NorthCoast Asset Management

# The Navigator

January 2020

# Consumers and Trade Conflict

Last month closed out a year that saw stocks and bonds rising in tandem. This is the first time since 1998 that both asset classes increased by such levels. This phenomenon was largely due to an accommodating monetary policy and an improving economic outlook combined with rising fear of trade conflicts and geopolitical tensions. The end of the year brought some optimism to the latter as the U.S. and China signaled a preliminary deal is close at hand and Brexit appears set for the end of January. U.S. stocks' rise this year has resulted in some dislocation from corporate earnings, which have had generally meager growth. As a result, valuations have deteriorated and equities currently appear overvalued. Earnings growth forecasts for 2020 have also been revised down.

U.S. economic data released in December showed that consumers are still driving the advance of the economy. The data also showed wage growth for lower-income workers – a sign of the tight labor market. Wage growth is typically a late-cycle indicator which may precede a recession.

Generally, expectations for equities are positive but below the growth seen in 2019. The U.S. election will be top of mind for many investors, but election years have had little to no impact on long-term investing and there is no statistical evidence that equities perform worse in election years. Due to the divided U.S. electorate, the upcoming election may be turbulent and cause pockets of volatility next year. However, we expect impacts to be short-lived and sector-specific. U.S. manufacturing and corporate investment have the chance to strengthen if a trade deal is reached. This change would lessen the dependence on consumers to drive economic growth. We still see elevated levels of risk for domestic equities with valuations at such high levels. International equities currently look more attractive with recovering macroeconomic and more reasonable valuations.

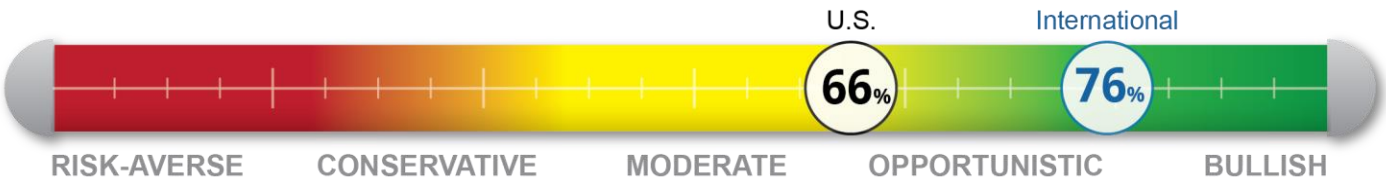
**By the Numbers (YTD)[1]**

**30.7%**
U.S. Equities
*S&P 500 Index*

**21.5%**
International Equities
*MSCI ACWI ex-U.S.*

**8.7%**
U.S. Bonds
*Barclays U.S. Aggregate Bond Index*

**6.8%**
Global Bonds
*JP Morgan Global Aggregate Bond Index*




| Negative Indicators | Neutral Indicators | | Positive Indicators |
|---|---|---|---|
| **Valuation** | **Sentiment** | **Macroeconomic** | **Technical** |
| U.S. equity valuations advanced to their highest levels in 2019 with the S&P 500 Index P/E finishing at 21.6 and Forward P/E at 19.8. | Consumer sentiment, as measured by the UM Consumer Sentiment Survey, moved to its highest level since May, ending the year at 99.3. However, US Purchasing Manager Index (PMI) ticked down in November to 48.1. | At 3.5%, November was the 21st consecutive month with a U.S. unemployment rate of 4% or lower, while adding 266,000 jobs over the month. Wages increased 5.3% in November over the same period last year. The wage growth rate topped the mortgage rate for the 1st time since 1972. | Trend-following technical indicators remained positive as the trend strengthened in December. The S&P 500 now sits 4%, 7% and 9% above its 50-, 100- and 200-day moving averages, respectively. The relative strength index, a measure of momentum, ticked up to its highest level since April. |


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 12/31/2019. Data provided by Bloomberg, NorthCoast Asset Management. [1] Source: Bloomberg, NorthCoast Asset Management.

The information contained herein has been prepared by NorthCoast Asset Management LLC ("NorthCoast") on the basis of publicly available information, internally developed data and other third party sources believed to be reliable. NorthCoast has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information. All opinions and views constitute judgments as of the date of writing without regard to the date on which the reader may receive or access the information, and are subject to change at any time without notice and with no obligation to update. This material is for informational and illustrative purposes only and is intended solely for the information of those to whom it is distributed by NorthCoast. No part of this material may be reproduced or retransmitted in any manner without the prior written permission of NorthCoast. NorthCoast does not represent, warrant or guarantee that this information is suitable for any investment purpose and it should not be used as a basis for investment decisions. © 2020 NorthCoast Asset Management LLC.

**PAST PERFORMANCE DOES NOT GUARANTEE OR INDICATE FUTURE RESULTS.**

This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or investment products or to adopt any investment strategy. The reader should not assume that any investments in companies, securities, sectors, strategies and/or markets identified or described herein were or will be profitable and no representation is made that any investor will or is likely to achieve results comparable to those shown or will make any profit or will be able to avoid incurring substantial losses. Performance differences for certain investors may occur due to various factors, including timing of investment. Investment return will fluctuate and may be volatile, especially over short time horizons.

**INVESTING ENTAILS RISKS, INCLUDING POSSIBLE LOSS OF SOME OR ALL OF AN INVESTMENT.**

The investment views and market opinions/analyses expressed herein may not reflect those of NorthCoast as a whole and different views may be expressed based on different investment styles, objectives, views or philosophies. To the extent that these materials contain statements about the future, such statements are forward looking and subject to a number of risks and uncertainties.