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Weekly Market Update

Stocks in the U.S. managed to march to new highs as tax reform inched closer to a reality. The S&P 500 Index gained 0.9%, the Dow Jones Industrial Average rose 1.3%, the Nasdaq Composite added 1.4%, and the Russell 2000 Index of small-cap stocks finished the week 0.6% higher. Meanwhile, gains outside of the U.S. were more muted with a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund, finishing the week 0.2% higher. A proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 0.5% on the week.

The yield on the 10-year U.S. Treasury fell 3 basis points to 2.35% while the 2-year U.S. Treasury yield gained 4 basis points to 1.84%. Oil prices inched 0.1% higher while gold added 0.7%. The S&P GSCI, which measures the returns on a basket of commodities, was down 0.2%.

Focus this week was largely on central bank monetary policy decisions and Congress working to merge the House and Senate tax-reform bills. U.S. equity markets managed to eke out gains through Wednesday amid progress towards tax reform and a somewhat dovish interest rate hike from the Federal Reserve. The reconciliation process in Congress produced a single tax-reform bill with only a few details of the combined bill being released on Wednesday. It appears the corporate tax rate will decline from 35% to 21% versus the 20% rate originally indicated while the bill also eliminates the corporate AMT. Other details were scarce prior to the market close on Friday, but it looks as if tax reform will be voted on next week. Meanwhile, the Fed lifted its key interest rate by 0.25% as expected. On somewhat of a surprising note however, there were two dissenters, both of whom wanted to keep rates unchanged. Furthermore, the Fed's famous "dot plot," which represents an aggregation of Fed members' forecasts, was little changed in terms of the pace of rate hikes. Although the Fed lifted its outlook on U.S. economic growth, it continued to suggest three rates hikes in 2018. This resulted in a modest decline in U.S. Treasury yields on Wednesday. News that one or two Republican senators could vote no on the combined tax bill sapped sentiment on Thursday, but the negative tone was short lived as U.S. stocks rebounded strongly to finish at record levels. The main driving force was growing support for the tax bill, suggesting increased odds of it getting passed soon. Outside of the U.S., the European Central Bank, the Bank of England and the Swiss National Bank left their monetary policy stances unchanged as forecasted. While the ECB upgraded its economic outlook for Europe, stubbornly low inflation remained a key concern of policy makers, some of whom indicated the need for continued stimulus measures.

In economic news, wholesale inflation data came in a little higher than expected, but the rising pricing pressures have not yet made their way into consumer prices. At the consumer level, inflation was more subdued in November as the year-over-year pace slowed a tick to 1.7% when excluding food and energy. This remains below the Fed's 2% target, suggesting the Fed can be very patient in lifting interest rates. Small business optimism jumped to its second highest level on record in November, a positive sign for the economy. Hiring plans were notably positive, which likely bodes well for consumer spending trends over the near term. Speaking of consumer spending, retail sales growth in November was much stronger than expected, suggesting a great start to the Holiday-shopping season. Other manufacturing data out this week showed activity remained quite healthy and with the other data points mentioned above, the solid

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momentum seen in the economy during the third quarter has continued into the fourth quarter. Next week's economic calendar includes data on the housing market, the third estimate on economic growth during the third quarter and another key inflation gauge. We also get the final consumer sentiment reading for December from the University of Michigan.

As we head into the last two weeks of the year, it would appear tax reform is going to get done on time. There is still some uncertainty and not all of the final bill's details were known as of market close on Friday, but there seems to be a willingness to negotiate and compromise among Republican leaders and the Republican rank and file. With the vote likely to happen next week, a lot of drama could still unfold, particularly with health issues potentially keeping a couple Republicans from being able to vote. In terms of the debt ceiling and funding the government, there is talk that another short-term funding bill will push the deadline into the middle of next month. The debt ceiling debate has the potential to drive volatility higher over the near term in our view. But for now, markets are more focused on tax reform and solid economic data.

We have been expecting a pullback in equity prices amid elevated valuations and the long stretch of abnormally low volatility, but the continued economic momentum and tax reform progress has kept market participants in a bullish mood. Our indicators continue to suggest a low probability of a recession unfolding in the U.S. over the next several months and the synchronized global growth adds to the positive backdrop for risk assets in our view. Should we get a pullback in equity prices, we do not believe it will be severe or represent the end of the current aging bull market. Earnings expectations may be a little too high, but tax reform could bolster the near-term outlook. Still, we believe the risks of disappointment will linger over the next few quarters. Then there is the potential for the Fed to lift interest rates more aggressively than the market currently expects. We think three or four rates hikes next year is likely and given the market is pricing in only two, we could see higher volatility across asset classes. At a minimum, we would expect volatility to be higher next year than it was in 2017.

Nevertheless, we continue to favor stocks over bonds and have a tilt towards international equities in our dynamic positioning. Elevated valuations across asset classes remains a concern of ours, but we think our positioning 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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