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Domestic Equities

The broad market continued moving higher in July. On various days over the last six trading days of July, the following indexes hit all-time record highs; Dow Jones Industrial Average, NASDAQ, S&P 1500, and each of its three components the S&P (Large-Cap) 500, S&P (Mid-Cap) 400, and S&P (Small-Cap) 600. This broad move higher appears sensible to ICON and consistent with our commentary over the last year. Most recently, in the July Market Commentary we wrote, "Our domestic V/P of 1.02 is not as attractive as the 1.09 of a year ago, but still adequate in our opinion to support modestly higher stock prices over the next year." There are, however, many skeptics who seem bothered by lofty terms such as "record" and "all-time high." We suspect they are the observers who have not been calling for a market advance. Our market value-to-price (V/P) ratio ended July at 1.00, meaning stocks, on average, are priced right at our estimate of fair value. Clearly absent, is the over-pricing often seen at market peaks. Instead the pricing appears rational to ICON.

Through July 31, 716, or almost half, of the companies in the S&P 1500 Index have reported earnings for the second quarter. On average they have beaten estimates by 5.04%. The top three sectors beating estimates are Information Technology 7.82%, Materials 6.28% and Financials 5.64% simply suggesting these companies are more profitable than expected. Perhaps more important, reported earnings for the 716 companies are 10.29% greater than a year ago. The most growth is in the Energy sector, where earnings were dismal a year ago. The next three fastest growing sector earnings year-over-year are Information Technology 17.93%, Materials 12.66% and Financials 10.12%.

The table at right shows the performance of the eleven S&P 1500 Sector indexes for the one year from 7/31/16 through 7/31/17. The first thing that stands out is the gap between the top two performers and the rest of the pack. Information Technology has been steady over the twelve month period whereas Financials excelled in late 2016, but cooled off a bit in 2017. Healthcare was just the opposite, lagging in late 2016, but surging in 2017. Our portfolios are heavy in Information Technology and Financials and light or void in the lagging sectors at the bottom (Utilities, Consumer Staples, Energy, Real Estate and Telecommunication Services). Based on value we are content with our positions for the time being.

S&P 1500 SECTOR INDEX	RETURN
Financials	31.6%
Information Technology	29.6%
Industrials	18.7%
Materials	15.3%
Consumer Discretionary	13.3%
Health Care	8.7%
Utilities	6.5%
Consumer Staples	4.0%
Energy	-0.8%
Real Estate	-2.5%
Telecommunication Services	-7.2%
Past performance does not guarantee future results.	

International Equities

The MSCI ACWI ex US Index and the MSCI Emerging Market Index hit all-time record highs the last week of July. Based on value, we believe these advances were sensible and sustainable as we do not see overpricing often seen at peaks. On a country basis, the highest V/P ratios in our database are in European developed countries such as Belgium, United Kingdom, Germany, Denmark and France. For emerging markets, there are many countries with V/P ratios in the top half of our rankings such as Thailand, China, Indonesia, Hong Kong, South Korea and Philippines. With stock prices appearing attractive relative to our estimates of fair value in many regions of the globe, we would expect international markets to move higher over the next year.

Bonds

A survey of economists on Bloomberg reveals their average forecast for real GDP over the next two years to be in the fairly sluggish 2.2% to 2.4% range and their forecasts for CPI (inflation) also in the muted 1.8% to 2.3% range. Given they don't see accelerated GDP growth nor a pickup in inflation, investors seem content pricing the 10-Year Treasury with a yield in the 2.2% to 2.4% range. A surprise boost in GDP growth to 3% or above could spring the yield on the 10-Year to the upper 2% - 3% range, but we don't see any catalyst for exceeding 3% yield level.

Summary

In our commentary you may have noticed that we do not address many newsworthy issues such as Presidential tweets, White House staff turnover or Congressional bartering. Nor do we speculate or guess about events such as elections, Federal Reserve behavior or the economy. For investing, we simply go where value pulls us in an attempt to keep emotions out of our process.

It is our view, that if all else is equal, and earnings grow, then the intrinsic value of a company grows. We also believe that price seeks out and tries to keep up with value, and it is just that news gets in the way altering the path sometimes. In the current setting, we expect earnings to grow, value to grow and prices to try to keep up. With that premise, we like owning equities when we see them priced, on average, near our estimate of fair value.

The data quoted represents past performance, which is no guarantee of future results..

Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, and portfolio composition and holdings, are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security, industry, or sector.

Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. There are risks associated with Small and Mid Cap investing such as less liquidity, limited product lines, and small market share.

ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates and bond yields, in an effort to determine whether securities are over- or underpriced relative to ICON's estimates of their intrinsic value. ICON's value approach involves forward-looking statements and assumptions based on judgments and projections that are neither predictive nor guarantees of future results. Value readings are contingent on several variables including, without limitation, earnings, growth estimates, interest rates and overall market conditions. Although valuation readings serve as guidelines for our investment decisions, we retain the discretion to buy and sell securities that fall beyond these guidelines as needed. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.

ICON's value-to-price ratio is a ratio of the intrinsic value, as calculated using ICON's proprietary valuation methodology, of a broad range of domestic and international securities within ICON's system as compared to the current market price of those securities. According to our methodology, a V/P reading of 1.00 indicates stocks are priced at intrinsic value. We believe stocks with a V/P reading below 1.00 are overvalued while stocks with a V/P reading above 1.00 are undervalued. For example, we interpret a V/P reading of 1.15 to mean that for every $1.00 of market value, there is $1.15 of intrinsic value which has not yet been realized in the market price.

Gross Domestic Product (GDP) is the total value of goods and services produced in the national economy in a given year. It is the primary indicator of economic growth. The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The CPIs are based on prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.

The unmanaged Standard & Poor's (S&P) Composite 1500 Sector Indexes track the performance of sectors that comprise the S&P Composite 1500 Index. Total return figures for the unmanaged sector indexes do include the reinvestment of dividends and capital gain distributions but do not reflect the costs of managing a mutual fund. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials. The unmanaged NASDAQ Composite ("NASDAQ") Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small-Cap stocks. The unmanaged Standard & Poor's Composite 1500 (S&P 1500) Index is a broad-based capitalization-weighted index comprising 1,500 stocks of Large-cap, Mid-cap, and Small-cap U.S. companies. The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. The unmanaged Standard & Poor's (S&P) MidCap 400 Index is a widely recognized unmanaged mid-cap index of 400 domestic stocks chosen for their market capitalization, liquidity, and industry group representations. The unmanaged Standard & Poor's (S&P) SmallCap 600 Index is an unmanaged index of 600 domestic stocks chosen for their market capitalization, liquidity, financial viability, and sector representation. The Morgan Stanley Capital International (MSCI) All Country World Index ex-United States (ACWI ex-U.S.) is a leading unmanaged benchmark of international stock performance. The capitalization-weighted index is representative of the performance of securities of companies located in developed and emerging markets outside of the United States. The Fund's emerging market exposure reflects countries that are members of the Morgan Stanley Capital International (MSCI) Emerging Markets Index℠, a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Market Index consisted of the following 25 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Total return for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

Source: Bloomberg FactSet

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