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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

September 1st, 2017

Weekly Market Update

August came to a close on an upbeat note amid some positive economic news and speculation of tax reform and continued central bank patience. The S&P 500 Index rose 1.4%, the Dow Jones Industrial Average gained 0.8%, the Nasdaq Composite rose 2.7% and the Russell 2000 Index of small-cap stocks finished 2.6% higher. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 0.4% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, rose 0.5% on the week.

The yield on the 10-year U.S. Treasury fell 1 basis point to 2.17% while the 2-year U.S. Treasury yield gained 2 basis points to 1.35%. Oil prices lost ground during the week, falling 1.2%. Meanwhile, gold was up 2.6% and the S&P GSCI, which measures the returns on a basket of commodities, rose 2.0%.

The week started off slightly higher with light trading across all major markets. U.S. indices continued to move to the upside on Tuesday despite uncertainty following a North Korea missile test. There was also news out this week that Cantor Fitzgerald, one of the largest intermediaries for Wall Street traders, along with two of its affiliates, would stop trading Venezuelan bonds after the Treasury Department slapped sanctions on Venezuela. In the wake of hurricane Harvey, we have seen gasoline prices reach two-year highs along with gold closing near levels not seen since last September. As the month of August came to a close major U.S. indexes finished higher for their fifth month in a row.

This week was also propped up by a slew of economic data which, overall, was on the positive side. Consumer confidence came in at 122.9, beating expectations of 120.3. This is the second highest level we have seen since late 2000. The American consumer has many things to be optimistic about with unemployment at a 16 year low, contained inflation, home price appreciation, and gains in the stock market. U.S. revised second quarter GDP showed that the U.S. economy grew at a 3.0% annualized rate in the second quarter versus the 2.6% that was first estimated. This is the fasted pace we have seen since the first quarter of 2015. Initial jobless claims continue to hover near multi-decade lows. Both the Chicago and ISM manufacturing surveys beat forecasts. Overall, manufacturing activity is near the strongest it has been in six years. Pending home sales were down again as supply remains a key impediment to seeing faster housing activity. U.S. nonfarm payrolls also missed forecasts but still showed solid job growth. The unemployment rate rose to 4.4% from 4.3% with the softer-than-expected data unlikely to change the Fed's pace of interest rate increases.

September is likely to be an interesting month for monetary policy as the ECB, which meets on the 7th, is expected to provide an official update on its bond buying program. Meanwhile, the Federal Reserve has its policy meeting later in the month. No move on interest rates is expected but many experts believe the Fed will announce a definitive start date to its balance sheet unwinding.

Next week, Congress returns from its summer recess and market participants could be once again influenced by rhetoric and events out of Washington. Elsewhere, the European Central Bank has its highly anticipated monetary policy meeting. Expectations are for more details on the ECB's bond purchase program as an interest rate change is unlikely. Of specific interest will be the timing and pace of any further

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tapering. Inflation in Europe and elsewhere remains relatively soft while economic activity continues to improve. This is creating somewhat of a challenge for central bankers wanting to remove the extraordinary steps taken following the last recession. In the U.S., we will get July's data on factory orders, a national survey on business activity, the Fed's beige book and revised second quarter productivity numbers.

With the debt limit and tax reform likely to dominate the agenda, markets could become a little more volatile over the near term. We've seen volatility pick up in the last week or two amid geopolitical and policy uncertainty. Corporate tax reform and infrastructure remain a key focus for market participants as either would likely boost U.S. economic activity over the near term and improve the earnings picture for U.S. companies. Any perceived progress towards that end could help push risk assets higher. But the risk of a near-term pullback has risen in our view as we have not seen a 5% decline in U.S. equity prices in over a year. Should a pullback unfold over the next few months, we believe it would likely be mild and follow the pattern we've seen over the last few years. We also think it would likely represent a buying opportunity given what appears to us to be a favorable economic backdrop worldwide.

Valuations remain somewhat of a concern for us, but the low inflation low interest rate environment and the fact that several of our economic indicators continue to suggest a low risk of a recession unfolding over the next several months leaves us favoring risk assets at this time. The key near-term risks to the economy and the stock market in our view surround an unforeseen geopolitical shock, disappointing earnings growth over the second half of the year, gridlock in Washington over the debt ceiling and other policy initiatives, and a faster pace of policy normalization from the Fed and other central banks.

Our fundamental and technical indicators have not yet suggested to us that we are at a turning point in the risk environment. Longer term, non-U.S. equities remain more attractive from a valuation perspective and we think they are likely to outperform over the next few years. As a result, we continue to maintain our international tilt in our dynamic positioning. We also have maintained our overweight to corporate credit but recently reduced our exposure to small-cap equities in favor of short-term U.S. Treasuries. We believe this is consistent with our intermediate-term macroeconomic outlook and assessment of the overall environment over the next several months.

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.

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

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