NorthCoast
Asset Management

The Navigator

March 2020

Looking for Containment

Steep losses in the final week of February grabbed headlines and the attention of global investors. The lack of regional containment of the Coronavirus as well as expectations of negative economic and earnings impacts caused a precipitous decline. Investor reaction intensified last month as confirmed cases outside of China increased, specifically in South Korea, Iran and Italy. The global spread of the virus fueled fears that the economic effects will continue for some time. The most impactful of which involve concerns about consumer behavior changes, causing reduced travel and spending. We expect the real impact on earnings to be sector-specific and affected largely by reductions in economic activity in China. However, economic uncertainty did result in a broad selloff in late February, dragging all of the S&P 500's 11 sectors negative for the year. In total, the index fell almost 13% from its record high on February 19th.

The risk of a Coronavirus pandemic is likely to continue having an effect on the economy and equity markets. The selloff in February was effective in pricing in negative expectations to some degree. It is possible that the spread has begun to plateau and the situation may improve more rapidly than anticipated. With central banks having indicated support for stimulative monetary and fiscal policies, an improvement in containment could lead to favorable economic and equity conditions.

Our models had been showing elevated valuation readings as well as neutral sentiment and macroeconomic indicators prior to the selloff. These readings pushed our cash allocation to roughly 25%, which provided some buffer during the market-wide losses. At this time, it is difficult to predict the immediate-term reaction from equity markets as it appears to be linked to containment of the virus, which is currently uncertain. Without downplaying the loss of human life, our models are currently estimating a contained situation similar to the previous recent episodes of volatility (Brexit, trade wars, and inverted yield curve) that the economy effectively powered through. For further information on our model approach during challenging market conditions, please refer to the NorthCoast Cash Scaling Strategy Fact Sheet.

By the Numbers (YTD)[1]

-8.4%
U.S. Equities
S&P 500 Index

-10.4%
International Equities
MSCI ACWI ex-U.S.

3.8%
U.S. Bonds
Barclays U.S. Aggregate Bond Index

2.0%
Global Bonds
JP Morgan Global Aggregate Bond Index

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 2/29/2020. DATA PROVIDED BY BLOOMBERG, NORTHCOAST ASSET MANAGEMENT.

Neutral Indicators			Positive Indicators
Valuation	**Sentiment**	**Macroeconomic**	**Technical**
Valuation indicators strengthened as the market sold off. S&P 500 forward P/E ratio decreased to 17.1 from 18.5. Surprisingly, the correction did not affect higher-multiple equities more severely.	Consumer sentiment in the U.S. remained strong last month. The University of Michigan Consumer Sentiment Survey increased to above 100. Investors and manufacturers are showing signs of worry, but there is too much uncertainty to validate these worries.	There is no quantifiable change in macroeconomic data. Growth forecasts have been revised down, but it will take time for the real figures to digest any impact of the virus.	Technical indicators did soften slightly last month. The S&P 500 fell below its moving averages and momentum stalled. However, reversal indicators strengthened due to the pullback. The VIX elevated to roughly 40.

[1] Source: Bloomberg, NorthCoast Asset Management.