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KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

April 6th, 2018

Weekly Market Update

The S&P 500 closed lower this week, which was full of volatility amid the back-and-forth trade banter between the U.S. and China. Fears of a trade war continue to dominate market sentiment. We saw stocks recover mid-week as fears of an escalating trade war briefly subsided only to be reignited with a tweet from President Trump Thursday after the close. Though the trade tariff negotiations insert some added uncertainty and could end somewhat badly, actual tariffs are likely at least 6 months away, giving the U.S. and China time to work out any differences. We do not expect to see the deliberations ending poorly. A trade war would mean nothing positive for the economy, but the U.S. does seem to have the upper hand when it comes to the types of goods exported and imported. This gives us optimism that we shall see a compromise. In the meantime, higher volatility is likely. Fed Chair Jerome Powell in a speech Friday provided an upbeat assessment of the U.S. economy and suggested the Fed is poised to maintain a gradual pace of interest rate hikes.

In terms of economic news, we saw decent numbers throughout the week. ISM manufacturing and non-manufacturing activity gauges came in slightly lower than expected, but still comfortably in expansion territory. ADP's monthly private payroll report was strong, beating expectations. But the U.S. Government's monthly nonfarm payroll report disappointed, showing payroll gains of only 103,000. The unemployment rate remained at 4.1 percent while wage growth showed a steady 2.7 percent year-over-year pace.[1] While this month's jobs report wasn't as hot as the barnburner we saw in February, it is still carrying strong momentum (90th consecutive month of growth) into the spring, leaving us with a bullish outlook on the economy. Balancing out February's and March's numbers, both of which may have been weather related, we still see solid growth on average.

We think the recent weakness in equity prices and the higher volatility is related to the market returning to a more normal environment after a long stretch of abnormally low volatility. Corrections of 10 percent + on a calendar-year basis are normal in bull markets and investors somewhat forgot about that in 2017. The complacency we saw over most of 2017 has all but evaporated and has been replaced with anxiety. Nervousness that the current bull market may be nearing an end has left investors on edge. We do not think the current weakness is the beginning of something more ominous or the end of the current bull market. The fundamental backdrop has changed very little and remains quite healthy in our view. In addition, the selloff has left equity valuations at more attractive levels while sentiment has turned quite negative. This could bode well for stocks over the near term as earnings growth is likely to pick up. Risks of an economic slowdown may rise over the second half of the year, but our indicators continue to point to a low risk of a recession unfolding this year. Tax reform and the potential for fiscal stimulus could mean economic growth is more likely to pickup in 2018. This leaves us to favor risk assets despite the higher volatility.

[1] • Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.

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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.
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