ICON Insights

Market Commentary - August 2020

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Domestic Equities

The rally off the market low of March 23, 2020, which we have described as sensible, continued in July. Over the course of four months and a week, the S&P 1500 Index has gained an impressive 47.5%. Although the S&P 1500 Index is not back to its all-time high seen on February 19, 2020, it has recovered to be slightly positive for the year.

The table shows S&P 1500 Sector Index performance for March 23, 2020 through July 31, 2020 and reflects what we view as a classic, textbook economic recovery anticipation rally. Cyclical and economically sensitives sectors have led while defensive, recession proof sectors have participated but lagged. ICON portfolios have had a cyclical, economically sector tilt during this rally and, based on our valuation methodology, we believe this theme is sustainable.

S&P 1500 Sector Index Returns 3/23/2020 - 7/31/2020	
Sector Idex	**Returns**
Consumer Discretionary	63.3%
Materials	58.3%
Information Technology	57.3%
Energy	54.1%
Industrials	48.6%
S&P 1500 Index	47.5%
Health Care	42.8%
Real Estate	42.6%
Communication Services	39.8%
Financials	36.9%
Utilities	35.6%
Consumer Staples	29.9%

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

The eleven year bull market from March 2009 to February 2020 was often referred to as "unloved." Many different metrics, including sentiment readings, institutional equity exposure and mutual fund flows, just to name three, suggested many investors did not believe in that bull market and did not fully participate. If that market was unloved, this recent rally may be downright despised. While stock prices have advanced, investor sentiment has remained at the same bearish levels as seen at the bottom of the crash. All the way up, some value managers have claimed stocks are expensive based on a simplistic P/E ratio. ICON has consistently voiced its disagreement with the approach of using a simplistic ratio. Further, some skeptics have tried discrediting this rally by claiming that the leadership is just a handful of technology stocks but we believe the sector performance table below reflects broad participation among the leadership.

While the sector performance is clear, it has not been steady. There have been trends and themes lasting from a week to a month. We believe at times, investors have favored "stay at home" stocks and other times they have favored "back to work" stocks. Small-cap stocks came alive and led, then lagged again. Even the industries most affected by the virus, such as airlines, hotels and restaurants, have perked up and had spurts. We have not tried to chase those short term themes, but have stayed close to the industry and sector tilts we took coming off the low of late March 2020.

There have been some changes to the investments within the portfolios, and your monthly statement might look a little different. A detailed explanation and description is beyond the scope of this monthly update, but please read the separate report we have prepared explaining the changes available online (you can also contact ICON directly at 1-800-828-4881 to request a copy). Drilling down into the Portfolio's sector allocations, Information Technology is by far the largest sector position for the US Growth Portfolio. Consumer Discretionary is second. Financials, Healthcare, Materials and Industrials round out the majority of the remaining sector exposure. Naturally individual accounts can vary and we can change these weightings.

Bonds

The yield on the 10-year U.S. Treasury Note briefly jumped up to .89% in early June but otherwise has hovered around .60% all summer. A survey of economists reported on Bloomberg shows them expecting Consumer Price Index (inflation) increase of .9% in 2020, 1.7% in 2021 and 2.0% in 2022. This means investors in the 10-year U.S. Treasury Note are not even keeping pace with the expected inflation. In time we would expect the yield to rise, but for the time being bond investors are apparently content with a negative real return given the uncertain economic outlook.

International Equities

The rally off the March low is global in nature. Since March 23, 2020, the MSCI ACWI ex US is up 39.78%. The MSCI Emerging Market Index is even better gaining 44.36%. Just as in the US, these moves appear sensible to our system.

Summary

There is an old Wall Street expression that we have stated before, "Stocks climb a wall of worry." There is no doubt, this is a really big wall, but we expect stocks to keep climbing it. There will be down days and setbacks, but based on value and other behaviors we see, we believe the market can continue moving higher over the next year.

***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.

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.

Portfolio composition and holdings are subject to change at any time and should not be construed as a recommendation of any security. 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.

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) 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 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 Morgan Stanley Capital International (MSCI) Emerging Markets Index is a free float‐adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. Total return figures for the unmanaged sector indexes do include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. .

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, FactSet

Please visit ICON online at InvestwithICON.com or call 1-800-828-4881 for the most recent copy of ICON's Form ADV, Part 2.

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