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KUMMER FINANCIAL STRATEGIES, INC.

*Helping You Create Financial Independence*

**August 4th, 2017**

## Weekly Market Update

Another week of earnings and jobs data kept markets elevated near all-time highs. The S&P 500 Index was up 0.2%, the Dow Jones Industrial Average gained 1.2%, the Nasdaq Composite fell 0.4% and the Russell 2000 Index of small-cap stocks finished down 1.2%. Outside of the U.S., a proxy for developed international markets, the iShares MSCI EAFE exchange-traded fund finished the week 1.0% higher while a proxy for emerging markets, the iShares MSCI Emerging Markets exchange-traded fund, gained 0.5% on the week.

The yield on the 10-year U.S. Treasury fell 2.5 basis points to 2.26% while the 2-year U.S. Treasury yield gained 0.5 basis points to 1.35%. Oil prices lost ground during the week, falling 0.5%. Meanwhile, gold was down 0.8% and the S&P GSCI, which measures the returns on a basket of commodities, fell 0.6%.

Monday was the last trading day for the month of July and started the week off in an interesting fashion. The Dow closed at a record high thanks to strong earnings while the S&P and Nasdaq fell, being dragged down by tech. Oil finished higher, closing out its largest monthly gain (8.9%) since April 2016 whereas the dollar hit its lowest level in over a year. Tuesday the pound climbed to an 11-month high after better than expected manufacturing data came out of England; US equity markets closed up after another day of strong earnings. On Wednesday, the Dow closed above 22,000 for the first time in history, boosted by strong Apple earnings and a weaker dollar. For the remainder of the week, we saw oil prices drop over concerns of OPEC oversupply, and the week concluded with the Dow posting its eighth consecutive day closing at a record high while the S&P and Nasdaq closed effectively flat on Friday.

Economic data was mixed throughout the week. Pending home sales ended their three-month losing streak with a bigger than expected month over month gain of 1.5% versus the 0.7% expected results. ISM manufacturing and non-manufacturing PMI both slowed more than expected this month coming in at 56.3 and 53.9, respectively. Manufacturing PMI remains close to the highest expansion rates in nearly three years while non-manufacturing PMI has slowed to the lowest level in 11 months, mostly due to the midsummer slowdown in hiring activity. Core inflation data trickled in at 0.1% growth, the smallest amount we have seen in 5 months, getting some help from lower gasoline prices but facing headwinds with income growth remaining flatlined. The week ended with strong jobs data, initial jobless claims at 240,000, ADP employment change added 178,000 jobs, nonfarm payrolls at 209,000, bringing the unemployment rate down to 4.3% (under 5% is considered full employment).

The solid economic data, especially in the labor market, is what the Fed has been watching throughout the year as they remain on course to tighten monetary policy. Another month of strong jobs data and we expect to see very hawkish tones towards reducing the balance sheet in September. With second quarter earnings season well underway we have seen healthy earnings results across markets with the exception to a few laggards in select industries. Consequentially, we have seen U.S. stock markets continue to remain at or near all-time highs. While volatility remains low, valuations are relatively high, and investors are complacent with the recent market trends, we continue to monitor our indicators. We are looking ahead to this fall as politics in Washington D.C. remains colorful, another FOMC meeting and press conference is

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due, Germany has its elections, and Wall Street traders come back from their summer vacations. Until then, we believe the backdrop for risk assets remains favorable amid an improving earnings picture, a pickup in global economic activity and the fact that we have not seen the emergence of the excesses typically associated with a market top.

Faster earnings growth, low inflation and accelerating economic activity at home and abroad, are helping to support current valuations in our view. In addition, market momentum remains positive and our indicators suggest to us a low probability of a recession unfolding over the near term. We believe the key risks to the economy and the stock market surround an unforeseen geopolitical shock, disappointing earnings growth over the second half of the year, sentiment becoming overly optimistic and a faster pace of policy normalization from the Fed and other central banks. Of course, the lack of progress towards real corporate tax reform in Washington represents another potential challenge for equity markets, but market participants appear to be less concerned about business as usual in Washington. Overall, we do not see dysfunction in Washington sparking a sharp and long-lasting correction over the near term given the relatively healthy fundamental backdrop.

Valuations abroad continue to be more attractive to us relative to those of U.S. stocks. We think this could mean better return potential for non-U.S. equities over the next few years. Volatility is likely to pick up over the remainder of the year, which may create some buying opportunities. We continue to have an international tilt in our dynamic positioning while also favoring corporate credit and small-cap stocks. We believe this is consistent with our macroeconomic outlook and assessment of the overall environment.

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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