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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

November 10th, 2017

Weekly Market Update

U.S. equity markets posted their first weekly decline since September this week as tax reform took center stage once again. The S&P 500 Index finished the week 0.2% lower, the Dow Jones Industrial Average lost 0.5% and the Nasdaq Composite slipped 0.2%. Meanwhile, the Russell 2000 Index of small-cap stocks lost 1.3%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 0.7% lower while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, fell 0.1% on the week.

The yield on the 10-year U.S. Treasury rose 7 basis points to 2.40% while the 2-year U.S. Treasury yield gained 4 basis points to 1.66%. Oil prices hit their highest level since 2015, adding 2.1%. Gold added 0.4% and the S&P GSCI, which measures the returns on a basket of commodities, was up 1.9%.

With little major economic data to digest and the third quarter earnings season beginning to wind down, market participants had little fundamental news to focus on this past week. Earnings news was a little disappointing this week while tax reform garnered much attention as the House Finance Committee debated the Republican tax plan and the Senate released its own version of a tax bill. Markets in Europe were notably weaker during the week while Asian markets finished mixed. U.S. stocks spent most of the week hovering near record levels before falling late in the week. On Thursday, stocks traded lower after the Senate unveiled its own tax plan, which differed from the House's proposal in several key areas. Perhaps most relevant to the market is the fact that the Senate's version delays the corporate tax cut until 2019. While both versions lower the corporate tax rate to 20%, the House's bill has it beginning in 2018. Other differences centered on individual tax rates and deductions. Together, market participants questioned the Republican's ability to get tax reform done. We think corporate tax reform could get done relatively soon given what is at stake for Republicans in 2018. Mixed earnings news, particularly from the retail sector, added to the negative backdrop for stocks Thursday into Friday. Despite some worse-than-expected results this week, earnings growth for the third quarter appears to be on track to finish at 7%, better than what was initially estimated when the quarter began.

On the economic front, the November's preliminary reading of consumer sentiment from the University of Michigan fell unexpectedly. Although this was the biggest drop in over a year, the overall uptrend remains in place and still points to a pickup in economic growth. Next week, we get the latest readings on wholesale and retail inflation, some regional manufacturing activity gauges, retail sales figures and industrial production data. We also get building permits and housing starts late in the week. The House is scheduled to vote on its tax reform bill while the Senate's version will be debated in committee with a vote possibly happening next week. We could see some volatility materialize around these votes.

Equity markets are beginning to show a little fatigue as the earnings season winds down. Elevated valuations, uncertainty regarding tax reform and less monetary policy accommodation from global central banks are a few key themes leaving market participants somewhat cautious. Adding to the guarded tone is the abnormally low volatility and the fact that we have not seen a meaningful market correction in over a year. Meanwhile, the fundamental backdrop remains positive, which is why markets continue to hover near recent highs. Earnings reports over the latest quarter have topped expectations and growth has been solid,

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though down from earlier in the year. Furthermore, the global economy is in good shape at the moment and we continue to see evidence that growth could pick up over the near term. Our indicators continue to suggest a relatively low probability of a recession unfolding over the next several months. Barring a geopolitical or unforeseen shock, we believe the positive economic momentum is likely to continue and that any near-term pullback would likely be short lived.

We think some of the key near-term risks include a faster pace of rate hikes from the Federal Reserve than the market currently expects, disappointing earnings growth over the next few quarters and a lack of meaningful corporate tax reform. While we remain concerned about elevated valuations across asset classes and recognize the potential for a near-term pullback in equity prices, the economic and fundamental environment remains favorable for greater exposure to risk assets in our view. As a result, we continue to favor stocks over bonds and have a tilt towards international equities in our dynamic positioning. We think this is consistent with our macroeconomic outlook and assessment of the overall environment.

Regardless of the market's near-term direction, it is important to remember that setting the appropriate strategic asset allocation for your circumstances and risk preferences are important steps to executing your financial plan. If you would like to discuss your asset allocation, time horizon, or risk tolerance please contact us at 303-470-1209 and we would be happy to address your concerns. We are here to assist you, your friends, family or in any way we can.

Disclosures:

- Kummer Financial Strategies, Inc. is an independently registered investment advisor.
- Investors should be aware of risk when investing, including potential loss of principal.
- Past performance is not a guarantee of future results. Rebalancing, asset allocation or alternative strategies may or may not produce positive results. Thank you.

Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.