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KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

July 6th, 2018

Weekly Market Update

In a Holiday-abbreviated week, U.S. equity markets turned in modest gains amid some upbeat economic data. Trade-war commentary continued to dominate the news feeds as another round of trade tariffs went into effect late in the week. The U.S. tariffs on $34 billion of Chinese products going into effect early Friday was already discounted by the market, so the actual deadline did little to change the improving sentiment we saw late in the week. China did accuse the U.S. of starting a trade war, "the largest…in economic history."[1] Even that failed to trip up the strong end to the week. A weakening U.S. dollar helped global markets rebound on Friday, but the performance of developed and emerging market stocks lagged relative to U.S. stocks, continuing a recent trend.

On the economic front, we saw unexpected improvement in two key U.S. business activity gauges. The ISM manufacturing index improved in June to its second highest reading since June 2004 while the ISM non-manufacturing index rose close to its highest level since 2005. U.S. Factory orders rebounded more than forecasted in May, more evidence suggesting a pickup in U.S. economic growth. Lastly, the June nonfarm payroll report in the U.S. came in better than expected. We saw 213,000 new jobs created in June with an unemployment rate of 4.0%. This uptick in the unemployment rate was higher than expected. Average hourly earnings, a recent focus for market participants anxious about inflationary pressures, rose less than expected. This suggests to us wage growth remains modest and not a big inflationary threat. In addition to the relatively robust data points, the Federal Reserve released the minutes from its mid-June policy meeting where it lifted interest rates by a quarter point. In the minutes, officials indicated preference to continue its gradual pace of interest rate increases, but also indicated its target interest rate could move above their long-term estimates, suggesting a greater potential for an above-neutral fed funds rate. Market participants appeared to focus on the 'gradual' increase as markets went higher following the release.

Next week, we get the latest inflation data in the form of producer and consumer prices. Small business optimism and the preliminary look at the University of Michigan's Consumer Sentiment index are also due. The second quarter earnings season kicks off late next week as well with a few big banks scheduled to release their quarterly results. For the second quarter, aggregate earnings growth on S&P 500 companies is forecasted to rise 20% year-over-year. This is down from the 24% we saw during the first quarter, but still quite healthy.

We continue to see evidence of a very healthy economic backdrop and faster economic growth in the U.S. While we will not get the first estimate of 2Q GDP until later this month, U.S. growth during the first half of the year may have hit its fastest pace since 2005, surpassing 3.0% annualized growth. Whether or not this pace is maintained over the second half of the year is a key question. How quickly the Fed raises interest rates and how much longer the trade disputes continue could be two key factors in answering that question. While we do not see a long-lasting trade war unfolding, there is some evidence that businesses are hesitating in their spending decisions amid the added uncertainty. Should this persist, it would likely be difficult for the U.S. economy to maintain its current pace over the second half of the year. Overall, the

[1] https://www.wsj.com/articles/u-s-has-launched-largest-trade-war-in-economic-history-china-says-1530853156

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currently implemented and announced trade tariffs and counter tariffs by the U.S. and its various trading partners are estimated to have a small impact on overall economic growth. The impact could end up being bigger if the trade disputes continue for an extended period. But for now, the current economic momentum in the U.S remains quite strong and while trade disputes are not a good development in our view, the U.S. economy may be able to absorb some of the potentially negative side effects.

The aging economic expansion is likely in the mid-to-late stages. While there is a good chance that the global economic expansion has a little more room to run, we are in the process of shifting to a more balanced position between stocks and bonds in our dynamic sleeve. This included lowering our non-U.S. equity exposure over the last two weeks. Our indicators continue to suggest a favorable backdrop for risk assets worldwide. But with the potential for higher volatility and fading economic momentum outside of the U.S. we felt the environment warranted the change. We continue to monitor our various indicators in assessing market conditions and expect to make changes we feel are appropriate in an attempt to manage risk and capitalize on opportunities.

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.

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