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ICON Insights

Market Commentary - May 2021

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Equities

The broad market continued its march higher in April. The S&P 1500 finished April up 12.45% year-to-date and up 47.89% for the trailing one year. The move higher appears sensible to the ICON system. Even with the advance, stocks, on average, are still priced about 8% below our estimate of fair value. In addition to value, we do not see behaviors and situations often seen at market peaks such as extreme investor optimism or monetary tightening by the Federal Reserve. We see the potential for the broad market to continue moving higher the remainder of 2021.

One element contributing to the increase in intrinsic value for companies is corporate earnings. During the first four months of 2021 analysts raised their forecasts for 2021 earnings as they saw the potential for monetary and fiscal stimulus to kick in. It appears they did not raise their forecast enough as reporting companies have beaten estimates for first quarter earnings. As of this writing, 988 of the S&P 1500 companies have reported earnings and, on average, they have beaten forecasts by 24.5%. Companies in the Consumer Discretionary sector have beaten forecasts by 66.26%. Also, on average, the earnings of those 988 companies are 51.51% greater than a year ago, when the economy suddenly plunged into recession. The earnings forecasts for 2021 and 2022 are not just a rebound to 2019 levels, but impressive growth as though 2020 never happened.

Sector Index performance for 2021 through May 5 reflects the anticipation of economic recovery. For the S&P 1500 sector indexes, the top four sectors are all economically sensitive or cyclical; Energy, Financials, Materials and Industrials. The defensive, so called recession proof sectors are trailing; Consumer Staples, Utilities and Health Care. One big reversal from 2020 is Information Technology, a favorite of investors last year in the "work from home" setting, is not expected to get a boost from the "reopening" phase. Sector performance shows how broad the market advance is with six of the eleven sectors beating the S&P 1500 Index. Based on value we expect the economically sensitive, cyclical leadership to continue.

The sector indexes for the S&P 1500 Index are market capitalization weighted meaning large companies have more influence. The right column in the table shows the returns for the Small-Cap 600 Sector indexes. Small-Caps have generally been stronger than the broad market, with the Small-Cap 600 Index gaining 21.4% through May 5. Also, one big difference is the performance of the small cap Consumer Discretionary Index, up 44.0%, second best among the small cap sectors.

Sector Index Returns 1/1/2021 - 5/5/2021

Sector	S&P 1500	S&P 600
Energy	40.6%	52.4%
Financials	26.2%	23.5%
Materials	21.0%	19.0%
Industrials	17.9%	21.4%
Communication Services	14.6%	20.4%
Real Esate	14.5%	14.3%
S&P 1500/Small-Cap 600	12.2%	21.4%
Consumer Discretionary	10.4%	44.0%
Health Care	8.8%	8.2%
Utilities	5.7%	10.6%
Information Technology	5.0%	8.4%
Consumer Staples	4.3%	16.5%

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

Bonds

The yield on the 10-year Treasury note has risen from .916% on December 31, 2020, to 1.628% April 30. This increase appears to reflect that investors expect the economy to recover and grow. Yet a yield in the 1.6% range still seems low to us given the inflation forecasts for the next two and a half years. A survey of economists reported in Bloomberg shows them calling for Consumer Price Index (CPI) increases of 2.6%, 2.2% and 2.2% for 2021, 2022 and 2023, respectively. We would expect that investors holding 10-year Treasuries would at least like to hold even with inflation.

While interest rates for intermediate and long-term bonds have increased this year, which lowers bond prices, some corporate bonds have benefited. The hope for recovery and expansion have led to some bonds being upgraded in credit rating and others being repriced as some companies' financial conditions have improved. We still favor corporate bonds over Government issues.

Summary

We believe the growth forecast for corporate earnings can support higher valuations over the next year. Prices may try to keep up but their path will be influenced by news events and various situations that get a reaction from investors. The path may not be smooth but we believe the market can move higher over the next year.

***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. 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) 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. 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The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The CPIs are based on prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.

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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