ICON Insights

Market Commentary - January 2022

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Equities

Table 1 shows sector index performance for 2021. Generally the economically sensitive, cyclical sectors were among the leaders and the defensive, recession proof sectors lagged. One exception is Industrials which was dragged down by Boeing and airline stocks. The general theme and sector ranks make sense to the ICON system. During the year, many investors doubted the economic recovery causing the cyclical stocks to be underpriced relative to our estimate of fair value. Based on value, we were pulled toward the cyclical stocks and away from the defensive stocks. We locked into that general theme and did not trade much during the year.

Table 1: 2021 S&P 1500 Index Returns

Sector	Return
Energy	54.9%
Real Estate	43.1%
Financials	34.4%
Information Technology	33.8%
S&P 1500 Index	28.4%
Materials	27.5%
Consumer Discretionary	25.2%
Healthcare	24.9%
Industrials	22.2%
Communication Services	21.3%
Consumer Staples	18.5%
Utilities	18.0%

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

The sector theme appears sustainable into 2022. Despite nice advances in 2021, the broad market and the cyclical, economically sensitive sectors do not appear over-priced relative to our estimate of fair value. ICON's market V/P enters 2022 at 1.13. Table 2 shows the rate of change in earnings for the companies in the S&P 500 (large-cap), the S&P Mid-cap 400 and S&P Small-cap 600 Indexes. The tremendous earning growth in 2021 contributed to growth in fair value so stock prices, in general, did not catch value. The estimates from a survey of analysts for 2022 and 2023 suggest value has the potential to continue growing.

Table 2 also features three of the economically sensitive sector indexes. It shows their year-over-year rate of growth for the earnings of the companies in those indexes. The first thing that stands out is the tremendous growth in 2021, which in the ICON valuation equation contributed to an increase in fair value. While stock prices in those sectors moved higher, value was growing so, on average, stocks in those sectors are not over-priced. 2022 and 2023 are estimates from a survey of analysts. They expect growth to continue.

Table 2: Earnings Forecasted Growth

Index	2020	2021	2022	2023
S&P 500 (large-cap)	-19.3%	71.8%	7.6%	9.4%
Mid-cap 400	-20.1%	110.8%	7.5%	7.5%
Small-cap 600	-39.4%	262.7%	10.7%	8.8%
Consumer Discretionary	-41.7%	116.5%	20.5%	17.2%
Industrials	-52.8%	111.9%	31.0%	15.6%
Information Technology	6.4%	61.2%	9.2%	11.0%

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

Value and earnings make a foundation for the stock market to move higher in 2022 but there is doubt among some investors due to the recent surge in inflation. We have 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 places 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%.

Bonds

While we see equities as underpriced, on average, versus our estimate of fair value, bonds are the flip side of that coin. We see Treasury notes and bonds as a bit overpriced. To connect the two, it appears investors are still apprehensive about equities and are clinging to the apparent safety of Treasury notes and bonds. In support of that position, the Investment Company Institute Money Market Funds Assets is at an all-time high despite a dismal yield. Again, investors preferring safety over potential higher returns. We do not see a sharp rise in yields in 2022, but in time we would expect a gradual increase.

Summary

Based on value, we can see stock prices moving higher in 2022. The biggest concern would be the Federal Reserve and if it will pursue tighter monetary policy to fight inflation. Of course, we must keep in mind that the Fed has the dual mandate of full employment and price stability. Given the importance of full employment, we would expect the Fed to be very moderate in its attack on inflation. We do not expect the Fed to negatively impact the stock market in 2022.

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.*

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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 (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. The S&P SmallCap 600 Energy Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Energy sector. The S&P SmallCap 600 Materials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Materials sector. The S&P SmallCap 600 Industrials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Industrials sector. The S&P SmallCap 600 Health Care Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Health Care sector. The S&P SmallCap 600 Financials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Financials sector. The S&P SmallCap 600 Information Technology Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Information Technology sector. The S&P SmallCap 600 Real Estate Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Real Estate sector. The S&P SmallCap 600 Communication Services Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Communication Services sector. The S&P SmallCap 600 Utilities Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Utilities sector.

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.

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.

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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