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ICON Insights

Market Commentary - February 2025

By Craig Callahan, DBA | ICON Founder

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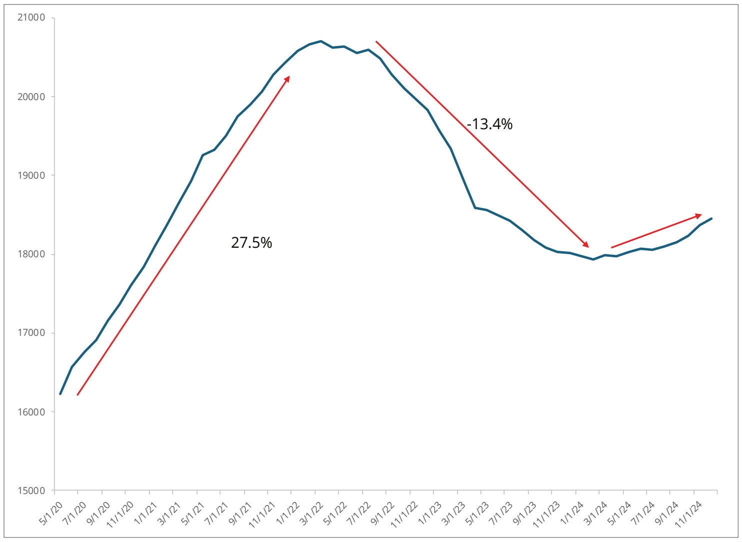
Equities

After a year and a half of "tight" monetary policy, the Federal Reserve (Fed) lowered its Federal Funds target rate by 50 basis points in September 2024. It followed with two more cuts of 25 basis points in November and December, dropping the rate from its high of 5.33% to 4.33%. The Fed has hinted that it might make two or three more cuts in 2025. Many investors view this as the "easing" of monetary policy. But other investors focus on the Federal Funds rate at 4.33% still being greater than trailing one year inflation of 2.9% as measured by the Consumer Price Index (CPI). With this relationship, they view monetary policy as still being "tight" and restrictive. This policy interpretation is similar to viewing the glass as half empty or half full.

The ultimate goal of monetary policy is to influence the money supply; easing to make it grow, tightening to slow its growth or even contract it. Let's look to the money supply to see if we should see it as easing or tight. Below is a graph of the Money Supply, M1 which is defined as currency, demand deposits (checking accounts) and savings deposits. It is reported monthly. The graph begins in May 2020 when the Fed began easing to help the economy when we were shutting it down to minimize the spread of Covid. The first arrow highlights that the Fed was very successful in increasing M1 by 27.5% in twenty-two months. The increase in M1 helped minimize the recession, but contributed to inflation. The second arrow highlights how the Fed successfully contracted the money supply by 13.7% to fight inflation. The third arrow shows that M1 is growing again. In fact, the last three months have been slightly faster than its historic average. Since M1 is growing, we believe the "easing" perspective wins out over the "still tight" perspective. In other words, M1 means more than the interest rate differential between Federal Funds and CPI.

Money Supply (M1), 5/31/20 - 12/31/24



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

Whether monetary policy is easing or tight matters because they create two very different stock market themes. Tight monetary policy is usually bad for small-cap stocks, dividend paying stocks and economically sensitive, cyclical sectors. Just the opposite, easing monetary policy is good for those three groups. The table, at right, shows various index performance for January 2025 and suggests the "easing" perspective is being adopted by investors to start 2025. Economically sensitive, cyclical sectors are among the leaders and small-caps and dividend paying stocks are participating.

Index Returns 1/1/25 - 1/31/25

Sector Index	Return
Telecommunication Serv.	8.98%
Health Care	6.74%
Financials	**6.38%**
Materials	5.05%
Industrials	4.78%
Consumer Discretionary	4.25%
S&P 1500 Index	2.85%
Utilities	2.84%
Consumer Staples	2.12%
Energy	1.91%
Real Estate	1.59%
Information Technology	-2.72%
Small-Cap 600	2.91%
S&P 500 (Large)	2.78%
Dow Jones Dividend	2.73%

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

Summary

The Fed is not the only uncertainty puzzling Wall Street. Potential tariffs are also on the list. Here is a quote from a Bloomberg news article. "In 2019, the first full year after Trump began imposing the levies — which were much more carefully targeted versus the broad ones he's threatening now — the US lost 43,000 factory jobs, industrial production contracted, business investment stalled and real median household incomes fell for the first time in five years. By one estimate, the hit to consumer earnings was $8 billion." ICON is not entering that guessing game. The fed is easing, M1 is growing, and we can find value in industries that are part of the new leadership. That's enough for us to favor being invested.

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) 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 unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. 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.

Federal Funds: In the United States, the federal funds rate is the interest rate at which private depository institutions (mostly banks) lend (federal funds) at the Federal Reserve to other depository institutions, usually overnight. Changing the target rate is one form of open market operations that the Chairman of the Federal Reserve uses to regulate the supply of money in the U.S. economy.M1 is one measure of the money supply that includes all coins, currency held by the public, traveler's checks, checking account balances, NOW accounts, automatic transfer service accounts, and balances in credit unions.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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8480 E Orchard Road, Suite 1200

Greenwood Village, CO 80111

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