ICON Insights

Market Commentary - January 2025

By Craig Callahan, DBA | ICON Founder

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Equities

Moving into 2025, we believe it's important to recognize some of the major shifts seen in the market to close 2024. The tables show various index returns for both the first half (left) and second half of 2024 (right). They demonstrate two totally different markets or themes. The leadership in the first half was very narrow, with only two sector indexes beating the broad S&P 1500 Index. Those sectors are heavily weighted toward the Magnificent 7, artificial intelligence and unique growth situations. Economically sensitive, or cyclical, sectors like Consumer Discretionary, Financials, Industrials and Materials lagged. Small-caps and dividend paying stocks were very sluggish. During the first half, tight monetary policy was still in place as the Federal Funds rate was 5.33%, about two percentage points above trailing one year inflation.

Index Returns 12/31/23 - 6/30/24

Sector Index	Return
Information Technology	27.8%
Communication Services	26.0%
S&P 1500	**14.4%**
Energy	10.7%
Utilities	9.8%
Financials	9.3%
Consumer Staples	8.9%
Healthcare	7.5%
Industrials	7.4%
Consumer Discretionary	5.3%
Materials	2.6%
Real Estate	-2.5%
S&P Small-Cap 600	-0.7%
Dow Jones Dividend	5.0%

Index Returns 6/30/24 - 12/31/24

Sector Index	Return
Consumer Discretionary	21.3%
Financials	18.7%
Utilities	12.6%
Communication Services	10.8%
Industrials	8.7%
S&P 1500	**8.4%**
Real Estate	8.1%
Information Technology	6.4%
Consumer Staples	5.4%
Materials	-2.9%
Energy	-4.2%
Healthcare	-4.3%
S&P Small-Cap 600	9.5%
Dow Jones Dividend	11.0%

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

In early July investors began to anticipate that the Federal Reserve (Fed) would switch to easing and lower the Federal Funds rate. Indeed, they were right, and that rate ended 2024 at 4.33%. We believe that Fed easing is the primary reason for the new stock market theme that included broader leadership. Five sector indexes beat the S&P 1500 in the second half, as did small-caps and dividend paying stocks. Some of the leadership sectors were economically sensitive, or cyclical – Consumer Discretionary, Industrials and Financials. In this new theme Information Technology lagged. The second half theme of 2024 appears sensible to us based on value and easing monetary policy. We're finding value among the new leaders whereas the leadership during the first half of the year generally appeared over-priced to our system.

The last two months 2024 were interesting though. In November, investors tried to anticipate what would come out of a Trump-Republican Congress combination. Their buying was aligned with the new theme like Financials, Industrials and small-cap. Then in December it completely reversed for three reasons. (1) Apparently investors thought the November move was "too much, too fast" given the uncertainties of politics. (2) The Fed hinted that it would slow the rate of easing monetary policy, at least slower than investors had hoped, and (3) we believe some institutions bought the hot stocks of the first half of 2024 just so they would appear in their year-end statements, something referred to as "window dressing".

We believe the theme reversal in December was temporary, and we expect the general theme of the second half of 2024 to extend into 2025.

Bonds

Over the last two years we have written a lot about the decoupling of short-term and long-term interest rates, which again happened over the last few months of 2024. From September 16, 2024, through December 31 the yield on 13-week T-Bills dropped from 4.922% to 4.285%. At the same time, the yield on the 10-year Treasury note increased from 3.619% to 4.572%. The obvious question arises: Are both moves sensible? The drop in the T-Bill yield does appear sensible as it is closely related to the Federal Funds rate, which also dropped during that period. To us, however, the rise in the 10-year yield appears excessive. A survey of economists reported on Bloomberg show them calling for annual inflation of 2.3% to 2.5% through mid-2026. If they are correct the current yield on the 10-year Treasury seems too high.

Summary

There is al old adage on Wall Street, "Don't fight the Fed." Currently that would mean to own stocks as the Fed is easing. Many investors are disappointed the Fed has hinted that it will not ease as fast as those investors had hoped, but to us, pace doesn't matter. Easing is easing. Based on value and the Fed hinting it will ease more in 2025, we like owning stocks.

***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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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.

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.

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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8480 E Orchard Road, Suite 1200
Greenwood Village, CO 80111
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