



Coffee & Commentary

January 13, 2025

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?

- The major U.S. stock indexes dropped for the second consecutive week as concerns grew over a potential slowdown in the pace of interest rate cuts. For the S&P 500, it was the fourth negative week out of the last five, leaving the index down over 4% from its record high reached on December 6. Final results on the week were; **S&P 500 -1.9%**, **Nasdaq -2.3%**, and the **Dow -1.9%**.
- Following Friday's stronger-than-expected jobs report, the yield on the 10-year U.S. Treasury note soared to its highest level in over 14 months, reaching 4.79% during the morning before settling at approximately 4.77% by the day's close. This recent surge reflects increasing market expectations that the Federal Reserve may approve only one rate cut this year.
- The U.S. labor market showed continued strength in December, adding 256,000 jobs—about 100,000 more than economists had anticipated, and capped a year with an average monthly gain of 186,000 jobs. Meanwhile, the unemployment rate edged down to 4.1% in December from 4.2% in the previous month, underscoring the labor market's resilience.

2. How are we to prepare and act?

- As 2025 begins, the economic fundamentals in the U.S. remain strong, supported by positive GDP growth, contained inflation, and steady labor markets. In addition to optimistic jobs data and a decrease in the unemployment rate, wage growth also outpaced inflation, which will boost real incomes and support consumer spending. While these data points are certainly positive, they have tempered expectations for further central bank rate cuts, leading to a sharp rise in government bond yields and a corresponding pullback in equity markets, particularly in high-valuation sectors like technology.
- Meanwhile, Political shifts in both the U.S. and Canada add another layer of uncertainty as the new year begins, but history shows that financial markets are driven more by fundamentals than by political headlines. In the U.S., the incoming administration has highlighted a range of policy priorities, including tariffs, immigration, deregulation, and tax reform, though it remains unclear which will be implemented first. This uncertainty could contribute to short-term market fluctuations, particularly if inflationary policies like tariffs take precedence. In Canada, Prime Minister Justin Trudeau announced his resignation, leaving an unclear path on how the neighbor nations will engage moving forward. Despite these political developments, the economic and market fundamentals in both countries remain strong, with central banks poised to lower rates further, albeit cautiously. For investors, the key takeaway is to stay focused on long-term goals while maintaining diversification across growth and value assets. With expectations of more moderate returns and potential volatility in 2025, now is an opportune time to review investment strategies, rebalance portfolios, and ensure alignment with personal financial objectives for the year ahead and beyond.

3. Taking a look at the week ahead.

- Tuesday — Producer Price Index (PPI)
- Wednesday — Consumer Price Index (CPI)

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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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