NorthCoast Asset Management

NorthCoast Navigator

5/31/2019

What happened in May?

U.S. stocks tumbled in May as trade negotiations between the U.S. and China publicly deteriorated, and tensions between the two largest economies in the world heated up once again. This news was a sharp reversal from positive news in April that had spurred confidence that a deal would be imminent. In addition, talk of U.S. tariffs on Mexico was reintroduced towards the end of May. As a result, investors flocked to the safe haven of government bonds driving prices up and yields down. The yield on the 10-year U.S. Treasury note had its largest monthly decline since September 2015 and sank below the 3-month T-Bill, causing what is called an inverted yield curve. This phenomenon is generally regarded as a signal of expected economic contraction. However, preliminary readings of underlying inflation growth in May ticked higher to 2%. This contradiction may be a sign the yield curve inversion is being caused by uncommon circumstances.

May by the Numbers:

U.S. Equities: **-6.4%**
S&P 500 Index

International Equities: **-5.4%**
ACWI ex-U.S.

U.S. Bonds: **1.8%**
Barclays U.S. Aggregate Bond Index

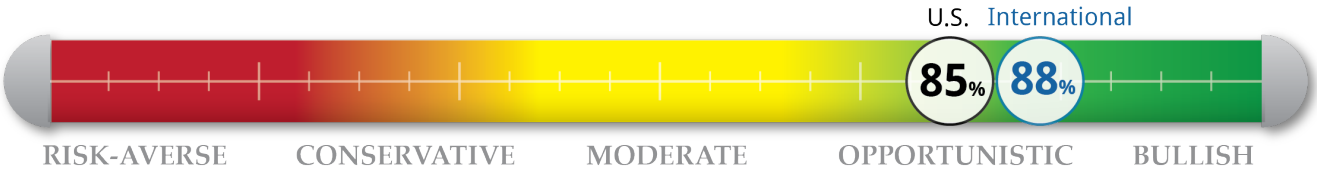
Global Bonds: **1.5%**
JP Morgan Global Aggregate Bond Index

Global trade concerns hit international markets negatively as well, in particular emerging markets. With investors losing their appetites for risk, assets flowed out of the generally riskier regions and the MSCI Emerging Markets Index fell 7.3%.

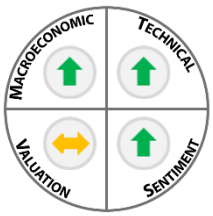
Moving into June

An inverted yield curve is considered by many investors to be a warning sign of slowing economic growth. However, this current instance of an inverted yield curve can also be justified by the sudden swings of uncertainty driving investors to government bonds and that U.S. Treasuries are yielding more than other safe haven government bonds. In addition, the U.S. drawing back quantitative easing has led to a lower supply of 10-year treasuries, which is also driving the price up and yield down. Since this historical warning sign appears to be caused by exceptional circumstances and our model's readings are positive, we see opportunity in the market and have increased equity exposure in our domestic tactical strategy to 85%. The risk of headline news disrupting short-term market action remains elevated and we expect some volatility to continue as a result.

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



Neutral Indicators	Positive Indicators		
Valuation	**Macroeconomic**	**Sentiment**	**Technical**
U.S. equity valuation indicators improved in May due to the pullback in prices. P/E ratios fell to 18.0 from 19.3 at the end of April. Despite the improvement, prices of U.S. equities remain elevated, especially relative to international equities.	There was little change to macroeconomic indicators in May. Despite the loud headlines, the data has yet to reflect any disruption to the economy. The second reading of Q1 GDP growth rate was a solid 3.1% and the preliminary reading of underlying inflation was a positive sign.	Sentiment indicators actually increased slightly by Mid-May, but drew back at the end of the month. The University of Michigan sentiment survey moved higher to 100 but was below expectations. Overall, consumer sentiment still appears strong but investors' concerns were heightened by trade.	The sharp and rapid downturn in U.S. equities brought the S&P 500 extremely close to its moving averages. However, indications of a reversal strengthened significantly due to the speed by which equity prices fell. The increase in volatility can also provide for buying opportunities.



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 5/31/2019. Data provided by Bloomberg, NorthCoast Asset Management.