Martone Capital Management: Weekly Investment Commentary (3/11/2014)

After a negative reaction early last week, the markets quickly got over their jitters about Russia, Ukraine and Crimea. Monday saw a brief selloff and spike in volatility, but the effect was modest. By Tuesday, markets recovered and again reached new highs. At the same time, investors began moving out of "safe haven" assets such as Treasuries, which explains why Treasury yields rose (and prices fell) last week.

Financial markets also benefited from some better-than-expected economic data, including improvements in manufacturing as well as a rebound in the jobs market. The February labor market report showed that 177,000 new jobs were created last month. This represented a significant improvement over December and January, and suggests part of the earlier weakness may, in fact, have been related to the poor weather.

Overall, however, economic data continue to be mixed. Despite last month's uptick in jobs growth, the pace of labor market improvements remains subpar compared to previous economic recoveries. The labor market participation rate remains low and long-term unemployment high, re-affirming that the U.S. jobs market is still troubled. Outside of the labor report, the Institute for Supply Management's non-manufacturing survey (a key gauge of the service sector) also sank to a four-year low in February.

In any case, it does seem that investors are looking past weak economic data and that momentum, low interest rates and "good enough" economic and earnings figures have been enough to keep stock prices moving higher. But now that the bull market is entering its sixth year, where does that leave investors?

To start, we would say equities are no longer cheap and that stronger economic growth will be needed to drive earnings and prices higher. But we do believe stock prices are more likely to head higher rather than lower from here. Equities still look like a more attractive option than cash or bonds. Cash investments are effectively paying nothing, and traditional areas of the bond market offer little return after factoring in the effects of inflation and taxes.