ICON Insights

Market Commentary - September 2026

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Equities

Over the last few months, investors, in general, have been jumping on and off various theme bandwagons. The result is the stock market has experienced some pretty rapid theme reversals. Here are the various themes and stock responses. Theme 1: "Artificial Intelligence (AI) is great and will drive prosperity for many industries." When investors embrace theme 1, it is very good for many information technology industries. The theme has been strongly supported by recent earnings announcements. Theme 2: "Tech companies are borrowing and investing too much in AI infrastructure and will lose money and potentially cause a recession." When investors embrace theme 2, it is bad for technology stocks. We don't find any evidence to support theme 2. Theme 3: "The Federal Reserve (Fed) will raise the Federal Funds rate and tighten monetary policy to fight inflation." When investors focus on this theme, it's bad for economically sensitive, cyclical industries and small-caps. Theme 4: "The Fed will not have to tighten because oil has dropped from $120 per barrel to $90 and inflation will decline on its own." Theme 4 is good for economically sensitive, cyclical industries and small-caps.

Themes 1 and 4 have generally prevailed off the market low of March 30, 2026, but in August of this year themes 2 and 3 seemed to take over. Rather than taking a "top down" guessing approach to themes, let's see if a "bottom up" earnings approach sorts it out. Through August 31, 2026, 1452 of the companies in the S&P 1500 Index have reported quarterly earnings. On average, they have beaten estimates by 25.0%. Sectors that beat estimates by the most are Communications 95.9%, Consumer Discretionary 73.5%, Healthcare 18.5%, Technology 11.0%, and Energy 10.4%. We attribute the fact that companies are earning more than analysts expected to two factors. Companies are using AI to increase efficiency and profit margins more than analysts expected. Additionally, the war in Iran and higher interest rates have not affected spending as analysts may have thought.

More impressive than beating estimates is the year-over-year growth in earnings. On average, the 1452 companies that posted earnings are 48.5% greater than a year ago. Sectors leading the growth surge were Energy 139.8%, Communications 112.4%, Consumer Discretionary 81.1%, Technology 72.2%, and Materials 41.2%. As earnings, as well as growth in earnings, are two important components of the ICON valuation equation; ICON valuations, in general, are also growing. We see stock prices as just trying to catch up to valuations.

As for themes, these earnings show why the combination of theme 1 and theme 4 prevailed off the low of March 30. We would also expect the recent adoption among many investors of themes 2 and 3 will prove temporary.

Bonds

The Fed tightened monetary policy in late 2022 and early 2023 to fight the inflation that evolved out of pandemic supply chain problems and recession fighting fiscal and monetary stimulus. The tightening was successful as inflation dropped quickly to the 3% range. It was gradually heading toward the Fed's target range of 2% until the Iranian attack and the increase in the price of oil. With this recent bump in inflation, the yield on the 10-year Treasury has risen from near 4% in late February of this year to 4.75%, the upper part of its three-year range. We don't see much more upward pressure on the yield.

Summary

We can see a survey of analysts who predict corporate earnings. They offer estimates for one, two, and in most cases three years out. We are seeing upward revisions that suggest the boom from AI and rapid technological change is much broader than just a select group of technology companies. We are seeing upward revisions in earnings for industries such as construction, investment banking, commercial banking, employment services, educational services, and building materials, among others. We can find value in companies in a position to grow earnings. We like owning them.

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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) 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) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market.

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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