By Craig Callahan, DBA | ICON Founder & President **Published 10'3'2022**

Equities

For the third quarter ending September 30, 2022, the S&P 1500 Index dropped 4.76% and finished slightly below its previous low from June 16, 2022. Entering this quarter, we wrote in our July Portfolio Update, "We have studied market bottoms and found that stocks are typically priced, on average, below our estimate of fair value, but there are other supportive conditions that help stock prices move higher off the bottom. We don't see enough of those supportive conditions currently. Therefore, we are content holding cash in the funds at a much higher than normal level."

Off of the June 16th low, the broad market moved higher for two months, peaked on August 16th and then headed lower to end the quarter. Over the entire quarter, the cash we raised in late May proved beneficial. In early August we didn't believe that the stock market had the supportive conditions to be the beginning of a new bull market, so we sold more stocks and raised our cash level above what they were entering the third quarter.

"Supportive conditions" are behaviors or actions that have often occurred at the market bottom or early in the beginning of a new bull market. For example, investor sentiment is usually incorrectly bearish which is why it is labeled a "contrarian indicator." As another example, in the final stages of a bear market many more issues are declining than advancing each day. At an extreme, it is an indication the market has become oversold." Both investor sentiment and the ratio of advances to declines are at historic low levels typical of market bottoms. For ICON, however, the support condition that is still missing is a drop in corporate bond yields. In our opinion, corporate bond yields are a function of inflation expectations and corporate credit risk. A downturn in corporate bond yields would signal that investors expect inflation to subside and that they see a reduction in the risk of defaults. When those two expectations take over, along with on sale stocks, the stage would be set for a new bull market. We believe that will happen over the next year, it just hasn't happened yet. As mentioned a quarter ago, we are still content holding a much larger than normal amount of cash in the funds.

Bonds

Again referring back to our July Portfolio Update, entering the third quarter we wrote "At some point we expect short term and long-term rates will become decoupled. In other words, Federal Funds and T-Bills could keep rising as the Fed tightens in order to tame inflation, but long-term rates could level off and perhaps even retreat as bond investors believe the Fed will succeed." As the yield on the ten-year Treasury dropped in late June, we concluded "With just two weeks of data, it is too early to tell if this is the decoupling we expected." The ten-year yield continued to move lower through July but during August and September, it joined the short term rates and stormed higher.

Bloomberg News reports a survey of economists. The economists surveyed are calling for year-over-year inflation of 8.0% for 2022, but a modest 3.8% in 2023 and down to 2.4% for 2024. If they are anywhere near correct, we would expect the decoupling of long term rates from short term rates as investors would see inflation subsiding. In that setting, long term rates would no longer tag along with (the Federal Reserve influenced) rise in short term rates

Summary

We begin the fourth quarter with an ICON market value/price (V/P) ratio of 1.07, meaning stocks, on average, are priced below our estimate of fair value. We expect the Federal Reserve to continue to raise its Federal Funds target, which is usually bad for stocks, but with a V/P of 1.07 stock prices may have already discounted the tightening. If that is the case we may have seen the low for the 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.

Long Term Growth (LTG): An expected rate of growth per year for earnings per share over the next five years, published for thousands of companies by the I/B/E/S service.

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.

T-Bill: A Treasury bill (T-Bill) is a short-term debt obligation backed by the Treasury Dept. of the U.S. government with a maturity of less than one year. T-bills can have maturities of just a few days or up to a maximum of 52 weeks, but common maturities are 4, 8, 13, 26, and 52 weeks. The longer the maturity date, the higher the interest rate that the T-Bill will pay to the investor.

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

Please visit ICON online at ICONAdvisers.com or call 1-800-828-4881 for the most recent copy of ICON's Form ADV, Part *2.*

8480 E Orchard Road, Suite 1200
Greenwood Village, CO 80111
1-800-828-4881 • ICONAdvisers.com