ICON Advisers, Inc.

# 2022 MARKET OUTLOOK: EARNINGS GROWTH AND INCREASED MONEY SUPPLY (M1) SHOW THE MARKET CAN MOVE HIGHER

Over the past year, the second amid a global pandemic, volatility began to ease and the trend of steady market recovery continued from the previous year. Looking into 2022 with a robust earnings outlook, and an increased money supply from the Federal Reserve (Fed), we believe the recent jolt in inflation is not sustainable. As a result, we see earnings growth and higher valuations forming a foundation for the stock market to move higher over the next year.

## Value

The graph below shows the S&P 1500 Index from early 2009 through December 31, 2021, in blue versus ICON's estimate of fair value, based on our calculation of the market's Value/Price Ratio (V/P)*. The graph portrays a very sensible almost 13-year market advance in which fair value was growing and prices were trying to keep up.

Along the way we have not seen the extreme over-pricing often seen at market peaks. Entering 2022 stock prices are about 14% below our estimate of fair value which leads us to believe the market can continue higher into 2022.

Table 1, at right, shows the ICON market V/P ratio on December 31 for year-end 2018 through 2021 and the subsequent next year's return.

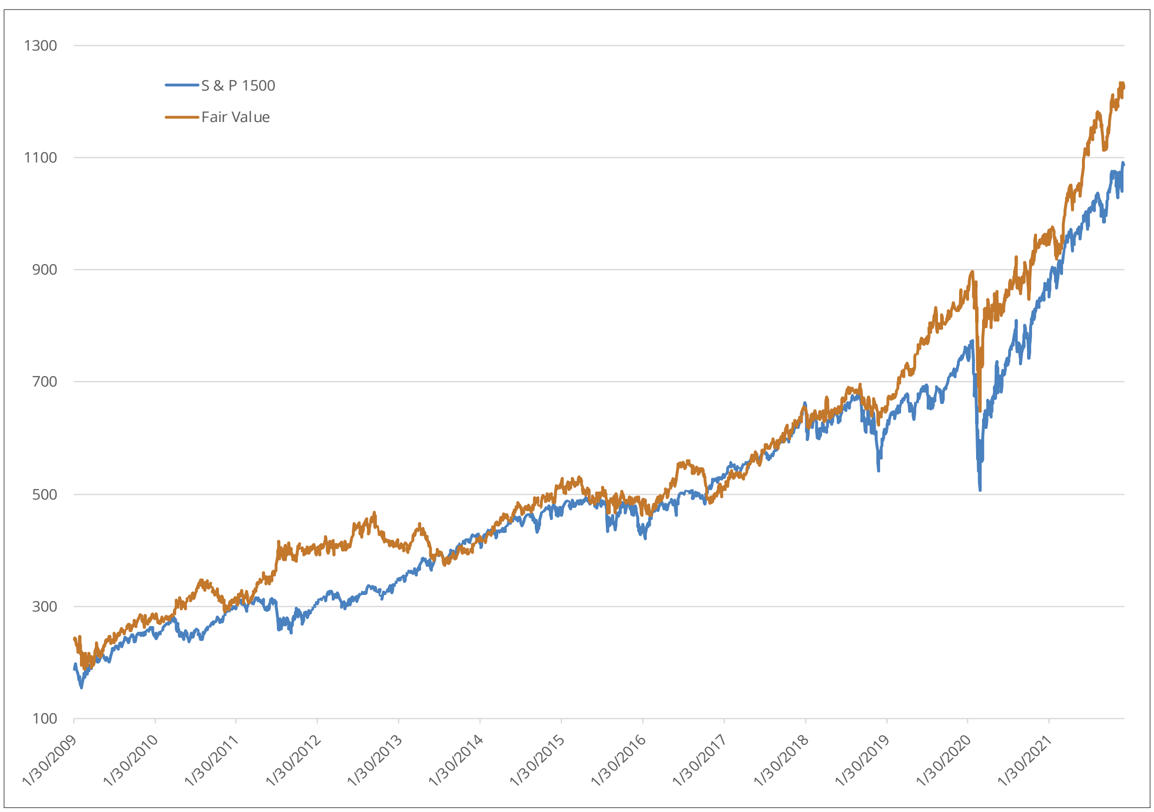
The V/P correctly gave bullish readings for all three previous years but the S&P 1500 Index gained more than V/P alone predicted. The out performance is due to the conservative nature of ICON's value methodology and the fact that earnings, and therefore value, were growing.

