

Martone Capital Management: Weekly Investment Commentary (2/14/2013)

Following five consecutive weeks of gains, equity markets took a break last week and had a relatively quiet week of trading, with stocks ending slightly up.

For the coming week, one of the most important economic reports will be January's retail sales figures, which are set to be released on Wednesday. This report should be particularly revealing since it will provide the first real evidence of how consumers are holding up in the face of the higher payroll taxes that took effect at the beginning of the year.

On a related note, an additional factor that looks to have a measurable impact on the near-term economic outlook is the federal budget sequester, the series of automatic government spending cuts that total roughly \$85 billion. These cuts were originally set to take effect at the beginning of the year, but were delayed to March 1 as part of the last-minute fiscal cliff deal. At the time, the hope and expectation was that Congress and the President would be able to come to an agreement to avoid the full impact of the sequester, but despite the two-month delay, the lack of progress in negotiations suggests there is a growing likelihood that the cuts will actually occur next month.

Should the scheduled cuts take effect, we do not think they will represent a "game changer" for the US economy, but they will act as a drag and will raise the risk that growth in 2013 will disappoint. As we get closer to the March 1 sequester deadline, we do expect to see higher levels of financial market volatility as investor attention returns to the country's fiscal drama.

We do expect the US economy to expand in 2013, but growth is likely to be slow, particularly in the first half of the year. Given the near-term risks that are affecting the economy and the financial markets, we would re-emphasize an investment theme we have been discussing for some time: a focus on dividend-paying stocks. Dividend-paying stocks can do well in most environments, but they have historically done particularly well on a relative basis during times of sluggish economic growth.