ICON

ICON Insights

Market Commentary - June 2017

Published 6'1'2017

By Craig Callahan, DBA | ICON Founder & President

Domestic Equities

The table on the right shows year-to-date returns for the S&P 1500 Index and its 11 component sectors. The S&P 1500, which hit an all-time high May 25, has gained 8.0% year-to-date and 9 of the 11 sector indexes are positive. Our ICON Tactical Allocation Portfolios (the Portfolios) do not have exposure to the Energy, Telecommunications Services and Real Estate sectors, which has been beneficial. Sometimes it is what you don't own that matters. You may recall we increased exposure to the Information Technology sector, which is at the top of the table, in August 2016 and again in April of 2017. After not having a meaningful position in the Healthcare sector in 2016, the Portfolios bought into that sector in mid-February 2017. The Financials sector surged after the November election but has stalled this year as the yield on the 10-year U.S. Treasury Note has drifted sideways to slightly downward. We believe the pause in Financials is temporary. While we have not had Utilities sector exposure in the growth-oriented portfolios, positions in that sector have been beneficial to the ICON U.S. Income Portfolio. One final note on sector performance: the return differential between the best and worst sectors (33 percentage points) is larger than normal for a five-month period. It is reflective of the low correlation among sectors we are seeing in 2017.

SECTOR	RETURN
Information Technology	19.7%
Consumer Discretionary	11.3%
Healthcare	11.2%
Utilities	11.2%
Consumer Staples	10.0%
S & P 1500 Index	**8.0%**
Industrials	7.2%
Materials	6.3%
Real Estate*	3.4%
Financials	0.0%
Telecommunication Serv.	-8.2%
Energy	-13.5%
RANGE	**33.2%**

Past performance does not guarantee future results. *Last August, S&P pulled real estate industries out of Financials and created the Real Estate sector

Based on value, we are not chasing the potential infrastructure-spending theme. Valuations in those sectors and industries likely to benefit from infrastructure spending are not attractive according to our system. On the other hand, the leadership of Information Technology appears sustainable to our system. Even though that sector has led the market higher, we can still find attractive valuations there. The slump in Energy has moved that sector off the bottom of our value-to-price (V/P) rankings, but not enough for us to buy into it.

Our overall average market V/P has been in the .99 - 1.00 range the last week of May, suggesting stocks, on average, are near our estimate of fair value or slightly over-priced by about 1%. Such a modest reading is not the extreme we believe is typical at market peaks when overly optimistic investors take prices too high. In our monthly Market Commentaries this year we stated that the broad market was slightly over-priced, but that we thought prices could move higher if earnings would grow thereby pushing value higher. So far in 2017, this scenario has been playing out as first quarter earnings per share for the S&P 1500 were 13.9% greater than a year earlier.

International Equities

The second table on the right shows year-to-date performance for the domestic S&P 1500 Index, the MSCI ACWI ex U.S. Index and the MSCI Emerging Markets Index. While international stocks, on average, are beating domestic stocks, emerging markets have been particularly strong. Emerging markets leadership appears sustainable to us as many emerging market countries are in the top half of our country valuation rankings. China has the highest overall average V/P of the emerging markets countries we track and is therefore our favorite emerging market country. Currently, our three favorite sectors in emerging markets are Information Technology, Financials and Utilities.

ASSET CLASS	RETURN
MSCI Emerg. Markets	17.3%
MSCI ACWI ex US	14.1%
S & P 1500 Index	8.0%

Past performance does not guarantee future results.

Bonds

The Federal Reserve (FED) recently raised, and stated it will continue to raise, its target for the Federal Funds rate used by banks for lending and borrowing overnight reserves. We have argued that this rate increase is at the short-term end of interest rates and that longer rates might not be affected. We have stated that, in our opinion, longer-term rates are determined by investors' inflation expectations. With inflation forecasts calling for CPI increases in the moderate 2.3% per year range, we do not see pressure for higher longer-term interest rates. The Federal Reserve has also stated it may begin selling the bonds it accumulated during its "quantitative easing." A low-inflation environment is a very forgiving setting for bond sales. Again, we would expect low inflation expectations to keep bond yields in their recent range despite the FED's potential sales.

Summary

As the broad market hits record highs, we continue to see skeptics interviewed by the financial media. We can only assume that because of their negative outlook, they are not fully participating in the market's advance. Some cite the bull market's duration and an intuitive feeling that eight years is too long for a market advance. Others simply state that at a record high, the market can't go even higher. We disagree with those lines of reasoning. Based on our estimate of value and earnings growth we believe the U.S. and International markets can move higher over the next year. Naturally, news events could cause short-term volatility, but over the last eight years riding through volatility has been rewarding in the long run. We believe that rule of behavior is still in effect.

Past performance does not guarantee 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. There are risks associated with Small and Mid Cap investing such as less liquidity, limited product lines, and small market share.

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.

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. 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.

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

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