ICON Insights

Market Commentary - May 2025

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Equities

The severe potential tariff plan was announced after the stock market was closed on April 2. The S&P 1500 Index dropped 12.3% over the next four trading days, to a low on April 8. From that low through May 1, 2025, it has almost recovered, gaining 12.5%. It is still down for the year as it dropped in the weeks preceding the tariff announcement.

To us, the biggest question being asked is, "Will April 8 prove to be the low, or will the market go lower?" Normally, we address questions like that quantitatively, usually with our valuation metrics, but this one will be more intuitive, calling on some investor behavior statistics. First, our answer: we believe April 8 will be the low for the year.

As for the intuitive reasoning, it feels like April 8 had the peak of uncertainty. Would the tariffs be implemented as stated? How would other countries react? Would they retaliate or negotiate a deal? With these questions and more, it just seems like April 8 had the maximum amount of uncertainty, and market bottoms usually coincide with maximum uncertainty.

As for other behavioral measures, let's call upon recent history. The market took sharp dips in 1990, 1998, 2010, and 2011 as investors were concerned with one very specific event or situation. In 1990, it was the invasion of Kuwait. The media labeled 1998 the "Asian Contagion," fearing the recession in Asia would spread to the USA. 2010 and 2011 were the European Debt Crisis rounds 1 and 2. ICON called these "Volatility Events." The market dropped 16% to 19% over about 10 to 12 weeks. In 2025, the S&P 1500 dropped 18.90% from February 19 through April 8. The magnitude of the drop is similar to previous volatility events, but 2025 was quicker – 7 weeks.

In the previous four volatility events, the correlation among the eleven S&P sector indexes increased at the bottom as investors sold most stocks indiscriminately. Also, the ICON measure of market volatility increased at the bottom. Finally, the American Association of Individual Investors sentiment survey hit extreme bearish readings at the bottoms. The same three conditions were obtained on April 8 of this year. Based on our data, April had similar correlation, volatility, and investor sentiment as the bottoms of those four previous volatility events. It should be noted that with the previous four volatility events, the market recovered and then continued on its previous upward path. We do not know what the market's path will be like this time, we just believe April 8 will prove to be the low.

Bonds

Corporate bonds also had a volatile April, receiving a "Double Whammy" in the days following the tariff announcements. The yield on the 10-year Treasury rose, but also credit spreads for corporate bonds widened, as investors priced in increased default potential. By May 2, the 10-year Treasury and corporate bond indexes recovered and returned to their March levels, suggesting the immediate response to the announcements was an overreaction.

Summary

In 2023 and the first half of 2024, the stock market had a personality or theme with very narrow participation and leadership featuring companies with unique growth stories, such as the Magnificent 7, artificial intelligence, and weight loss drugs. In late summer of 2024, we called for a new market theme with new, broader leadership and participation. We believe that new market was underway but simply interrupted in March and April. Despite the interruption, the table of sector index performance from June 30, 2024, through May 2, 2025, shows a very different market than the previous one. It is too soon off the low of April 8 to know what the market will look like over the next year, but we expect it to look fairly similar to the table.

Index Returns 6/30/24 - 5/2/25

Sector Index	Return
Financials	21.8%
Utilities	19.9%
Consumer Staples	**11.8%**
Real Estate	10.4%
Industrials	9.7%
Telecommunication Services	8.7%
Consumer Discretionary	6.5%
S&P 1500 Index	**4.9%**
Materials	-2.3%
Information Technology	-2.5%
Healthcare	-3.9%
Energy	-8.6%

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

Source: Bloomberg

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 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 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.

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.

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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