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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

December 9th, 2016 Weekly Hotline

Weekly Market Update

The post-election march higher for U.S. equity markets resumed this past week as market participants looked past the political risks stemming from Europe. Both the S&P 500 Index and the Dow Jones Industrial Average rebounded 3.1% while the Nasdaq Composite added 3.6%. The Russell 2000 Index of small-cap stocks jumped 5.6%. Meanwhile, the iShares MSCI EAFE exchange-traded fund gained 3.5% and the iShares MSCI Emerging Markets exchange-traded fund rose roughly 3.0% on the week.

The yield on the 10-year U.S. Treasury added 7 basis points to 2.46% while the 2-year U.S. Treasury yield edged 2 basis points higher to 1.13%. Oil prices gave back 0.3%, gold prices dropped 1.4% and the S&P GSCI, which measures the returns on a basket of commodities, finished 0.6% higher.

The week started off with equity markets moving higher as market participants largely shrugged off growing political uncertainty out of Europe stemming from the Italian referendum failing to pass. On Sunday, Italians rejected proposed changes to the structure of their government, prompting Prime Minister Renzi to announce his resignation, as promised, later in the week. The vote and Renzi's resignation may bring into question Italy's future membership in the European Union, but a lot must happen before such an outcome is potentially realized. Political uncertainty has been a key theme in recent years and we believe that it is unlikely to subside in the months ahead. On Wednesday, all three major U.S. indices surged to new record highs, posting their best daily performance since the U.S. elections. Non-U.S. markets posted gains as well on little news. Perhaps the event of the week was the European Central Bank's monetary policy meeting on Thursday where policymakers decided to leave interest rates unchanged while extending to the end of 2017 its asset purchase program. Though the ECB lowered its targeted bond purchases from 80 billion euros to 60 billion euros beginning in April, ECB President Mario Draghi hinted that the lowered amount was not a tapering and that the ECB stands ready to act should economic data deteriorate. Equity markets worldwide continued higher on Thursday into Friday while the euro fell sharply against the U.S. dollar.

In terms of economic data released during the week, we saw the ISM Services Index regain momentum in November, hitting its highest level in over a year and suggesting that the U.S. service sector remains in good shape. Third quarter productivity growth in the U.S. was unrevised from the preliminary estimate of 3.1%, its fastest quarterly pace in two years. Overall, productivity growth remains weak and a drag on the long-term growth potential for the U.S. economy. Lastly, December's preliminary University of Michigan Consumer Sentiment Survey improved more than expected, hitting its highest level in nearly a year, which is consistent with other recent consumer sentiment readings. This suggests to us we could see a pickup in spending. Next week is a busy one on the economic front. The Federal Reserve meets on monetary policy and is widely expected to raise its target interest rate

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by a quarter of a percent. The post-meeting statement and press conference should garner a lot of attention as investors seek clues to the pace of subsequent rate hikes. Retail sales figures, some key inflation data, the latest numbers on a couple of regional manufacturing gauges and data on the housing market are among the widely followed economic releases scheduled.

As we draw closer to the end of the year, market sentiment continues to improve amid growing optimism that U.S. economic growth will pick up over the near term. This has propelled U.S. equity markets to new all-time highs while U.S. interest rates are at their highest levels of the year. Bond prices, particularly prices of government bonds, continue to suffer in this environment, while small-cap stocks remain among the leading gainers.

With U.S. equity markets at all-time highs, equity valuations remain elevated relative to their long-term historical averages. In addition, positive sentiment has risen to extreme levels by some measures, which means we could see a pullback in equities as prices may have gotten a little ahead of the fundamentals. Still, we've already seen signs that U.S. growth has been accelerating since July. Evidence that the global economy is picking up a little steam and a low probability of a recession unfolding add to what we believe remains a positive backdrop for equities and other risk assets. We continue to believe the Fed will raise rates next week and that there is some uncertainty surrounding the pace of subsequent hikes. A faster pace than the two rate hikes being priced in by the market could be a source of volatility for financial markets. The earnings picture has improved and could continue to do so, but some disappointment could also trip up markets and add to volatility. Then there is the unpredictable global political environment that simply will not go away. It too could be a source of volatility, particularly if results increase the risk that the European Union dissolves. Overall, we believe the U.S. economy remains in good shape and may be somewhat insulated from the events in Europe. We continue to prefer stocks over bonds in general and favor corporate credit over government debt.

That's the update for this week. Please 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 strategic 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 colleagues in any way we can.

The following are disclosures for today's call:

- 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.

[1] Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.

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