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ICON Insights

Market Commentary - August 2021

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Equities

The S&P 1500 Index gained 2.13% in July but it was not a straight ascent. Mid-month, the index dropped 3.1% in five trading days. The reasons behind that sharp drop are worth discussing as they could happen again. Inflation has increased due, in our opinion, to an inefficient allocation of land, labor and capital relative to the sharp and unexpected economic rebound from the pandemic recession. Some shortages have occurred as producers are temporarily unable to meet the surge in demand. The chairman of the Federal Reserve (Fed) has labeled the inflation "transitory" and we agree as we expect what some economists call "the invisible guiding hand" will even out supply and demand.

Given the inflation surge, here is the line of reasoning that led to the sell-off: Some members of the Fed Open Market Committee have been known as inflation hawks. They fear inflation and are very quick to recommend monetary policy to reduce inflation. With the recent uptick in inflation, many investors are concerned the hawks will have their way and the Fed will not only quit buying bonds in the open market, but will also tighten monetary policy and send the economy into recession. We do not buy into that line of reasoning, as there are too many assumptions and, what we call, leaps of logic.

The market hit a low July 19 and then headed higher. The table shows the performance for the S&P 1500 and its eleven sector indexes during the month-end advance. The leading sectors are economically sensitive and reflect an economic recovery and expansion theme. The defensive, so-called recession proof sectors are at the bottom. This appears very sensible to us and, based on value, we believe it is sustainable. Notice also Materials and Industrials and their potential benefit from anticipated infrastructure spending. It should be noted that Amazon.com is by far the largest stock in the Consumer Discretionary Index and it was down 6.25% during that period, which weighed down that index. Many other stocks in the Consumer Discretionary Index did quite well such as the Homebuilding Index which gained 10.5%, participating in the economic recovery and expansion theme.

With an ICON market value/price (V/P) ratio of 1.12, we would expect the market to move higher over the next year, although any recurring inflation fears and the resulting hawkish Fed assumptions could provide for some setbacks along the way.

Sector Index Returns 7/19/2021 - 7/30/2021

Sector	S&P 1500
Materials	6.16%
Energy	5.10%
Financials	4.04%
Industrials	3.96%
Communication Services	3.95%
Health Care	3.89%
Information Technology	3.59%
S&P 1500 Index	3.41%
Real Estate	2.61%
Consumer Discretionary	1.90%
Utilities	1.22%
Consumer Staples	1.04%

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

Bonds

While stock market investors overcame the fear of Fed tightening to fight inflation, bond investors did not. The yield on the 10-year Treasury Note continued its decent since March 31, 2021, to close July at 1.22%. Apparently bond investors believe the Fed will have to slow the economy to control inflation. We disagree and expect those willing to own a 10-year Treasury and get a dismal 1.22% will be disappointed. We continue to favor corporate bonds over Government bonds especially corporates with the potential for a rating upgrade as the economy improves.

Summary

In terms of value and earnings there are currently roughly three groups of stocks. The first group has experienced uninterrupted and impressive earnings growth. Investors appear to be willing to pay for that situation as those stocks appear fully and/or over-priced to us. The second group did not have much growth in earnings prior to the recession and don't show much hope for growth during the recovery. We are avoiding these first two groups. We are attracted to companies with earnings that were hurt by the recession but are predicted to rebound and resume growth. We can find value in those companies as it appears investors have not priced in the future prospects. We like owning them 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.

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. 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 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 Consumer Discretionary Index is an unmanaged capitalization-weighted index comprising companies in the Consumer Discretionary sector as determined by S&P. Total returns for the unmanaged 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 Consumer Staples Index is an unmanaged capitalization-weighted index comprising companies in the Consumer Staples sector as determined by S&P. 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 Healthcare Index is an unmanaged capitalization-weighted index comprising companies in the Healthcare sector as determined by S&P. The Standard and Poor's (S&P) 1500 Information Technology Index is an unmanaged capitalization-weighted index comprising companies in the Information Technology sector as determined by S&P. 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 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 Real Estate Index is an unmanaged capitalization-weighted index comprising companies in the Real Estate 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 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 S&P SmallCap 600 Consumer Discretionary Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Consumer Discretionary sector. The S&P SmallCap 600 Consumer Staples Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Consumer Staples sector. 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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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