

The Navigator



A Great Divide – The Economy vs. The Market

Equities had another positive month in May, which contributed to the S&P 500 having its best two-month performance since 2009. As states begin to reopen their economies and loosen restrictions on in-person businesses such as restaurants, stores and events, investors have demonstrated optimism about the economic recovery. The equities rally was initially strongest in the technology sector as the tech-heavy Nasdaq rose 6.8% in May and is positive year-to-date. Some tech companies could be more resilient thanks to their lack of reliance on in-person transactions and tendency to benefit from increased investor sentiment. As the rally continued throughout May it extended to other sectors, primarily financials, which outpaced the tech sector in the latter half of the month. This shift may signal that investors believe the recovery will be more broad-based than sector-specific. Despite the proverbial “green-on-the-screen” and the generally positive rhetoric concerning equities, there are more than a few new and old risks.

As a result of the positive market action equity prices have returned to pre-pandemic levels, but earnings expectations and guidance have been significantly lowered. When prices were last at these current levels, earnings guidance showed growth – it now shows a contraction. So, while prices appear to be returning to previously normal levels, they are relatively more expensive with price-to-earnings ratios closer to the dot-com bubble rather than the end of the most recent bull market. It is also important to keep in mind that with interest rates and bond yields historically low, investors that may have invested in safe-haven assets could instead be buying into equities, propping up the elevated prices. Additional geo-political market volatility was also introduced, with the U.S. and China having clashed recently over China’s handling of the Coronavirus and its more aggressive governance of Hong Kong. The two governments have traded heated rhetoric and some actions have been taken on both sides, but the first phase of the recent trade agreement is still intact.

The reopening of state economies and resultant positive market actions are refreshing after the tough start to the year. However, we currently hold a cautious stance regarding U.S. equities. NorthCoast maintains a strictly quantitative view of the markets so as not to be distracted by sentiment-driven momentum. The risks discussed above are new, but we still have major concerns about the U.S. economic recovery, how long it will take and what the lasting damages will be. Our macroeconomic indicators remain depressed and though sentiment has improved slightly, valuation indicators have deteriorated. We remain roughly 64% invested in our flagship U.S. tactical equity strategy and slightly decreased our international strategy’s investment level.

By the Numbers (YTD)¹

-5.2%

U.S. Equities
S&P 500 Index

-14.9%

International Equities
MSCI ACWI ex-U.S.

5.5%

U.S. Bonds
Barclays U.S. Aggregate Bond Index

2.1%

Global Bonds
JP Morgan Global Aggregate Bond Index



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 5/31/2020. DATA PROVIDED BY BLOOMBERG, NORTHCOAST ASSET MANAGEMENT.

Neutral Indicators

Negative Indicators

Valuation	Sentiment	Technical	Macroeconomic
<p>Valuation indicators softened during April with the bounce in equity prices. Prices are still well below their previous highs but some price action towards the end of the month seemed overly-optimistic based on current conditions.</p>	<p>Sentiment indicators have stayed at the same depressed levels as March. Consumer sentiment remains low and could go lower in light of recent jobless claims. University of Michigan Consumer Sentiment survey dropped to 72 from 89.</p>	<p>Technicals have improved thanks to the gains made during the month of April. Momentum indicators showed some upward strength. The S&P 500 now sits 5% above its 50-day moving average and only 3% below both its 100- and 200-day moving averages.</p>	<p>As mentioned above, macro indicators have worsened with the release of recent data. In addition to the data points previously mentioned, personal income shrank by roughly 2%, the largest decrease since 2013. Data from April also showed prices excluding food and energy fell in March.</p>

¹ Source: Bloomberg, NorthCoast Asset Management.

The information contained herein has been prepared by NorthCoast Asset Management LLC ("NorthCoast") on the basis of publicly available information, internally developed data and other third party sources believed to be reliable. NorthCoast has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information. All opinions and views constitute judgments as of the date of writing without regard to the date on which the reader may receive or access the information, and are subject to change at any time without notice and with no obligation to update. This material is for informational and illustrative purposes only and is intended solely for the information of those to whom it is distributed by NorthCoast. No part of this material may be reproduced or retransmitted in any manner without the prior written permission of NorthCoast. NorthCoast does not represent, warrant or guarantee that this information is suitable for any investment purpose and it should not be used as a basis for investment decisions. © 2020 NorthCoast Asset Management LLC.

PAST PERFORMANCE DOES NOT GUARANTEE OR INDICATE FUTURE RESULTS.

This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or investment products or to adopt any investment strategy. The reader should not assume that any investments in companies, securities, sectors, strategies and/or markets identified or described herein were or will be profitable and no representation is made that any investor will or is likely to achieve results comparable to those shown or will make any profit or will be able to avoid incurring substantial losses. Performance differences for certain investors may occur due to various factors, including timing of investment. Investment return will fluctuate and may be volatile, especially over short time horizons.

INVESTING ENTAILS RISKS, INCLUDING POSSIBLE LOSS OF SOME OR ALL OF AN INVESTMENT.

The investment views and market opinions/analyses expressed herein may not reflect those of NorthCoast as a whole and different views may be expressed based on different investment styles, objectives, views or philosophies. To the extent that these materials contain statements about the future, such statements are forward looking and subject to a number of risks and uncertainties.