Coffee & Commentary
October 23, 2023

Good Morning!

Welcome to Coffee & Commentary, presented by Alpha Zero's Managing Partner and CIO, Eric Mechler CFP®, ChFC®, AIF®, BFA™, RICP®.

Let's get started.

1. What is currently impacting financial markets?

- Following modest gains over the prior two weeks, the S&P 500 experienced a drop of over 2%, marking its fifth downturn in the last seven weeks. Both the Nasdaq and the Dow saw declines this week as well, with investors' attention centered on earnings outcomes and fluctuations in the bond market. Final results on the week were; S&P 500 -2.41%, Nasdaq -3.17%, and the Dow -1.63%.
- Stocks declined and bond yields pushed higher on Thursday afternoon in response to remarks by U.S. Fed Chair Jerome Powell. While Powell hinted at the possibility of the central bank leaving interest rates unchanged at their upcoming November meeting, he also expressed concerns about persistently high inflation and suggested that further rate hikes might still be on the table.
- After a slight improvement last week, government bond prices dropped again this week. This briefly pushed the 10-year U.S. Treasury yield to 5.00% on Thursday, a level not seen since 2007. Though it fell a bit on Friday, the 2-year and 30-year Treasury yields finished the week close to 5.08%.

2. How are we to prepare and act?

- Financial markets have been buzzing recently due to the jump in what's called the "10-year Treasury yield," which has soared to levels not seen since 2007, hovering around 5%. In simpler terms, think of this yield like a heart rate monitor for the economy. When the "heart rate" or yield goes up, it can suggest the economy is getting active, but too high can signal stress. So, what's causing this uptick? A few things: The U.S. economy is stronger than many predicted, showing good growth for most of the year. But with this growth, there's been an increase in the number of government bonds being sold, and there haven't been enough buyers for those bonds. On top of that, central banks worldwide are raising their interest rates, which impacts our rates here.

- Now, what could this mean for our future? Historically, the 10-year yield averages around 4.5%, so we're a tad higher than usual. Some believe these yields could go even higher, especially with lots of government bonds available for purchase. However, there's a belief in the finance world that yields will eventually level out in the range of 3.5% to 4.5% over time, especially if global banks decide to stop raising rates. Looking ahead, it's likely that the era of extremely low bond yields, like what we saw after the 2008 financial crisis, is behind us. As rates find their new "normal", both stock and bond markets will adapt. A change in the financial environment like this is likely to make certain investments more appealing than others, and particular areas of the market that are currently out of favor could be direct beneficiaries. The landscape of investing is evolving, and being diversified should be a critical part of investing this new terrain.

3. Taking a look at the week ahead.

- Thursday -- Third quarter GDP estimate
- Friday -- Personal Consumption Expenditures (PCE) Price Index

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As always, here at Alpha Zero we believe knowledge is power and look forward to helping you Think Beyond What’s Next.

Please feel free to share this newsletter with friends and family, and we thank you in advance for any introductions you send our way.

Have a great week and please reach out to us with any questions.

Sincerely,

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