## Martone Capital Management: Weekly Investment Commentary (6/2/2015)

Stocks declined last week as economic data continued to show mixed results.

We still believe yields are likely to rise modestly by year's end, but last week reminds us that we are in a "low-for-long" interest rate environment. And that means investors who are searching for income will continue to need to find alternative sources for that income.

As stocks slipped, so did bond yields. Ten-year U.S. Treasury yields hit a one-month low of 2.10%, but the trend was global: German Bund yields fell back below 0.50% and there were similar drops in U.K. and Australian yields.

Investors are reacting to several factors. First, U.S. economic numbers continue to be mixed - an index of economic surprises is still hovering just above a six-year low - although the trend is toward improvement, with durable goods and housing starts stronger than expected.

Second, inflation expectations are moderating after their recent surge. In the U.S., investor expectations for inflation over the next decade fell from 1.95% in early May to barely 1.80% on Friday.

Given these forces, along with more structural considerations - aging populations, institutional demand for bonds and a dearth of supply - we expect that long-term yields will remain low (our year-end target for the 10-year Treasury yield is around 2.50%) even as the Fed starts to raise rates. Short-term rates should rise, but long-term yields are likely to be more anchored over the next one to two years.