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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

April 28th, 2017

Weekly Market Update

Lower near-term political uncertainty abroad coupled with positive earnings news helped equity markets worldwide post modest gains this week. The S&P 500 Index gained 1.5%, the Dow Jones Industrial Average finished 1.9% higher, the Nasdaq Composite added 2.3% and the Russell 2000 Index of small-cap stocks rose 1.6%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 3.0% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, added 2.1% on the week.

The yield on the 10-year U.S. Treasury finished 4 basis points higher at 2.29% while the 2-year U.S. Treasury yield finished the week 9 basis points higher at 1.27%. Oil prices fell 1.3% on the week as oversupply concerns lingered. Gold declined 1.3% as well and the S&P GSCI, which measures the returns on a basket of commodities, slipped 0.1%.

The week started off on a bullish tone for global equity markets as the results of Sunday's French presidential election appeared to alleviate some of the political uncertainty facing Europe. Concern had risen that two euroskeptic candidates would make it to the runoff, thus increasing the risk of France leaving the European Union. But with Emmanuel Macron's good showing, market participants were relieved to see a pro-EU candidate advance to the second round. European markets led the gains on Monday with U.S. markets posting one of their best daily advances since November. Heading into the May 7th matchup, polling data showed that Macron had a sizeable lead over the euroskeptic candidate Marine Le Pen. While European gains were more muted on Tuesday, U.S. markets continued their run-up on better-than-expected corporate earnings results. Continued weakness in oil prices on Wednesday into Thursday provided a negative backdrop for equity markets, which finished little changed. Friday's somewhat disappointing first quarter GDP numbers overshadowed more positive earnings news from the corporate sector, helping markets end the week on a negative note.

In economic news, housing activity, home price trends and still tight inventories continued to point to a strong housing market. Meanwhile, consumer sentiment readings continued to suggest a healthy consumer and the potential for faster economic growth over the near term. Although durable goods orders rose for the third straight month, the first look at U.S. GDP for the first quarter revealed a 0.7% annualized growth rate. This represents the slowest pace in three years and somewhat contrary to the "soft" data seen lately. Consumer spending was disappointing but on a positive note business investment jumped the most since late 2013. A relatively soft first quarter has been the norm for a number of years, so this was not unexpected. Overall, we believe the economy is likely to pick up steam over the second half of the year. Next week's economic calendar includes the typical month end releases as the earnings season remains in high gear. Personal income, spending and the Fed's preferred inflation measure start the busy week of data. We also get ISM business activity gauges, factory orders and April's employment report. The Federal Reserve meets on monetary policy next week as well and it is widely expected that it will hold rates steady.

The risk of the European Union breaking up, at least over the near-term, have subsided in our view with the mainstream candidate Macron heavily favored to win the French presidential race. Looking ahead,

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French Parliament elections are in mid-June and it will be interesting to see how many seats anti-EU parties control. Regardless, it appears to us that France is less likely to be a source of any potential EU breakup over the short term. Italy may be the next real test of the EU's future as euroskeptic parties have gained more support lately. Elections in Italy are scheduled for April of next year, but could come earlier. Overall, we think the political uncertainty in Europe has continued to ease, but some risks remain.

In the U.S., politics continue to dominate sentiment. A government shutdown remains a near-term possibility since a stop-gap measure late this past week extended the deadline another week. Reports on the subject suggested to us progress towards an agreement and thus a low risk of a shutdown. Meanwhile, the Trump Administration's tax proposal, which was announced this past week, was relatively vague. Gauging by the market's tepid reaction, market participants appear to be skeptical or hungry for more details. Overall, we think policy uncertainty will continue to be a key driver of market sentiment over the remainder of 2017.

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 now 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.

As we near the half-way point of the first quarter earnings season, reports have been relatively upbeat with corporate guidance also coming in surprisingly higher. 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, which 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 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. 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 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.

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- 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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