Martone Capital Management: Weekly Investment Commentary (8/29/2012)

As August draws toward a close, corporate bond yields touched multi-year lows and many risk assets can look back on a pretty good summer. But despite plenty of investment and central bank activity, we continue to see a shortage of economic and financial market confidence.

Policymakers around the world, perhaps with the exception of Japan, are trying to stimulate economic growth and appear willing to sacrifice rising asset prices in order to get the job done.

In the United States, we continue to foresee gross domestic product (GDP) growth in the area of 2% for the remainder of this year and next. We would stress that the risks are to the downside, particularly if there is a disorderly breakup of the eurozone and/or Congress fails to reach an agreement to avoid the so-called fiscal cliff at the end of this year. If either of these events were to occur, the US could be pushed back into a recession.

This past week, minutes from the August 1 Federal Open Market Committee (FOMC) meeting confirmed the FOMC is willing to ease the burdens on the economic data. The minutes did not shed much light on what form of easing might take place, but the tone was that QE3 remains firmly on the table for the September FOMC meeting. Incoming data will probably determine whether the Fed actually acts or simply extends its forward-looking language. We do not expect Fed Chairman Ben Bernanke to send any strong signal about action in his Jackson Hole speech later this week.

Overall, policymakers across the globe have become increasingly determined to curtail deflationary risks and encourage a sustained economic recovery. This recently helped alleviate investor anxiety, fueling the risk-on phase. Euro officials were the latest to step up the reflationary efforts, with ECB President Mario Draghi aggressively pushing forward his proposal for purchasing sovereign debt. German Chancellor Angela Merkel has publicly endorsed the ECB proposal, despite disapproval from the German Bundesbanke.

Equities have moved in a fairly narrow range in recent weeks, giving back some of their gains from earlier in the summer. Escaping this range to the upside will require positive economic news and some clarity around policymaker action. Conversely, policymaker inaction could stoke deflationary fears and cause stocks to slip. Despite the many uncertainties, we are biased toward the former of these two scenarios and, as such, maintain a somewhat positive equity market outlook.

Thank you for your continued confidence in Martone Capital Management.

We welcome your comments and questions.

William A. Martone - President CLU, ChFC
Michael C. Martone - Registered Principal

www.martonecapital.com

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*.