Coffee & Commentary

December 30, 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.

**** Coffee & Commentary is taking a **one week holiday break** and will be returing **Monday, January 6th.** We look forward to another strong year with you all in 2025.

In case you missed it, below is the installment from last week.

Happy New Year! ****

1. What is currently impacting financial markets?

- Stocks experienced a turbulent week, with major U.S. indices falling roughly 2% overall, driven by a sharp decline on Wednesday. However, a recovery rally on Friday helped regain some of the earlier losses, easing the week's overall decline. Final results on the week were; S&P 500 -2.0%, Nasdaq -1.8%, and the Dow -2.3%.
- Major U.S. stock indices dropped 3% to 4%, and bond yields spiked after the Federal Reserve signaled on Wednesday that it may reduce interest rates at a slower pace than previously expected in 2025. While the Fed approved a widely anticipated quarter-point rate cut, its projection for only two additional cuts next year was a step back from earlier expectations of around four.
- The U.S. economy's third-quarter growth exceeded earlier estimates, with the government reporting on Thursday that GDP expanded at an annual

rate of 3.1%. This revised figure is higher than the initial estimate of 2.8% and slightly above the 3.0% growth recorded in the second quarter. GDP growth has now surpassed 2.0% in eight of the past nine quarters.

2. How are we to prepare and act?

- At its final meeting of 2024, the Federal Reserve adopted a cautious stance on interest rate cuts for 2025, surprising markets with a more hawkish tone than anticipated. This shift reflects the Fed's concerns about inflation, which, while significantly lower than its 2022 peak, remains above the 2% target and is moderating at a slower pace. Additionally, uncertainties surrounding government trade and tariff policies for 2025 added another layer of caution to the Fed's outlook. Despite these adjustments, Fed Chair Jerome Powell reiterated confidence in the U.S. economy, emphasizing its strength and resilience. Updated projections from the Fed showed higher GDP growth expectations of 2.1% in 2025, up from 2.0% in September, and a lower unemployment rate of 4.3%, further confirming the economy's solid footing. Although markets reacted negatively to the Fed's announcement, with stocks declining and bond yields rising, the fundamentals of the economy remain intact, offering opportunities for long-term investors to navigate short-term volatility strategically.
- As markets absorbed the Fed's cautious guidance, volatility ensued, with the S&P 500 experiencing a modest pullback after its impressive 27% year-to-date gain. This correction, though expected after such strong market performance, underscored the need for investors to stay focused on long-term strategies. The robust economic backdrop, highlighted by third-quarter GDP growth and projected fourth-quarter growth of 3.2%, continues to support market resilience. While 2025 may bring new challenges, including potential shifts in fiscal and monetary policies, the key drivers of the bull market—such as strong corporate earnings, rising wages, and innovation—remain in place.

3. Taking a look at the week ahead.

- Wednesday — Merry Christmas!
- Thursday — Weekly unemployment claims

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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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