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ICON Insights

Market Commentary - November 2022

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Equities

Investors are having to do a lot of guessing recently, most of it involving the behavior of the Federal Reserve (Fed). They are guessing how high the Fed will take its Federal Funds target rate and how long it will keep it there. In the last half of October, the consensus of those guesses moved toward thinking the Fed will not have to take Federal Funds as high as previously feared, nor keep it there as long. That revised view was enough to propel the S&P 1500 Index to a gain of 8.34% for the month, from 9/30/22 through 10/31/22.

Our portfolios participated in the advance, but we remain content holding more cash than normal. We did not buy into or "chase" the October move as we did not believe it was the beginning of a new bull market. We entered November with a market V/P of 1.04. We do not see stocks, on average, to be over-priced but in this case we would expect better bargains at the beginning of a bull market. In addition, bond yields are still rising, whereas we would expect those yields to begin dropping to usher in a new bull market.

With the market V/P of 1.04, we do not expect a big drop in stock prices from here, though we would prefer to hold more cash than normal until we see a majority of conditions and behaviors that accompany bottoms and the beginning of bull markets. Guessing that the Fed will not take the Federal Funds rate as high as previously feared, nor hold it there as long, is not enough to get us to return to a fully invested posture.

Bonds

For the year, the yield on the 10-year Treasury note has risen from 1.51% on December 31, 2021, to 4.05% on October 31, 2022. It has risen in tandem with short-term rates engineered by the Fed. At some point we expect short-term and long-term rates to become decoupled but that hasn't happened yet. We believe that will happened when investors get convinced inflation is greatly reduced, which we think will take a couple of more Fed hikes in the Federal Funds rate.

Summary

Not only are investors doing a lot of guessing lately, they are also changing their minds week to week and day to day. These fluctuations create some volatility in the market. That doesn't affect us. We are focused on value and spotting the conditions and behaviors that usher in new bull markets. We do not see enough of them yet, but that can change quickly, just like investors changing their minds.

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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.

Federal Funds: In the United States, the federal funds rate is the interest rate at which private depository institutions (mostly banks) lend (federal funds) at the Federal Reserve to other depository institutions, usually overnight. Changing the target rate is one form of open market operations that the Chairman of the Federal Reserve uses to regulate the supply of money in the U.S. economy.

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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