# ICON Insights

Market Commentary - October 2023

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## Equities

We have previously stated that we believe the market experienced a theme, or sector leadership, change on May 31, 2023. Since then, the broad market advanced for two months, hitting a short-term peak August 31. Then it dropped for two months in August and September. During the two month advance the leadership was economically sensitive, or cyclical sectors; Energy, Materials, Industrials, Consumer Discretionary and Financials. The so-called defensive, recession proof sectors lagged as did the early 2023 leaders: Information Technology and Communication Services. Investors apparently believed inflation could be reduced without the economy experiencing a recession or, as many call it, “a soft landing.”

The subsequent two month decline during August and September was not as clear cut, driven by the increasing price of oil and the somewhat related rise in long term interest rates. Energy and Financials held up better than average, but Industrials and Materials fell more than the broad market along with Information Technology. Yield sensitive sectors like Real Estate and Utilities suffered the worst drops. It appears investors went from believing a recession could be avoided to being “not so sure” with oil and long-term interest rates adding contracting factors to the tightening of the Federal Reserve.

Our market value/price (V/P) ratio ended the quarter (9/30/23) at 1.03, suggesting stocks, on average, are priced slightly below our estimate of fair value. We did not see the behaviors often seen at market peaks any time in the last two months, and we expect the market to resume its path higher.

## Bonds

For about a year, the yield on the ten-year Treasury stayed in a range of roughly 3.4% to 4.2%, even though the Federal Reserve was raising its Federal Funds target rate with T-Bill yields tagging along higher. Lately, with the short-term rates holding about even, the 10-year yield has surged higher driven by two factors independent of the Federal Reserve: higher oil prices and the U.S. Treasury issuance of new debt. We believe both of these factors are short term in nature and not capable of driving long term interest rates higher over the next year. Nevertheless, lately, the idea of selling (or shorting) government bonds has become very popular and attracted the momentum-oriented investors and hedge funds.

As we were not attracted to the long-term end of the yield curve, our fixed income positions have not experienced the full shock of the rate spike. If long term rates keep moving higher, we expect to find them more attractive and extend our duration.

## Summary

We are currently seeing a variety of short-term currents that we believe are driving the market, these include: the price of oil, long term treasury yields and constantly changing guesses of whether there will be a recession or soft landing. We try to avoid reacting to those headlines and focus on value and themes. We believe the market can move modestly higher over the next six to 12 months and although we’re holding more cash than normal, we are approaching it with caution.

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*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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