

By Craig Callahan, DBA | ICON Founder

Published 10'2'2026

Equities

The S&P 1500 Index hit an all time high on August 13, 2026, when it was up 15.2% for the year. That advance made sense to our system as we saw value, in general, growing and stock prices just trying to catch up. From that high, the index dropped 2.2% to finish the third quarter, but that drop was broader and deeper than indicated by that market-capitalization weighted (1500) index. For example, the S&P Mid-Cap 400 dropped 8.2%, and the S&P Small-Cap 600 dropped 9.2% from their respective high points. In our opinion, the decline to end the third quarter was due to two situations: (1) the Federal Reserve (Fed) tightening monetary policy to fight inflation and (2) concerns about the pace of developing artificial intelligence (AI) and the capital investment required. As for the AI concerns, it feels reminiscent of Y2K, when in the middle of 1999 the stock market dropped 11.5% over concerns that computers would shut down at midnight on 1/31/1999. Like then, we expect the concerns over AI will fade.

Whenever the Fed tightens, debate erupts over how far it will have to go and the tightening's impact on employment and the economy. When the Fed started raising the Federal Funds rate in March 2022, investors incorrectly feared it would cause a recession, and the S&P 1500 Index fell 24% to begin 2022. There never was a recession, making that drop the most irrational bear market we've seen. The graph helps make the case that investors learned their lesson and will temper their fears this time.

The graph shows monthly year-over-year rate of change for the Consumer Price Index (CPI) starting from January 2021. What stands out is the sharp rise in 2021 and early 2022. We believe that was due to a combination of COVID supply chain disruptions and Fed stimulus to jolt us out of the self-induced recession. Then, the Fed tightening brought it back down to 3%. The red line shows that it continued to trend down toward the Fed's target of 2% until the invasion of Iran and the spike in the price of oil. Even so, it barely got above 4% in 2026, nowhere near the 9% seen in 2022. It is our view that if oil were to resume flowing, the Fed would not need to tighten any more. If oil stays near \$100 for many months, the Fed only needs to raise the Federal Funds rate one or two more times to get CPI to resume its path toward 2%.

We expect the recent concerns that affected stocks to fade, which will allow the bull market to resume.

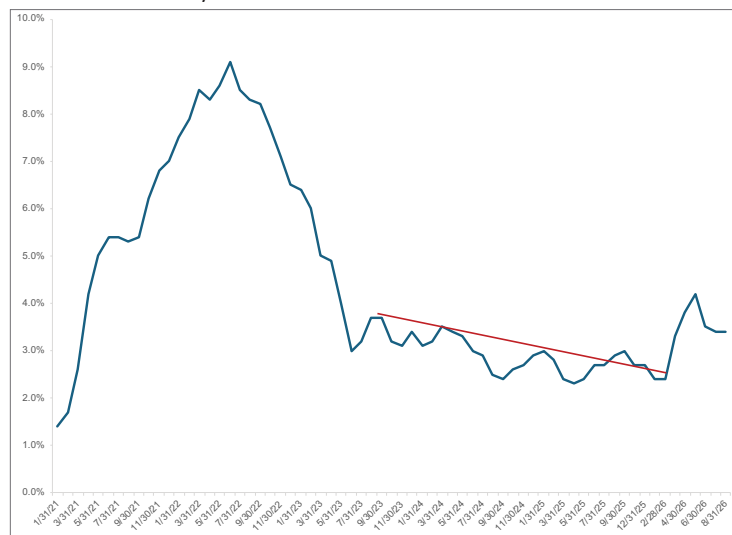
Bonds

Since late August, the yield on the 10-Year Treasury note has shot up to over 5.2%. Apparently, bond investors disagree with our view of inflation and the ability of the Fed to get it back on the path toward 2%. A yield over 5.2% suggests bond investors expect inflation to remain in the 3.0% to 4.0% range. We think our view on inflation will prevail and that the yield will head lower over the next year.

Summary

A survey of analysts who forecast corporate earnings shows impressive growth expectations over the next two years. The most impressive expectations are in technology related to AI, like semiconductors. It is broader, however, as we see above average earnings growth expectations in cyclical, economically sensitive industries in sectors such as Consumer Discretionary, Industrials, Financials, and Materials. We like owning those where we can still find value.

Year-over-Year CPI, 1/31/21 - 8/31/26



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) 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 Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The CPIs are based on prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Federal Funds Rate: 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

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