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ICON Insights

Market Commentary - April 2023

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Equities

Through March 13, the S&P 1500 Index was up less than a percent for the year, but stock prices advanced the final two weeks of March. The Index finished the first quarter up 7.15% yet about 2% below its recent high of February 2, 2023. The Index has gained 15.46% from its recent low on October 12, 2022, which has many investment professionals proclaiming the market has entered a new bull market. We disagree based primarily on our valuation readings and industry leadership. In general, the industries with the higher V/P ratios (better bargains) have been sluggish. At the other end the leading industries are over-priced (low V/P). This is usually unsustainable over the long run although it could continue a few months. At the beginning of a new bull market, we would expect to see the better bargains rebounding and leading. We would also expect to see better performance out of small-cap stocks, but that is not occurring.

The case for the stock market to keep moving higher is based heavily on the expectation the Federal Reserve (Fed) will not only stop raising the Federal Funds rate but will begin to lower it in mid-2023. We do not see that happening. In our opinion, the Fed lowers the Federal Funds rate when the economy is weakening and appears to be entering a deep hole without a bottom. Short of that unpleasant situation, the Fed will likely hold the Federal Funds at its maximum level for a while. In either case, (1) entering a recession or (2) holding the Federal Funds rate at its maximum for the remainder of 2023, we just don't expect stock prices to keep moving upward to new highs.

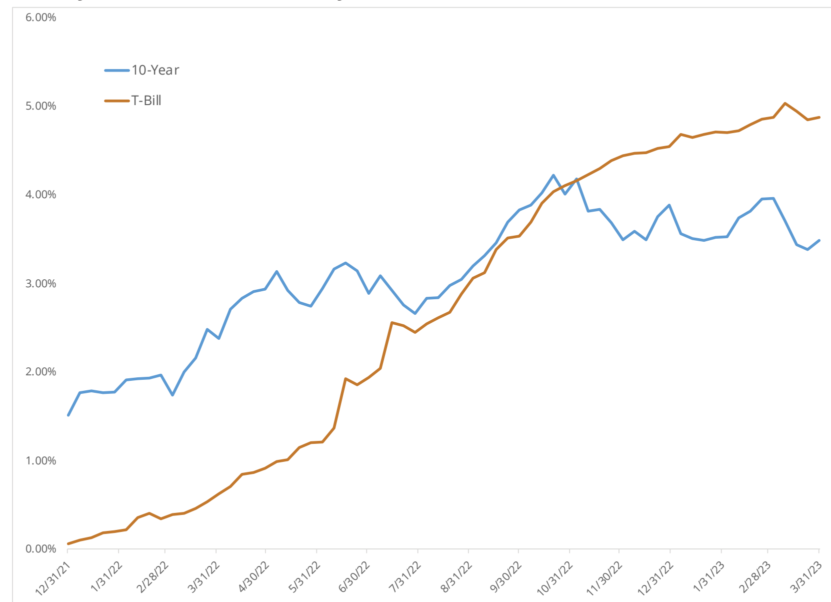
We define neutral monetary policy to be when inflation equals the yield on Treasury Bills, which are considered to be "risk free." In other words if you don't take risk you don't gain on inflation. We define "tight" monetary policy as the T-Bill yield being greater than inflation. Over the last twelve months the Consumer Price Index (CPI) has gained 6.0%, yet the T-Bill yield is only 4.87%, still below recent inflation. In our view, monetary policy is not even to neutral yet.

With our market Value/Price reading of 1.04, we do not see the need for a severe drop in stock prices, we just don't believe the market advance since last October is the beginning of a new bull market. We are content holding more cash than normal.

Bonds

The graph shows the yields on the 10-year Treasury note and 13-week Treasury bills weekly since December 31, 2021. During 2022 they rose in tandem as the Federal Reserve raised its Federal Funds target rate through October, but then decoupled. The yield on T-Bills continued higher while the yield on the 10-year moved sideways in range roughly between 4.1% and 3.4%. This appears sensible to us and suggests investors are expecting a decline in inflation, which we believe is a primary influence on 10-year. We like bonds and do not fear a sharp spike upward in long term interest rates.

Weekly Yields: 10-Year Treasury & 13 Week T-Bills, 12/31/21 - 3/31/23



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

Summary

With bargains lagging and expensive stocks leading, this recent market advance is not enticing us to chase it and we are not convinced that the upward move since October is the beginning of a new bull market. We expect a new bull market to begin sometime in 2023 or early 2024, we just don't see enough of the behaviors and market conditions to make us believe it is already underway.

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. Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers. Investing in fixed income securities such as bonds involves interest rate risk. When interest rates rise, the value of fixed income securities generally decreases.

Individual account holdings and composition may vary. 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.

Federal Funds: In the United States, the federal funds rate is the interest rate at which private depository institutions (mostly banks) lend (federal funds) at the Federal Reserve to other depository institutions, usually overnight. Changing the target rate is one form of open market operations that the Chairman of the Federal Reserve uses to regulate the supply of money in the U.S. economy.

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

A 13-Week Treasury bill (T-Bill) is a short-term debt obligation backed by the Treasury Dept. of the U.S. government with a maturity of less than one year.

Sources: Bloomberg

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