

[Martone Capital Management: Weekly Investment Commentary \(8/4/2015\)](#)

Last week featured more evidence that U.S. companies are able to beat diminished earnings expectations. While Proctor & Gamble and Exxon disappointed, the market took comfort in strong numbers from Ford and UPS. In addition, more health care companies are jumping on the mergers-and-acquisitions bandwagon we've seen this year.

However, several other developments argue for caution. Estimates for 2015 growth by the G8 countries have fallen from over 2% last fall to barely 1.70% today. Meanwhile, news in the U.S. was mixed. Second-quarter gross domestic product rebounded from the first quarter's slowdown, which was not as bad as initially recorded. That said, overall growth over the past several years was weaker than previously thought. From 2011 through 2014, the U.S. economy grew at an annual rate of 2%, well below the previously estimated 2.3%.

With global growth estimates coming down and commodities continuing to trade lower, it should come as no surprise that bond yields are once again falling. As we discussed several weeks back when bond yields were approaching 2.50%, it is not clear that the current environment of slow growth, low inflation and strong institutional demand justifies much higher yields. Since then rates have slipped. Last week, 10-year U.S. Treasury yields fell back below 2.20%, near their lows for the summer. Investors are reacting to signs of slowing global growth, plunging commodity prices and more modest inflation expectations.

Should volatility rise and equities correct, there is a risk to one area of the market in particular: the popular "momentum" trade (in other words, stocks or sectors exhibiting strong price gains recently). The MSCI USA Momentum Index, a basket of U.S. equities exhibiting relatively high momentum, is up nearly 10% this year, easily outpacing the broader market. Should volatility heat up, this outperformance may revert in favor of other factors like quality. Investors should take note.

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