

## **Martone Capital Management: Weekly Investment Commentary (5/31/2012)**

The market decline that has occurred over the last couple of months has largely been attributed to escalating concerns over the European debt crisis and we believe that Europe remains the chief variable in determining the future direction of the global economy. If Europe's debt crisis remains reasonably well contained, the world should continue to grow at a modest pace with the United States doing relatively well; if debt contagion becomes chaotic and uncontrollable, it would be an entirely different story. Our view continues to be that the former scenario is the more likely one.

In addition to ongoing issues in Europe, investors are also remaining focused on the state of the US economy. The data has been mixed in recent months, but continues to point to a modest recovery. The business sector remains a source of strength, consumer uncertainty appears to be fading somewhat and we are also seeing some improvements in the housing market. Additionally, liquidity and credit conditions continue to improve in the United States, with bank loans increasing in recent weeks.

There are a number of questions over the future direction of monetary policy in the United States. Given that US Treasury yields are at their all-time lows and that we have seen a noticeable drop in stock prices in recent weeks, it might seem reasonable to expect further accommodative action from the Federal Reserve. Our view, however, is that the Fed is likely to remain on hold and that an additional round of easing (i.e., QE3) is not likely unless we see more compelling evidence of an economic slowdown.

There remains a high degree of near-term risk and the possibility of short-term turmoil given the evolving crisis in Europe, fiscal issues in the United States and the uncertainty over China's growth slowdown, but our view continues to be that global economic growth will remain acceptable with conditions gradually improving in the second half of the year. Leading global economic indicators are rising, the US recovery has grown more firm and earnings momentum is positive. There is still quite a bit more that needs to be done on the part of policymakers around the world to take the necessary steps, but the trends are pointing in the right direction.

