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Helping You Create Financial Independence

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Weekly Market Update

U.S. stocks eke out slight gains as Fed remains poised to raise rates one more time this year and as earnings seasons begins. The S&P 500 Index finished the week up 0.2%, the Dow Jones Industrial Average rose 0.4%, the Nasdaq Composite added 0.2% and the Russell 2000 Index of small-cap stocks finished 0.5% lower. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 1.7% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 2.3% on the week.

The yield on the 10-year U.S. Treasury fell 9 basis points to 2.28% while the 2-year U.S. Treasury yield slipped 1 basis point to 1.50%. Oil prices rebounded 4.2% and gold added 2.2%. The S&P GSCI, which measures the returns on a basket of commodities, advanced 2.8%.

The week began on a negative note for U.S. equities amid little news while market participants awaited the start of the third-quarter earnings season. Stocks in Europe traded higher as political uncertainty stemming from Spain appeared to subside with Catalonia leaders indicating willingness to work with the Spanish Government and not move forward on seeking independence from Spain just yet. The U.K.'s exit negotiations with the European Union appeared to be struggling, keeping some political uncertainty in the forefront. Meanwhile, many Asian markets returned from a week-long holiday, trading higher for the most part. The U.S. Federal Reserve released the minutes from its September monetary policy meeting on Wednesday, which showed many board members agreeing that another rate hike this year would likely be warranted if there were no changes to the medium-term economic outlook. U.S. stocks were little changed early on Wednesday, but rose to new record closes following the release of the minutes, applauding the Fed's upbeat assessment of the economy and cautious approach to raising rates. On Thursday, the earnings season kicked off with some bank heavyweights reporting relatively upbeat numbers. Despite the good reports, financials and the market finished lower on the day. As we have seen over the last few reporting periods, stocks that beat expectations are not being rewarded. Meanwhile, stocks that miss forecasts are being punished somewhat harshly. Elevated valuations may be the primary reason market participants are not willing to reward stocks that beat. This may give earnings more time to catch up with valuations, something we believe is a good thing for markets. On Friday, U.S. markets returned to their winning ways, advancing on positive economic data and a retreat in yields following softer-than-expected consumer inflation data. U.S. markets closed at record highs.

In economic news, the NFIB Small Business Optimism Index declined to its lowest reading since last November. It had surged to its highest level since 2003 following the election. The drop was attributed to the impact of hurricanes Harvey and Irma. Wholesale inflation rose more than expected in September with most of the gains resulting from rising energy prices. Meanwhile, prices at the consumer level rose less than expected. The relatively benign inflationary environment remains a puzzle for economists and Fed officials given the tight labor markets and accelerating economic growth. Retail sales grew handsomely in September on the back of resurging auto sales related to vehicle replacements following two major hurricanes. Meanwhile, the preliminary University of Michigan's Consumer Sentiment Index for October rose sharply, hitting its highest level since January 2004. This data suggests a modest pickup in economic growth

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to start the fourth quarter. Next week's economic calendar brings us data on the housing market, some regional manufacturing gauges and industrial production data. We also get the Fed's Beige Book, which contains anecdotal data on economic activity across the different Fed districts. Earnings season begins to ramp up as well.

The third-quarter earnings season is upon us and expectations are for continued growth but likely at a much slower pace than seen during the previous two quarters. Year-over-year comparisons are becoming more difficult since we emerged from the earnings recession roughly one year ago and the recent hurricanes likely negatively impacted results, some industries more than others. While a slowdown in earnings growth appears likely, the consensus forecast for the fourth quarter is a return to the solid growth we saw during the first and second quarters of 2017. We think this may be a little optimistic given the tougher year-over-year comparisons. Nevertheless, the fundamental backdrop remains quite healthy in our view and we continue to see a low risk of a recession unfolding over the next several months. Market sentiment is elevated, but cautiousness is prevalent as high valuations remain a primary concern across most asset classes. Equity markets appear vulnerable to a near-term correction, but we believe any pullback is unlikely to be severe or long lasting. At a minimum, we see higher volatility as likely.

Low interest rates make bonds less appealing to us while equity valuations remain stretched. Despite above long-term average equity valuations, we think the environment for equities remains favorable. In addition, our fundamental and technical indicators have not yet suggested to us that we are near a turning point in the risk environment. However, with U.S. valuations already stretched and with U.S. interest rates likely to head higher, further gains in U.S. equity markets could be more difficult to achieve and would likely need be driven by accelerating economic and earnings growth. Meaningful corporate tax reform could help boost the earnings outlook and alleviate what we see as a rising potential for disappointment. Nevertheless, we continue to favor stocks over bonds and have a tilt towards international equities and corporate credit in our dynamic positioning. We think this 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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