



## Coffee & Commentary

November 6, 2023

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### 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 major U.S. stock indices saw their most substantial weekly increases of the year this past week, bouncing back significantly after the S&P 500 and the Nasdaq had recently dipped into correction territory. Final results on the week were; **S&P 500 +5.9%**, **Nasdaq +6.6%**, and the **Dow +5.1%**.
- The U.S. Federal Reserve decided to leave interest rates unchanged at their latest meeting, although they did leave the door open for a potential increase at the upcoming meeting in mid-December. This decision marks the second consecutive meeting where the Fed has not altered rates, representing the most extended pause in rate hikes since the series of increases started in March 2022.
- If it weren't for the significant performance of just seven major tech-focused U.S. firms (the Magnificent Seven -- Microsoft, Apple, Alphabet, Amazon, Tesla, Meta and Nvidia), the S&P 500's total return for the year would be virtually flat. As of the end of October, the S&P 500 was up over 10% when including the influence of these tech giants -- without them, the return would dwindle to just 0.03%.

### 2. How are we to prepare and act?

- The stock market experienced a welcome surge last week, energized by a combination of Federal Reserve comments and positive economic data

which prompted a decline in bond yields. The Fed's recent meeting concluded with a hold on rate increases, and Fed Chair Jerome Powell's subsequent remarks hinted at a potentially completed rate-hiking cycle. Concurrently, the latest jobs report indicated a slowing in the labor market that could contribute to a continuing decline in inflation while still maintaining adequate support for consumer spending—factors that collectively help steer clear of a deeper recession. Although the road ahead may not be free of volatility, the underlying conditions seem ripe for the markets to build momentum as 2023 draws to a close, with the traditional end-of-year period often being favorable for equities.

- Looking ahead, the path for equities to sustain their recovery hinges on several key factors. First, bond yields need to maintain a level that doesn't stifle economic growth or create excessive headwinds for the stock market. The recent decrease in yields, if continued, can underpin market confidence. Second, the Fed needs to follow through on its current 'pause' stance, as further rate hikes could constrict economic activity. While sentiment in financial markets has become more cautious, investors should also recognize the historically positive influence that year end typically brings to stock market performance. As always, it is wise to maintain a balanced view, staying vigilant to shifts in economic indicators and central bank policies, which could affect market trajectories in the near term.

### **3. Taking a look at the week ahead.**

- Tuesday -- Consumer credit and Trade balance
- Friday -- University of Michigan Consumer Sentiment results

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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®**

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