



Coffee & Commentary

November 25, 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 indices climbed approximately 2% last week, regaining much of the ground lost during the prior week's decline. By Friday's close, the Dow surpassed its record high from just 11 days earlier, while the S&P 500 ended the week 0.5% below its all-time peak, and the Nasdaq finished 1.5% shy of its highest-ever close. Final results on the week were; **S&P 500 +1.7%**, **Nasdaq +1.7%**, and the **Dow +2.0%**.
- For the third consecutive week, the most widely traded cryptocurrency, Bitcoin, reached a new record high. The digital currency finished the week trading around \$99,000, bringing its year to date return to over 120%.
- As of Friday, the majority of third-quarter corporate results had been reported, with companies in the S&P 500 projected to achieve an average earnings increase of 5.8% compared to the same quarter last year. If this outcome is confirmed, it would represent the index's fifth straight quarter of year-over-year earnings growth.

2. How are we to prepare and act?

- As we approach 2025, the stock market remains on strong footing, buoyed by robust economic fundamentals, rising corporate profits, and

the Federal Reserve's transition to a rate-cutting cycle. Stocks are on track to end the year with impressive returns, driven by a resilient consumer base and broad participation across market sectors. However, as optimism builds, investors should consider potential challenges, including elevated valuations and the shifting segments of market leadership. The dominance of mega-cap technology stocks has contributed to higher overall price-to-earnings (P/E) ratios, with the forward P/E for U.S. large-cap stocks sitting about 30% above historical averages. While this suggests a moderation in long-term returns for these companies, other areas of the market, such as mid- and small-cap stocks, continue to trade at more reasonable levels, providing opportunities for diversification. Additionally, as technology and artificial intelligence undergo a consolidation phase after years of rapid growth, other sectors like financials and industrials have begun to take on a greater role, offering a healthier balance in market dynamics. This broadening of participation, combined with strong corporate balance sheets and sustained consumer demand, creates a favorable, albeit complex, backdrop for the new year.

- Looking ahead, uncertainties like potential tariff policies and their economic impact remain a significant consideration. Proposed tariffs could introduce a one-time spike in prices, acting as a tax on consumers, but history suggests these effects may be temporary, with price stabilization and adjustments in trade patterns offsetting some of the initial inflationary pressures. Given this backdrop, strategies to fortify portfolios against volatility include a focus on value-style investments and domestic-oriented small- and mid-cap companies, which may benefit from stronger U.S. growth and more favorable tax policies. As the economic and market fundamentals remain strong, 2025 is shaping up to be another year of opportunity for stocks, even if the path forward includes a few bumps along the way.

3. Taking a look at the week ahead.

- Tuesday — Release of November Fed meeting
- Thursday — Thanksgiving!

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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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