Martone Capital Management: Weekly Investment Commentary (6/14/2012)

Following a significant slide the week before, stocks bounced back last week, primarily due to a growing sense that policymakers in Europe and the United States may be ready to engage in further easing measures. The increasing stress in Europe has put additional pressure on the European Central Bank (ECB) and on other policymakers to take stronger action, and, indeed, over the weekend European finance ministers announced a new plan to recapitalize the Spanish banking sector. In the United States, the recent trend of weaker economic data has also caused some to believe that the Federal Reserve would engage in additional easing measures.

The news over the weekend regarding the aid package for Spanish banks was sketchy on details and much still needs to be debated and decided, but the formation of the package is clearly a positive step in that it shows that European policymakers remain committed to combatting the debt crisis.

Although we expect the European economy to remain weak and troubled by ongoing debt problems, we continue to believe that the US economic backdrop remains fairly benign. The recent employment report for May certainly spooked investors and reinforced the notion that the United States has entered into an economic soft patch.

From a policy perspective, we would acknowledge that weaker economic data does increase the odds of the Fed taking some sort of additional action, but we would peg the odds at somewhere around 50/50. For his part, Fed Chairman Ben Bernanke testified before Congress last week and appeared, at best, lukewarm toward the prospect of the Fed engaging in new easing measures.

The sense that policymakers may provide more assistance was enough to reverse the market correction, at least for one week. The backdrop does remain fragile, however, and investors could quickly enter panic mode if additional policy help does not materialize (particularly in Europe). Should European policymakers continue to take similar steps as we saw over the weekend, investors would likely grow more confident.

In the United States, we believe the current economic angst is misplaced, although uncertainty over the fiscal cliff issues will help ensure that markets remain turbulent. Our view is that some sort of compromise should materialize, which should help the US economy remain on stable footing.

From a fundamental perspective, valuations are attractive, corporate earnings remain solid and technical indicators suggest that markets may be poised for the next "risk on" phase. In all, we believe that the cyclical bull market for stocks remains intact, but the next up leg will likely not occur until we see more policy response.

Thank you for your continued confidence in Martone Capital Management.

We welcome your comments and questions.

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William Martone is President and Senior Portfolio Manager of Martone Capital Management, Inc., which was founded in 1994. Bill has almost 40 years of experience in the financial services industry and manages portfolios for both individual investors and pension funds using multiple investment strategies. Bill is a Chartered Financial Consultant, Chartered Life Underwriter, and New York State Registered Investment Advisor. He is frequently quoted in the Westchester Journal Business News as well as other publications. Martone Capital Management was featured on CNN*fn*.