

What happened in October?



Thanks to a rally in the last two days of October, equities (S&P 500 Index) avoided their worst month in a decade when equities fell over -16%. The almost +3% move over Tuesday (Oct 30) and Wednesday (Oct 31) buoyed stocks for a temporary relief but they still finished the month down almost -7%, the index's worst month in 7 years.

Before October, the S&P 500 finished positive in 27 of the last 31 months dating back to March 2016, resulting in a +56% return. It seemed a healthy pullback or correction (decline of 10% or more from peak to trough) was in order. NorthCoast President & CEO, Dan Kraninger, wrote about it in his recent quarterly [message](#) to clients at the beginning of the month.

Rising interest rates, a stronger dollar, and continued escalation of trade conflicts with China could have all attributed to falling stock prices as investors reevaluated their outlook on future growth. Along with the stock market's decline was an unusual concurrent drop in bond prices, putting most diversified portfolios in a difficult position. Yet bullish investors (including NorthCoast) did their best to take advantage of the dips. Big one-day advances followed sharp declines provided optimism in an over-corrected market. The S&P 500 Index finished up or down by more than 1% in 10 of the last 15 sessions (5 positive and 5 negative).

Slower revenue growth and continued privacy issues derailed some of the largest technology companies, as the sector was one of the hardest hit in the October decline. Across the globe, international equities continued to decline with the MSCI All-Country World Index ex-U.S. (ACWI ex-U.S.) falling -8.1% for the month amid slowing economic growth.

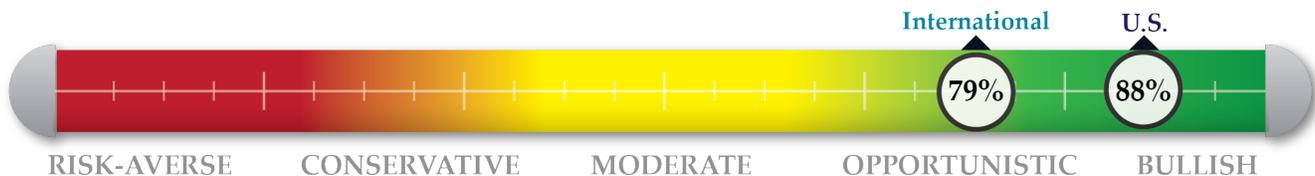
October by the numbers:

U.S. Equities: -6.9% S&P 500 Index	International Equities: -8.1% ACWI ex-U.S.	U.S. Bonds: -0.8% Barclays U.S. Aggregate Bond Index	Global Bonds: -1.2% JP Morgan Global Aggregate Bond Index
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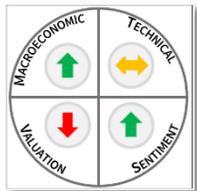
Moving into November

For long-term or tactical investors, the October pullback can be viewed as a buying opportunity. If stocks did find a bottom, many factors support a stronger position in equities for the near-term including an 18-year high in U.S. consumer confidence, steady GDP growth, low unemployment and relatively attractive valuations. As global equities declined and the market-moving indicators we monitor remained or turned positive, we steadily increased our exposure. In our U.S. tactical strategies, we increased by 5% over the month to enter November 88% invested. In our international tactical strategies, we increased by 15% to a 79% equity position.

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



Negative Indicators	Positive Indicators		
<p>Valuation</p> <ul style="list-style-type: none"> - Equity valuations (P/E multiples) dropped to 22.3; their lowest levels since February 2016 - However higher bond yields provided attractive alternatives 	<p>Sentiment</p> <ul style="list-style-type: none"> - U.S. consumer confidence hit an 18-year high in October - After a neutral July and decrease in August, U.S. Producer survey ticked up in September 	<p>Technical</p> <ul style="list-style-type: none"> - Short-term declines coupled with long-term momentum provided strengthening technical analysis - The VIX, seen as a contrarian indicator, increased to its highest level since March 	<p>Macroeconomic</p> <ul style="list-style-type: none"> - GDP growth remained above 3% at a 3.2% annualized rate - U.S. unemployment stayed near historic lows at 3.7% - However new home construction contracted in 5 of the last 6 quarters



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 10/31/2018. Data provided by Bloomberg, NorthCoast Asset Management.

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