

## What happened in December?



Stocks traded in a series of volatile sessions throughout the holiday season and finished the month in negative territory. Investors continued to weigh the possible impacts of slowing global growth, geopolitical trade disputes and the partial U.S. government shutdown.

Major U.S. indices such as the S&P 500 and Dow Jones Industrial Average suffered their worst Decembers since 2008. The technology-heavy NASDAQ composite fell into bear market territory on 12/21 declining over -20% off its high in late August. The previously high-flying tech sector has taken the brunt of this market downturn as investors shed the risk associated with this expensive sector.

The Federal Reserve raised the target interest rate by 0.25% at their December meeting. Though the move was expected, the increase continues to push interest rates higher, which typically lead to higher consumer and business lending rates, escalating concerns of slowing future economic growth. Though not enough to erase the monthly and yearly losses, stocks moved higher in the final week of the year. Along with possible progress in China-U.S. trade talks, investors took advantage of the recent volatility by picking up discounted stocks hit hard by the pullback.

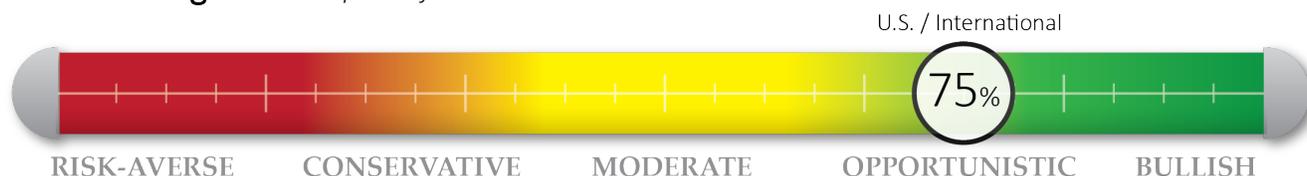
### December by the numbers:

U.S. Equities: <b>-9.0%</b> S&P 500 Index	International Equities: <b>-4.5%</b> ACWI ex-U.S.	U.S. Bonds: <b>1.8%</b> Barclays U.S. Aggregate Bond Index	Global Bonds: <b>1.9%</b> JP Morgan Global Aggregate Bond Index
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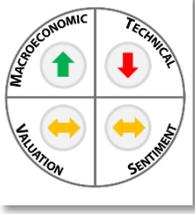
## Moving into January

NorthCoast entered December with 30% cash in its U.S. tactical equity strategies and reached a high cash level of 35% after the 1<sup>st</sup> week of trading. Then as stocks continued to trade negatively with major volatility, we marginally increased our equity exposure throughout the month as valuations became more attractive along with the lack of real economic data warranting a substantial decline. We enter 2019 approximately 75% invested in our U.S. and international tactical equity strategies. We will keep a close eye on any major developments along with key economic data and Q4 earning reports released in the coming weeks. *Looking for additional insight?* The NorthCoast portfolio management team answered questions regarding global growth, 2019 opportunities and the recent market action. [Click to download the Q&A report.](#)

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



Negative Indicators	Neutral Indicators	Positive Indicators
<b>Technical</b> <ul style="list-style-type: none"> <li>- The S&amp;P 500 Index declined through traditional support levels as the 50-day, 100-day and 200-day moving averages are -6%, -9% and -9%, respectively</li> <li>- The VIX (volatility) increased to its highest level in 2018 to 25.4</li> </ul>	<b>Sentiment</b> <ul style="list-style-type: none"> <li>- Investment flows into U.S. index fund SPY were slightly negative</li> <li>- AAI investor survey (a contrarian indicator) saw a major increase in bear market sentiment, up to 50.3 from 39.5 last month</li> </ul>	<b>Macroeconomic</b> <ul style="list-style-type: none"> <li>- Unemployment rate remained at multi-year low of 3.7%, while the economy continued to add jobs, +155,000 in November</li> <li>- Industrial production rose 0.6% in November</li> <li>- Wage growth (average hourly earnings) increased 3.1% over the previous year</li> </ul>
<b>Valuation</b> <ul style="list-style-type: none"> <li>- Equity valuations (S&amp;P 500 P/E multiples) declined to 17.1 with Forward P/E to 15.4, their lowest levels in over a year</li> <li>- Rising interest rates presented competitive opportunities as investors seek higher yield in new bond offerings</li> </ul>		



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 12/31/2018. Data provided by Bloomberg, NorthCoast Asset Management.

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