# ICON Insights

**Market Commentary - July 2021**

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To start 2021 we wrote in our January Portfolio Update: "As we end 2020, the current rally appears very sensible and sustainable to our system. Stocks, on average, remain priced below our estimate of fair value suggesting to us the market, based on value, can continue moving higher at least another year." During the first six months of 2021, the S&P 1500 Index has gained 16.99%, through July 2, 2021, reaching an all-time high. That performance is consistent with our outlook six months earlier.

At the end of 2020, many observers wondered if the stock market had gone too far too fast as it was up 71.8% off its March 23 low. Some thought stocks were too expensive, usually based on simplistic ratios such as P/E or price-to-book value. There were doubts that the easy monetary policy and fiscal stimulus would be effective. Our system, however, showed stocks on average to still be underpriced and we did not see any of the conditions or behaviors often seen at market peaks. We bring that up because we see similar conditions at mid-year that we saw entering 2021; stocks on average priced below our estimate of intrinsic value and none of the behaviors to suggest the bull market is over. We believe the broad market can continue moving higher over the next year.

In our January commentary we included a table which showed analysts were forecasting impressive year-over-year growth in earnings for three S&P indexes; Large-cap 500, Mid-cap 400 and Small-cap 600. As analysts have generally been revising their outlook upward in 2021, here is the table again, updated June 25, 2021. Naturally, the analysts surveyed can be wrong and/or they could revise their forecasts, but for the time being they are expecting even greater year-over-year growth. Note it is more than just a rebound from the 2020 recession, but is instead growth as though the recession never occurred. This is important because in the ICON valuation equation, if earnings grow, and all else is equal, intrinsic value grows. Therefore, these earnings forecasts suggest the potential for value to be an upwardly moving target for prices to try to catch.

| S&P Indexes (6/25/21) | | | |
|---|---|---|---|
| Year | Large 500 | Mid 400 | Small 600 |
| 2020 | -19.3% | -20.1% | -39.3% |
| 2021 | 54.3% | 86.1% | 200.0% |
| 2022 | 11.6% | 8.9% | 16.3% |
| 2023 | 10.7% | 9.3% | 10.0% |

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

During the previous eleven year bull market, the economy never kicked into a robust expansion. In that setting, investors looking for rapidly growing earnings were pulled toward the Information Technology sector and a few industries in Consumer Discretionary. Now however, as analysts are seeing a potential for robust expansion, eight sectors are being forecast to post faster year-over-year earnings growth than Information Technology in 2021. In 2022, analysts are forecasting better that five sectors will post higher earnings growth than Information Technology.

## Bonds

To start 2021 the yield on the 10-year Treasury note shot up from 0.92% to 1.74% on March 31 to end the first quarter. It has generally been in a mild downward trend in the second quarter, dipping below 1.50% the last week of June. The yield has not reacted to the above average inflation data released the last three months. Bond investors are apparently believing the Federal Reserve official's comments that they believe the uptick in inflation to be "transitory." A survey of economists report on Bloomberg is showing expectations of 3.5% inflation in 2021, but cooling off to 2.5% in 2022 and 2.2% in 2023. That outlook appears sensible to us, but still suggests the yield on the 10-year Treasury could move higher if bond investors do not want to settle for negative real returns. In other words, we would expect that they would at least want to hold even with inflation.

## Summary

There are a group of stocks that have experienced impressive earnings growth that was uninterrupted by the 2020 recession. We see them as fully priced. We are finding value instead in stocks whose earnings were hurt in 2020 but are expected to rebound and resume growth this year and forward. We like owning companies with the combination of value and a potential earnings rebound in a market we believe can move higher.

***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.*

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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.*

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*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) SmallCap 600 Index is an unmanaged index of 600 domestic stocks chosen for their market capitalization, liquidity, financial viability, and sector representation. The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. The unmanaged Standard & Poor's (S&P) MidCap 400 Index is a widely recognized unmanaged mid-cap index of 400 domestic stocks chosen for their market capitalization, liquidity, and industry group representations.*

*P/E: Price/Earnings Ratio is the price of a stock divided by its earnings per share. Price/Book Ratio is the ratio of a stock's price to its book value per share.*

*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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