



Coffee & Commentary

October 30, 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?

- Despite positive earnings reports and a robust quarterly GDP update, the U.S. major stock indices declined this past week, each dropping over 2%. The weekly downturn marks the S&P 500's sixth negative result in the last eight weeks. Final results on the week were; **S&P 500 -2.51%**, **Nasdaq -2.63%**, and the **Dow -2.13%**.
- Despite concerns about a potential recession, the U.S. economy showcased its strength, with data showing that GDP grew at an annualized rate of 4.9% in the third quarter, surpassing the anticipated growth of around 4.7%. Consumer spending remains robust, with this latest figure showing a notable increase from the 2.1% observed in the previous quarter.
- On Wednesday, the Nasdaq fell by 2%, pushing the index into correction territory as it is now over 10% below its recent peak from July 19. The S&P 500 followed suit on Friday, dropping more than 10% from its high on July 31. This recent pullback has brought both indices to their lowest points since May.

2. How are we to prepare and act?

- Recent fluctuations in the stock market have caught many investors' eyes, particularly as certain indices are now down at least 10% from recent

highs and have moved into correction territory. Two factors have largely been responsible for this: first, there has been a substantial increase in long-term government bond yields; and second, earnings reports from some of the tech giants, like Amazon, Apple, and Microsoft, among others, have been mixed. However, despite the recent downturn, many experts believe that the market isn't on the brink of a more severe bear market, as intra-year pullbacks of this magnitude are not uncommon in financial markets. This confidence stems from multiple signs: the US economy is showing resilience amid strong GDP data; inflation, while still above the Fed's stated target, is slowly calming down; and it seems the Federal Reserve is planning to end its series of rate hikes, which has historically led to positive outcomes for the market.

- While the leading tech companies, often termed the "Magnificent Seven", have indeed seen some recent dips, the broader market is now presenting numerous investment opportunities at more affordable prices. Corporate earnings are looking up, manufacturing activities are showing signs of bouncing back, and despite recent spikes, oil prices remain somewhat stable. Historical data shows that the months of November and December typically see better returns for stocks, as consumers spend more money during the holiday season. We see a multitude of opportunities presenting themselves in the short and medium term, as taking advantage of sector repricing before a 'Santa Claus rally' into year end could make for outsized gains.

3. Taking a look at the week ahead.

- Wednesday -- Fed meeting concludes, interest rate decision
- Friday -- Jobs and unemployment data

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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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