

## [Martone Capital Management: Weekly Investment Commentary \(10/14/2014\)](#)

In recent weeks, investors have been contending with two trends: anxiety over a change in Fed policy and evidence of a slowdown in the global economy. Our view is that while global growth is likely to remain below historic norms, it is not collapsing. This is an important distinction because it suggests that investors should be positioned for a slow-growth environment, not another recession.

Last week witnessed further selling of risky assets. Global equities are now down roughly 8% in dollar terms from their summer highs, with emerging market stocks, U.S. small caps and oil all in correction territory (in other words, they have declined 10% or more).

At the same time, investors have been buying so-called safe-haven assets. So, while investors were selling stocks, they moved \$16 billion into bond funds and roughly \$47 billion into money market funds. Since bond yields drop as prices rise, the recent spate of bond buying has pushed the yield on the 10-year Treasury note down to 2.28%, its lowest level since June of 2013.

Ironically, last week's stock selling could have been driven by the paradox of a little too much growth in the U.S. and too little everywhere else. A strong U.S. economy continues to suggest a Fed tightening sometime in the first half of 2015. At the same time, the rest of the world appears to be decelerating, with a few notable exceptions, such as India. This trend was highlighted last week in a report by the International Monetary Fund (IMF). The IMF reduced its estimates for global growth and raised the likelihood of another recession in the Eurozone.

While we don't expect another global recession, the last few weeks illustrate why the world economy is still going to be defined by relatively meager growth. This has significant implications for investors and suggests looking for assets that can still do well in the slow-growth environment, such as large- and mega-cap companies, which have been significantly outperforming smaller companies.

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