ICON Insights

Market Commentary - March 2025

By Craig Callahan, DBA | ICON Founder

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Equities

The stock market in January of 2025 had a theme very consistent with the expectation that the Federal Reserve (Fed) would continue easing; small-caps, dividend paying stocks and cyclical, economically sensitive sectors were among the leaders. While that theme did show up some days in February, the month featured daily theme changes and reversals driven by three influences: (1) threats and declarations out of the White House, (2) Fed guessing regarding potential easing and (3) earnings announcements. As for the first influence, investors reacted daily to threats of potential tariffs. Fed guessing, the second influence, experienced a big shift when the January CPI increase came out larger than expected. That caused investors to revise the number of downward cuts to the Federal Funds rate they are expecting in 2025. As for earnings, 1416 of the companies in the S&P 1500 Index have announced quarterly earnings and, on average, they have beaten estimates by 7.27% and are 12.35% higher than a year ago. On a day-to-day basis, investors reacted to those results but even more so to future guidance issued by the companies. The net result was that the S&P 1500 Index dropped -1.58% for the month with no consistent theme but instead daily reversals based on the news of the day.

The American Association of Individual Investors surveys its member every Wednesday afternoon and asked if they are bullish, neutral or bearish regarding the stock market. The results from February 27th of this year were 19.4% bullish and 60.6% bearish for a bull/bear ratio of 32%, meaning about only 1 bull for every 3 bears. This survey began in 1987, so it has a history of 1961 weeks. This reading of 32% is the 13th most bearish reading putting it just below the bottom one percentile. That statistic has had a history of being wrong with bearish readings at many market bottoms and bullish readings at many market peaks.

We can still find value in the market, especially in smaller companies and in the Financial, Industrial, Materials and Utilities sectors.

Bonds

The yield on the 10-Year Treasury began the year by increasing the first two weeks from 4.57% to 4.79% on January 14. Since that peak it has trended downward, finishing February at 4.21%. In our view, inflation expectations contribute to that yield level. CPI readings for December 2024 and January 2025 were above forecasts and not consistent with the Fed's goal of 2% annual inflation. We expect those will prove to be seasonal and that inflation can resume its downward trend. If that proves correct, we do not expect the yield on the 10-year Treasury to shoot back toward 5%.

Summary

Unlike what many investors did in February, we cannot focus on and react to daily news events. Based on value and the belief that the slight uptick in inflation is temporary, we believe the broad stock market can move higher over the next year.

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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 AAII Investor Sentiment Survey measures the percentage of individual investors who are bullish, bearish, and neutral on the stock market for the next six months; individuals are polled from the ranks of the AAII membership on a weekly basis. Only one vote per member is accepted in each weekly voting period.

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 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.

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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