Martone Capital Management: Weekly Investment Commentary (9/12/2012)

Despite a relatively disappointing jobs market report for August, stocks rose last week as investors focused on the European Central Bank's (ECB) announcement of its long-awaited plan to buy bonds in the secondary market. The ECB program represents an important step in terms of lowering volatility and providing a cushion for Europe's debt-troubled countries to make some longer-term improvements in their fundamentals. Many observers were surprised by the level of detail and directness offered by ECB President Mario Draghi in announcing the program, and while the bond-purchase plan by itself will not solve the region's problems, it will offer a financial bridge to allow for structural and political changes to be made.

Following a months-long period in the spring when US economic data generally disappointed, the trend has turned somewhat more positive over the last couple of months. On the good-news side, housing data has made some noticeable strides, industrial production levels have picked up and retail sales (autos in particular) have shown some signs of improvement. There are certainly areas of the economy that are lagging, however. The labor market in particular has struggled, with the most recent data showing a less-than-anticipated 96,000 new jobs created for August. On balance, we would describe the economic environment as being mixed and we continue to anticipate US gross domestic product growing at around the 2% level for some time.

At this point in the market cycle, many investors are concerned about the sustainability of stocks' move higher and concerns are widespread that markets may have gotten ahead of themselves. In our view, the continuation of the current up-leg in global risk assets will largely be determined by the aggressiveness and success of policymakers in three critical regions: China, Europe and the United States.

We still believe there is further upside potential for stocks and other risk assets, but given all of the uncertainty, we expect the rest of the year will see some heightened levels of volatility as investors remain quite nervous about the number of downside risks. There is little room for policy errors, but the trends to seem to be heading in the right direction.