Ironwood's Small Cap Core Strategy might be positioned to benefit investors.



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The Small Cap Advantage in Changing Interest Rate Environments

Historically, small cap stocks have shown a tendency to outperform their large cap counterparts during periods of declining interest rates. In the following pages, we cite historical examples where small caps outperform large caps in declining interest rate environments.

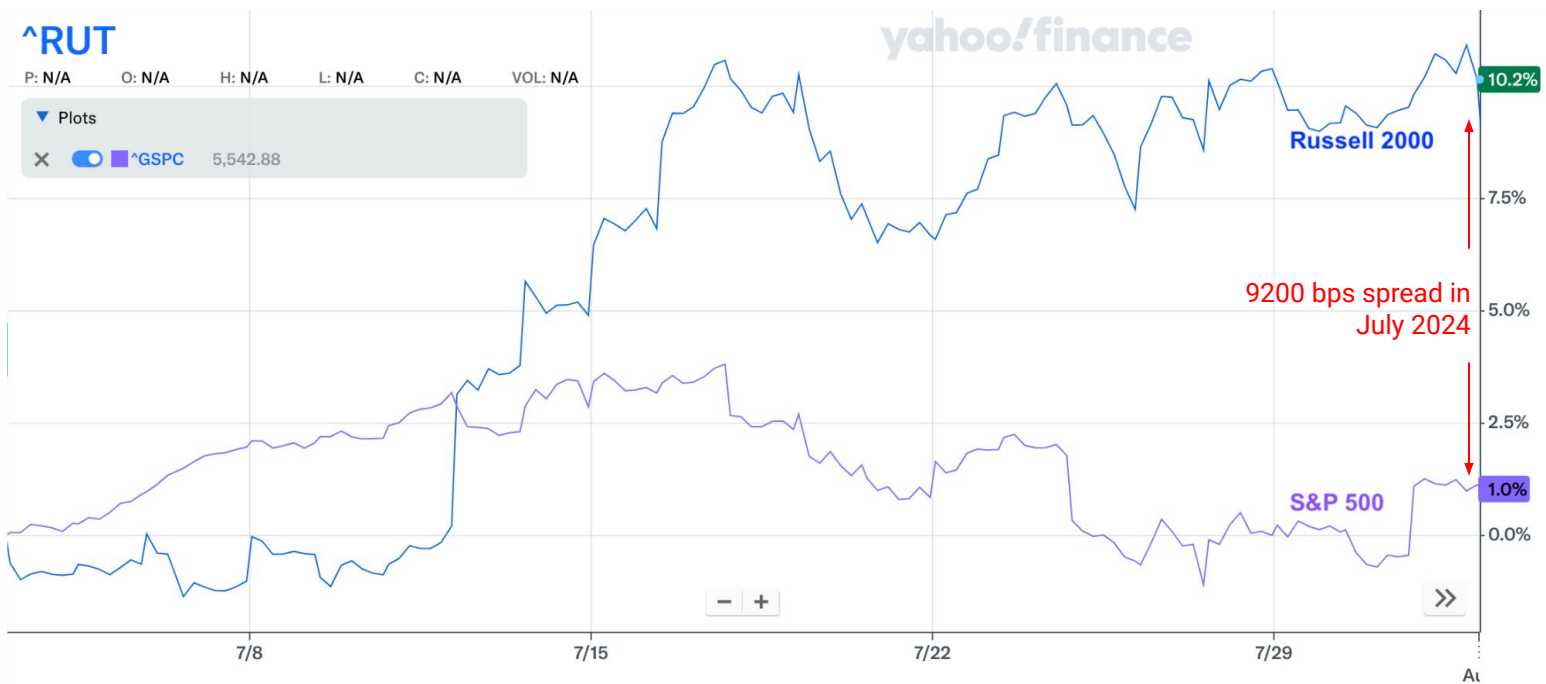


Russell 2000 vs. S&P 500 Historical Case Studies

July 2024

In the most recent example, the anticipation and increasing likelihood of an interest rate reduction in the medium term precipitated a dramatic jump in the Russell 2000 Small Cap Index, which increased 10.2% in the month of July 2024, versus 1.0% in the S&P 500, an outperformance of 9200 bps in a single month.

Russell 2000 vs. S&P 500 in July 2024



Source: Yahoo Finance; date range: 7/1/2024 - 7/31/2024.

Russell 2000 vs. S&P 500 Historical Case Studies

COVID Pandemic

The Fed cut rates three times in 2019 and then dramatically in early 2020 due to the COVID-19 pandemic. While the pandemic created unique circumstances, small caps showed strong relative performance in the recovery phase, particularly from late 2020 into 2021.

Interest rates declined from 2.40% in July 2019 to 0.05% in May 2020. In the chart below, we see the Russell 2000 cross over and outperform the S&P 500 in approximately Dec 2020.

Russell 2000 vs. S&P 500: Jan 2020 through Mar 2021



Source: Yahoo Finance; Federal Reserve Bank of St. Louis, Fred Economic Data; date range: 1/1/2020 - 3/31/2021.

Russell 2000 vs. S&P 500 Historical Case Studies

Global Financial Crisis

As the Fed slashed interest rates to near zero in response to the Global Financial Crisis, small caps again showed strong relative performance once the market began to recover in 2009. The Russell 2000 rebounded more quickly than the S&P 500 in the initial stages of the recovery.

The Fed reduced rates from 5.26% in July 2007, down to 0.15% in January 2009. We see the Russell 2000 cross over the S&P 500 in approximately March 2009, after the massive rate cut has taken effect. The Russell 2000 index outperforms the S&P 500 in the remainder of the time period shown below.

Russell 2000 vs. S&P 500: Jan 2008 through Dec 2010



Source: Yahoo Finance; Federal Reserve Bank of St. Louis, Fred Economic Data; date range: 1/1/2008 - 12/31/2010.

Russell 2000 vs. S&P 500 Historical Case Studies

Post-Dot Com Bubble

Following the dot-com bubble burst, the Federal Reserve began cutting interest rates aggressively. During this period, small caps significantly out-performed large caps. The Russell 2000 outperformed the S&P 500 by a wide margin.

The Fed Funds rate dropped from 6.40% in December 2000, to 1.72% in January 2002. We see the Russell 2000 index begin to outperform the S&P 500 in approximately May 2000, and continue to outperform the S&P for the duration of the period shown in the chart below.

Russell 2000 vs. S&P 500: Jan 2000 through Dec 2002



Source: Yahoo Finance; Federal Reserve Bank of St. Louis, Fred Economic Data; date range: 1/1/2000 - 12/31/2002.

Market Dynamics May Present A Timely Opportunity

As we approach a potential September rate cut, Ironwood's focus on small cap stocks seems particularly well-timed. For investors intrigued by this potential opportunity, engaging with experienced small cap managers like Ironwood may provide a balanced way to gain exposure to this dynamic segment of the market.

Expertise in navigating the complexities of small cap investing, combined with a potentially favorable macro environment, may present an interesting proposition for investors looking to position their portfolios for both immediate opportunities and long-term growth.





Strengthen your Portfolio with Ironwood

While our 25+ year history is a blip compared to the 1,000 years an Ironwood tree may live, we are proud of our history thus far creating value for our clients and we are every bit as passionate in our pursuit of enduring growth as we were in 1997.

Contact us to learn more about our unique approach.



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