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Equities

The graph shows the S&P 1500 Index daily for 2020. It initially moved higher in January and February but then crashed in 23 days as it became apparent virus containment measures would shut down the economy. Since the low on March 23, 2020, the market has roared back as the economy has proven to not be as horrible as feared and predicted in late March. For example, unemployment has improved from a high of 14.7% in April to 8.4% in August. The rally in the stock market is sensible from the perspective that the economy is not as bad as was priced in last spring. After a roller coaster ride including a retreat in September, the S&P 1500 Index is up 4.1% YTD.

S&P 1500 Index, 12/31/19 - 9/30/2020

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

We believe the market can move higher over the next year and that the dip in September will prove to be temporary. At the all-time high on September 2, 2020, we did not see the behaviors and conditions often seen at market peaks. Stocks, on average, were priced below our estimate of fair value. Based on investor sentiment and money market fund assets, there was, and still is, a healthy dose of bearish sentiment – not the bullish optimism often seen at peaks.

There is a lot of commentary out there stating that stocks are expensive based on the ratio of stock prices to earnings, or P/E ratio. We have repeatedly disagreed with that point of view and argued that there are deficiencies to that simplistic metric. First, in times of low interest rates, it is proper to have higher P/E ratios. Second, in buying a stock, an investor is not just buying current earnings, but future earnings. Analysts who forecast earnings are calling for a resumption of earnings growth for stocks in general.

As for sectors, we continue to favor the economically sensitive, cyclical sectors such as Consumer Discretionary, Information Technology, Industrials and Materials. We find good value there as we believe economic skepticism is built into stock prices.

Bonds

When stocks crashed in late February and March so did corporate bonds on fears of potential defaults and bankruptcies. Like with stocks, we have seen a recovery in the corporate bond market, with the exception of some energy related issues. We expect the recovery to continue.

As for interest rates, the yield on the 10 year Treasury note has been in the range of .63% to .75% since mid-August. Over the long run, we expect this will prove to be too low but in the short run rates could remain this low as investors apparently just cannot see a completely healthy economy on the horizon.

Summary

In the short run there are a few distractions that create uncertainty and potential market volatility; election, Supreme Court appointment and Congress stalled on a stimulus package. When we look out a year, however, we expect the stock market to move higher, based on value and forecasted earnings growth. Therefore, we are prepared to ride through any short term deviations. It is similar to when someone is not feeling well at sea. They are advised to not look at the waves, but to look at the horizon.

***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.

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.

Price/Earnings (P/E) Ratio is the price of a stock divided by its earnings per share.

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, FactSet

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