ICON Insights

Market Commentary - September 2023

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Equities

The S&P 1500 Index drifted lower the first seventeen days of August and then rebounded a bit to finish the month down just -1.73%. We contend that the market changed themes May 31, 2023 and believe that the small drop in August was just a pause or interruption to the new theme. Since May 31, the S&P 1500 Index is up 8.69% through September 1 and the top five sector indexes, all of which are beating the 1500, are: Energy, Industrials, Consumer Discretionary, Materials and Financials. This cyclical, economically sensitive leadership makes sense to our system based on valuations. Information Technology, which was leading the first five months of 2023, is lagging the broad market lately, which also makes sense to our system as it is difficult finding value there.

With the tightening of monetary policy by the Federal Reserve over the last seventeen months, there is plenty of debate over whether there will be a recession, soft landing or even no slow down at all and those views change monthly as data is released. We have not entered that debate. With a market value/price (V/P) of 1.04 and decent value in some of the recent leading industries, we would expect the market to move higher over the remainder of 2023. In a sense, more of what we have seen since May 31. The combination of value and strength that we find in some industries suggest their stock prices have the potential to move higher.

In August, we reduced exposure to Information Technology, Communication Services and Consumer Staples. We increased exposure to Industrials and Materials where we can find more value.

Bonds

The table, at right shows a Bloomberg survey of economists and their forecasts for year-over-year CPI (inflation) quarterly. It shows that they are expecting annual inflation to drop from 3.5% in the third quarter of 2023 to 2.4% the fourth quarter of 2024. If they are correct, we would see no reason for the yield on the 10-year Treasury note to move higher. It begins September at 4.18%, a yield that would seem to compensate investors for future inflation.

Year Over Year CPI Forecast*

Quarter	Y-O-Y CPI
Q3-2023	3.5%
Q4-2023	3.2%
Q1-2024	2.7%
Q2-2024	2.6%
Q3-2024	2.5%
Q4-2024	2.4%

Source: Bloomberg

Summary

We expect the broad market to move higher for the rest of 2023. There is still some value in the new leadership, so we think their recent move is sustainable. In addition, we do not see the behaviors and extremes often seen at market peaks. As stated in August, we are cautiously trying to participate.

** CPI Forecast: Every month, Bloomberg surveys 68 economists asking them their forecasts for things such as GDP, CPI, unemployment, housing starts and chance of recession.*

***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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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 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.

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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Portfolio_Update (9/2023)