ICON Insights

Market Commentary - June 2024

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Equities

Broad market indexes moved higher in the first two and a half months of 2024, but with very narrow participation. Large-cap technology related stocks were leading. As the broad indexes are market-cap weighted, the indexes were reflecting more of that narrow group's behavior than the typical stock. The market has been changing the last two and a half months, but the new theme still isn't clear and consistent, other than for Utilities. That sector index has been the clear leader since mid-March, but beyond that, there has been consistent short term (weekly and daily) leadership rotation. Financials, Industrials, and Materials, for example, have all come alive in spurts, but nothing sustainable. Information Technology faded in April but then came alive again on earnings and upwardly revised outlook guidance from Nvidia. During the first few months of 2024 there were calls saying that for the market to continue moving higher, the participation and leadership would have to be more broad. The broadening has happened. It is just inconsistent and unclear.

In our opinion, the primary reason for the rapid theme rotations of the last two and a half months has been changing views of future Federal Reserve (Fed) policy. When data is released that indicates the economy, or employment, is strong, investors raise their expectations that the Fed will keep interest rates "higher for longer," or perhaps even raise rates. High, or potentially increased, rates are not good for cyclical, economically sensitive sectors. Just the opposite, when data is released that indicates weak employment or economic activity, some investors raise their expectations that the Fed will cut interest rates and then price that into various sectors that will benefit or lose from the cuts. In addition, any data that suggests inflation is easing results in increased expectations for rate cuts. As the data, day-to-day and week-to-week, has been inconsistent, the market has rapidly rotated sector themes based on guessing future Fed behavior.

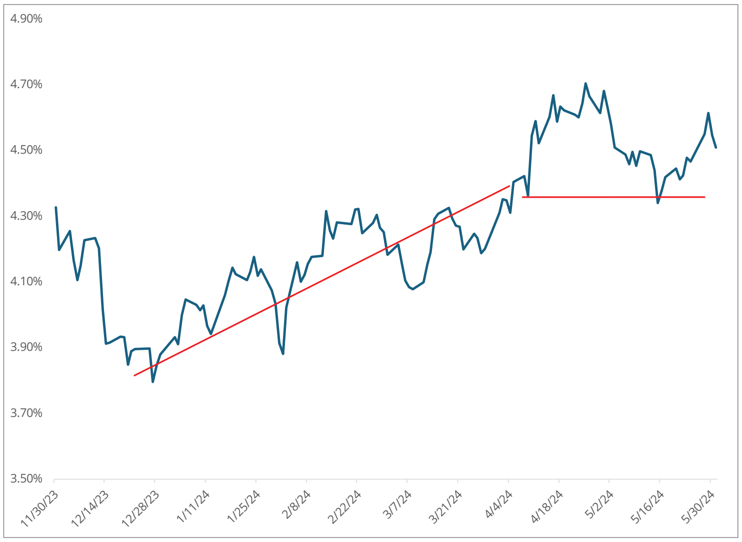
We believe we are seeing over reactions. ICON has held pretty steady in recent months. To us, the best combination of value and strength, and potential performance over the next year, is in Financials. Next would be some industries in Industrials and Consumer Discretionary. There are also a few pockets of value and strength in Energy, Materials and Utilities (the recent leader). With a market V/P of 1.03 and not the extreme behaviors associated with market peaks, we remain cautiously invested.

Bonds

The graph shows the yield on the 10-Year Treasury note over the last six months. It rose in the first three months of 2024 but since early April has been in a sideways range between roughly 4.4% and 4.7%. Similar to stock investors, bond investors have been reacting to economic data. With strong economic or employment data, yields head higher. With weak data, and the hope the Fed will ease, rates drop.

Over the long run, we expect the 10-Year yield to head lower, in the coming months the recent range feels comfortable.

10-Year Treasury Yield (11/30/23 - 5/31/24)



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

Summary

A survey reported on Bloomberg of analysts who forecast earnings shows they expect year-over-year earnings growth for companies in the S&P 1500 index to be 9.5%, 13.4% and 8.8% in 2024, 2025 and 2026, respectively. Of course, they can be wrong and/or change their outlook, but for the time being they are expecting healthy growth that, in our view, can support higher valuations. We favor being cautiously invested without attempting to guess future Fed behavior based on daily economic data.

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.

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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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