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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

December 8th, 2017

Weekly Market Update

After succumbing to a mid-week sell off, U.S. equity markets managed to finish mostly higher. The S&P 500 Index and the Dow Jones Industrial Average finished the week 0.4% higher while the Nasdaq Composite slipped 0.1%. The Russell 2000 Index of small-cap stocks retreated 1.0%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week little changed while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 0.2% on the week.

The yield on the 10-year U.S. Treasury rose 1 basis point to 2.38% while the 2-year U.S. Treasury yield gained 2 basis points to 1.80%. Oil prices fell 1.8% while gold lost 2.6%. The S&P GSCI, which measures the returns on a basket of commodities, was down 2.1%.

The week began on a positive note for U.S. equities following the Senate's early-Saturday-morning passage of its tax bill, which set the stage for moving tax reform closer to a reality by year end. Markets outside of the U.S. struggled a bit amid credit concerns in China and political uncertainty in Europe. Brexit negotiations hit an impasse early in the week while the IMF warned China of potential capital shortfalls in its banking system should economic growth falter. Credit growth and high property values remain a key concern in China and policymakers have been attempting to rein in lending activity in recent months. Technology stocks, which are viewed not to be a primary beneficiary of tax reform, continued to weigh on sentiment, providing for broad market weakness in the U.S. through Wednesday, but strong earnings from a few bellwethers prompted a rebound in technology names on Thursday. In addition, Congress passed a short-term funding bill, postponing the potential for a government shutdown until December 22. Friday's worldwide gains were helped by stronger-than-expected economic growth in Japan and an agreement between the U.K. and the European Union on the U.K.'s exit from the EU. In addition, the two largest political parties in Germany could begin negotiations to form a coalition government very soon, lessening some of the political uncertainty that has re-emerged in recent months. A solid U.S. labor-market report added to the positive backdrop late in the week.

In economic news, the U.S. services sector activity softened a little but continued to point to above-average economic growth. Nonfarm payrolls rose slightly more than expected in November with the unemployment rate remaining at 4.1%, a 17-year low. More evidence of a solid labor market in the U.S. Wages rose less than expected and the year-over-year change remained well below what is typical during periods of low unemployment. This continues to provide wiggle room for the Fed in lifting interest rates as lower wage pressure could serve to keep inflation from accelerating too quickly. Lastly, December's preliminary look at the University of Michigan's consumer sentiment index revealed a slight drop in consumer confidence. Next week, focus will be on the Federal Reserve's monetary policy meeting. It is widely expected that the Fed will raise its target interest rate by 0.25%. This meeting will include Janet Yellen's last press conference as Chairperson and it will have the latest Fed "dot plot," or forecast on the economy and the fed funds rate. Markets are pricing in very few rate hikes in 2018, though it was pricing in higher odds of another rate hike by March. Overall, there remains a disconnect between the Fed's expectations and the market's and a faster pace of rate hikes than currently expected by the market could

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drive volatility higher across asset classes. More clues on Fed's stance are likely to come next week. On the economic front, we get the latest readings on producer and consumer inflation, retail sales activity and industrial production. Congress has selected the conference committee members, so work on merging the House and Senate's bills should begin as well.

Tax reform and the potential for a government shutdown are likely going to dominate the news over the next few weeks, a possible source of near-term volatility. Nevertheless, tax reform looks to be progressing nicely and while there may be some challenges to meeting the end-of-year deadline, we think reform gets done.

After tying its longest losing streak of the year, just 4 days, the S&P 500 Index continues to hover near record levels amid a positive economic and earnings backdrop. Low volatility and elevated valuations remain a key concern of ours and we believe there is a growing potential for a near-term pullback in equity prices. We do not think any pullback is likely to be severe, long lasting or mean an end to the current bull market. The global economy is in good shape at the moment and we continue to see evidence that growth could pick up over the near term, suggesting to us the current economic recovery has more room to run. Tax reform could bolster the earnings outlook for next year and potentially alleviate some of our concerns that earnings expectations may be a little too optimistic. Faster earnings growth could improve the valuation picture, assuming the market does not get ahead of itself.

While we remain concerned about elevated valuations across asset classes and recognize the potential for a near-term pullback in equity prices and higher volatility, the economic and fundamental environment remains favorable for greater exposure to risk assets in our view. As a result, we continue to favor stocks over bonds and have a tilt towards international equities 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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