**Table 1: Year-end V/P and next Year's Return**

| Year End | Market V/P | Next Year Return |
|---|---|---|
| 2018 | 1.11 | 30.9% |
| 2019 | 1.12 | 17.9% |
| 2020 | 1.13 | 28.1% |
| 2021 | 1.14 | ??? |

***Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, and portfolio composition and holdings, are all subject to change at any time.***

**S&P 1500 and Fair Value, 1/3/2009 - 12/31/2021**




***The data quoted is past performance. Past performance is no guarantee of future results. Source: FactSet***

## Earnings

Value is our primary basis for optimism but corporate earnings can support the case for the market to move higher in 2022. Analysts who forecast earnings are surveyed by Bloomberg and Table 2, at right, shows their rate of growth forecasts for 2020, 2021, 2022 and 2023 for the S&P (large-cap) 500, S&P Mid-Cap 400 and the S&P Small-Cap 600 Indexes. Of course, 2020 reflects the brief, self-induced recession from measures attempting to contain the virus. 2021, shows a strong rebound (even better than predicted a year ago) and continued growth into 2022 and 2023. Analysts can be wrong and they may revise their forecasts, but for the time being it appears corporate earnings, on average, will be growing over the next couple of years. We believe this can support higher valuations.

**Table 2: Earnings Year-Over-Year Rate of Growth**

| Year | Large 500 | Mid 400 | Small 600 |
|---|---|---|---|
| 2020 | -19.4% | -20.1% | -39.4% |
| 2021 | 71.0% | 115.7% | 254.7% |
| 2022 | 8.2% | 7.4% | 12.2% |
| 2023 | 9.7% | 9.0% | 9.7% |

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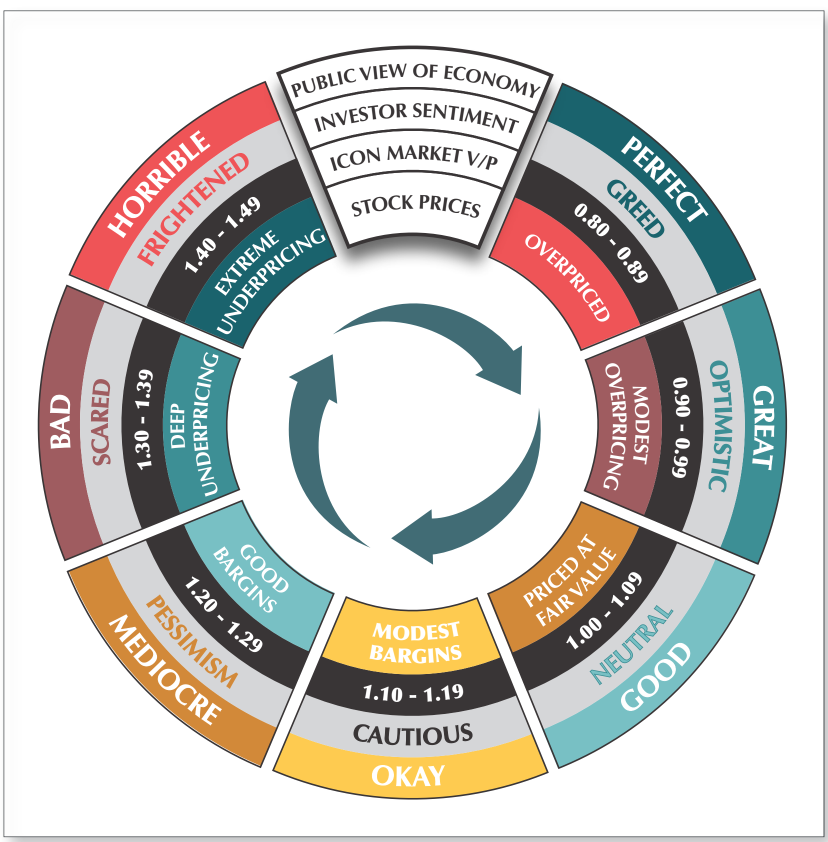
## Value and Investor Sentiment

