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Equities

Off of a short term low October 30, 2020, the market rallied higher with strong cyclical, economically sensitive leadership. From that low through March 15, 2021 the best performing S&P 1500 Sector Indexes were Energy, Financials, Industrials and Materials. The last two weeks of March saw a complete theme reversal with the defensive, so called recession proof sectors of Consumer Staples, Utilities and Healthcare leading while Energy flipped to being the worst. We believe this reversal is temporary and that the cyclical, economically sensitive leadership will resume.

It is our view that many, if not most, investors have not believed in the economy over the last few years and have not been bullish on the market. They have been very situational, investing in situations such as electric vehicles or, like last year, the "work from home" theme. Notice that the cyclical, "reopening" theme off the low last October required embracing the economy, a difficult stretch for these situational investors. As a result, they can be a jittery group, very quick to turn and sell when news and data does not confirm a booming economy. The combination of some slowing in commerce due to storms, an uptick in Covid cases, and setbacks in Europe regarding vaccinations and reopening were enough for these situational investors to drop cyclicals like a hot rock.

We do not see the overpricing and other behaviors often seen at market peaks. We expect the market can move higher over the next year. A strong supportive element for the market to move higher are the earnings forecasts for 2021 and 2022. Analysts are calling for impressive year-over-year growth which we believe can support higher stock valuations. Of course they can be wrong or change their forecasts, but for the time being their forecasts seem sensible to us given the monetary and fiscal stimulus underway.

Bonds

While stock investors took a pause from reopening strong economy theme, bond investors did not. The yield on the 10-year Treasury note continued rising, apparently in anticipation of an improving economy. August 4, 2020 the 10-year yield hit a low of 0.508% and will finish March 2021 around 1.74%. In our view the low of August 2020 was irrational, far below the inflation rates, and due to fear of the virus-induced recession. We do not fear a big spike, just a yield more in line with inflation expectations. We continue to favor short term corporate bonds and situations unique to the issuer such as callable bonds where the issuer may want to get old, higher-yielding bonds off their books.

Summary

There is a race going on in the ICON Valuation equation. The increase in the 10-year yield is hurting value while growing earnings are increasing value. If stock prices move higher slowly we would not expect to see over-pricing across the board. In other words, prices would not get ahead of value. If, however, stocks prices surge higher along with continued increases in the 10-year yield, we could see over-pricing which would be our signal to get defensive. We do not expect that but will be watching for it.

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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 Standard and Poor's (S&P) 1500 Energy Index is an unmanaged capitalization-weighted index comprising companies in the Energy sector as determined by S&P. The Standard and Poor's (S&P) 1500 Financials Index is an unmanaged capitalization-weighted index comprising companies in the Financials sector as determined by S&P. The Standard and Poor's (S&P) 1500 Industrials Index is an unmanaged capitalization-weighted index comprising companies in the Industrials sector as determined by S&P. Total returns for the S&P 1500 Industrials Index include the reinvestment of dividends and capital gain distributions beginning on January 1, 2002. Index returns with reinvested dividends and distributions are unavailable prior to that date. The Standard and Poor's (S&P) 1500 Materials Index is an unmanaged capitalization-weighted index comprising companies in the Materials sector as determined by S&P.

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

Sources: Bloomberg

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