ALPHA ZERO

Coffee & Commentary

November 13, 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?

- The latest week saw U.S. stock indices experience a modest rise, continuing the upward trend that began the week prior when markets had their biggest weekly gains of the year. Final results on the week were; S&P 500 +1.08%, Nasdaq +2.05%, and the Dow +0.38%.
- Changes in interest rate expectations significantly influenced bond markets, as prices of U.S. government bonds fell and reversed gains made in the prior week. Consequently, bond yields increased, with the 2-year Treasury yield surpassing the 5.00% mark again after Federal Reserve Chair Jerome Powell suggested that the central bank is not done in their fight against inflation.
- Oil prices continued their downward slide for the third consecutive week, dropping to their lowest level since mid-July amid growing concerns about global economic conditions and their potential impact on oil demand. By Friday, the price of U.S. crude had fallen to around $77 per barrel, as compared to around $89 just three weeks ago.

2. How are we to prepare and act?

- The U.S. economy, propelled primarily by consumer spending, has demonstrated remarkable resilience throughout 2023. However, as we approach year-end and the critical holiday shopping season, there are emerging concerns about the sustainability of this spending momentum. Three key factors indicate a potential slowdown in consumer consumption. First, the significant excess savings accumulated by households during the pandemic, estimated at around $2.1 trillion by the San Francisco Federal Reserve, is running out. This is evident from the declining household savings rates, now nearing post-pandemic lows. Such a trend suggests a shift from saving to spending, driven partly by increased costs and reduced stimulus savings, especially impacting lower-income households. Second, there's been a noticeable rise in U.S. credit card debt, surpassing $1 trillion in the third quarter of 2023, the highest ever recorded. Accompanying this surge is a slight increase in delinquencies in credit card and auto loans, although not yet alarmingly high. Third, the current banking climate, characterized by tighter lending standards, is making it increasingly challenging for consumers and businesses to secure loans, thus limiting their future ability to spend.

- Despite these headwinds, it's essential to recognize that consumer spending started strong and has consistently outpaced expectations for slowdowns throughout the year. A potential moderation in consumer spending might indeed slow down economic growth, but it could also bring some benefits. For example, a decrease in consumption could lead to reduced inflationary pressures, potentially easing the need for further Federal Reserve rate hikes. As the economy and consumer spending gradually cool down, we could see a shift towards more balanced supply and demand dynamics in the labor market, further supporting lower inflation. Such a scenario would likely be favorable for financial markets, as it would provide the Federal Reserve the additional evidence needed to confirm a stance change towards ending interest rate hikes. From a market perspective, this anticipated economic slowdown has been factored in for some time and we believe investors should view any upcoming volatility as an opportunity to diversify and invest in quality assets at more attractive prices. The convergence of moderating inflation, a paused Federal Reserve, and a resurgence in economic and earnings growth after a cooling period could present substantial opportunities in both stock and bond markets.

3. Taking a look at the week ahead.

- Tuesday -- Consumer Price Index
- Wednesday -- Producer 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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