



Coffee & Commentary

October 21, 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. stocks logged another week of gains, extending the impressive streak we've seen throughout 2024. Netflix (NFLX) earnings set the tone for upcoming Big Tech results, while strong performance from the banking sector helped launch earnings season on a positive note. Final results on the week were; **S&P 500 +0.9%**, **Nasdaq +0.8%**, and the **Dow +1.0%**.
- Both gold and bitcoin saw positive price action this week, with gold reaching new all-time highs while bitcoin surged to move closer to its previous all-time high set in March. Investor interest in alternative investment assets continues to show signs of increasing in recent weeks, an indication that investors are feeling more confident about broader market movements.
- Recent signs of extended economic strength appear to have not shaken Wall Street's confidence that the Federal Reserve will continue to lower interest rates at their next meeting on November 7. However, following the release of economic data on Thursday, the likelihood of an additional rate cut at their December meeting has now dropped below 75%.

2. How are we to prepare and act?

- With the conclusion to 2024 quickly approaching, the stock market has

continued its impressive rally, potentially marking a second consecutive year with returns above 20%. Such strong back-to-back years are rare feats, having occurred only five times in the last 75 years, with back-to-back-to-back 20%+ years only happening once during the dot-com boom of the 1990s. Now before you go thinking that this rarified air spells potential doom and gloom for the future, history shows that while the market may not sustain such a rapid pace of growth, it often continues to rise, albeit at a more moderate rate. This year's strong performance has been fueled by key economic fundamentals, such as a growing economy, a friendlier interest-rate environment as the Fed eases its policies, and robust corporate earnings. These factors have helped drive the market higher, and while risks remain, including geopolitical tensions, uncertainties in the global economy, and a Presidential election in less than 3 weeks, the overall setup remains supportive for continued gains.

- As we look ahead to 2025, the possibility of another strong year for the stock market depends heavily on the interplay of several key factors. While GDP growth has slowed compared to previous periods of consecutive high returns, the absence of an imminent recession, coupled with stable consumer spending and a relatively strong labor market, provides a solid foundation for ongoing growth. The Federal Reserve's actions will also play a pivotal role, as its approach to interest rate cuts may either ease borrowing costs further or signal caution depending on how inflation and employment data evolve. Given that the Fed is currently in an easing cycle, as opposed to tightening in many previous high-return periods, this could provide a tailwind for the markets, helping to foster a favorable environment for both consumers and businesses. Another factor to watch is whether inflation remains in check, as rising costs could squeeze corporate margins and reduce profitability. If corporate profits continue to grow, supported by favorable interest rates and steady economic growth, the market will be poised for success into 2025.

3. Taking a look at the week ahead.

- Wednesday — Pending home sales data
- Thursday — Purchasing Managers Index (PMI)

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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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