



Coffee & Commentary

December 2, 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?

- In a holiday-shortened trading week, all major U.S. stock indices gained over 1%, building on the positive momentum from the previous week. The S&P 500 and Dow reached new record highs, while the Nasdaq ended just slightly below its peak from three weeks ago. Final results on the week were; **S&P 500 +1.1%**, **Nasdaq +1.1%**, and the **Dow +1.4%**.
- U.S. government bond yields dropped significantly this past Monday following President-Elect Donald Trump's announcement of Scott Bessent as the next Treasury Secretary. The yield on the 10-year U.S. Treasury ended Friday at approximately 4.17%, down from 4.42% the previous week and a recent intraday high of 4.50% on November 15. Yields on both 2-year and 10-year Treasury notes also declined.
- While inflation remains above the Federal Reserve's long-term target of 2%, Fed officials recently voiced confidence that price pressures are easing and the labor market remains strong. These remarks were part of the minutes released on Wednesday from the Fed's November 6–7 policy meeting.

2. How are we to prepare and act?

- As the year winds down and we approach the holiday season, it's a fitting time to reflect on the strong performance of diversification in 2024 and consider how to prepare for the year ahead. This year has delivered impressive returns across major asset classes, with U.S. stocks leading the charge thanks to resilient economic growth, advancements in technology, and easing inflation pressures. The Federal Reserve's progress in controlling inflation, evidenced by the slight rise in the core personal consumption expenditures (PCE) index to 2.8% year-over-year, has provided comfort that broader price stability trends remain intact. Bond markets have seen signs of recovery, while U.S. stocks have significantly outperformed international stocks, which faced headwinds from global trade uncertainties and a stronger U.S. dollar.
- Looking ahead to 2025, investors should anticipate a potentially more volatile market environment and adjust their strategies accordingly. While the broadening of market leadership beyond mega-cap tech stocks into sectors like financials and industrials bodes well for sustained momentum, challenges such as global trade policies and shifting inflation dynamics could introduce new complexities. Maintaining a balanced portfolio that incorporates exposure to underappreciated areas, like U.S. small- and mid-cap stocks, should help to navigate a changing environment. Additionally, revisiting the role of cash within portfolios is critical, as central bank rate cuts may reduce yields on short-term instruments, making intermediate- and long-term bonds more attractive for capturing higher rates over time. While this year's relatively smooth ride may give way to more typical levels of market volatility, disciplined, well-diversified investment approaches can help investors capitalize on opportunities as they arise, keeping them well-positioned for long-term success.

3. Taking a look at the week ahead.

- Tuesday — Job openings data
- Friday — Consumer credit

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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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