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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

February 3rd, 2017

Weekly Market Update

Politics, governing, a slew of earnings reports, and a busy economic calendar garnered much attention this week, leaving equity prices somewhat mixed. U.S. equity markets were mixed on the week with the S&P 500 Index rising 0.1%, while the Dow Jones Industrial Average declined 0.1%, the Nasdaq Composite added 0.1% and the Russell 2000 Index of small-cap stocks advanced 0.5%. Outside of the U.S., equity markets were higher. A proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund added 0.3% and a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, rose 0.7% on the week.

The yield on the 10-year U.S. Treasury rose early in the week but settled off its highs during the week to close even at 2.47%. The 2-year U.S. Treasury yield fell 2 basis points to 1.20%. Oil prices added 1.4% on the week with gold gaining 2.0%. The S&P GSCI, which measures the returns on a basket of commodities, rose 0.7%.

The week got off to a poor start amid some concerns over the immigration ban impacting seven Muslim-majority countries ordered by the Trump Administration. Typically, market participants get skittish when uncertainty rises and the main focus of late remains on the uncertainty associated with the Trump Administration's policies and governing style. On Tuesday, U.S. markets finished relatively flat amid a mix-bag of earnings reports and some slightly weaker-than-expected economic data. On Wednesday, markets received an early boost from some strong earnings reports out of the technology sector. But the enthusiasm waned a bit as the day progressed. The Federal Reserve concluded its monetary policy meeting on Wednesday as well, holding its benchmark interest rate steady as expected while providing very few clues on the timing of the next rate hike. The post-meeting statement acknowledged improving sentiment, rising inflation and a balanced economic outlook, but stopped short of signaling a rate hike at its March meeting. Yields fell slightly while stocks finished mixed. Markets held relatively steady on Thursday as more mixed earnings reports were released. Friday's stronger-than-expected jobs report propelled stocks higher to close the week out.

In a busy week of economic news, we saw more evidence of continued economic momentum. Personal income rose slightly less than expected while spending inched higher. The PCE Price Index accelerated to 1.6% annual rate in December, its highest level since August 2014. The core level, which is what the Fed prefers to use when measuring the overall level of inflation in the economy, remained at 1.7%, stubbornly below the Fed's 2% target. Pending home sales rebounded in December while the Case-Shiller Home Price Index rose to a new all-time high in November, posting another strong monthly gain. Elsewhere, the ISM Manufacturing Index rose for the fifth consecutive month in January, hitting its highest level since November 2014 and suggesting manufacturing activity is off to a good start in 2017. The ISM Services Index ticked lower, but too remains near recent highs. The Conference Board's Consumer Confidence Index fell a little more than expected, but continues to

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suggest modest economic growth. The preliminary estimate of productivity growth for the fourth quarter showed higher gains than expected while the third quarter was revised higher. Although this is an encouraging sign, the longer-term trend remains weak and something that could limit the potential for stronger economic growth should the weakness continue. Lastly, the U.S. economy added 227,000 jobs in January, much higher than expected. While wage growth slowed a little and the unemployment rate ticked higher to 4.8%, the labor market remains in very good shape in our view and suggests to us the Fed can move sooner on interest rates. Next week, more earnings reports and only a few economic releases, including the preliminary University of Michigan consumer sentiment reading.

Angst over Trump's governing style and policy initiatives continues to influence market sentiment. Renewed tensions with Iran coupled with policy positions on immigration and trade are offsetting some of the positive earnings trends we've seen this reporting season. Through Tuesday, 56% of S&P 500 companies have reported earnings and growth for 2016 is on pace to top 8%. While there is a long way to go before we know the final numbers, it is encouraging to us to see earnings hold up somewhat close to initial expectations. This is important in our view because earnings growth could help elevated valuations come down to more reasonable levels, thus potentially prolonging the bull market. The improving economic picture globally and the low risk of a recession suggest to us the environment for equities and other risk assets remains favorable and that the bull market has more room to run. Many market sentiment readings have come down some, but remain elevated. This suggest to us that the market is still vulnerable to near-term weakness. Uncertainty surrounding the next interest rate hike from the Fed, the Trump/Republican agenda, elections in Europe, relatively optimistic earnings expectations for the coming quarters and elevated valuations are key reasons we believe volatility could rise over the near term. We've seen it tick higher this past week, but has been relatively low. Despite this, we continue to favor equities over bonds and prefer credit risk over interest rate risk. As always, we continue to look for opportunities to shift our dynamic weightings as the environment dictates.

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.

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

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