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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

March 17th, 2017

Weekly Market Update

Markets breathed a little sigh of relief this past week following a buildup in expectations regarding the Fed and future interest rate hikes. Stocks managed to gain ground on the week with the S&P 500 Index rising 0.2%, the Dow Jones Industrial Average edging 0.1% higher and the Nasdaq Composite advancing 0.7%. The Russell 2000 Index of small-cap stocks rebounded 1.9%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 1.9% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 3.9% on the week.

The yield on the 10-year U.S. Treasury fell 7 basis points to 2.50% but not before rising to its highest level of the year on Tuesday. Meanwhile, the 2-year U.S. Treasury yield declined 4 basis points to 1.32%. Oil prices edged 0.5% higher on the week and gold prices benefited from a softer dollar and a more dovish Fed, gaining 2.1%. Lastly, the S&P GSCI, which measures the returns on a basket of commodities, finished 0.7% higher.

The Netherlands parliamentary election and the U.S. Federal Reserve meeting were the primary focus for market participants this past week. Equities started the week on a positive note, namely in Asia, following last Friday's strong U.S. employment numbers. Stocks weakened Tuesday as oil prices resumed their decline, but the moves were somewhat muted ahead of Wednesday's elections in the Netherlands and the Fed's monetary policy decision. As expected, the Fed lifted its key benchmark rate by a quarter point to 1.0% on Wednesday with market participants interpreting Fed Chair Janet Yellen's post-meeting comments as dovish. The Fed's updated forecast was little changed, which the market viewed as positive because concern had grown that the Fed would be more aggressive and possibly hint of a faster pace of rate hikes. That did not happen and stocks and bonds rallied nicely following the decision while the dollar fell. Later in the day, Dutch poll results showed many of the establishment ruling parties maintaining enough seats to form a new coalition government, pushing back a good challenge from the anti-European Union (EU) party. This was considered one of the elections to watch given the risks that the EU could potentially break up if anti-EU parties gain widespread support. More European elections to come. On Thursday into Friday, enthusiasm waned a bit and stocks slipped amid weakness in health care. Despite the weakness, global equity markets finished the week mostly higher.

In a busy week of economic releases, we saw more evidence of rising optimism in the "soft" data, with some softness in the "hard" economic data. Economists consider survey-related data as "soft" data and we saw a few data points slip, but continue to point to a healthy economic outlook. The Empire Manufacturing Index and Philly Fed both slipped a little but remain well in expansion territory while the new orders components of these surveys hit their highest levels in years. The Philly Fed new orders hit its highest level in 30 years, suggesting a greater potential for economic activity picking up as the year progresses. Other survey items, like small business optimism, CFO and CEO confidence measures, builder confidence and the University of Michigan's preliminary sentiment numbers all point to solid improvements in optimism. While sentiment measures can turn quickly, we believe they

Patricia Kummer, CFP ◆ Certified Financial Planner ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, Colorado 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com

suggest the current expansion has more room to run. In terms of the “hard” economic data, industrial production was flat during February and below expectations while retail sales slowed a tad more than expected. Housing starts rose to their highest pace in 10 years while building permits slipped in February. Both remain in solid uptrends and point to a healthy housing market, though rising mortgage rates could pose a headwind. Next week, we get more housing data in the form of new and existing home sales. Durable goods orders are the other tier one data point due.

With the Fed lifting interest rates for the second time in roughly three months, the gradual pace of rate hikes has picked up. The economic data suggests growth during the first quarter has slowed a bit, but the economy remains on solid footing in our view due to forward-looking indicators pointing to a likely pickup in activity over the next few months. Uneven growth has characterized the current U.S. recovery. So, a soft quarter, particularly during the first part of the year, is not that surprising to us. Nevertheless, moderate growth, rising inflation and a tight labor market support more Fed rate hikes in our view despite some political uncertainty lingering across developed markets. We expect the Fed to raise rates two more times this year, which we think could be a source of volatility across asset classes over the next several months as the market is somewhat skeptical of that pace.

Uncertainty over the French presidential elections scheduled for late April and early May remains another potential sensitive spot for markets. At hand is the potential fate of the European Union (EU). A breakup remains a real risk in our view, but we believe the odds of the anti-EU candidates or parties winning at this point are low. Nevertheless, there are still a lot of undecided French voters at this stage of the campaign, which likely makes a surprising outcome another potential source of volatility, particularly given elevated market sentiment and stretched valuations. Markets have been sanguine about the elections in Europe as they continue to move higher amid unusually low volatility and rising optimism. The upward momentum in U.S. stock prices remains in place at this stage and could continue over the near term. Fundamentals are largely positive and valuations can remain stretched for years. While we think the backdrop for risk assets remains favorable, we are closely monitoring our various momentum and sentiment indicators for signs that they are rolling over. So far, we have not seen any evidence that the strong "tape" is losing steam. Still, markets remain vulnerable to a near-term pullback in our view and an exact catalyst is hard to pinpoint. Besides the Fed and European elections, policy uncertainty in the U.S. is one other possible catalyst. While we remain concerned about elevated equity valuations, we believe stocks continue to offer a more compelling investment option than bonds in the current environment. We continue to favor credit and high yield bonds over government related debt. 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, or family in any way we can.

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- Investors should be aware of risk when investing, including potential loss of principal.
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1 Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.provided by Yahoo Finance and Ned Davis Research.

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