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Equities

Last fall, from October 28, 2025, to November 20, 2025, the S&P 1500 index dropped a little over 5%. The worst three sector indexes during that sharp drop were Information Technology (-8.99%), Consumer Discretionary (-8.23%) and Materials (-5.32%). During that drop, we saw some of the behaviors and statistics that often accompany market theme changes: correlation, investor sentiment, and volatility. In 2023, 2024, and most of 2025, the market was led by large capitalization company stocks, with the leadership being very narrow in terms of industries and sectors (artificial intelligence and weight loss drugs, for example). The table shows that so far, in the two-plus months since that November low, the market has a very different theme.

The first column shows sector indexes for the eleven sectors in the broad S&P 1500 Index, ranked by their performance from 11/20/25 to 1/30/26. The second column shows performance over the same time period for the same sector indexes but limited to the S&P Small-Cap 600. For all but one sector, the small-cap index beat the 1500 counterpart. The exception, Communication Services 1500 Index, was juiced by Meta (Facebook), which is unique and has no small-cap counterpart.

Not only is the small-cap leadership new, but so is the breadth and sector rankings. Six of the eleven sector indexes are beating the broad 1500 index, whereas during various periods in 2023, 2024, and 2025, only two or three sectors beat the broad index. Four of the top five sectors are cyclical, or economically sensitive, suggesting investors have moved to believing in the economy rather than just being narrowly situational. The drag on Utilities was in December. That index is positive through the first month of 2026. Also different from the few previous years, dividend-paying stocks are beating the broad market.

This new theme appears very sensible to the ICON valuation system. In other words, the bargains, or values, are getting recognized and are leading. The average value/price (V/P) ratio for the largest 500 stocks in our database is only 0.85, whereas the average V/P for the smallest 500 stocks is 1.11. In terms of dividend yield, the average V/P for stocks with a yield greater than 3.00% is 1.15, whereas the average V/P for stocks with a yield of less than 0.5% is only .88. Finally, we can find good value in the cyclical, economically sensitive sectors.

Bonds

As we wrote in the January Portfolio Update, the primary criterion for nomination for the next Federal Reserve (Fed) Chair was agreeing with the President's opinion that monetary policy should be easier and that the Federal Funds rate should be much lower. If that belief proves true and the Fed goes that direction, we would expect short-term rates to drop but long-term rates to hold firm or even rise a little. In other words, the yield curve would steepen. Our approach to bonds does not involve forecasting or guessing where interest rates are going. We tend to keep a steady, short-term duration and focus on trying to find mispriced bonds and value situations. We are comfortable with our approach in the Fed setting we anticipate.

Summary

It is early, but we believe the new stock market theme is sustainable. There is still some value in the new leadership, and we do not see the behaviors and conditions that often accompany market peaks. In addition, corporate earnings are healthy. So far, 376 of the companies in the S&P 1500 index have reported earnings. On average, they are beating expectations by 9.31% and have grown 15.0% over a year ago. We believe the market can move higher the rest of 2026.

Index Returns (11/20-25 - 1/30/26)

Sector	S&P 1500	Small-Cap 600
Materials	18.2%	26.7%
Energy	16.4%	22.1%
Communication Services	13.3%	8.3%
Industrials	13.0%	19.2%
Consumer Discretionary	9.9%	14.2%
Consumer Staples	8.6%	10.4%
S&P 1500	6.7%	13.9%
Financials	5.7%	12.3%
Real Estate	4.0%	6.6%
Information Technology	2.8%	16.0%
Healthcare	2.8%	6.3%
Utilities	-0.6%	4.0%
S&P 500 (Large)	6.3%	
S&P Mid-Cap 400	10.8%	
S&P Small-Cap 600	13.9%	
Dow Jones Dividend	10.9%	

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.

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.

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. Individuals cannot invest directly in an index.

The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. The unmanaged Standard & Poor's (S&P) SmallCap 600 Index is an unmanaged index of 600 domestic stocks chosen for their market capitalization, liquidity, financial viability, and sector representation. The unmanaged Standard & Poor's (S&P) MidCap 400 Index is a widely recognized unmanaged mid-cap index of 400 domestic stocks chosen for their market capitalization, liquidity, and industry group representations. The Dow Jones U.S. Dividend 100 Index is designed to measure the performance of high-dividend-yielding stocks in the U.S. with a record of consistently paying dividends, selected for fundamental strength relative to their peers, based on financial ratios. Individuals cannot invest directly in an index.

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 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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