



Coffee & Commentary

October 14, 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, Dow, and NASDAQ all saw gains of more than 1%, marking their fifth consecutive week of growth and continuing the market's rebound after a steep decline at the beginning of September. Both the S&P 500 and Dow set new record highs, while the NASDAQ finished the week just under 2% away from its all-time peak. Final results on the week were; **S&P 500 +1.1%**, **Nasdaq +1.1%**, and the **Dow +1.2%**.
- The monthly Consumer Price Index (CPI) inflation report came in slightly higher than anticipated, contributing to uncertainty about the pace of future interest rate cuts in the near term. In September, consumer prices increased at an annual rate of 2.4%, which was lower than August's 2.5% but slightly above economists' forecast of 2.3%. Additionally, core inflation, which excludes energy and food prices, rose to 3.3%, up from 3.2% in the previous month.
- Minutes released on Wednesday from the Federal Reserve's September meeting revealed a strong debate among policymakers regarding the decision to approve the half-percentage point rate cut. Some officials pushed for a smaller quarter-point cut, but in the end, only one of the 12 voting Fed members opposed the half-point reduction in the final vote.

2. How are we to prepare and act?

- As we mark the two-year anniversary of the current bull market, it's worth reflecting on the remarkable recovery that has taken place since October 2022. Back then, inflation was soaring above 8%, the Federal Reserve was aggressively raising interest rates, and the S&P 500 had plunged 25%. Despite this negative backdrop for investors, the market subsequently rose by 60%, large-cap stocks surged, and the S&P 500 has set 45 new record highs. History tells us that most bull markets manage to last through a third year, and based on the current environment, this one seems to be on a similar path. Over the past two years, the U.S. economy has grown at an average rate of 3%, defying concerns about a potential recession and benefiting from strong consumer spending, a healthy labor market, and rising wealth in real estate and equity markets. Household balance sheets, bolstered by years of deleveraging and fiscal support, have been a key factor in sustaining this economic momentum. The potential for artificial intelligence to boost productivity across various sectors could further push growth higher, though this remains an uncertain factor that will take time to materialize. In the meantime, despite short-term volatility from geopolitical risks and the approaching U.S. election, the fundamental backdrop suggests that the bull market likely still has room to run.
- Inflation, a defining challenge of the post-pandemic economy, has come down significantly from its 40-year peak of 9.1% in June 2022 to today, and this progress has allowed the Fed to shift its focus from solely controlling price pressures to also managing the labor market, a key driver of the economy's strength. The Fed is expected to continue its easing policy by implementing quarter-point interest rate cuts at each of its upcoming meetings, with a target rate range of 3% to 3.5% by next year. Even though inflation data came in slightly hotter than expected in September, it is unlikely to derail the Fed's plan, as further moderation in housing costs and wage growth is anticipated to help bring inflation closer to 2%. In the grander scheme, the economy's ability to avoid a recession despite significant challenges reinforces the case for continued market strength, especially as the Fed maintains a path of gradual easing and inflationary pressures continue to recede.

3. Taking a look at the week ahead.

- Thursday — Retail sales
- Friday — Housing starts

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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