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Domestic Equities

The broad stock market moved higher in November. Through November 30, 2017, the S&P 1500 Index had gained 19.93% for the first 11 months of 2017. At ICON, we entered this year expecting the market to move higher. While this move is better than we expected, looking back, we find it to be quite sensible. Earnings, on average, have grown; therefore, fair value for individual stocks has also grown. As of December 7, 498 companies in the S&P 500 Index had reported third quarter earnings and, on average, they were 7.1% higher than a year ago. In our view, stock prices have simply followed our estimate of fair value higher. Because value has been growing, we do not find the market as a whole to be over-priced. Some individual issues might be over-priced, but we can still find attractively-priced stocks in many industries. As of December 7, the ICON market value/price (V/P) ratio was 1.04, indicating stocks, on average, are priced below our estimate of fair value.

There is an old investing expression, "Don't fight the FED." In other words, if the Federal Reserve is pursuing monetary tightening, it can be bad for equities. True, the FED has raised its target for the Federal Funds rate over the last year and indicates it intends to continue raising that target in 2018. Yet with that target currently in the 1.00% to 1.25% range and inflation in the 1.75% to 2.00% range, we cannot exactly describe monetary policy as "tight." We believe it is premature to think the FED's behavior will interfere with the ongoing bull market.

As for sectors, we have been pleased with our sector tilts in 2017. We increased allocations to Information Technology and Healthcare early in the year. We also have not had a sector position in Real Estate, Energy or Telecommunications Services. To illustrate sector leadership for the year-to-date, Table 1 shows S&P 1500 sector index returns for 12/31/16 through 12/6/17.

S&P 1500 Sector Index Returns

12/31/2016 - 12/6/2017	
Information Technology	35.1%
Healthcare	21.0%
Financials	19.7%
Consumer Discretionary	19.5%
Materials	19.3%
Industrials	17.7%
Utilities	17.3%
Consumer Staples	12.4%
Real Estate	8.2%
Telecommunication Services	-7.6%
Energy	-7.5%

Data quoted represents past performance, which does not guarantee future results.

Looking ahead, with stocks priced below our estimate of fair value and our expectations for value to grow over the next year, we believe the market can continue to move higher.

International Equities

Table 2 shows returns for three indexes for 2017, through November 30: emerging markets equities, international equities, and domestic equities. Emerging markets have done the best, beating the broad international index. Both the international and emerging markets indexes gained more than the domestic S&P 1500 Index. Internationally, the situation is pretty similar to that in the U.S. Earnings have grown, value has grown, and prices appear to be following value higher. For emerging markets, China is not only the largest-weighted country in the emerging markets index, it is also our favorite country. Other favorites include Indonesia, Philippines, Mexico and Thailand. For developed international markets, European countries represent the best values. Based on value, we believe the upward moves in stock prices are sustainable.

Index Returns

12/31/2016 - 12/6/2017	
MSCI EMERGING MARKETS	30.6%
MSCI ACWI ex US	23.3%
S&P 1500	19.0%

Data quoted represents past performance, which does not guarantee future results.

Bonds

We have stated that the FED raising its target for the Federal Funds rate (the rate used by banks for overnight borrowing) would not necessarily put upward pressure on long-term yields. We still believe that is the case. November 30, 2016, the yield on the 10-Year Treasury note was 2.382%, not much different from where it ended November 2017 at 2.411%. We just don't currently see upward pressure for longer-term interest rates.

Summary

We are in an interesting setting of economic and market conditions. The economy is growing and inflation is in a very tolerable range. The broad stock market has moved higher, with below average volatility. We see stocks, on average, as priced below our estimate of fair value, and we do not see the conditions and behaviors often seen at market peaks. We continue to believe the upward move in the stock market is sustainable.

***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. High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other higher-quality bonds.

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.

Fed 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 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) 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) 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 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.

The Morgan Stanley Capital International (MSCI) All Country World Index (MSCI ACWI) is a leading unmanaged benchmark of world equity market performance. The capitalization-weighted index is representative of the performance of securities of companies located in developed and emerging markets including those of the United States.

10-year Treasury notes are debt obligations issued by the U.S. Treasury that have a term of more than one year but not more than 10 years.

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

Source: Bloomberg, FactSet

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