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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

September 15th, 2017

Weekly Market Update

U.S. equity markets returned to record highs this week as market participants digested another North Korean missile launch, signs that inflation may be rebounding and hints of cooperation in Washington. The S&P 500 Index gained 1.6%, the Dow Jones Industrial Average rose 2.2%, the Nasdaq Composite gained 1.4% and the Russell 2000 Index of small-cap stocks finished 2.3% higher. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 0.8% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 1.6% on the week.

The yield on the 10-year U.S. Treasury rose 14 basis point to 2.20% while the 2-year U.S. Treasury yield rose 12 basis points to 1.38%. Oil prices rebounded 4.9% and gold fell 1.9%. The S&P GSCI, which measures the returns on a basket of commodities, rose 2.3%.

Equity markets started the week on a positive note amid reports that damages from hurricane Irma appeared to be less intense than initially feared. Monetary policy was in focus this past week as well with the Bank of England appearing to move closer to lifting its target interest rate. Along with the more hawkish tilt from the BoE, the higher-than-expected reading on U.S. consumer prices in August helped drive U.S. interest rates higher this week as market participants reevaluated the potential for another Fed rate hike before year end. Prior to this week, the market-implied probability of another Fed rate hike this year had fallen to under 25%. On Friday, it was near 50%. We continue to believe the Fed is more likely to raise rates one more time this year.

A few key economic releases this week reflected the impact of hurricanes Harvey and Irma, most notably in the latest retail sales figures and industrial production data, both of which were quite a bit below expectations. We expect economic data to be a little uneven over the next few months as the recovery from the hurricane damage continues.

Monetary policy actions are likely to remain a key focus in the coming month amid some highly anticipated meetings. The Federal Reserve meets next week and though no move on interest rates is expected, many are looking for the Fed to announce that it will begin to unwind its balance sheet in October. In late-October, the European Central Bank meets again and the future of its bond purchase program will be the key focus. Many economists expect further reduction in the pace of purchases with the program possibly coming to an end by July of next year. We think the ECB's bond purchases have helped to keep downward pressure on interest rates worldwide and a shift away from quantitative easing could mean higher rates may finally begin to emerge. We believe this could be a source of higher volatility across financial markets as we move into the Fall.

Other than next week's Fed meeting and press conference, we will get some new data on the health of the U.S. housing market and regional manufacturing. Activity in the manufacturing sector has remained relatively solid not only in the U.S. but across much of the world and the global economy remains in a period of synchronized global growth. Our indicators continue to suggest to us a low risk of a recession unfolding over the next several months and we remain surprised by the unusually low volatility across financial

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markets. Market sentiment is elevated, but markets continue to climb a wall of worry as high valuations remain a primary concern. In fact, valuations are relatively high across asset classes. Low interest rates make bonds less appealing to us while equity valuations remain stretched. The positive economic backdrop, improved earnings growth and low inflation have helped to justify the higher valuations, but we continue to remain cautiously optimistic. Earnings estimates for the second half of the year and into 2018 may be a bit too high, potentially setting the market up for disappointment. Meaningful corporate tax reform could help boost the earnings outlook and alleviate the potential for disappointment. Regardless, we believe this could be yet another source of higher volatility before year end.

Policy uncertainty out of Washington continues, though some bipartisan cooperation in recent days has given rise to the idea that tax reform could still happen this year. We remain skeptical, but recognize any progress towards serious tax reform could go a long way in boosting sentiment and prices across risk assets. Republicans have indicated they will release more details on their tax proposal before the end of the month. Stay tuned.

We still think there is a risk of a near-term pull back in equity markets amid geopolitical rumblings, elevated valuations, a market highly skeptical of another rate hike from the Fed and the fact that there has not been a meaningful correction in over a year. Despite this, our fundamental and technical indicators have not yet suggested to us that we are near a turning point in the risk environment over the intermediate-term. Couple this with our positive macroeconomic outlook and we continue to favor risk assets in our dynamic positioning and would view any pullback as a buying opportunity.

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.

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