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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

April 13th, 2017

Weekly Market Update

Geopolitical news dominated sentiment during the holiday-shortened week of trading as the earnings season kicked off late in the week. The S&P 500 Index fell 1.1%, the Dow Jones Industrial Average finished 1.0% lower, the Nasdaq Composite lost 1.2% and the Russell 2000 Index of small-cap stocks gave up 1.4%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 0.4% lower while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, fell 0.6% on the week.

The yield on the 10-year U.S. Treasury finished 15 basis point lower at 2.23% while the 2-year U.S. Treasury yield finished the week 8 basis points lower at 1.21%. Oil prices rose 1.3% on the week, helped by weakness in the U.S. dollar. Gold benefited from rising geopolitical tensions and the weaker dollar, gaining 2.6%. Lastly, the S&P GSCI, which measures the returns on a basket of commodities, gained 1.0%.

A quiet start to the week changed on Tuesday as presidential polling data out of France showed the more extreme anti-European Union candidates gaining a little ground, something that is considered by many to increase the risks of the European Union breaking up. Stocks finished the day lower. Worries over U.S.-Russian relations and the recent events in Syria also provided for a negative backdrop for risk assets Tuesday into Wednesday. North Korea is yet another source of angst for markets that has moved to the forefront lately and helped to keep market participants in a selling mood. Despite some positive earnings news from a few major banks on Thursday, stocks finished at the lows of the week as market participants focused on new military action by the U.S. in Afghanistan.

Economic news during the week brought into question the rationale behind the "reflation" trade as inflation data softened a bit. Producer prices unexpectedly fell in March while import prices rose at a slower pace than expected. The decline in producer prices was the first in seven months. Consumer price data is due on Good Friday while U.S. markets are closed and expectations are for a flat reading in March. Overall, pricing pressures in the U.S. economy have picked up over the last year but remain relatively contained, which likely allows the Fed to be very gradual in raising interest rates. Meanwhile, the University of Michigan's preliminary Consumer Sentiment Index for April unexpectedly rose, suggesting continued optimism and a greater potential for a near-term pickup in economic growth if history serves as any guide. We would like to see some of this optimism show up in the hard data, such as retail sales, which are also due out on Good Friday. Next week, earnings news will pick up and markets will have a chance to trade on the consumer price and retail sales data in the U.S. Economic releases scheduled for next week include some regional manufacturing activity data, housing starts and permits, industrial production, the Fed's Beige Book and existing home sales.

Geopolitics and political uncertainty in the U.S. and Europe remain key issues for markets as the U.S. takes on a more active foreign policy stance and as we get closer to the French presidential elections. Polling data late last week showed the far-left candidate, Jean-Luc Melenchon gaining ground, worrying some market participants of a rising potential for the EU's worst-case scenario of the euroskeptics Marine Le Pen and Melenchon facing off in round two of the French presidential elections scheduled for early May. We see the more likely scenario as one of the mainstream pro-European Union candidates making it to the

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runoff with Le Pen and that the odds favor a mainstream candidate winning. Nevertheless, we expect to see higher volatility as this plays out in the coming weeks.

Policy uncertainty in the U.S. remains another source of uncertainty as health care, tax reform and infrastructure plans appear to be on hold. Hopes of serious corporate tax reform have helped markets move higher since the election and reality may be setting in as optimism continues to fade. The Fed's pace of interest rate hikes is yet another source of potential volatility for financial markets and the recent rally in U.S. Treasuries suggests to us the market is unconvinced the Fed will move two more times this year. Barring any unforeseen shock, we believe two more rate hikes remain a strong possibility.

We continue to see a low risk of recession unfolding in the U.S. over the near-term and with the U.S. economy on solid footing in our view, the bull market in equities likely has more room to run. But this does not necessarily mean the market will continue on without a meaningful correction over the near-term. In fact, we think a pullback would 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 believe stocks offer a more compelling investment option than bonds in the current environment while 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, 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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