The graphic below* relates ICON's market V/P levels to investors' view of the economy and their emotions. For example in the first segment, investors see the economy as perfect. In this setting of optimism and greed, they are willing to pay too much for stocks. Stock can be very overpriced which ICON would pick up in a V/P in the .80 - .89 range.

Entering 2022, with a market V/P of 1.14 we are at the bottom of the circle and it feels about right.

For investing, there is uncertainty over inflation and the impact of the new virus variant, omicron. Given those concerns investors are cautious and see the economy, in general, as just "okay." Due to investors' cautious stance, the market is giving us stocks priced, on average, about 14% below our estimate of fair value. It appears to us that the level of uncertainty and concern is built into stock prices.

## ICON'S OVERVIEW OF THE MARKET




*These two graphs are included in Dr. Callahan's book with the primary title "Unloved Bull Markets." Published by Wiley and will be released February 15, 2022*

## Inflation

ICON has always made a distinction between inflation and one time price increase. Inflation is a compounding of price increases; price increase, on top of price increase, on top of price increase, and so on. We believe we are currently experiencing multiple one-time price increases and we do not see the foundation or fundamentals in place for the recent jolt of inflation to be sustainable. Why does it matter for investing? If bond investors become convinced higher inflation is sustainable, long term interest rates will rise and in the ICON value equation, that would reduce the value of equities. That is not happening, however, as the yield on the 10-year Treasury note is hovering around the 1.50% range, clearly not pricing in higher inflation.

Another concern for equities would be if the Federal Reserve (Fed) decides inflation is a sustainable problem and tightens monetary policy. So far, commentary out of the Fed suggest the "inflation hawks" are in the minority and that the majority believe inflation will gradually calm down over the next year. As evidence that the Fed is still accommodative, the money supply (M1) has grown 15.6% over the last twelve months, compared to its historic average of near 6%.

The recent burst of price increases seems to us to be a case of supply and demand not aligning. The pandemic and the self-imposed recession were life and career changing events. Over the next year we would expect supply and demand to come together.

## Summary

Stocks are priced below our estimate of fair value. The earnings outlook is robust enough to support higher valuations. Monetary policy remains accommodative. We believe the market can move higher in 2022.

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**Craig Callahan**

**ICON Advisers - Founder & CEO**

*Dr. Callahan created a valuation-model modification that advances the investment methodology originally developed by Benjamin Graham. Dr. Callahan received a bachelor's degree in psychology from The Ohio State University and a doctoral degree in business administration with emphasis in finance and statistics from Kent State University. He holds FINRA Series 7, 24, 63, and 66 registrations.*

*He is also author of a book, "Unloved Bull Markets: Getting Rich the Easy Way by Riding Bull Markets," available from Wiley Publishing in 2022.*

***The data quoted represents past performance, which is no guarantee of future results.*** *Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful 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.*

*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.*

*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) SmallCap 600 Index is an unmanaged index of 600 domestic stocks chosen for their market capitalization, liquidity, financial viability, and sector representation. 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. Total return figures for the unmanaged index include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. Individuals cannot invest directly in an index.*

*Long Term Growth (LTG): An expected rate of growth per year for earnings per share over the next five years, published for thousands of companies by the I/B/E/S service.*

*M1 is one measure of the money supply that includes all coins, currency held by the public, traveler's checks, checking account balances, NOW accounts, automatic transfer service accounts, and balances in credit unions.*

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

*Sources: FactSet, Bloomberg*



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