Coffee & Commentary

August 26, 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, Nasdaq, and Dow all posted weekly gains of over 1%, falling short of the significant advances made the previous week but continuing their recovery from a difficult start to August. Although trading was volatile earlier in the week, markets finished strong on Friday, lifted by a speech from U.S. Fed Chair Jerome Powell. Final results on the week were; S&P 500 +1.45%, Nasdaq +1.40%, and the Dow +1.27%.
- After back to back strong weeks, U.S. stock markets have nearly recouped all the losses incurred during the pullback witnessed in late July and early August. By Friday's close, the S&P 500 was just 0.58% below its mid-July record high, while the Dow was 0.06% away from its all-time peak and the Nasdaq sat 4.13% below its record level.
- Fed Chair Jerome Powell announced on Friday that "the time has come for policy to adjust," bolstering market anticipation of an interest rate cut at the Fed's upcoming meeting on September 18. Speaking at the Jackson Hole symposium in Wyoming, Powell highlighted that the labor market has recently cooled, and inflation is gradually moving closer to the Fed's 2% target.

2. How are we to prepare and act?

- At last week's Federal Reserve symposium in Jackson Hole, Wyoming, all eyes were on Chair Jerome Powell as he provided crucial insights that reinforced expectations for a forthcoming interest rate cut. While no official decisions were made at the symposium, Powell's speech signaled that the time for a monetary policy adjustment has arrived, and comes as inflation continues to moderate and the labor market shows early signs of softening. The Fed's focus is shifting from purely combating inflation to balancing its dual mandate of stable prices and maximum employment, and suggests that the Fed will be more attentive to labor market conditions moving forward, especially as recent data indicates a cooling but not collapsing job market. Overall, the groundwork appears to be laid for a gradual easing of interest rates, reflecting the Fed's cautious approach to supporting economic growth without sparking further inflationary pressures.

- As the countdown to rate cuts continues, it's clear that this cycle will differ from past easing periods. Unlike previous instances where rate cuts were urgently needed to counteract economic crises or severe downturns, the current situation is more about gradually releasing the brakes on a still-resilient economy. While inflation has decreased, it hasn't yet reached the Fed's long-term target, and unemployment, though ticking upward, remains relatively low. Therefore, the Fed is expected to implement incremental rate cuts, rather than the dramatic reductions seen in past crises. This cautious approach suggests that while rate cuts should generally benefit the markets, it won't necessary define their direction, and we should continue to take other relevant economic data and geopolitical factors into consideration.

3. Taking a look at the week ahead.

- Tuesday— Consumer confidence index
- Friday — Personal Consumption Expenditure (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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