ICON

ICON Insights

Market Commentary - August 2024

By Craig Callahan, DBA | ICON Founder

Published 8'5'2024

Equities

For a little over six months, the stock market had an obvious theme in 2024. Market capitalization weighted broad indexes advanced but only due to a few large-cap stocks. The leaders were technology and artificial intelligence related. Most other stocks were very sluggish. We can only infer that with the Federal Reserve (Fed) implementing tight monetary policy, most investors and large hedge funds were worried about the potential for a recession. We can only guess that they reasoned the only places they could find growing earnings they trusted were in companies with unique technology related stories and businesses. We wrote that ICON thought that market theme was not sustainable as stocks on sale were sluggish and the leaders were mostly over-priced.

Index Returns 7/9/24 - 7/31/24

Sector Index	YTD Return
Real Estate	7.78%
Materials	6.57%
Industrials	6.53%
Utilities	6.17%
Financials	5.82%
Energy	4.90%
Healthcare	3.58%
Consumer Staples	1.52%
S & P 1500 Index	-0.19%
Consumer Discretionary	-1.10%
Information Technology	-6.26%
Communication Servies	-6.50%
S&P Small-cap 600	12.13%
Dow Jones Dividend	6.01%

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

Pre-market opening on July 10, the Bureau of Labor Statistics announced that the consumer Price Index (CPI) dropped -0.1% in the month of June. Immediately investors reasoned the Fed's tight policy would soon end and that it would instead ease by reducing the Federal Funds target rate. The table, at right, shows sector index performance from the close on July 9 through July 31, featuring a complete reversal of the early 2024 theme. The previous leaders, Information Technology and Communication Services became the worst two sectors, while economically sensitive sectors like Materials, Industrials, Financials and Energy came alive. In addition, small-caps led and dividend paying stocks did well, in a reversal from early 2024. With the Fed anticipated to ease, this index performance resembles an economic recovery anticipation rally.

But not so fast! Labor and Jobs reports the mornings of August 1 and 2 showed a weakening labor market and an uptick in the unemployment rate to 4.3%. This news was enough to resurrect the recession concerns that had been lingering, as investors worried the Fed's tight policy had gone too far. The result was a broad market sell-off that included most of the new, recent and former leaders. Only a few defensive, so-called recession proof sectors held up. We believe investors overreacted to one-month's data. We believe the last 18 trading days of July gave us a glimpse of what a market should look like with the Fed easing. We have also seen volatility and turbulence accompany theme changes. We think that is what is going on.

Bonds

The yield on the 10-year Treasury had been in a downward trend since its recent peak of 4.70% in late April of 2024, but fell off a cliff with the labor statistics and consequent recession fears the first two days of August. It closed August 2, 2024, at 3.79%. Like with equities, it appears to us to be an over-reaction to one month's data and simply returned the yield to its late December 2023 level. We do believe interest rates can stay low, but this recent move just looks too far, too fast.

Summary

Our 40 years of experience tells us that investors are not good at embracing, or handling, moderation. Instead, they are quick to adopt extremes like economic boom or recession. We expect the first two days of August will prove to be another example. Major theme changes usually take a month or two and feature a tug of war between different themes with some volatility. That appears to be what is going on in the market currently.

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 (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. Individuals cannot invest directly in an index.

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. Dividend 100 Index is designed to measure the performance of high-dividend-yielding stocks in the U.S. with a record of consistently paying dividends, selected for fundamental strength relative to their peers, based on financial ratios. Individuals cannot invest directly in an index.

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

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