



Coffee & Commentary

November 20, 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 U.S. stock market experienced its third consecutive week of growth, with the S&P 500, Nasdaq, and Dow each recording gains of over 2%. Smaller stocks were the major outperformers, with the Russell 2000 Index increasing by over 5%. Final results on the week were; **S&P 500 +2.65%**, **Nasdaq +2.90%**, and the **Dow +2.13%**.
- October data showed U.S. inflation continuing to show signs of easing, with the core inflation rate increasing at its slowest yearly rate since September 2021. The core inflation rate stood at 4.0% while headline inflation, which includes food and energy prices, was also lower than expected at 3.2%.
- Continuing from a note in C&C last week, oil prices have now fallen for four consecutive weeks, influenced partly by a rise in U.S. crude inventories. The week saw considerable volatility as U.S. crude oil prices briefly surged close to \$80 per barrel on Tuesday, fell below \$73 on Thursday, and then rallied again to nearly \$76 on Friday. For reference, the price of oil was around \$89 per barrel as recently as October 20.

2. How are we to prepare and act?

- Economic data this year has been striking a fine balance, not too strong to fuel higher inflation nor too weak to cause a recession, which has

largely resulted in a positive market response. This equilibrium has seen stocks climb to a two-month high, effectively moving past the October correction. One of the key factors underpinning this trend is the continued progress in tackling inflation, with October's data showing that the Federal Reserve's efforts are bearing fruit. This, coupled with a cooling labor market, opens the door for the Fed to likely pause rate hikes and potentially consider rate cuts at some point in 2024. Underneath the surface, there are encouraging signs, such as the decrease in prices for goods driven by improving supply chains and lower transportation costs. Housing inflation, a significant contributor to the overall CPI, is also showing signs of slowing down, which could pull down overall inflation rates through most of 2024.

- As we look towards the year ahead, there are several key areas to focus on. One important aspect is the gradual slowing of growth, which is happening at a pace that aids the Fed's inflation-fighting efforts without derailing the economy. Retail sales data indicates that while consumer spending is slowing, it's not indicative of a significant downturn. Additionally, jobless claims, while increasing, still sit substantially below their 50-year average, reflecting a strong job market. Another crucial factor is the potential peak in interest rates. Recent data supporting an extended pause by the Fed has led to a decline in Treasury yields, which if continued, could mark the peak for this cycle. This shift in Fed policy is visibly impacting both equity and bond markets positively. The equity market's gains have broadened beyond the dominant few stocks, indicating a more diversified rally that could benefit year-to-date poor performers like small-caps and value-style investments.

3. Taking a look at the week ahead.

- Tuesday -- Fed meeting minutes released
- Thursday -- Thanksgiving!

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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,

Eric Mechler, CFP®, ChFC®, AIF®, BFA™, RICP®

Founder, Managing Partner

Chief Investment Officer

Alpha Zero

2500 N Military Trail, Suite 316

Boca Raton, FL 33431

Phone: (561) 576-2599 Ext. 124

eric@alphazerowealth.com

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Visit our website

Alpha Zero

2500 N Military Trail, Suite 316, Boca Raton, FL 33431

Phone: (561) 576-2599 Ext. 124

eric@alphazerowealth.com



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Alpha Zero | 2500 N Military Trail, Suite 316, Boca Raton, FL 33431

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