ICON

ICON Insights

Market Commentary - August 2023

By Craig Callahan, DBA | ICON Founder & CEO

Published 8'1'2023

Equities

The stock market has moved higher in 2023 but in terms of themes and sector leadership, the last two months have been totally different from the first five months. The table shows sector index performance for the first five months (12/31/2022 through 5/31/2023) on the left and the last two months (5/31/2023 through 7/31/2023) on the right. The Indexes have been color coded to highlight the shifts in performance.

What stands out about the early move is just how narrow the participation and leadership was. Only three sectors beat the S&P 1500 Index, with two of those gaining over 30%. As for the other eight, seven were negative and one (Industrials) was barely positive. What drove that investor behavior? We can only infer that investors believed the tightening by the Federal Reserve (Fed) over the last year would lead to a recession. The primary place they could find expected earnings growth was in the high growth Information Technology sector, especially anything related to artificial intelligence. Just the opposite, cyclical or economically sensitive sectors such as Energy, Financials and Materials were negative. It should be noted that Communication Services is a relatively recent creation of Standard & Poor's. They pulled industries out of Information Technology, Consumer Discretionary and Telecommunications and combined them into Communication Services. During the first five months of 2023, it was primarily the former Information Technology industries that propelled that sector.

Index Returns 12/31/22 - 5/31/23

Index	Return
Information Technology	33.1%
Communication Serv.	31.9%
Consumer Discretionary	16.8%
S&P 1500	8.8%
Industrials	0.2%
Consumer Staples	-1.6%
Real Estate	-2.4%
Materials	-3.0%
Healthcare	-5.4%
Utilities	-7.2%
Financials	-7.6%
Energy	-11.7%
NASDAQ	24.1%
S&P 500	9.6%
S&P Small-cap 600	-2.1%

Index Returns 5/31/23 - 7/31/23

Index	Return
Energy	15.6%
Consumer Discretionary	15.1%
Materials	15.0%
Industrials	14.9%
Financials	12.4%
S&P 1500	10.3%
Communication Serv.	9.7%
Information Technology	9.5%
Real Estate	7.7%
Consumer Staples	5.5%
Healthcare	5.4%
Utilities	3.8%
S&P Small-cap 600	14.2%
NASDAQ	11.0%
S&P 500	10.0%

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

On the right, notice how broad the participation and leadership is over the last two months. All eleven sectors are positive and five are beating the S&P 1500 Index. Those five leaders are all cyclical or economically sensitive. The two previous leaders are lagging the broad market. At the bottom we see the so-called recession proof, defensive sectors; Utilities, Healthcare and Consumer Staples. Apparently, investors have gone from expecting and pricing in a recession to now believing a recession will be avoided and are pricing in an economic expansion.

The table also illustrates another major shift. Small capitalization stocks, as represented by the S&P Small-cap 600 Index, had dismal performance the first five months but recently have come alive and are beating the large capitalization stocks as represented by the S&P 500 Index.

During the first five months of 2023, we wrote that the theme did not appear sustainable to us. The industries that were leading appeared over-priced to us and industries that were bargains were not participating. The new theme since May 31, seems more sensible to our system and is, therefore, perhaps sustainable for a few months. Some of the new leading industries have Value/Price (V/P) ratios greater than 1.00. Here are a few examples with their V/P. Diversified Chemicals 1.37, Regional Banks 1.11, Diversified Banks 1.34 and Airlines 1.44. With an overall market V/P of only 1.02, we are cautiously participating in this new theme.

Bonds

Inflation has been coming down, about in line with forecasts from economist a year ago. In that setting, the yield on the 10-year Treasury has been in the approximate 3.40% to 4.00% range, which is sensible to us. We do not expect a breakout to the upside.

Summary

The S&P 1500 Index closed July just 2.04% below its high of January 3, 2022. Looking back the "bear market" of early 2022 (as some analysts labeled it) was not only unusual, but irrational. Unusual, in that it began before the Fed started raising its Federal Funds target rate. Irrational, in that in its leading relationship with stocks, it was predicting a recession which hasn't occurred. Like Paul Samuelson, MIT economist said, "The stock market is a leading indicator. It has predicted 9 of the last 5 recessions." Looking ahead, this new theme may last a few months but is fragile and will be vulnerable to any weak economic news or data. As stated earlier, we are cautiously participating.

***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. 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 unmanaged NASDAQ Composite ("NASDAQ") Index is a broad-based capitalization-weighted index of all NASDAQ National Market and Small-Cap stocks.

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 Utilities Index is an unmanaged capitalization-weighted index comprising companies in the Utilities sector as determined by S&P.

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**.*

ICON

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