ICON Insights

Market Commentary - July 2023

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Equities

The table, at right, shows sector index returns for the first half of 2023. While the S&P 1500 Index gained 16.13%, the advance was very narrow and unusual. Only three sector indexes beat the broad market. There is a large gap between the third and fourth best performing sectors. Four sector indexes were negative, and two others were barely positive. The industries that contributed to the sector leadership were Semiconductor Materials, Technology Hardware, Storage & Peripherals, Semiconductors, Homebuilders, Automobile Manufactures, Hotels, Resorts & Cruise Lines, Airlines, and Interactive Media & Services. Most of that leadership had one of two common themes: a short-term surge in earnings per share or some relationship to artificial intelligence.

Only 34 of the 158 industries beat the S&P 1500 Index and 43 industry indexes had negative returns. Besides having very few industries and sectors beating the broad market, the sector performance was a complete reversal of 2022 at the extremes. Energy and Utilities were the best two performers in 2022 while the top three in 2023 were the bottom three in 2022. It is possible that investors who invest based on momentum could continue entering the market and propel the narrow leadership higher but that would defy our valuation readings. The recent leadership, in general, appears expensive to our system. We would expect some type of rotation as 2023 progresses. The market value/price (V/P) ratio ended June at 1.04. According to our valuations, the broad market is not over-priced and not in need of a broad drop in prices. It is just the few leadership industries that appear expensive.

S&P 1500 Sector Returns (1/1/23 - 6/30/23)

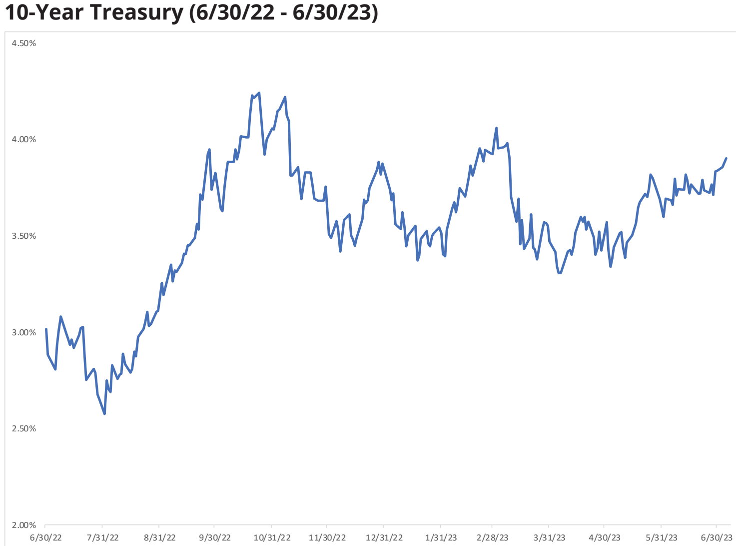
Sector	Return
Information Technology	42.0%
Communication Services	35.4%
Consumer Discretionary	30.6%
S&P 1500 Index	16.1%
Industrials	11.9%
Materials	7.7%
Real Estate	3.2%
Consumer Staples	1.7%
Healthcare	-1.2%
Financials	-1.4%
Energy	-5.4%
Utilities	-5.9%

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

Bonds

The graph below shows the yield on the 10-Year Treasury note over the last year. It shot higher from August through November in 2022, but has since been in a range roughly bounded by 3.40% and 4.20%. Lately it has moved higher but we do not expect it to pierce through the upper bound, despite the possibility of further tightening by the Federal Reserve. If the Fed does raise its target for Federal Funds twice more in 2023 (which makes sense to us) we would expect those moves to affect only short-term rates, not long term. We like bonds when the 10-year yield is in the upper part of its recent range.

10-Year Treasury (6/30/22 - 6/30/23)



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

Summary

With stock prices, on average, near our estimate of fair value, we do not see the need for the bear market of 2022 to resume. We just do not see the conditions that would make us want to chase the recent leadership. June offered some change to sector performance such as Utilities, Energy and Financials picking up and Information Technology and Communication Services dropping back in the pack, but it is too early to tell if this is the beginning of a market theme rotation. We are content holding more cash than normal.

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.

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 Utilities Index is an unmanaged capitalization-weighted index comprising companies in the Utilities sector as determined by S&P.

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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Portfolio_Update (7/2023)