

## **Martone Capital Management: Weekly Investment Commentary (5/9/2012)**

Stocks struggled last week in the face of some weaker economic data (most notably, a disappointing April payrolls report). For the week, the Dow Jones Industrial Average dropped 1.4% to 13,038, the S&P 500 Index fell 2.4% to 1,369 and the Nasdaq Composite declined 3.7% to 2,956. These losses roughly corresponded to the gains that stocks had made in the previous week and, as a result, stocks are now at the lower end of the trading range that has been in effect for the last three months or so.

Recent data does appear to confirm that economic growth has softened a bit. The April labor market report was disappointing, as jobs grew a less-than-anticipated 115,000 (although the data also showed upward revisions for February and March). The unemployment rate fell slightly to 8.1%, but even that data was interpreted negatively as it suggests that some are giving up on finding employment and are dropping out of the workforce.

Overall - it does not appear that the economic backdrop has changed enough in recent months to cause the Federal Reserve to alter its ultra-accommodative course. We are still not expecting the Fed to announce any sort of new quantitative easing measures, especially since core inflation remains well contained. It appears to us that the economy is still growing, but there are reasons to be concerned about its pace.

From a broader economic perspective, conditions are also better today than they were one year ago. At this point last year, the United States was coming off of a quarter in which growth slowed to a virtual standstill and while conditions today are certainly not great, they are at least decent. Additionally, much of the rest of the world appears to be on reasonably firm footing. The chief exception, of course, is Europe. That region is facing worse economic conditions and the financial environment remains dicey and subject to political uncertainty.

There is a great deal of uncertainty that is acting as a headwind for the markets. In the United States, perhaps the main uncertainty is over the looming fiscal and tax issues that must be dealt with before the end of the year. Additionally, the still-developing European debt crisis has the potential to derail markets, as does the possibility for worse-than-expected economic growth. In any case, while we do expect to see markets continue to churn for

the near term, we also believe that stocks will eventually be able to resume their climb.