[Martone Capital Management: Weekly Investment Commentary (8/6/2013)]

There was a great deal of economic data for investors to digest last week. One of the highlights was the first estimate of second-quarter gross domestic product growth - a better-than-expected 1.7% rate. The good news came with a few caveats, however. Most significantly, we learned that first-quarter growth was quite a bit worse than had been previously thought, with the original 1.8% pace being downgraded to 1.1%. Additionally, the second-quarter GDP reading also indicated that consumer spending has been weakening.

Economic data from July was also mixed. On the positive side, we saw a significant rebound in US manufacturing activity, a trend that was confirmed by multiple surveys. This improvement was not limited to the United States, as we also witnessed stronger manufacturing data from Europe and China.

Finally, we would point out that even the headline improvement in the unemployment rate (which fell from 7.6% to 7.4%) was actually a sign of weakness. A close look at the numbers shows that the decline can be partially attributed to the fact that more and more Americans have been dropping out of the labor force and are no longer seeking employment.

We believe investors are likely to witness more volatility when we get into the fall. In our view, September is likely to provide three challenges for equity markets. First, September is a month when the calendar has traditionally mattered - it has historically been the worst month for stock prices. Second, we expect anxiety over the direction of monetary policy to rise in advance of the Fed's mid-September policy meeting. And third, we expect Europe to re-emerge as a source of volatility as investors focus their attention on next month's federal election in Germany.