



Coffee & Commentary

July 22, 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?

- Two of the three major U.S. stock indices fell this past week as the Nasdaq dropped nearly 4%, ending a six-week streak of gains as several mega-cap technology stocks declined for the second consecutive week. The S&P 500 experienced a moderate decline as well, while the Dow was an outlier, posting a small gain. Final results on the week were; **S&P 500 -2.52%**, **Nasdaq -4.26%**, and the **Dow +0.25%**.
- During a week of choppy trading, an index that tracks investors' expectations for short-term U.S. stock market volatility reached its highest level in nearly three months. The Cboe Volatility Index (VIX) surged 32% for the week, hitting its highest point since April 22, when it was near its year-to-date peak.
- For the second consecutive week, U.S. large-cap value stocks outperformed their growth counterparts, eroding the growth style's year-to-date performance lead and potentially signaling a shift in market sentiment. Over the past two weeks, a value benchmark has gained a total of 3.5%, while its growth counterpart has declined by 4.3%.

2. How are we to prepare and act?

- Last week was marked by significant swings in the stock market, with an early rally that pushed U.S. markets to new highs but faded by week's

end, primarily due to weakness in the tech sector. This shift underscores a notable change in the relationship between stock prices and interest rates. Earlier in 2024, both moved higher together, but recent weeks have seen interest rates decline significantly amid moderating inflation and expectations of upcoming Fed rate cuts, even as equities continued their upward trend. This "soft landing" narrative, where inflation falls, Fed policy eases, and economic growth remains steady has gained traction, although the expectation for a September Fed rate cut introduces the potential for additional volatility, especially if forthcoming inflation data does not align with these expectations.

- A significant theme last week was the rotation in market leadership. Mega-cap tech stocks, which have driven much of the market's gains, saw a decline, while cyclical sectors like financials, industrials, and energy showed upward momentum. Small-cap stocks also surged, driven by growing confidence in a Fed rate cut, signs of economic resilience, and changing election expectations. This shift suggests a potential broadening of market leadership beyond the tech sector, and as the Fed potentially moves towards easing, this environment could support broader market performance, benefiting cyclical and economically sensitive investments.

3. Taking a look at the week ahead.

- Thursday — 2nd quarter GDP estimate
- Friday — Personal Consumption Expenditures (PCE) 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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