ALPHA ZERO

Coffee & Commentary

September 23, 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 Dow hit a new record high this past Monday, surpassing its previous peak from mid-July, while the S&P 500 followed suit on Thursday, buoyed by the first interest-rate cut since March 2020. Final results on the week were; S&P 500 +1.4%, Nasdaq +1.5%, and the Dow +1.6%.
- On Wednesday the U.S. Federal Reserve cut its key lending rate by 0.50%, in a decision that was supported by 11 of the 12 Fed voting members and brought the Fed funds rate to a range of 4.75% to 5.00%. Additional rate cuts are expected at the upcoming Fed meetings in early November and mid-December as the central bank continues its efforts to support the economy.
- In another piece of good news, a prominent recession indicator is no longer signaling a high risk of economic downturn is on the horizon. Since mid-2022, the yield on the 2-year U.S. Treasury note had been higher than that of the 10-year Treasury, creating a rare yield curve inversion typically indicative of a coming recession. However, on September 4, the 2-year yield dipped back below the 10-year yield and has remained there. As of Friday's close, the 2-year yield stood at 3.58%, while the 10-year yield was at 3.73%.

2. How are we to prepare and act?

- With last week's interest rate cut by the Federal Reserve, we have officially witnessed a pivotal shift in monetary policy. The move underscores the Fed's commitment to staying proactive in the face of a softening labor market and moderating inflation, and comes as inflation has steadily cooled from its 2022 peak, dropping to 2.5% in August. The Fed's focus has shifted from solely controlling inflation to also supporting employment and sustaining economic growth. Chair Jerome Powell emphasized the Fed’s goal of keeping the U.S. economy on a stable footing, with the 0.50% interest rate cut seen as a catch-up move to ensure that rates do not remain too restrictive. Historically, rate-cutting cycles that occur without a recession have led to robust stock market returns, and the Fed’s decision to front-load a more substantial rate cut suggests that it is committed to maintaining a favorable economic environment into the end of 2024.
- The rate cut is also not likely to be a one-off event, as the Fed has signaled additional reductions in the months ahead, with further 0.25% cuts expected in November and December. The updated "dot plot" projections indicate that the Fed will continue easing monetary policy into 2025, aiming to lower rates to what it considers a neutral level. This long-term easing cycle is designed to gradually lift borrowing restrictions and support both consumers and businesses. While these signs are traditionally good for markets, it should be noted that given today’s elevated stock market valuations, the upside might be more moderate compared to previous soft-landing scenarios.

3. Taking a look at the week ahead.

- Thursday — Second quarter GDP, third 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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