



## Coffee & Commentary

January 6, 2025

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### 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?

- A modest rally on Friday gave the major U.S. stock indexes a slight boost, but it wasn't enough to counteract the small daily losses seen earlier in the week as markets navigated the transition into the new year. The S&P 500, NASDAQ, and Dow each recorded small declines, reflecting a measured pause after recent market momentum. Final results on the week were; **S&P 500 -0.5%**, **Nasdaq -0.5%**, and the **Dow -0.6%**.
- The S&P 500 delivered in a big way in 2024, marking its second consecutive year of gains exceeding 20%—the strongest back-to-back annual performance since 1997 and 1998. However, last year's rally was highly concentrated, with just seven technology-focused stocks contributing over 53% of the index's total return.
- January's stock market performance has historically been a reliable indicator of the market's direction for the rest of the year. Since 1929, the S&P 500 has delivered a positive annual return approximately 71% of the time when the market gained in January, while a decline in the first month often signaled an annual loss.

### 2. How are we to prepare and act?

- As we step into 2025, investors are reflecting on the stellar performance of 2024, driven largely by mega-cap technology stocks. While this extraordinary rally brought robust gains across sectors and styles, the year ahead is expected to deliver a more measured pace of growth amidst a mix of headwinds and tailwinds. The U.S. economy continues to defy expectations of a sharper slowdown, with GDP growth estimated at 2.7% in 2024 and projected to moderate slightly in 2025 while maintaining above-trend levels. Consumer spending remains strong, supported by a resilient labor market, wage growth outpacing inflation, and elevated real estate values, although some cooling is anticipated in sectors like travel and hospitality. At the same time, U.S. manufacturing is showing signs of stabilization, contributing to expectations of a "soft landing" where economic growth continues at a sustainable pace. Despite uncertainties surrounding tariffs, taxes, and interest rate policies, the Federal Reserve is expected to proceed cautiously, cutting rates by 0.25% to end 2024 and signaling further reductions in 2025, likely settling in the 3.5% to 4% range. While the pace of easing may be slower than anticipated, the overall trajectory supports an environment where stocks and bonds can continue to build on last year's gains, driven by steady corporate profits and controlled inflation.
- Looking forward, 2025 is expected to be the third year of the current bull market, characterized by more moderate returns and a shift in market dynamics. As mega-cap technology stocks face slowing earnings growth, broader market leadership is emerging, offering opportunities in sectors like industrials, financials, and high-quality dividend stocks. Diversification will play a critical role as lagging segments of the market, including small- and mid-cap stocks, present favorable valuations awaiting catalysts such as accelerated earnings growth or deregulation. Meanwhile, bond markets are set to take a leading role over cash, as declining interest rates and attractive yields make them a compelling choice for balanced portfolios. While equity market valuations remain elevated, corporate profit growth is expected to underpin further gains, and while heightened expectations and potential policy shifts could trigger bouts of volatility, we will look at these as opportunities to rebalance portfolios, add quality investments, and ensure appropriate diversification.

### **3. Taking a look at the week ahead.**

- Wednesday — Release of December Fed minutes
- Friday — Jobs and unemployment data

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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,

**Eric Mechler, CFP®, ChFC®, AIF®, BFA™, RICP®**

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