



Coffee & Commentary

December 16, 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. financial markets were mixed last week, with the S&P 500 recording a slight decline, ending its three-week win streak, while the Dow fell nearly 2%. Meanwhile, the NASDAQ edged higher, supported by strong performance from stocks in the communication services sector. Final results on the week were; **S&P 500 -0.6%**, **Nasdaq +0.3%**, and the **Dow -1.8%**.
- For the second consecutive month, the Consumer Price Index (CPI) showed a slight increase, with November's annual rate rising to 2.7%, up from 2.6% in October and 2.4% in September. Although the latest figure met expectations, it highlights a recent pause in progress toward reducing inflation to the Federal Reserve's long-term target of 2.0%.
- Amid ongoing inflation concerns, U.S. government bond yields climbed sharply, breaking a two-week streak of declines. The yield on the 10-year Treasury note ended Friday at approximately 4.40%, up from 4.15% the previous week and significantly higher than the recent low of 3.62% reached on September 16.

2. How are we to prepare and act?

- As we approach 2025, central banks around the world continue to shift their policies toward easing, but the pace and extent of interest rate cuts remain uncertain. While inflation is still well below its peak in 2022, it remains above the Federal Reserve's 2% target, keeping policymakers cautious. Despite these challenges, the Fed is expected to deliver another quarter-point rate cut in December, consistent with its strategy to ease policy gradually. However, as inflation progress slows and potential fiscal and trade policy changes loom, the Fed's approach to 2025 is likely to be more measured, with rate cuts projected to bring the federal funds rate to a range of 3.5% to 4% by year-end. Meanwhile, other central banks, such as the Bank of Canada and the European Central Bank, have moved more aggressively, with rate reductions aimed at addressing weaker economic growth and rising unemployment. These divergent approaches have strengthened the U.S. dollar, which could help moderate domestic inflation while impacting global equity market dynamics. Overall, the direction of rate cuts is clear, but the depth and speed will depend on how inflation, economic growth, and labor markets evolve.
- Even as uncertainties about central bank policies persist, the broader economic and market environment remains supportive for investors. The U.S. economy continues to show resilience, with steady job creation, rising wages, and corporate profit growth providing a solid foundation. Consumer confidence and spending remain strong, particularly as wages outpace inflation, while enthusiasm around innovation and artificial intelligence continues to drive optimism. Investor confidence has also surged, fueled by expectations of pro-growth policies and potential tax cuts, which could encourage increased capital spending and manufacturing activity in the coming year. However, rising expectations could heighten the risk of periodic market disappointments, especially as borrowing costs are likely to stay elevated. Historically, the third year of a bull market tends to bring more volatility, but well-diversified portfolios remain positioned to deliver positive returns, even if at a more moderate pace.

3. Taking a look at the week ahead.

- Wednesday — Fed meeting concludes, Chair Powell speaks
- Friday — Personal Consumption Expenditures (PCE) Price Index

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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