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The S&P 1500 Index has doubled off the March 23, 2020 low, gaining 102.52% in a little over 18 months. The table shows sector index returns over that period. The top six are all cyclical or economically sensitive sectors, reflecting that investors have been pricing in an economy recovery and then a potential expansion. The bottom three are known as defensive, recession proof sectors. This appears very sensible to us as the economy emerges out of the self-imposed recession of 2020.

The theme has not been steady, however. Initially, for the first five months, Information Technology led as investors felt it was the one sector they could count on for earnings growth. After a pause in September and October of 2020, it became apparent vaccines would be available and the economy would surge. Investors chased Energy, Financials, Materials and Industrials where they thought there would be rapid growth in earnings. The theme reversed again in the summer of 2021 as investors became less optimistic for the economy amid supply chain disruptions and delta variant virus concerns. They retreated to their love affair with technology and its steady earnings growth. But in late September it reversed again as Energy, Financials, Industrials and Materials led off the September 21 dip.

We kept our sector weights fairly steady over the 18 months and did not attempt to “time” 4 to 6 month theme changes. We have been heavily weighted toward the top six sectors in the table and still believe that tilt is best going forward.

The ICON market value/price (V/P) ratio ended September at 1.12 which suggests prices would need to move higher over the next year to get to our estimate of fair value.

### Bonds

Movements in the yield of the 10-year Treasury note were synchronized with the sector themes described above. During the first five months off the March 23, 2020 low, the yield stayed low and flat, generally in the 0.6% to 0.7% range. Then when investors shifted to pricing in a robust economic expansion the yield soared up to a peak of 1.74% on March 31, 2021. Then during the spring and summer of 2021, the yield drifted lower to just below 1.20%. Consistent with the late September leadership of the cyclical sectors and pricing in an economic expansion, the yield moved back higher to end September at 1.53%. We do fear a sharp spike in yields, but we would expect the yield on the 10-year Treasury to move up closer to the long term inflation rate.

### Summary

While stocks are currently priced, on average, below our estimate of fair value, value is not stagnant. As corporate earnings grow, value grows. A survey of analysts who forecast earnings, show the analysts expect earnings to grow over the next two years at close to an historic average rate. If they are correct, fair value will continue to be an upwardly moving target for prices.

On a personal note, over the last year and a half I have written an investment book. It is being published by John Wiley and is titled “Unloved Bull Markets.” It is now being promoted on various websites so you may come across it and I didn’t want you to be surprised. There’s no mention of any ICON clients or financial partners who work with ICON. Instead, the book focuses on how individual and institutional investors failed to participate in the bull market of 2009 to 2020. Other chapters theorize the potential reasons why investors sold and doubted the bull market but also shows why they were wrong.

Finally, as a lighthearted comment, if you have been in equities with ICON since 2009 and fully participated in the two bull markets, you do not need to read the book. You have lived it.

**S&P 1500 Sector Indexes (3/23/20 - 9/29/21)**

| Sector                 | Return |
|------------------------|--------|
| Energy                 | 147.4% |
| Financials             | 123.0% |
| Materials              | 119.0% |
| Information Technology | 118.0% |
| Consumer Discretionary | 116.2% |
| Industrials            | 113.8% |
| Communication Services | 98.9%  |
| Real Estate            | 89.2%  |
| Health Care            | 79.1%  |
| Consumer Staples       | 53.1%  |
| Utilities              | 50.5%  |

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

**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.

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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.

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 (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. The S&P SmallCap 600 Energy Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Energy sector. The S&P SmallCap 600 Materials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Materials sector. The S&P SmallCap 600 Industrials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Industrials sector. The S&P SmallCap 600 Health Care Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Health Care sector. The S&P SmallCap 600 Financials Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Financials sector. The S&P SmallCap 600 Information Technology Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Information Technology sector. The S&P SmallCap 600 Real Estate Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Real Estate sector. The S&P SmallCap 600 Communication Services Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Communication Services sector. The S&P SmallCap 600 Utilities Index comprises those companies included in the S&P SmallCap 600 that are classified as members of the GICS Utilities sector.

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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