



Coffee & Commentary

January 27, 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 rose for a second consecutive week, with a strong rally on Thursday propelling the S&P 500 to surpass the record high it reached seven weeks ago. Meanwhile, the Dow and Nasdaq posted weekly gains of approximately 2% but remained roughly 1% below their record levels from last month. Final results on the week were; **S&P 500 +1.7%, Nasdaq +1.7%, and the Dow +2.2%**.
- High interest rates on mortgages continued to be a drag on the U.S. residential real estate market in 2024, with the National Association of Realtors reporting on Friday that existing home sales dropped to their lowest annual level since 1995. The year closed with a total of 4.06 million homes sold.
- Optimism grew modestly following another round of quarterly earnings reports, as data showed fourth-quarter net income for S&P 500 companies was projected to increase by 12.7% year-over-year. Should this trend continue through the remainder of company earnings reports, this would represent the strongest quarterly earnings growth in three years.

2. How are we to prepare and act?

- The first week of the Trump administration brought a flood of executive orders that outlined its policy priorities, touching on energy, immigration, tariffs, and technology. Among these actions, the administration prioritized expanding domestic fossil fuel production by withdrawing from the Paris Climate Agreement, easing restrictions on energy infrastructure projects, and encouraging new drilling initiatives. Immigration reform focused on securing borders and targeting illegal activities, while avoiding immediate mass deportation measures. These actions raised concerns about the long-term effects of reduced legal immigration, such as labor shortages and rising wages, which could strain certain industries and contribute to inflationary pressures. On trade, tariffs—a central campaign theme—remain a point of deliberation, with the administration opting to further evaluate their impact before implementation. The inclusion of technology investments, particularly in artificial intelligence, marked a forward-looking strategy, with plans to make the U.S. a global leader in AI infrastructure and innovation. This initiative aims to stimulate job creation and bolster productivity, positioning technology as a driver of long-term economic growth.
- Despite these wide-ranging policy changes, the broader economic and market fundamentals remain strong as the nation enters 2025. The U.S. economy continues to show resilience, with robust consumer spending supported by low unemployment and real wage growth outpacing inflation. Fourth-quarter GDP growth projections of 3.0% signal solid economic momentum above long-term trends, while corporate earnings growth highlights the strength of U.S. businesses. We encourage investors to remain focused on the economic data rather than reacting to political headlines, as markets are fundamentally driven by earnings, productivity, and innovation. While the administration’s policy initiatives, including potential deregulation and tax reforms, could create tailwinds for markets, their implementation will take time and may face political hurdles. We believe that moments of market volatility will likely occur in the coming months, and that they should be viewed as opportunities to diversify and invest in quality assets, especially given our structurally solid backdrop.

3. Taking a look at the week ahead.

- Wednesday — Fed meeting concludes; 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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