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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

July 28th, 2017

Weekly Market Update

A busy week of earnings releases, a Fed meeting, and U.S. economic growth data were the primary focus of market participants in what was an up and down week for equity prices worldwide. The S&P 500 Index was flat, the Dow Jones Industrial Average gained 1.2%, the Nasdaq Composite fell 0.2% and the Russell 2000 Index of small-cap stocks finished down 0.4%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 0.3% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 0.2% on the week.

The yield on the 10-year U.S. Treasury rose 5 basis points to 2.29% while the 2-year U.S. Treasury yield gained 1 basis point to 1.35%. Oil prices lost ground during the week, gaining 8.5%. Meanwhile, gold was up 1.6% and the S&P GSCI, which measures the returns on a basket of commodities, rose 4.2%.

Monday saw technology stocks return to their winning ways while the broader market posted modest losses as market participants geared up for a busy week of earnings news. Tuesday saw the broader market catch up on solid earnings reports from a number of leaders in the industrial sector. On Wednesday, the Federal Reserve left its monetary policy unchanged as expected while hinting that it is close to beginning the reduction of its $4.5 trillion balance sheet of U.S. Treasuries and mortgage-backed securities. U.S. Treasury yields fell following the news while the broader stock market inched to a new record high. Despite the decline in yields, interest rates across the globe remain in the uptrend that has been in place since late-June. On Thursday, early gains on broadly positive earnings reports gave way to losses as market participants focused on some disappointing earnings results from a few technology bellwethers. The relative underperformance of tech continued into Friday as another bellwether name posted earnings below expectations. In addition, the Senate failed to pass healthcare reform after several attempts and amendments to the current bill, helping to keep policy uncertainty in the forefront.

Economic data released this past week was relatively upbeat. The first look at U.S. economic growth during the second quarter showed that the U.S. economy accelerated to a 2.6% annualized growth rate on stronger consumer and government spending. This was up from the downwardly-revised first quarter growth of 1.2%. The Case-Shiller home price index maintained its steady pace, rising 5.6% in May from a year ago, while tight inventories and strong demand remained key themes for the U.S. housing market. Existing home sales dipped to their slowest pace in four months in June while new home sales edged higher. Both remain in a modest long-term uptrend. Durable goods orders jumped 6.5% in June, the most in roughly three years, benefiting from a strong surge in civilian aircraft sales. Meanwhile, a proxy for business spending, which has remained at a lackluster pace during the current economic expansion, edged lower. Many analysts see capex spending picking up over the second half of the year. Two key measures of consumer sentiment remained near recent highs in July and continue to suggest a modest near-term pickup in economic growth. The Conference Board's Consumer Confidence Index rebounded for the first time in four months while the University of Michigan's Consumer Sentiment index dipped a little. Next week's economic calendar is a busy one once again with the typical month end releases. Regional and national business activity gauges,

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pending home sales, personal consumption expenditures and July's employment report are some of the key releases due.

The second quarter earnings season is past the halfway mark and results have been pretty solid with perhaps the exception of a few bellwether names in select industries. As a result, we have seen U.S. stocks continue to hover near all-time highs while equity-market volatility has remained unusually low. Investor complacency is the phrase often being used to describe the low volatility these days. Couple this with elevated valuations, the fact that we have not seen more than a 5% pullback in equity prices in over a year, uncertainty over the pace of rate hikes and a stalled agenda in Washington and there are a number of reasons to think markets could be vulnerable to a near-term correction. While we are watching our indicators closely for signs that the market may be rolling over, we believe the backdrop for risk assets remains favorable amid an improving earnings picture, a pickup in global economic activity and the fact that we have not seen the emergence of the excesses typically associated with a market top.

Faster earnings growth, low inflation and accelerating economic activity at home and abroad, are helping to support current valuations to some degree in our view. In addition, market momentum remains positive and our indicators suggest to us a low probability of a recession unfolding over the near term. We believe the key risks to the economy and the stock market surround an unforeseen geopolitical shock, disappointing earnings growth over the second half of the year, sentiment becoming overly optimistic and a faster pace of policy normalization from the Fed and other central banks. Of course, the lack of progress towards real corporate tax reform in Washington represents another potential challenge for equity markets, but market participants appear to be less concerned about business as usual in Washington. Overall, we do not see dysfunction in Washington sparking a sharp and long-lasting correction over the near term given the relatively healthy fundamental backdrop.

Valuations abroad continue to be more attractive to us relative to those of U.S. stocks. We think this could mean better return potential for non-U.S. equities over the next few years. Volatility is likely to pick up over the remainder of the year, which may create some buying opportunities. We continue to have an international tilt in our dynamic positioning while also favoring corporate credit and small-cap stocks. We believe 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.

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