ICON Insights

Market Commentary - January 2024

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Equities

The graph, at right, shows the S&P 1500 Index for 2023. The straight lines highlight two very different themes prior to and after May 31, 2023. On a sector basis, those themes are seen in the table that follows.

The move during the first five months of the year was very narrow, with only three sectors beating the broad market and seven of the eleven sectors were actually negative. The move was led by a small group of large-cap stocks which the media labeled as "The Magnificent Seven." Most of those were in Information Technology, a couple were in Telecommunication Services, and one was in Consumer Discretionary. After May 31, the leaders were Financials, Consumer Discretionary and Industrials. Financials was a big reversal from earlier in the year while the other two leading sectors got a boost from broader participation. The so-called recession proof, defensive sectors lagged. Two other reversals are worth noting: small cap and dividend paying stocks did poorly the first five months but did much better during the second, year-ending theme.

In late 2022 we had reduced our technology exposure, based on our value readings, so our portfolios did not participate in the early 2023 leadership which was, in our view, momentum driven. Value investing has a reputation of being "early in and early out," and as a result our move out of technology and into financials and industrials was early by a few months.

We did not believe the theme of the first five months of 2023 was sustainable. Our system showed the leadership as overpriced while the stocks with value were not participating. Now, with an overall market V/P of 1.05 and the ability to find value among the leaders we believe the move we saw over the last seven months of 2023 is more sustainable moving into early 2024. Our data at the industry level supports that view.

To be eligible for ICON to purchase, an industry must have both an average V/P and relative strength greater than 1.00 over the previous six months. Entering 2024, thirty-two industries qualified, and here they are by sector: Financials 12, Consumer Discretionary 7, Industrials 5, Communication Services 5 and Materials, Consumer Staples and Real Estate with 1 each. In summary, the three leading sectors are providing the highest number of eligible industries for purchase giving us belief that the move of late 2023 is sustainable in early 2024. Note, there are no Information Technology industries eligible for purchase according to our valuation system.

S&P 1500 Index (2023)

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

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

Sector Index	Return
Information Technology	33.1%
Communication Services	31.9%
Consumer Discretionary	16.8%
S&P 1500 Index	**8.8%**
Industrials	0.2%
Consumer Staples	-1.6%
Real Estatte	-2.4%
Materials	-3.0%
Health Care	-5.4%
Utilities	-7.2%
Financials	-7.6%
Energy	-11.7%
S&P Small-Cap 600	-2.1%
Dow Jones Dividend	-9.1%

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

Sector Index	Return
Financials	20.8%
Consumer Discretionary	20.3%
Industrials	20.1%
Information Technology	17.6%
Communication Services	17.0%
Materials	17.0%
S&P 1500 Index	**15.3%**
Real Estate	14.2%
Energy	12.4%
Health Care	7.7%
Consumer Staples	2.9%
Utilities	-0.4%
S&P Small-Cap 600	18.4%
Dow Jones Dividend	11.7%

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

Bonds

We believe the primary determinant of bond yields is inflation. The graph on the following page is one we have been showing audiences for over the last 18 months. It shows six- and twelve-month rates of change for the Consumer Price Index (CPI) up to the present and then predictions from economists taken from a survey by Bloomberg News. First, going back a year and a half, this group has been pretty accurate in its predictions for inflation. The economists correctly guessed that with the current resources of land, labor and capital and the current demographics, that inflation would decline, more rapid at first and then more gradual later. Today, they are predicting inflation will gradually decline into the 2.4% to 2.3% range over the next year.

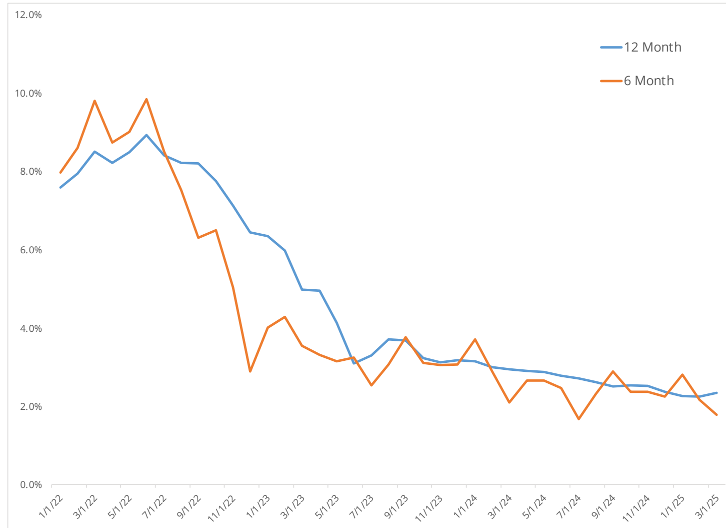
If they are correct, the yield on the 10-year Treasury could be quite comfortable in the 3.5% to 4.0% range, perhaps even lower. Just the opposite, there would seem to be no need for it to return to its October 5.00% peak.

Summary

Economists and investors modified their view of the economy as 2023 unfolded, which we believe explains the market's advance and theme change. Entering 2023, surveys show that the most common expectation was for a recession. With that belief, the only place investors could find growing earnings was in the "Magnificent Seven" and a few other artificial intelligent related issues. Throughout the year, however, with the economy experiencing momentum, surveys showed that recession fears were being replaced by a belief in a "soft landing," which explains why the cyclical, economically sensitive industries came alive.

Many indexes are at or near their all-time highs and we expect the market to move higher in 2024, but these indexes may bump their heads a few times on the ceiling before breaking through.

Monthly Trailing Inflation (CPI), Includes Estimates



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.*

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 Dow Jones U.S. Select Dividend Index is comprised of 100 stocks that are selected to the index by dividend yield, subject to screens for dividend-per-share growth rate, dividend payout ratio, and average daily dollar trading volume. The Dow Jones U.S. Select Dividend Index is comprised of 100 stocks that are selected to the index by dividend yield, subject to screens for dividend-per-share growth rate, dividend payout ratio, and average daily dollar trading volume. 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. The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The CPIs are based on prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.

Sources: Bloomberg

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