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ICON Insights

Market Commentary - March 2024

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Equities

The S&P 1500 Index has gained 24.81% since a low on October 27, 2023. The index has advanced 44.66% from a low a a year earlier, October 12, 2022, and it has gained 143.43% (more than doubled) off the pandemic/crash low of March 23, 2020. Despite these impressive advances there are varying opinions about the state of the market. On any given day on financial media one guest analyst warns of a bubble in the market and predicts stock prices will go lower. The next guest, instead, declares we are in a bull market that can continue upward for at least a year or two. At ICON, we believe the market is in between those two extremes – no bubble yet, but a very mature bull market with some behaviors and conditions that often precede peaks beginning to appear.

ICON measures market volatility on a weekly basis and lately it has been relatively low, as the market advance has been very steady. This is typical of a mature bull market. The average correlation of the eleven sector indexes with the broad market has become extremely low because a few sectors have led while others have been sluggish. This low correlation is also typical of a mature bull market. In general, over the last six months the industries with value/price (V/P) ratios above 1.00 (bargains) have been sluggish while the leading industries have become over-priced (V/P < 1.00). This condition is also often seen before market peaks but eventually becomes unsustainable.

Despite these signs of a mature bull market, we believe the broad market can continue higher for a few more months. The current rally off the October 2023 low began with very narrow leadership, particularly the "Magnificent Seven." These are seven technology related companies that are heavily weighted in some indexes. As 2024 has unfolded, we are seeing other sectors join in, such as financials, industrials, and materials. As we can find value in some of the industries in those sectors, we see this broadening as healthy and supportive of the market continuing to move higher.

Bonds

The yield on the 10-year Treasury note began 2024 at 3.88% and moved up to brief high at 4.32% in late February. In the first few trading days of March though, the yield dropped back below 4.20%. In our February Portfolio Update we wrote, "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." We still believe that is the case. In the short run we can't see any potential influence that would send the yield on a large move in either direction.

Summary

The classic peak, from an ICON perspective, has stock prices moving higher at the same time bond yields are moving higher. We are not seeing that, but instead a bond market that is supportive of higher stock prices. We are cautiously trying to participate in the remainder of this mature bull market.

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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.

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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 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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