ICON Insights

Market Commentary - February 2024

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Equities

Index Returns 12/31/23 - 2/5/24

Sector Index	Return
Communication Services	9.70%
Information Technology	7.22%
Healthcare	4.17%
S&P 1500 Index	**3.20%**
Consumer Staples	2.57%
Financials	2.33%
Industrials	0.55%
Consumer Discretionary	-0.76%
Energy	-1.08%
Utilities	-4.96%
Materials	-5.30%
Real Esate	-6.45%

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

The market advance the last nine weeks of 2023 made sense to our system. Some of the leadership in sectors like Consumer Discretionary, Financials and Industrials had value/price ratios greater than 1.00. For ICON that meant the market was recognizing value. In addition, there was broad participation as six of the eleven sector indexes beat the S&P 1500 Index from October 27 through December 31, 2023. Only one sector index, Energy, posted a negative return. At the stroke of midnight, to end 2023, the market totally changed personalities. The table shows sector performance for 2024 through February 5. The S&P 1500 has gained 3.20% but only three of the eleven sectors have beaten it. Five, almost half, of the eleven sectors are negative. The very narrow leadership is concentrated in Information Technology and Communication Services. These two sectors are heavily influenced by what Wall Street has labeled “The Magnificent Seven,” large-cap, technology-related companies. In general, ICON is not finding value in those two leading sectors, so we do not see this new 2024 theme to be sustainable. One other significant change from late 2023 into early 2024 is the performance of small-cap stocks. They were apart of the leadership over the last nine weeks of 2023, but are down -4.86% in 2024, through February 5th. For the market to continue moving higher, we would need to see new leadership, including Financials, Industrials and small-cap stocks.

As to what caused the theme change as 2024 began, we believe it was investors’ expectation for Federal Reserve (Fed) behavior. The last two months of 2023 many investors adopted a popular view that the Fed would begin to lower its Federal Funds target rate in March of 2024. Given the current strength of the economy, that drop in rates would be very favorable for cyclical, economically sensitive industries and small-caps. As 2024 has unfolded, based on communications from Fed leaders, the timing of a rate reduction has been pushed back into mid or late 2024. With that revised expectation, investors went back to finding earnings growth in a very narrow segment of the market.

Bonds

From late October 2023 through December 27, the yield on the 10-year Treasury note dropped from almost 5.00% to 3.80%, back when most investors thought the Fed would begin lowering its Federal Funds target rate in March of 2024. With the new revised view of the Fed, the 10-year yield has risen back up to 4.16% as of February 5th. Over the long term we expect the 10-year yield to move lower, but for the coming months it appears comfortable in the 3.80% to 4.20% range.

Summary

At ICON, we do not trade stocks or bonds based on guessing what the Fed will do but that is a popular approach for many investors. Their behavior has caused some theme changes and reversals over the last year. We do not believe the theme to begin 2024 is sustainable, yet we are not seeing the conditions and behaviors that often accompany market peaks. With stocks, on average, not over-priced we are cautiously participating in the market.

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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