KFS

KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

May 25th, 2018

Weekly Market Update

Global equity markets turned in a mixed week as political uncertainty, trade policy and geopolitics garnered attention in a relatively quiet week of economic releases and earnings news. U.S. markets inched higher while developed markets posted modest losses, suffering from soft economic data and concerns that Italy's new anti-European Union ruling coalition could enact policies that are not necessarily fiscally responsible. After a positive start to the week amid easing trade tensions between the U.S. and China, stocks struggled to build on the upward momentum as the planned U.S.-North Korea summit looked unlikely to happen. On Thursday, Trump canceled the summit, but things could change as talks appeared to be ongoing and fluid as the week came to an end. The Federal Reserve released the minutes from its May meeting on Wednesday and the market took them as a little dovish with yields falling and stocks reversing early losses to finish higher on the day. Of note, the minutes suggested to many that the Fed may let inflation run a little higher than its 2 percent target, particularly if it is transitory. This likely translates into the continuation of the Fed's gradual pace of interest rate increases. Two more rate hikes are widely expected with the next one likely coming at the Fed's mid-June meeting. September's meeting could bring another rate increase while a December rate hike is still in doubt. Also weighing on market sentiment this past week was news that the Trump administration is considering import tariffs on automobiles.

[Note: in last week's commentary, we skipped a week on the economic calendar, inadvertently referencing releases scheduled for the upcoming week.] This past week's economic calendar included data on the housing market. The pace of new home sales slowed in April, while existing home sales posted its first decline in three months. Existing home sales growth has leveled off somewhat as tight inventories continue to negatively impact sales. Higher mortgage rates are also likely playing a role in the softening trend. Elsewhere, the University of Michigan's Consumer Confidence Index slipped a little in May but continued to suggest a healthy consumer. Next week, the economic calendar includes the second estimate on U.S. economic growth over the first quarter. Personal income and spending, some more data on the housing market and manufacturing activity gauges are due out as well. Plus, we get May's employment report and the Fed releases its Beige Book, which is a summary of economic conditions across the various Federal Reserve districts.

As summer nears, market participants remain focused on the Fed and interest rates. Many believe that the economy and stock prices can absorb a slow rise in interest rates and that sudden increases would likely spell trouble for equities. We would agree and would add that we think the economy is healthy enough to withstand a modest increase in interest rates. Our indicators continue to suggest a low risk of a recession unfolding in the U.S. over the next several months. With earnings growth picking up and markets off their highs, valuations are not stretched in our view. Furthermore, low inflation and low interest rates suggest to us higher valuations can be justified. We do not think inflation and interest rates are likely to jump sharply. We do continue to see a gradual rise in interest rates. A key near-term risk, other than a faster rise in interest rates, remains the potential for earnings to disappoint. Signs of slowing economic activity overseas remains something to watch as well and there remains the geopolitical environment. U.S. mid-term elections could be another source of risk for markets. Longer-term, high levels of debt and central banks with little

Patricia Kummer, CFP® ◆ CERTIFIED FINANCIAL PLANNER™ ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, Colorado 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com

ammunition to address any downturn are key concerns of ours, but our indicators continue to suggest favoring equities over bonds.

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.

Disclosures:

- Kummer Financial Strategies, LLC is an SEC 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.
- Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.

Patricia Kummer, CFP® ◆ CERTIFIED FINANCIAL PLANNER™ ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, Colorado 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com