



Coffee & Commentary

April 15, 2024

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?

- Escalation in the Middle East that occurred over the weekend will be digested by financial markets in the week ahead, and it goes without saying that we hope for a peaceful outcome and a minimized loss of life both now and moving forward. From a U.S. stock market standpoint, history shows us that geopolitical conflicts typically do not have a lasting impact unless the U.S. gets directly involved on a large scale.
- For the second consecutive week, both the S&P 500 and the Dow pulled back from the record highs achieved at the end of March. The Nasdaq experienced a smaller weekly decline compared to its counterparts, partially supported by stellar performance from several technology stocks. Final results on the week were; **S&P 500 -1.6%**, **Nasdaq -0.5%**, and the **Dow -2.4%**.
- Last week's inflation report raised further concern regarding the timing of potential interest rate cuts, with the Consumer Price Index (CPI) climbing to an annual rate of 3.5% in March, an increase from 3.2% in the previous month. When excluding the food and energy prices, core inflation rose to 3.8%.
- Following the inflation report on Wednesday, the yield on 10-year U.S. Treasury bonds reached its highest point in five months, peaking at 4.59%. This marks a significant increase from the start of February, when

the 10-year yield closed as low as 3.86%.

2. How are we to prepare and act?

- Recent economic data has shown a mixed landscape, with key indicators sending varied signals about the state of the economy and the potential direction of future Federal Reserve actions. With last week's inflation data coming in higher than anticipated, the expectation is that any Fed action will likely be further delayed. While markets are currently digesting these higher inflation prints (and gauging how likely they are to continue), the current pullback we are experiencing does not necessarily have staying power. Especially given the added scare factor witnessed over the weekend, short-term investors will likely be looking to recalibrate their portfolios after a stellar first quarter and in so doing will open the door for longer term buying opportunities.
- Overall, the economic outlook remains cautiously optimistic but is shadowed by the potential for a more gradual approach to Fed policy than previously expected. This shift could mean a more nuanced path to achieving the Fed's 2% inflation target, in which interest rates could be left higher for longer. As the market adjusts to these realities, the focus will likely continue to be on sectors that can withstand higher inflation and interest rates, while the evolving situation in the Middle East will also play a role in determining investor appetite towards risk taking in the weeks and months ahead.

3. Taking a look at the week ahead.

- Monday -- Retail sales
- Thursday -- Weekly unemployment claims

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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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