NorthCoast
Asset Management

The Navigator

February 2020

Volatility and Valuations, Coronavirus and Caucuses

While the first weeks of the year saw equities continue the same positive trend of 2019, news of a viral outbreak in China brought unexpected volatility, pushing global equities negative for the month. While the Coronavirus was initially contained to China, it has now spread to over 20 countries. The outbreak has caused concerns about potential impacts to the Chinese and overall global economies from the effect of travel advisories on tourism and business. Chinese economic output is likely to be negatively impacted by the travel restrictions and an expected decrease in spending. Global equities may experience a potential knock-on effect from the Chinese economic issues. Current expectations remain that the impacts will be short-lived once the virus is contained.

Prior to news of the Coronavirus threat, equities had been rising comfortably thanks to a continuation of 2019 momentum, an optimistic trade outlook and signs of positive economic growth. These signals are still present in the market and some strengthened throughout January, particularly consumer sentiment, short-term technical signals and leading economic indicators. We have seen this strengthening as an opportunity to increase equity exposure in both our domestic and international tactical equity strategies.

With the U.S. election ramping up and the continued attempts to contain the Coronavirus, volatility could stay elevated in the coming weeks. We do however still expect market responses to the approaching caucuses to be short-lived and sector-specific. Our models are showing structural strength behind equities so that impacts of the virus may be allowed to cycle through with little lasting impact. We will continue to keep a close watch on wage growth and consumer spending as consumers remain the main driver of the U.S. economy. We are also watching for a potential rebound in manufacturing and the response to last month's events from the Federal Reserve.

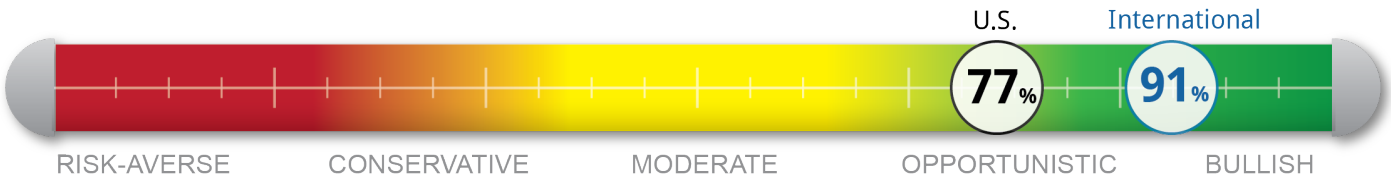
By the Numbers (YTD)

-0.1%
U.S. Equities
S&P 500 Index

-2.7%
International Equities
MSCI ACWI ex-U.S.

1.9%
U.S. Bonds
Barclays U.S. Aggregate Bond Index

1.3%
Global Bonds
JP Morgan Global Aggregate Bond Index



Negative Indicators	Neutral Indicators		Positive Indicators
Valuation	**Sentiment**	**Macroeconomic**	**Technical**
Equity valuations in the U.S. remained elevated throughout January, dipping only slightly due to the minor pullback. S&P 500 P/E ratio sits at 21.4 and forward P/E at 18.8. International valuations remain more attractive.	Consumer sentiment improved from December to January according to the University of Michigan consumer sentiment survey. The indicator hit an 8-month high at 99.8. Low employment and slow yet steady wage growth is likely boosting consumer sentiment.	Concerns about Coronavirus impacting global economies hurt equities, but current data still signals strength. Data released last month showed wages increased in the fourth quarter of 2019, making it the fourth straight quarter of growth.	Technical indicators remained strong throughout January and short-term indicators actually strengthened in January. While the S&P 500 was slightly negative for the month, momentum remains strong from last year and the index sits above its longer-term averages.

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 1/31/2020. Data provided by Bloomberg, NorthCoast Asset Management. [1] Source: Bloomberg, NorthCoast Asset Management.