



Coffee & Commentary

July 29, 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?

- The S&P 500 and Nasdaq fell for the second consecutive week amid choppy trading, while the Dow continued its upward climb, marking its fourth straight weekly gain. Despite modest rallies on Monday and Friday, a significant sell-off on Wednesday overshadowed the gains for both the S&P 500 and Nasdaq. Final results on the week were; **S&P 500 -1.07%**, **Nasdaq -2.38%**, and the **Dow +0.61%**.
- The U.S. economy gained momentum in the second quarter despite historically high interest rates and ongoing inflation concerns. GDP grew at an annual rate of 2.8%, significantly exceeding economists' consensus forecasts and up from the 1.4% growth rate in the first quarter of this year.
- The U.S. Federal Reserve's preferred inflation measure remained unchanged from the previous month, staying modestly above the Fed's long-term target of around 2.0%. The core Personal Consumption Expenditures (PCE) Index, excluding energy and food prices, increased at an annual rate of 2.6% in June, matching May's figure and representing the slowest price growth in over three years. On a month-to-month basis, core inflation rose by 0.2% in June.

2. How are we to prepare and act?

- In recent weeks, both financial markets and the political landscape have experienced significant rotations. In markets, mega-cap technology stocks, which had been investor favorites for most of the year, have recently lagged, while value and cyclical stocks, including small- and mid-cap stocks, have outperformed. Several factors support this rotation: inflation has surprised to the downside, boosting expectations of Fed interest rate cuts; earnings growth is broadening, with sectors like financials, energy, and health care showing strong results; and valuation adjustments are prompting investors to seek opportunities in undervalued segments of the market. As inflation continues to cool and the Fed prepares to lower rates, this broader market leadership is expected to persist, despite potential volatility.
- The political landscape has also seen a major shift with President Biden's decision to exit the presidential race, endorsing Vice President Kamala Harris as the Democratic nominee. This unexpected move has introduced uncertainty into the election dynamics, narrowing the gap between Harris and frontrunner former President Donald Trump. Historically, markets tend to experience heightened volatility ahead of elections but stabilize afterward. Despite these rotations, the underlying fundamentals remain supportive of further growth across financial markets. The economy continues to grow, albeit at a slower pace, inflation is easing, and the Fed is expected to cut rates. This environment offers opportunities for investors to diversify and rebalance portfolios, taking advantage of market volatility to invest in quality assets at favorable prices.

3. Taking a look at the week ahead.

- Wednesday — Fed meeting concludes, Fed Chair press conference
- Friday — Jobs and unemployment data

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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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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 US

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