Martone Capital Management: Weekly Investment Commentary (12/30/2014)

Last week may be a prelude to what's to come, as we expect more episodes of volatility as we enter the new year. An important driver of that volatility will be markets adjusting to less accommodative U.S. monetary conditions. But on top of that, investors will continue to wrestle with several lingering geopolitical issues, particularly with respect to Russia.

Despite the severe volatility last week, global equity markets, at least in the developed world, managed to finish with gains. Emerging markets performance was more mixed.

Here at home, stocks were helped by more evidence of U.S. economic strength. Industrial production rose 1.3% last month and is now up 5.2% year-over-year, the fastest pace in almost four years.

The fact that the U.S. economy is entering 2015 with strong momentum should help company earnings growth, allowing stocks to move higher next year. And while valuations are not cheap, they are supported by low inflation and ultra-low bond yields. U.S. Treasury yields did rise a bit last week, but the general trend toward low global yields continues. Low yields mean investors will continue to look for opportunities in stocks, rather than bonds, which should support the equity market.