Published 4'3'2017

By Craig Callahan, DBA | ICON Founder & President

Domestic Equities

The broad market, as measured by the S&P 1500 Index, posted a gain for the first quarter despite drifting lower after hitting an all-time high on March 1, 2017. In March, it seemed investors and Wall Street analysts focused on Washington D.C., reacting to behaviors in Congress and the White House. The analysts were desperate for information on a potential new tax code and infrastructure spending but all they got was a circus regarding health care. As a result, stock prices didn't move much in either direction as the S&P 1500 was up only about .07% for the month of March.

The ICON overall average market value-to-price (V/P) ratio was .98 on March 31, 2017, meaning stock prices, on average, are within 2% of our estimate of fair value. Such a moderate reading suggests to us investors, on average, are behaving rationally. They are neither afraid or worried about some event nor overly confident or greedy. The former might give us a V/P greater than 1.10 while the latter could result in a V/P of .90 or less, which we believe is often seen at market peaks. Our current ratio near 1.00, means we are not getting the broad market at a discount according to our system so we believe returns over the next year will primarily be determined by earnings. A survey of analysts who forecast earnings reported on Bloomberg calls for year-over-year earnings growth of 18.7% in 2017 and 12.5% in 2018 for the S&P 1500 Index. With prices near our estimate of fair value, earnings expected to grow and the absence of some behaviors we believe are typical of market peaks, we are content to be invested in industries and sectors we consider to be priced attractively. We should note that sometimes analysts revise their earnings forecasts lower as the year progresses.

The Financials sector remains at the top of our V/P sector rankings. The Financials sector surged after the election last November but has cooled off lately as a result of investors trying to figure out Federal Reserve policy changes and the direction of short term and long term interest rates. Although we reduced exposure to the Financials Sector in mid-February to buy Health Care, we still believe our remaining over-weight position in Financials is sensible based on value. At the other end of our V/P ranking is the Energy sector. As we do not see good value there, we are not tempted to buy into the sector.

International Equities

While the S&P 1500 in the U.S. hit its all-time high March 1 and then retreated, the MSCI ACWI (ex U.S.) and the MSCI Emerging Markets Indexes continued advancing in March and hit their highest levels in almost two years on March 28 and March 21, respectively. With those moves, both international indexes beat the domestic S&P 1500 for the quarter, with the MSCI Emerging Markets Index being the best of the three. In mid-February, we increased exposure to emerging markets based on valuation. As many emerging market country V/P ratios are in the top half of our country ranking, we are content with that larger exposure.

Just like in the U.S., the Financials sector has the highest V/P ratio on the international side. We believe this is for two reasons. First, uncertainty of central bank monetary policy and its potential effect on the Financials sector is not limited to the U.S. Second, there is the popular view, albeit incorrect in our opinion, that banks have difficulty making money in a low interest rate environment. Also, just like in the U.S., Energy is near the bottom of our valuation readings.

Bonds

There are times when short term and long term interest rates behave differently from one another, such as not moving up or down in unison. We believe that is because short term rates can be influenced by the Federal Reserve's (FED) open market operations but, in our opinion, the important determinant of long term rates is inflation. The FED recently raised its target for the Federal Funds rate, used for interbank loans for overnight purposes, to .75% - 1.00%. Members of the Board of Governors of the FED have stated that they may raise the Federal Funds rate a few more times in 2017 and they have also stated that their long term target for inflation is around 2%. If the FED is successful at keeping inflation in the 2% range, we would expect long term rates to remain low. So far, that has happened. Such a setting is good news for the bond market.

Summary

When buying stocks priced below their fair value, the potential returns are larger than average because price can move up to value and value can grow if earnings grow. For the broad market, we are not being given that opportunity currently. With stocks priced, on average, near our estimate of fair value, potential returns can simply come from earnings growing and therefore, fair value growing. We like that possibility so we are content being invested in our favorite industries and sectors.

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. High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other higher-quality bonds.

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 Morgan Stanley Capital International (MSCI) All Country World Index ex-United States (ACWI ex-U.S.) is a leading unmanaged benchmark of international stock performance. The capitalization-weighted index is representative of the performance of securities of companies located in developed and emerging markets outside of the United States. The Morgan Stanley Capital International (MSCI) Emerging Markets Index is a free float adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. Total return for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

Source: Bloomberg, FactSet

Please visit ICON online at www.InvestwithICON.com or call 1-800-828-4881 for the most recent copy of ICON's Form ADV, Part 2.

© 2017 ICON Advisers℠

5299 DTC Boulevard, Suite 1200
Greenwood Village, CO 80111
1-800-828-4881 • InvestwithICON.com