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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

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Weekly Market Update

Oil remained the main story in what was another mixed week for global equity markets. The S&P 500 Index inched 0.2% higher, the Dow Jones Industrial Average rose fractionally, the Nasdaq Composite gained 1.8% and the Russell 2000 Index of small-cap stocks was up 0.6%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 1.9% lower while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 0.7% on the week.

The yield on the 10-year U.S. Treasury finished 2 basis points lower at 2.14%, while the 2-year U.S. Treasury yield rose 2 basis points to 1.34%. Supply concerns continued to weigh on energy prices as the price of oil fell another 3.6%. Meanwhile, gold was fractionally higher and the S&P GSCI, which measures the returns on a basket of commodities, fell 2.8%.

After last week's sell-off in technology stocks, markets got off to a positive start on Monday as a rebound in the tech sector led the broader market higher. Notably, the S&P 500 and Dow closed at record highs with the Dow having its biggest one day gain since the U.S. elections. Sentiment turned a little bearish on Tuesday into Wednesday as lingering concerns over the oil supply glut weighed on energy stocks and the broader market. Oil prices fell to a 10-month low on Wednesday before rebounding some on Thursday into Friday. Stocks were mixed on Thursday and mostly higher on Friday.

In a relatively quiet week of economic data, new and existing home sales rose more than expected with the continued uptrend suggesting housing demand remains solid. There was little news on central bank policy this week even with a few Federal Reserve members speaking. Overall market sentiment seems to be placing a low probability that the Fed raises rates in September. The Fed may be more inclined to begin reducing its balance sheet at its September meeting. Regardless, the latest inflation figures have brought some doubt into the pace of rate hikes going forward, which is being reflected in the long-end of the yield curve. The next Federal Reserve meeting takes place in late July and no move is widely expected. Next week is full of data points that include May's durable goods orders, consumer sentiment numbers for June, the latest pending home sales, personal spending and income and the third estimate of the first quarter's GDP.

Stocks continue to hover near all-time highs and market participants remain somewhat cautious as evidenced by the relatively muted market action. Volatility across financial markets remains quite low and long-term interest rates in the U.S. are still near the lows of the year while interest rates at the short-end hover near the highs of the year. Typically, this flattening of the yield curve means bond investors are worried about slowing economic growth. Some recent data points have brought this to the forefront. We think the softer data of late is part of the unevenness that has characterized the current expansion and that there is still a low risk of a recession unfolding in the U.S. over the near term. With the Fed poised to continue its path towards a less accommodative policy, including the shrinking of its balance sheet and more rate increases, we think there is likely to be upward pressure on interest rates in the months ahead. Further

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slowing of inflation and economic growth could keep this from happening. Either way, we think uncertainty surrounding the Fed's pace of interest rate hikes and uneven economic data could result in higher volatility for financial markets.

Politics continue to be a point of interest for market participants and even though the political environment in mainland Europe appears to have stabilized, uncertainty in the U.K. over who will govern and how "Brexit" talks unfold remains. U.K. exit negotiations with the European Union began on Monday and so far, the main topic of discussion has been on immigration policy. Meanwhile, in the U.S., Senate Republicans released their version of a bill to replace the Affordable Care Act and as expected, rhetoric on both sides of the isle suggest a tough road lies ahead where a vote could happen as early as next week. The details of the bill helped boost healthcare-related names late in the week, but had little effect on the broader market as most participants are interested in corporate tax reform.

The healthy economic backdrop continues to be supportive for risk assets in our view. Valuations are still relatively high across many asset classes, which remains a concern of ours. Another area of concern for us is the potential for corporate earnings results over the latter half of the year to miss what we think are relatively optimistic estimates. Without corporate tax reform, there may be a greater risk of earnings shortfalls in the third and fourth quarters. We think this has the potential to dampen market sentiment. With valuations abroad relatively more attractive than in the U.S., we think there is a greater potential for U.S. markets to underperform their non-U.S. counterparts over the near term. We expect the abnormally low volatility to pick up in the months ahead. We also believe that any near-term pullback in equity prices would be relatively mild while representing a healthy development that could serve to extend the current bull market run further. With that said, we continue to be comfortable with our positioning in the dynamic piece of the portfolio, which currently has a tilt towards international markets, corporate credit and small-cap stocks. We believe this is consistent with our macroeconomic outlook and assessment of the overall environment.

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.

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

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