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KUMMER FINANCIAL STRATEGIES, INC.

Helping You Create Financial Independence

Weekly recorded call updated every Friday afternoon at 303-683-5800

October 21st, 2016 Weekly Hotline

Weekly Market Update

U.S. equity markets eked out small gains this past week as the earnings season ramped up. The S&P 500 Index rose 0.4%, the Dow Jones Industrial Average finished flat, and the Nasdaq Composite gained 0.8%. The Russell 2000 Index of small-cap stocks rose 0.5% on the week. Non-U.S. markets finished higher as well. The iShares MSCI EAFE exchange-traded fund added 0.9% and the iShares MSCI Emerging Markets exchange-traded fund gained nearly 2% on the week.

The yield on the 10-year Treasury fell 6 basis point to 1.74% while the 2-year Treasury yield slipped 1 basis point to 0.83%. Both oil and gold prices added 1.2% on the week, while the S&P GSCI, which measures the returns on a basket of commodities, finished little changed.

Global equity markets were relatively calm for much of the week as earnings reports and the European Central Bank's monetary policy meeting garnered much attention. U.S. markets hit the lows of the week on Monday amid weakness across energy prices and lingering anxiousness around the timing of the Fed's next rate hike. Some positive earnings news out of the banking sector and a rebound in energy prices helped stocks gain ground on Tuesday into Wednesday. Mid-week, China said its economy grew by 6.7%, as expected, during the third quarter, which provided a positive backdrop for emerging markets into Thursday. On Thursday, the European Central Bank kept its policy rate unchanged and provided few hints as to when its version of quantitative easing could end. There had been growing concern that the ECB could abruptly end its asset purchase program, but ECB President Mario Draghi said that such a move would be unlikely. This helped to drive the euro lower and propel the U.S. dollar index to a 7-month high. Market participants must now look to December's ECB meeting to gain further clues on the fate of the ECB's asset purchase program, adding to the list of key policy decisions near year end. On Friday, markets were little changed.

In terms of economic releases out this past week, regional manufacturing gauges continued to paint a mixed picture of the U.S. manufacturing sector, but there were some signs of rising optimism. We saw industrial production rise during the third quarter while excess production capacity continues to put downward pressure on inflation. Meanwhile, the Consumer Price Index saw its largest increase in five months in September as energy and shelter rose strongly. The core index, which strips out food and energy prices, showed a more subdued increase, suggesting only modest inflationary pressures. Elsewhere, housing starts unexpectedly fell in September while building permits rose to their highest level in ten months. We also saw existing home sales rebound in September to their fastest pace in three months amid a jump in first-time homebuyers. Inventory levels remain tight, despite a 1.5% increase in September. This has helped to keep upward pressure on home prices. Overall, the housing market continues to recover. Lastly, the Fed's Beige Book, which summarizes economic activity across the various Federal Reserve Districts, showed modest economic growth, tight labor conditions and an overall positive near-term outlook. Next week, more earnings releases should capture the market's

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attention as will the Case-Shiller home price index, new home and pending home sales and a first look at U.S. economic growth during the third quarter. Most economists expect growth accelerated during the third quarter from the 1.4% pace seen during the second quarter.

Equity markets were relatively calm during the week, trading in a narrow range as market participants continue to be cautious ahead of the U.S. elections and the Federal Reserve's upcoming monetary policy meetings. The Fed next meets a week before the U.S. election and again mid-December. We believe a rate hike is likely in the coming months, but the uncertainty over the U.S. Presidential race leaves us to believe the Fed is unlikely to move at its early November meeting. Thus, we feel an increase in December is the more likely scenario, assuming economic data continues to show a healthy labor market and continued economic growth.

The S&P 500 Index hovered just above a key technical level at the end of the week, suggesting to us equity prices may be consolidating gains. While this could be a positive development from a technical perspective, we expect to see higher volatility in the coming weeks and months given the uncertainty surrounding the U.S. elections, the timing of the Fed's next rate hike and the still clouded earnings picture. Despite this and elevated valuations across asset classes, we still have a favorable view of risk assets. On balance, our indicators suggest to us that the backdrop for equity markets and other risk assets remains positive and we continue to hold a favorable view of stocks over bonds in general, preferring corporate credit over government debt. The U.S. economy remains in relatively good shape in our view and we think the risks of a recession unfolding over the near term are still relatively low. We believe the potentially higher volatility could provide both tactical and long-term opportunities for investors. For more information on our outlook, please visit the Research section of our website for our quarterly economic update and asset allocation commentary.

That's the update for this week. Please 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 strategic 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 colleagues in any way we can.

The following are disclosures for today's call:

- 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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