

## [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.

*This material is distributed by Martone Capital Management, Inc. and is for information purposes only. No part of this document may be reproduced in any manner without the written permission of Martone Capital Management, Inc. Martone Capital Management, Inc. does not represent that the information is accurate or complete and it should not be relied on as such. It is provided with the understanding that no fiduciary relationship exists because of this report. Opinions expressed in this report are the opinions of Martone Capital Management, Inc. and are subject to change without notice. Martone Capital Management, Inc. assumes no liability for the interpretation or use of this report. Investment conclusions and strategies suggested in this report may not be suitable for all investors and consultation with a qualified investment advisor is recommended prior to executing any investment strategy. All rights reserved.*