NorthCoast Asset Management

The Navigator

July 2020

An Uneasy and Uneven Recovery

An anemic gain in June capped off the S&P 500's best quarter in over 20 years, rising roughly 20% over the 3 month period. Much of this past quarter's gains were logged in April and May when federal stimulus packages were announced and the Federal Reserve pledged to provide liquidity to credit markets and other asset classes. June's gains were stymied by a recent increase in Coronavirus cases, specifically in the Southern and Western U.S., which has caused delays in economic reopening plans. Additionally, it has become clearer that both manufacturing and consumer spending are recovering at a slow pace.

The recent spike in cases across parts of the U.S. has led to some hesitation in economic reopening plans and increased uncertainty regarding the recovery timeline. Similar to the beginning of this health crisis, the focus is again on infection data. The difference at this stage is that the state-level data has become more important, making it more apparent that the reopening will vary by region as opposed to sweeping across the country as a whole. The likely effect on the U.S. economy will be an increasingly uneven recovery. For equities, the high level of uncertainty regarding the Coronavirus and economic stability can both be expected to contribute to elevated volatility. While we anticipate the U.S. election to gain attention during the 3rd quarter, the reopening of the economy will be the overwhelming focus in the near-term.

Two interesting phenomenon became more pronounced throughout the second quarter. The first was the reluctance by companies and analysts to provide guidance. In fact, roughly 40% of companies in the S&P 500 have withdrawn their guidance due to the uncertainties surrounding the Coronavirus crisis. The second was the increase of individual investors in the market who continue to fiscally support companies most affected by the health emergency. The stock prices of cruise lines and other tourism or travel-driven companies have benefited from a flow of investor funds.

We increased our U.S. equity exposure during the month of June as we saw an improvement in both technical and sentiment indicators. However, we remain cautious due to pauses in reopening and the concerns and uncertainty they raise. We anticipate some short-term volatility resulting from Q2 earnings announcements and increased volatility in the longer-term until some of these uncertainties are resolved.

By the Numbers (YTD)[1]

-3.4%
U.S. Equities
S&P 500 Index

-11.0%
International Equities
MSCI ACWI ex-U.S.

6.1%
U.S. Bonds
Barclays U.S. Aggregate Bond Index

3.0%
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 6/30/2020. DATA PROVIDED BY BLOOMBERG, NORTHCOAST ASSET MANAGEMENT.

Neutral Indicators		Negative Indicators	
Sentiment	**Technical**	**Valuation**	**Macroeconomic**
Though still low, our measures of sentiment moved slightly higher during June. The University of Michigan sentiment survey ticked up to 78 from 72, and mutual fund outflows slowed slightly. However, investor sentiment remained low.	With only a small overall gain in the month of June, technicals remained in line with last month. Volatility, as measured by the VIX, is still high and we did see some large intra-month daily moves. We expect volatility to continue well into the third quarter.	There was little change in valuation indicators during the month of June. Some sectors are becoming more stretched than others even as guidance is being pulled, specifically technology. P/E ratios sit at 22.0 as of 6/30.	Consumer spending increased marginally during May according to data released in late June. Despite the increase, spending remains down roughly 12% from February. Unemployment is still at a record high and it remains to be seen how much of the job loss will be permanent.

[1] Source: Bloomberg, NorthCoast Asset Management.

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