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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

Weekly recorded call updated every Friday afternoon at 303-683-5800

October 7th, 2016 Weekly Hotline

Weekly Market Update

Markets posted their first weekly decline in four weeks amid some improving economic data, a steady jobs' report and a rise in long-term interest rates. The S&P 500 Index declined 0.7% while both the Dow Jones Industrial Average and the Nasdaq Composite finished 0.4% lower. The Russell 2000 Index of small-cap stocks fell 1.2% on the week. Non-U.S. markets were mixed with the iShares MSCI EAFE exchange-traded fund declining 0.9% and the iShares MSCI Emerging Markets exchange-traded fund gaining 0.6% on the week.

The yield on the 10-year Treasury rose 14 basis point to 1.74% while the 2-year Treasury yield added 7 basis points to finish the week at 0.84%. Oil prices added 3.3% during the week, hitting $50 per barrel for the first time in a number of months. Gold prices lost 4.8% amid U.S. dollar strength, while the S&P GSCI, which measures the returns on a basket of commodities, ended the week 1.9% higher.

The week got off to a negative start despite some better-than-expected economic news in the U.S. manufacturing sector. Stocks retreated into Tuesday amid some concerns that the Fed is poised to raise interest rates sooner rather than later following hawkish comments from some Fed board members. We believe December is the more likely timing for a rate hike given the health of the labor market, uptrend in inflationary pressures and the uncertainty in the U.S. elections. A hike before the election seems highly unlikely in our view. For its part, the fed funds futures market was placing roughly a 60% chance that the Fed raises interest rates in December. A much stronger-than-expected reading on the U.S. services sector provided a boost to U.S. equity prices and the U.S. dollar on Wednesday into Thursday while markets declined on Friday following a modest jobs report and a sharp drop in the British pound. U.K.'s Prime Minister Theresa May indicated this coming March as the likely beginning of the U.K.'s exit from the European Union. Her remarks prompted tough rhetoric from other European leaders and the uncertainty took the pound to its lowest level relative to the U.S. dollar in over 30 years.

In economic news this week, both ISM activity gauges improved more than expected in September with the manufacturing index rising for the first time in three months and the services index posting its strongest increase on record while hitting its highest level in almost a year. Both provide more evidence that U.S. economic growth accelerated during the third quarter. Factory orders rose slightly more than expected in August, but remained lower relative to a year ago, which speaks to the general weakness in business spending. Lastly, we received the latest data on the U.S. labor market. Nonfarm payroll growth slowed slightly in September with 156,000 new jobs created versus August's upwardly revised 167,000 new jobs. The unemployment rate ticked higher to 5.0% as more workers came into the workforce. Despite the slowing, the labor market is in pretty good shape in our view with relatively tight conditions, which suggest to us the Fed is likely on track to raise rates before year end. Next week we get wholesale inflation data and retail sales figures. We also get the minutes from the latest Federal Reserve policy meeting and it will be interesting to see some of the discussions given the number of

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dissenters that wanted to raise rates at the Fed's last meeting. Earnings season also begins next week and while analysts widely expect earnings to fall for the sixth consecutive quarter, a more modest 2.0% decline is seen versus the 9-11% drop of the previous two quarters.

Markets were relatively calm during the past week as market participants continue to show some restraint ahead of a possible interest rate hike and an uncertain Presidential election outcome. While we expect this cautiousness to remain in place over the final months of the year, we do see volatility picking up over the near term. Elevated but not extreme valuations in equities, uncertainty surrounding the earnings picture, the timing of the next Fed interest rate hike and the U.S. elections could serve to drive higher volatility in the weeks ahead. We think the potentially higher volatility could provide both tactical and long-term opportunities for investors. On balance, our indicators suggest to us that the backdrop for equity markets and other risk assets remains positive and we continue to hold a favorable view of stocks over bonds in general, preferring corporate credit over government debt as there is still the potential for higher interest rates by year end. The U.S. economy remains in relatively good shape in our view and we think the risks of a recession unfolding over the near term are still relatively low. For more information on our outlook, be sure to be on the lookout for our quarterly economic update and asset allocation commentary in the coming week.

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.

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

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