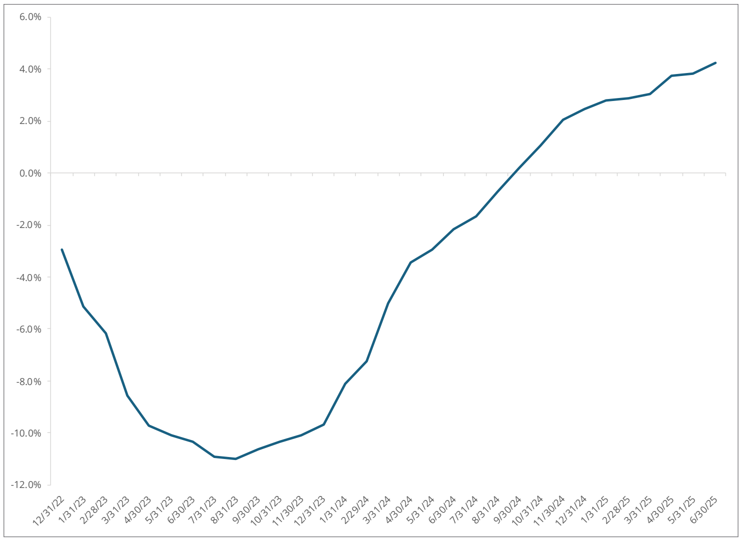
By Craig Callahan, DBA | ICON Founder Published 8'3'2025

Equities

One popular way to view Federal Reserve (Fed) monetary policy is through interest rates. Such a view incorporates the theory that if the Fed lowers rates, economic activity is stimulated. If, instead, the Fed raises rates, economic activity is slowed. In our opinion, such a view is deficient, skips a step, and misses the real goal of monetary policy: influencing the money supply, M1. When the Fed lowers its Federal Funds rate, that adds reserves to the banking system. Banks can make more loans, and M1 grows. Just the opposite, when the Fed raises the Federal Funds rate, that drains reserves from the banking system, which reduces lending and slows the growth rate of M1. Monetary theory tells us that economic activity is a direct function of the rate of growth of M1.

Why are we discussing monetary policy? The White House has been very vocal in criticizing the Fed and stating that it should lower interest rates. It is possible that investors, hearing that, might worry that Fed policy is too restrictive, is inhibiting economic growth, and could potentially cause a recession. Viewing monetary policy through M1, however, dismisses those fears and suggests a favorable setting for the stock market.

Y-O-Y Growth of M1, 12/31/22 - 6/30/25



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

The graph, at right, shows the year-over-year growth of M1 monthly from January 2023. In early 2023, it was negative, meaning the money supply was shrinking. The Fed had tightened monetary policy to fight the burst of inflation which ignited the final seven months of 2020 and reached a peak in mid-2022. Maximum M1 contraction was -11.0%, August 2023, right about the time the Fed quit raising the Federal Funds rate and held it even. The rate of contraction eased and M1 began growing again year-over-year in September 2024, just about when the Fed started lowering its Federal Funds rate.

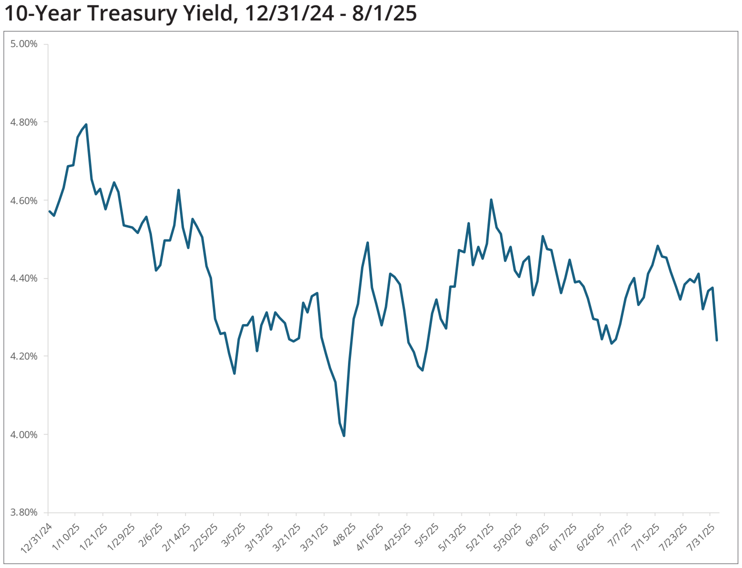
The most recent M1 reading we have is for June 30, 2025, which shows it growing 4.2% year-over-year. That is slightly below its historic average but adequate, in our opinion, to support economic growth. The June month-over-month growth is 0.6% which annualizes to a 7.3% rate of growth, above its historic average.

With this view of monetary policy, we aren't worried about the economy and are still concentrated on finding value. We are finding it mostly in Financials, Industrials, Consumer Discretionary, Materials, and Utilities, with a little in some Information Technology industries.

Bonds

The second graph shows the yield on the 10-year Treasury for 2024. Other than a peak in mid-January and a dip in early April, it has generally been in roughly the 4.20% to 4.60% range. This seems sensible to us, which means we do not expect a sharp move in either direction. With that view, we are focused on finding corporate bonds we believe offer situational opportunities.

10-Year Treasury Yield, 12/31/24 - 8/1/25



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Source: Bloomberg

Summary

As of August 1, 2025, 861 of the companies in the S&P 1500 Index have reported second-quarter earnings. On average, they are beating estimates by 8.27%. The two sectors beating by the biggest percentage are Consumer Discretionary, 14.56% and Financials, 10.62%. On average, the earnings have grown 8.49% from a year ago, with Financials having the fastest Y-O-Y growth at 22.36%. With this healthy underlying earnings situation and not seeing any of the behaviors that often accompany market peaks, we expect the market to move higher over the remainder of 2025.

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.

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.

M1 is one measure of the money supply that includes all coins, currency held by the public, traveler's checks, checking account balances, NOW accounts, automatic transfer service accounts, and balances in credit unions.

The Fed Funds Target Rate is a short-term rate objective of the Federal Reserve Board. The actual Fed Funds Rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The real rate changes daily but is usually close to the target rate desired by the Federal Reserve.

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 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 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 Utilities Index is an unmanaged capitalization-weighted index comprising companies in the Utilities sector as determined by S&P. 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.

Sources: Bloomberg

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