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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

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Weekly Market Update

Market participants got a large dose of earnings and economic data this past week and while earnings news was relatively upbeat, equity-market gains were somewhat muted. The S&P 500 Index gained 0.6% to a record high, the Dow Jones Industrial Average finished 0.3% higher, the Nasdaq Composite added 0.9% and the Russell 2000 Index of small-cap stocks slipped 0.3%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 2.6% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, added 0.2% on the week.

The yield on the 10-year U.S. Treasury finished 6 basis points higher at 2.35% while the 2-year U.S. Treasury yield finished the week 4 basis points higher at 1.31%. Oil prices fell 5.5% on the week, hitting a five-month low as oversupply concerns lingered. Gold declined 3.2% and the S&P GSCI, which measures the returns on a basket of commodities, dropped 3.1%.

A cautious tone prevailed early in the week amid some softer-than-expected economic data and anticipation of the Federal Reserve's monetary policy decision on Wednesday. Tuesday saw only slight gains as a slew of positive earnings news was offset by reports of disappointing monthly sales figures from most major automobile manufacturers. On Wednesday, markets opened lower following some disappointing sales figures from a technology bellwether but recovered to finish flat after the Fed left its benchmark interest rate unchanged as expected. In its post-meeting statement, the FOMC expressed little concern over data pointing to a sluggish first quarter. We think the Fed is still on track to raise rates two more times this year with the next hike likely happening in June. Thursday's up-and-down market action was largely influenced by the sharp decline in oil prices and more positive earnings news. Some OPEC officials hinted that further output cuts are unlikely to come out of OPEC's May 25th meeting. This helped to reignite concerns over the continuation of the supply glut that has been plaguing the energy sector for some time now. Friday's payroll report was a little better than expected and a modest rebound in oil prices provided a favorable backdrop for markets to end the week on a positive note.

Economic data released this past week was mixed. Personal income and spending softened in March and inflationary pressures eased, according to the Fed's preferred inflation measure, the PCE Price Index. ISM's manufacturing index for April showed some slowing in manufacturing output while the service sector reading rose more than expected, hitting its second highest level since October 2015. Meanwhile, productivity during the first quarter was disappointing as it declined more than expected. The relatively weak long-term trend in productivity remains and has been a key concern for economists as it suggests a lower potential growth rate for the U.S. economy relative to historical averages. We would likely need to see productivity improve before we could expect a higher sustainable long-term growth rate for the U.S. economy, which has roughly averaged a lackluster 2% over the last several years. Lastly, April's jobs numbers showed an increase of 211,000 with the unemployment rate falling to 4.4%, a 10-year low. Overall, the labor market is quite healthy and continues to tighten, something that we think gives support for the Fed to raise interest rates. Next week's economic calendar brings some key inflation data, retail sales figures for

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April and May's preliminary consumer sentiment reading from the University of Michigan. The earnings season begins to wind down, but another somewhat busy week is on tap.

On Sunday, the French presidential-election saga concludes in what many would consider an outcome that likely keeps the European Union together for now. With the pro-European Union Emmanuel Macron leading Marine Le Pen by a wide margin in the polls, few surprises are expected. As we have stated before, we think the risk of the European Union breaking up over the near term has subsided. But the next test could come from Italy by next April or possibly sooner. Italy continues to struggle with high levels of debt, deficit problems and a lackluster economy relative to the rest of the EU. Euroskeptic parties have remained relatively popular there as a result. Given this, there is a potential for the uncertainty and market angst to return. Nevertheless, we believe the improving economic conditions and relatively more attractive valuations provide for a favorable backdrop for European equity prices.

Meanwhile, the U.S. political environment remains relatively charged and policy uncertainty continues to be a focus for market participants. Although health-care reform took a step closer to possibly getting done this past week when the Republican health-care bill passed the House of Representatives, the process is far from over with the bill likely facing a tough road in the Senate. Reforming the health-care system has the potential to improve economic growth in our view, but markets would prefer more details and progress on corporate tax reform given its potential to boost earnings growth. Any delay in health care could push tax reform off to next year, potentially disappointing market participants.

Aside from the uncertain political environment, the Fed is poised to raise rates two more times this year, but the market has turned more skeptical, seeing only one rate hike between June and December. U.S. Treasury yields remain stubbornly low, which suggest to us rising concerns over U.S. economic growth. Barring an economic shock, we think the Fed will lift rates two more times this year, which could leave markets playing catchup.

The overall earnings recovery continues to provide a positive backdrop for equity prices but expectations for earnings growth over the second half of the year remain relatively high in our view. This could pose a challenge for continued equity market gains. With valuations elevated and given the uncertainty surrounding the Fed and politics, we think the market is vulnerable for a near-term pullback. We continue to believe volatility will pick up over the next few months and that a pullback would likely be a healthy development that could serve to extend the current bull market run. We would like to see valuations in the U.S. come down some, either through improved earnings growth, weakness in equity prices or a combination of both. We think the environment for risk assets remains positive, however. The global economy is improving and there is a low risk of a recession unfolding over the near term. We think stocks are a more compelling option than bonds in this environment. With what appears to be lessening political uncertainty abroad, non-U.S. stocks look particularly more appealing to us. We also continue to favor credit and high yield bonds over government-related debt.

As always, we continue to look for opportunities to shift our dynamic allocation 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

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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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- 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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