Martone Capital Management: Weekly Investment Commentary (3/19/2013)

Outside of a disappointing consumer confidence number that was reported last week, virtually all of the data has been coming in at a better-than-expected rate. Looking ahead, we still expect the economy to hit a modest speed bump in the second quarter given the spending cuts associated with the sequester. For now, however, the evidence suggests that the economy is picking up momentum.

Last week, we saw some evidence that the manufacturing sector is continuing to improve, with industrial production rates and factory capacity levels both moving higher. Additionally, February's retail sales figures were released last week and showed a 1.1% increase, double what consensus expectations had forecasted. This increase is particularly noticeable, since it comes on the heels of higher marginal tax rates for the wealthy and higher payroll taxes for everyone. Despite the fears of many that the higher taxes that went into effect in January might put a damper on economic growth in general and on consumer spending in particular, so far, the economy has been able to weather the impact.

Income growth remains the key missing ingredient in the economic recovery. If income does start to rise, the economy should convert to a self-sustaining growth trajectory. On the other hand, if income growth remains muted, it would suggest that spending levels (and the broader economy) will remain vulnerable.

From an investment perspective, with consumer spending still on shaky ground, we remain cautious on consumer-oriented sectors of the stock market. Instead, we would suggest a focus on sectors such as energy, where attractive valuations offer some support.