Coffee & Commentary

October 28, 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 stock market took a breather this week, as the S&P 500 ended lower after six consecutive weeks of gains. Stocks appeared to follow signals from the U.S. Treasury market, where forward-looking data now indicates expectations for a more gradual Fed rate-cutting cycle. Large-cap stocks showed more resilience than small-caps, and growth stocks outpaced value stocks, with the tech-heavy Nasdaq managing to squeak out a small gain. Final results on the week were; S&P 500 -1.0%, Nasdaq +0.2%, and the Dow -2.7%.
- During a relatively quiet week for economic data, the Fed's Beige Book—a periodic report summarizing economic conditions across each Fed region—noted minimal economic growth in much of the U.S. The report highlighted a slight decrease in demand for workers while "inflation continued to moderate."
- Tesla was the top performer in the S&P 500 for the week as the electric vehicle maker reported stronger-than-expected quarterly earnings and forecasted 20-30% sales growth for 2025. These results, along with an optimistic outlook, fueled a 22% surge in the stock on Thursday, marking its best daily gain in over 11 years.

2. How are we to prepare and act?

- Since the Federal Reserve began cutting interest rates, bond yields have been on the rise, challenging recent stock market gains and reflecting a blend of strong economic data and shifting expectations for Fed policy. Despite the Fed's recent decision to lower rates, both the 2- and 10-year Treasury yields have climbed, driven by factors such as stronger-than-expected job growth, resilient consumer spending, and recent inflation data. The Atlanta Fed's real-time GDP estimate suggests the U.S. economy may grow by 3.4% for the third quarter, indicating robust economic health and likely easing recession concerns. This resilience has led markets to anticipate a slower rate-cutting cycle, revising expectations for the Fed's end-of-2025 rate from 2.9% to 3.5%. Beyond these factors, concerns over rising U.S. debt and the potential impact of the upcoming presidential election are adding to bond market volatility, as fiscal policies under either administration could affect long-term debt.
- Given this environment, it is possible that yields may temporarily overshoot to around 4.5% but are not expected to surpass their 2023 highs. Inflation, projected to align with the Fed's 2% target by the end of next year, is gradually easing in areas like housing costs, which may help stabilize prices overall. With a likely split Congress limiting new fiscal initiatives, government spending is expected to remain relatively contained, reducing the risk of added bond volatility from large-scale spending shifts. Strong demand for U.S. government bonds, especially in uncertain times, is also expected to keep yields in check as the U.S. remains one of the world's most secure markets. While some turbulence is likely, the resilient economy and easing inflation create favorable conditions for investment growth in both stocks and bonds in the year ahead.

3. Taking a look at the week ahead.

- Thursday — Personal Consumption Expenditures (PCE) report
- Friday — Nonfarm payrolls report

--

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,

Eric Mechler, CFP®, ChFC®, AIF®, BFA™, RICP®
Founder, Managing Partner
Chief Investment Officer
Alpha Zero
2500 N Military Trail, Suite 316
Boca Raton, FL 33431
Phone: (561) 576-2599 Ext. 124
eric@alphazerowealth.com

Visit our website

Alpha Zero
2500 N Military Trail, Suite 316, Boca Raton, FL 33431
Phone: (561) 576-2599 Ext. 124
eric@alphazerowealth.com

Think Beyond What's Next.