

## [Martone Capital Management: Weekly Investment Commentary \(2/9/2016\)](#)

Stocks resumed their decline last week with the major indexes all suffering losses.

Investors may have grown weary of the bleak midwinter volatility and spring is still a long way off. The elements are in place for continued volatility, and the comfort of central bank accommodation is not as reliable as it once was. But investors still have options available that can help provide at least some degree of insulation for their portfolios.

The recent weakness in stocks can be attributed to several factors. To start, we saw further volatility in energy markets. However, investors were more focused on further evidence of economic deceleration in the United States. Last week brought poor ISM manufacturing and services surveys, although a rebound in new orders did offer one glimmer of hope. On the labor front, job growth remains strong but appears to have crested as employers are faced with difficulty finding qualified workers and uncertainty over financial market conditions.

Ironically, however, another problem for stocks is coming from rising wages. Higher wages are ultimately a positive for the consumer, but they put pressure on companies' margins. In January, hourly wages were up 0.5%. If rising wages are not accompanied by faster productivity, profit margins will come under pressure.

Finally, a weaker dollar added to the pressure on international stocks. The dollar rebounded on Friday, but is still down more than 3% from its December peak. Investors are selling the dollar as expectations for U.S. growth and Federal Reserve (Fed) tightening continue to fade. Consensus forecasts for 2016 economic growth have fallen from 2.7% in early October to 2.4% today, and with that downgrade, investors are even less convinced that the Fed will hike rates four times this year, as it had implied. Investors place the odds of a March hike at 10% today - down from 50% at the start of January.

Against this backdrop, we continue to suggest that investors look for strategies and tools to minimize downside risk.

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