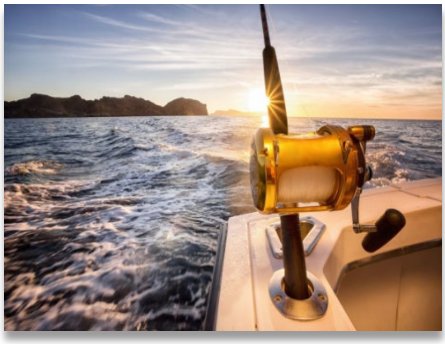
NorthCoast Asset Management

NorthCoast Navigator

1/31/2019

What happened in January?



After a tumultuous end to 2018 devoid of any Santa Claus rally, 2019 began with a positive month for global equities. Increasing worries over a global economic slowdown were offset by generally positive Q4 corporate earnings and Fed policy announcements. Markets responded positively to the Federal Reserve's less aggressive view towards hiking interest rates, providing a bigger appetite for riskier assets like equities.

Despite the positive month, market volatility has carried over from 2018 as January was not lacking in headlines that perpetuated the uncertainty plaguing last year's markets. Little tangible progress has been made in the U.S. and China negotiations and unimpressive economic data from second largest economy may imply some increasing pressure to reach a conclusion to the trade dispute. The longest partial government shutdown in the U.S. occurred in January and concluded with only a temporary budget extension. The shutdown could produce slightly skewed economic data in the coming months. The Eurozone was not immune to poor economic data but the region did post gains last month. A Brexit agreement was rejected in the U.K. parliament, which only added to the uncertainty of a conclusion. Emerging markets rallied from a tough 2018 with a positive January. The MSCI Emerging Markets Index was +8.8%.

January by the Numbers:

U.S. Equities: **8.0%**
S&P 500 Index

International Equities: **7.6%**
ACWI ex-U.S.

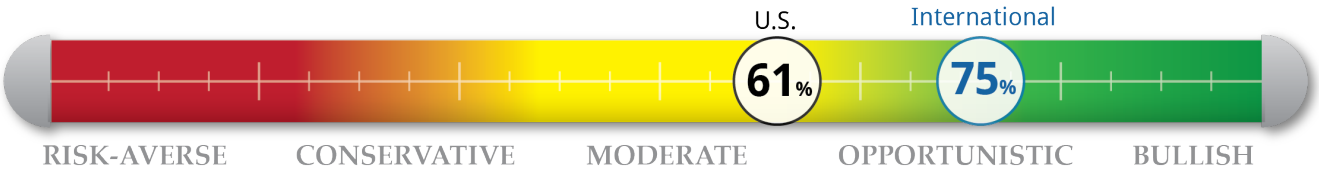
U.S. Bonds: **1.1%**
Barclays U.S. Aggregate Bond Index

Global Bonds: **1.4%**
JP Morgan Global Aggregate Bond Index

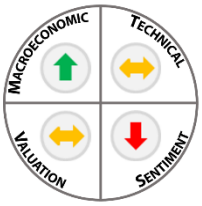
Moving into February

In our Q4 newsletter to clients, we referenced that the year-end volatile decline provided an opportunity for a healthy rebound. With a newly-dovish Fed and trade disputes calming, equities experienced their best January in 30 years. Yet, our cautious posture to start 2019 strengthened into February while still capturing the upside market move. Uncertainty still pervades equity markets across the globe and data is starting to point to a global economic slowdown. We scaled to a 39% cash position in our domestic tactical strategies last month largely due to weakening sentiment indicators and technical signals remaining depressed. For the international tactical strategies we remained approximately 75% invested with little change to international indicators. We expect volatility to continue but see little chance of a recession in the near-term.

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



Negative Indicators	Neutral Indicators		Positive Indicators
Sentiment	**Technical**	**Valuation**	**Macroeconomic**
U.S. consumer confidence fell for the third straight month according to the Conference Board's Index. The University of Michigan Consumer sentiment survey dropped to 90.7 in January from 98.3.	The S&P 500 closed 2% above its 50-day moving average but 2% and 3% below the 100-day and 200-day, respectively. Volatility ended January at 18.0, in line with historical averages.	P/E multiple of the S&P 500 finished January at 18.1 with forward P/E at 15.7, providing a relative attraction to equities versus historical averages and other asset classes like fixed income.	Private sector jobs continued to grow at a steady pace. The manufacturing sector had its strongest job growth in more than four years. Initial jobless claims in the U.S. fell to its lowest level since 1969.



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 1/31/2019. Data provided by Bloomberg, NorthCoast Asset Management.