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KUMMER FINANCIAL STRATEGIES, LLC
*Helping You Create Financial Independence*

Mariner
WEALTH ADVISORS

**12/7/2018 – Weekly Market Highlights**

Market volatility continued this week with global equity prices suffering sharp declines as nervousness over slowing global economic growth and ongoing trade tensions between the U.S. and China continued to dominate sentiment. U.S. Treasury yields declined as market participants sought the perceived safety of U.S. Treasury bonds. This left long-term yields at their lowest levels since early September.

The drop in long-term yields and the stickiness of short-term rates amid the Fed tightening cycle led to a portion of the yield curve inverting midweek. The yield on the 5-year U.S. Treasury slipped below that of the 2-year U.S. Treasury, something that has not happened since 2008. This is making market participants nervous as it is giving rise to the possibility that the yield curve is in the early stages of a full-blown inversion, which would suggest to the market that a recession could unfold in the U.S. sooner rather than later. Because an inverted yield curve tends to precede a recession, market participants tend to shy away from riskier assets at the first hints of an inversion.

On the economic front, business activity in the U.S. unexpectedly improved, suggesting continued strength in the economy. Construction spending declined for the third month in a row, however, while productivity growth remained stable but at relatively low levels through the third quarter. Employment gains in November were less than expected and wages growth remained relatively modest. Lastly, the Fed suggested it could pursue a “wait-and-see approach” when deciding to raise rates moving forward. This is somewhat dovish and suggests after the likely December rate hike, we could see fewer rate hikes than was indicated by the Fed in September.

In making positioning changes in the dynamic sleeve, we like to review multiple indicators and look out 6-12 months in our view. Most of the indicators we follow suggest that the U.S. economy remains in good shape. We would also point out that only a portion of the curve has flirted with inverting. Since most of our indicators continue to point to a healthy economic backdrop, we continue to believe a recession in the U.S. is unlikely to occur in 2019. Slowing growth does not mean a contraction and we would interpret the recent declines in equity prices as overdone and not a harbinger of things to come or an end to the current bull market.

There are still several potential risks we are monitoring and assessing. Rising corporate debt levels, the Fed’s pace of interest rate increases and its potential to make a policy mistake, ongoing trade tensions and the overall earnings picture. Valuations are lower than they were earlier in the year with only a few metrics signaling a warning in our view. Furthermore, there are few signs of the excesses that typically arise at the end of an economic boom. This leaves us to believe that markets will gain their footing. Given the risks and our indicators, we continue to view the balanced positioning between stocks and bonds in the dynamic sleeve as appropriate for the current environment. We will continue to watch our indicators for signs of deteriorating fundamentals and remain ready to make changes to exposures should we deem them necessary.

If you would like to discuss market events and our outlook or focus on your asset allocation and financial circumstances, please contact us at 303-470-1209 and we would be happy to address your concerns.



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