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KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

February 6th, 2018

Market Update

A rise in global bond yields over the last couple of weeks has sapped the bullish mood market participants have been in for much of the last six months. January's better-than-expected U.S. payroll report, out last week, was the latest catalyst as it showed the fastest year-over-year increase in wages since 2009. This sharp rise in wages fueled concerns that inflation could accelerate more quickly than the Fed and others currently expect, potentially leading to a faster pace of interest rate hikes than the Fed's own forecast suggests. While the Fed left its target interest rate unchanged at its late-January meeting, market participants took the Fed's post-meeting statement to mean a rate hike in March is highly likely. This helped to push yields sharply higher, bringing the 10-year U.S. Treasury yield to 2.85%, its highest level in four years. This sharp move and the sudden return of equity-market volatility suggests to us the market is adjusting to the idea of more rate hikes, albeit rather quickly.

In fact, volatility across risk assets has picked up as a result, ending what was an unusually long stretch of low equity-market volatility. The February 2, 2018 equity-market selloff carried over into Monday, February 5, 2018 and worsened, leaving the S&P 500 Index posting its worst two-day decline since August 2015. Until Monday, the S&P 500 Index had not experienced a pullback from a recent high of at least 5% since June 2016. Because equity markets saw little volatility all of last year, its sudden return may feel worse than it really is. We have been expecting a pickup in volatility and a pullback in equity prices given elevated valuations and the abnormally long stretch of low market volatility. While we are a little surprised by how quickly the market reversed course, we do not think it means that the end of the bull market is at hand. The fundamentals remain quite solid in our view. In fact, we continue to see evidence that global economic growth is picking up. Earnings look to be on a solid course as well, and we do not think inflation is on the verge of getting out of control. We believe we will see higher and more normal levels of volatility this year and that the good fundamentals suggest the latest pullback is likely to be temporary.

While valuations remain elevated and a concern for us, our indicators continue to suggest a low risk of a recession unfolding over the near term. Given this, and the potential for faster earnings growth over the next couple of quarters, we continue to believe favoring risk assets in our dynamic positioning makes sense. We have been expecting a rise in volatility and are on alert for any shift in our indicators that warrant a more defensive positioning in the dynamic sleeve. For the time being, we continue to maintain minimal exposure to nominal U.S. Treasuries, preferring instead some inflation-protected Treasury exposure given what we see as the potential for higher inflation and the need to keep some bond holdings as a ballast to "risk-off" trading. Overall, we continue to have an underweight position in bonds given the prospects for faster economic growth, a pickup in inflation and less monetary policy accommodation worldwide, all of which could keep upward pressure on interest rates.

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

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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.

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