Coffee & Commentary

September 9, 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?

- U.S. stock markets experienced some of their sharpest weekly losses in over a year this past week, with the Nasdaq declining nearly 6%, the S&P 500 falling more than 4%, and the Dow slipping almost 3%. Technology stocks bore the brunt of the downturn, driven by renewed concerns about the short-term profitability of artificial intelligence investments. Final results on the week were; S&P 500 -4.2%, Nasdaq -5.8%, and the Dow -2.9%.
- Ahead of the U.S. Federal Reserve's mid-September meeting, the government reported on Friday that the economy added 142,000 jobs in August. Although this number exceeded the previous month's gain, it fell short of the consensus forecast of around 160,000. Additionally, initial job growth estimates for June and July were revised down by a total of 86,000 jobs.
- U.S. crude oil prices dropped nearly 8% for the week, reaching their lowest level in around 14 months, trading at approximately $68 per barrel on Friday afternoon. Weighed down by concerns over weakening demand in both the United States and China, the price of crude had previously been above $80 as recently as mid-July.

2. How are we to prepare and act?

- The U.S. labor market is showing clear signs of softening, with August's nonfarm payroll report reflecting weaker job growth and downward revisions to prior months' figures. Despite this deceleration, the unemployment rate dipped only slightly from 4.3% to 4.2%, largely due to new entrants into the workforce rather than widespread job losses. New data showed job declines in the manufacturing sector, where 24,000 positions were lost, and slowing growth in service sectors like leisure and hospitality. While the labor market is undeniably cooling, these numbers still align with long-term historical averages, and the job market remains above recessionary levels.
- As the Federal Reserve prepares for its mid-September meeting, the market is continuing to debate whether the Fed will cut rates by 0.25% or 0.50%. The Fed, which has been primarily focused over the last few years on controlling inflation, now appears to be turning its attention toward stabilizing the labor market to avoid further economic slowdown. Market conditions suggest the possibility of more aggressive rate cuts if the economy continues to weaken, with bond markets already reflecting this expectation through lower Treasury yields. Though volatility could persist, particularly in the leadup to the November election, we continue to believe that markets dips should be bought. With inflation moving closer to target levels and economic growth, while cooling, still holding up, the fundamentals remain favorable for continued market expansion.

3. Taking a look at the week ahead.

- Wednesday — Consumer Price Index (CPI)
- Thursday — Producer Price Index (PPI)

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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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