ICON Insights

Market Commentary - March 2023

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Equities

The market advance off the low of October 12, 2022, hit a peak February 2 with the market trending lower the remainder of the month. At least in the short run, our cautious tone in the February Portfolio Update seems appropriate. The market advance was based on the hope, or speculation, among many investors that the Federal Reserve (Fed) would "pivot" and lower interest rates in mid-2023. Those hopes faded in February as inflation data released suggests the Fed will need to tighten some more to subdue inflation. Any notion of Fed easing diminished.

In the February Portfolio Update we pointed out that the sector leadership to begin 2023 did not appear sustainable as the expensive sectors were leading. Sure enough, the four leading sectors from 12/31/22 to the peak of 2/2/23 were four of the six worst performers during the decline off that peak. This can be viewed as healthy in terms of forming a bottom for the next bull market. Repeating what we stated in the February Portfolio Update, we do not believe we are in a new bull market off the October 12th low. Instead, we are looking for behaviors and conditions that appear when new bull markets begin.

It seems like the biggest questions facing investors (or at least the ones debated in the financial media) are (1) how high will the Fed take interest rates and (2) how long will it keep them there? Those who believe "lower and shorter" think the market can move higher and that a new bull market began last October. Those who believe "higher and longer" think the market could get back to its October low. At ICON, we are probably in the middle and still believe what we first presented to a financial advisor conference in late October and repeated in the February Portfolio Update. We expect the Fed to raise the Federal Funds rate target a quarter point in March and again in May and then hold steady for the remainder of 2023. In our opinion, that will get inflation down near the Fed's target of 2% by 2024 but keep stocks in a sideways trading range for a while until the next bull market begins.

Bonds

The yield on the 10-year Treasury note has been synchronized with the stock market in 2023. The yield dropped in January as stock prices rose then it turned February 2 with stock prices. The yield headed higher while stock prices went lower. The same inflation data that rattled the stock market nudged the yield on the 10-year Treasury higher. While the Fed may continue to increase short term interest rates, we do not expect longer rates to tag along higher. The yield on the 10-year Treasury ended February at 3.93% which seems very sensible to us.

Summary

It would be very unusual for the stock market to begin a new bull market before the Fed is done tightening. We are not betting on that happening, so we are content holding more cash than normal. We just don't see the conditions (including value) that often occur at the beginning of new bull markets.

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Portfolio_Update (3/2023)