Coffee & Commentary

October 7, 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 bounced between minor daily gains and losses throughout the week before a modest rally on Friday helped them finish with slight overall gains, and was enough to nudge both the S&P 500 and the Dow to new record highs. Final results on the week were; S&P 500 +0.2%, Nasdaq +0.1%, and the Dow +0.1%.
- The market's performance in September mirrored that of August, with stocks experiencing a steep decline in the first week but rebounding to end the month on a positive note. The S&P 500 closed September on a high, delivering a total return of 2.1% and marked the index's tenth positive month in the last eleven.
- In September, the U.S. economy added 254,000 new jobs, surpassing economists' expectations of approximately 140,000 and marking the strongest job growth in six months. Additionally, job gains for July and August were revised upward by a combined 72,000, while the unemployment rate fell from 4.2% to 4.1%.

2. How are we to prepare and act?

- As we enter the fourth quarter of the year, financial market turbulence is largely due to uncertainties around four major areas: the U.S. labor market, potential port strikes on the East Coast, growing tensions in the

Middle East, and the looming U.S. presidential election. However, despite these concerns, markets found some relief over the week as positive labor market data suggests things are beginning to normalize after the extraordinary demand seen during the post-pandemic recovery period, with more workers entering the labor force and job openings declining. Another source of market relief was the tentative resolution reached in the East Coast port strike, which had threatened to disrupt key supply chains. The strike, which initially affected 36 ports and was expected to cause daily losses of up to $5 billion, was resolved within three days, mitigating potential long-term economic impacts. Despite these encouraging signs, ongoing concerns about geopolitical tensions and the upcoming U.S. election continue to influence market sentiment, making it clear that volatility may persist in the short term.

- One of the most significant takeaways from the stronger-than-expected jobs report is its potential effect on Federal Reserve policy. Following the release of the labor data, markets responded by pushing Treasury bond yields higher and adjusting their expectations for future rate cuts, now anticipating a smaller 0.25% cut in either November or December, rather than the previously expected 0.50%. Despite this, the broader outlook suggests that the Fed will continue on its path of gradually lowering interest rates through 2025, which is likely to support both consumer spending and corporate investment. Meanwhile, many eyes remain fixed on the geopolitical risks in the Middle East, as the rising tensions between Israel and Iran could lead to further increases in oil and energy prices, which have already surged over 10% this week alone. Lastly, the U.S. presidential election is expected to heighten market volatility in the coming weeks, but it is our view that the fundamentals of the U.S. economy remain strong and that any downward pressure should be seen as a buying opportunity.

3. Taking a look at the week ahead.

- Wednesday — Release of September Fed meeting minutes
- Thursday — Consumer Price Index (CPI) data

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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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