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ICON Insights

Market Commentary - March 2021

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Equities

In both January and February, the S&P 1500 Index marched to all-time highs but sold off the last few days of each month. Despite those minor dips, we continue to believe the stock market can move higher. The ICON Market Value/Price (V/P) began March at 1.06, meaning stock prices are moving toward our estimate of fair value but have not reached that target yet. We do not see the over-pricing often seen at market peaks nor do we see other behaviors and conditions that often accompany the end to a bull market. For example, investor sentiment has moved more bullish in recent months, but not to an extreme.

1,406 of the companies in the S&P 1500 Index have reported 2020 fourth quarter earnings. They have beaten estimates by an average of 17.6% meaning actual earnings are much better than analysts had expected. Analysts continue to revise future earnings forecasts higher. If they prove correct, those earnings can support higher equity valuations.

In terms of industries and sectors, there has been a theme change over the last few months that suggests investors are anticipating an economic "reopening" and infrastructure spending. Year-to-date the top performing sector indexes are Energy, Financials, Industrials and Materials. The three worst performing sectors are Utilities, Consumer Staples and Healthcare, the so-call recession proof, defensive sectors. This performance appears sensible to the ICON system and therefore seems sustainable. During the initial stages of the market's rebound investors looking for growing earnings gravitated toward the "stay at home" or "work from home" stocks in addition to the large-cap technology stocks. Now they can find impressive, expected growth for the next couple of years in Energy, Financials, Industrials and Materials.

Bonds

From a low on August 4, 2020, the yield on the 10-year Treasury note has risen from 0.508% to 1.466% as of March 1, 2021. Some of this increase is due to investors expecting an economic recovery and subsequent expansion but lately, inflation fears have supported higher yields. Some analysts reason that the large expansion of the money supply combined with Federal fiscal stimulus will propel inflation and bring higher interest rates. We disagree. Monetary expansion and fiscal stimulus by themselves cannot propel inflation without a few other supportive conditions, which we find absent. The yield on the 10-year, can move modestly higher, but a large spike seems unrealistic to us.

Our position on bonds has been stated since last summer and fall 2020. We have favored short term corporate bonds over mid- and long-term Treasuries. We see short term corporates as less sensitive to rising rates and potentially able to benefit from tightening credit spreads. We maintain that position today.

Summary

We do not think it is time yet to use cash for defensive purposes as we believe the broad market can move higher. Naturally some investors have concerns and there may be setbacks, but we believe it will prove productive to ride through those over the coming year.

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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.

10-year Treasury notes are debt obligations issued by the U.S. Treasury that have a term of more than one year but not more than 10 years.

Sources: Bloomberg

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