ICON Insights

Market Commentary - July 2024

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Equities

The stock market experienced a very unusual first half of 2024. The gain of 14.34% for the market-cap weighted S&P 1500 Index was not so unusual but the narrowness and gap between the leaders and laggards leads us to describe the advance as "unusual." The first table, on the left, shows sector index performance for the eleven S&P sectors plus two other indexes. Large technology and technology-related issues propelled the top two indexes, but then there is a large gap between those two leaders and the rest. In fact, over 15 percentage points between second and third and only two sector indexes beat the 1500 Index. The Small-cap 600 Index was negative, and the Dow Jones Dividend Index lagged. We believe those two sectors have the potential to lead if a new theme emerges. In terms of narrow, on June 18 when the S&P 1500 Index hits it all-time high, only 60 stocks on the New York Stock Exchange hit a 52-week high. Even more, 70 made 52-week lows that day.

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

Sector Index	YTD Return
Information Tech.	27.8%
Communication Services	26.0%
S&P 1500 Index	**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	-2.4%
Small-Cap 600	**-0.7%**
Dow Jones Dividend	**5.0%**

Earning Per Share (EPS)

Year	S&P 1500	Info Tech
2018	24.5%	22.1%
2019	2.0%	11.8%
2020	-13.7%	1.6%
2021	42.9%	28.7%
2022	13.5%	16.6%
2023	-1.6%	-0.4%
2024	9.6%	22.9%
2025	13.6%	20.0%
2026	8.2%	8.8%

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

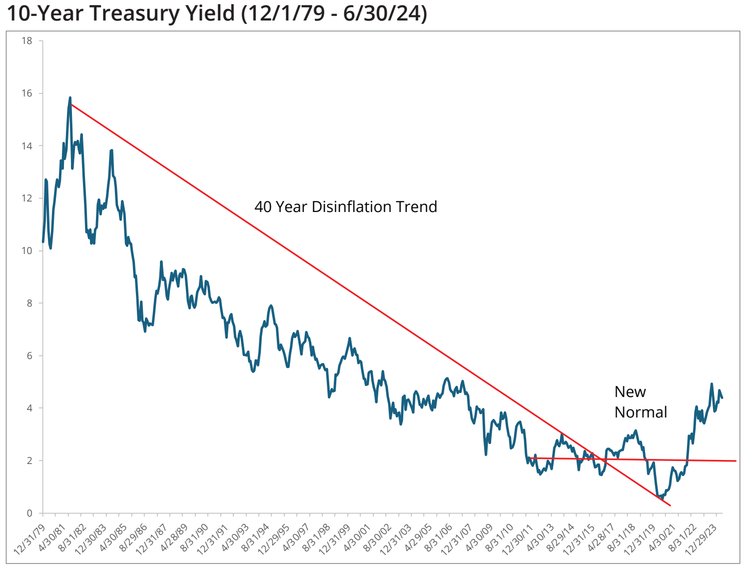
Earnings may explain the recent love affair between investors and Information Technology. The second tbale on the right shows year-over-year rates of change for earnings per share for the S&P 1500 Index and the Information Technology Index (INFT). INFT held up better in the self-imposed recession of 2020. Then INFT lagged in the recovery rebound of 2021. Both slipped a little in 2023. What stands out, and what might explain the recent love affair with INFT, is the forecasted earnings surge in 2024 (20.0%) and 2025 (22.9%) for that sector. Analysts see that sector returning to near average in 2026. Based on our valuation methods, we see those earnings as already reflected in today's prices.

Twice this year, the market attempted to change themes and get broader for a few weeks, only to reverse back to the narrow technology and technology-related leadership. Many analysts have declared that the leadership is expensive and that for the market to continue higher new leadership must emerge. We agree, but must acknowledge that, once momentum has taken over, narrow expensive leadership can continue for many months. Our position is to attempt to cautiously participate by owning stocks we believe are high quality and priced below our estimate of intrinsic value.

Bonds

The graph shows the yield on the 10-year Treasury note from December 31,1979 through June 30, 2024. The long line connecting the peak to the trough emphasizes the 40-year disinflation trend. During that period, buying and holding bonds worked as yields dropped and prices moved higher. In other words, the wind was at investors' backs. The shorter line to the right emphasizes a new sideways setting for bonds with peaks and troughs. We contend it takes more skill to manage bonds in this new setting, a setting we believe is well suited for our value approach to the bond market. We can find value in certain sectors of the bond market and currently do not fear a big spike in yields.

10-Year Treasury Yield (12/1/79 - 6/30/24)



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

Summary

We believe the market can move higher, but unfortunately for the time being, it is powered by momentum, not value. We would like to see a theme change and broader leadership, but we are stuck playing the hand we were dealt. Therefore, we are attempting to cautiously participate.

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.

EPS: Earnings from ongoing operations; earnings per share equals total earnings divided by the number of shares outstanding.

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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