NorthCoast Asset Management

NorthCoast Navigator

10/31/2019

What happened in October?

The S&P 500 hit an all-time high in late October on its way to a positive month. The gains were driven by largely positive economic data, the Federal Reserve's third interest rate cut this year and progress in geopolitical concerns. The first reading of GDP growth in the third quarter was a 1.9% annualized rate of growth, which is slightly below the second quarter's 2.0% but above some economists' estimates. A concerning metric out of this news was that growth in business investment slowed for the second quarter in a row, which raised worries that hiring may slow in the future. In a telegraphed move, the Federal Reserve cut interest rates but noted that further cuts are likely to be on hold as long as the economy expands moderately and the labor market remains strong. The Fed has been generally clear this year about setting expectations for upcoming moves, but it appears the next decision will likely be more dependent on changes in economic health in the coming months. The U.S. and China called for a "cease-fire" of tariffs last month in order to come back to the table and establish a phase one of a trade agreement. Despite this good news, there are still concerns about how long it will take to reach an official agreement and if the U.S. will be able to secure any measures that would improve domestic businesses' positions.

October by the Numbers:

U.S. Equities: **2.1%**
S&P 500 Index

International Equities: **3.5%**
ACWI ex-U.S.

U.S. Bonds: **0.3%**
Barclays U.S. Aggregate Bond Index

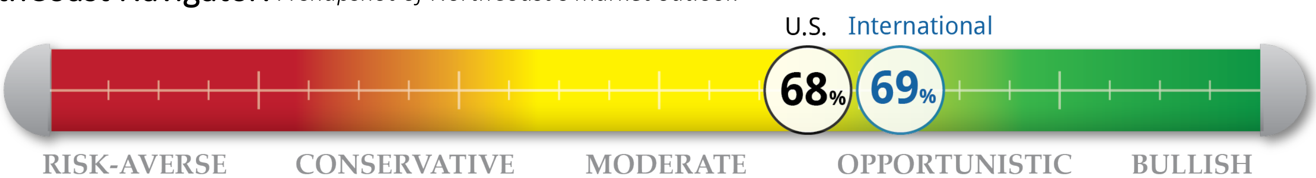
Global Bonds: **0.6%**
JP Morgan Global Aggregate Bond Index

European markets were helped along in October by some progress in Brexit negotiations and a shrinking likelihood of a "no-deal" British exit from the European Union. Generally, international markets were boosted by the U.S. – China trade news.

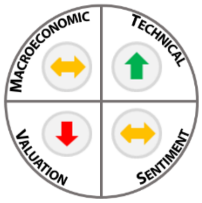
Moving into November

October provided the markets with some positive headlines that drove markets higher. However, tangible progress on many of the fronts of concern have yet to be seen. It is important to separate rhetoric and subsequent conjecture from quantifiable measures of the health of the market. At the moment, these measures are showing some elevated areas of risk as equity valuations climbed higher but economic and sentiment indicators weakened slightly. As a result, we have trimmed exposure in both our domestic and international tactical strategies. As always, we remain liquid to either scale into or out of the market depending on upcoming market readings. Surface level changes regarding geopolitical concerns will continue to drive short-term swings in November and we remain vigilant to tangible changes to the data.

NorthCoast Navigator: *A snapshot of NorthCoast's market outlook*



Negative Indicators	Neutral Indicators		Positive Indicators
Valuation	**Sentiment**	**Macroeconomic**	**Technical**
There was little change to valuation indicators month-over-month. The S&P 500 moving higher drove P/E ratios up to 20.03, a marginal rise from last month. International indicators weakened slightly, but remain relatively better than domestic.	Sentiment indicators weakened slightly during October as capital flows into mutual funds slowed and the University of Michigan consumer sentiment survey remained close to last month's levels.	3rd quarter GDP growth rate was positive but the slowing of business investment is concerning if it continues and eventually affects employment. The housing market showed some positive signs in figures released in October, aided largely by lower mortgage rates as interest rates moved lower.	There was only very moderate weakening in our reading of technical indicators in October, which was due in part to the market hitting an all-time high and the reversion indicator flashing. Despite this indication, the relative strength factor of momentum was slightly more positive and the S&P 500 moved further above its moving averages.



The NorthCoast Navigator is a market "barometer" displaying NorthCoast's current U.S. equity outlook. This aggregate metric is determined by multiple data points across four broad market-moving dimensions: Technical, Sentiment, Macroeconomic, and Valuation. The daily result determines equity exposure in our tactical strategies.

As of 10/31/2019. Data provided by Bloomberg, NorthCoast Asset Management.

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