



Coffee & Commentary

February 17, 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 S&P 500 and the NASDAQ ended the week higher, reversing declines from the past two weeks. The S&P 500 wrapped up the week only four points below the record it reached three weeks ago, while the NASDAQ and the Dow remained roughly one percentage point off their all-time highs. Final results on the week were; **S&P 500 +1.5%**, **NASDAQ +2.6%**, and the **Dow +0.5%**.
- Continuing a trend of slightly higher-than-anticipated inflation readings, Wednesday's Consumer Price Index (CPI) data showed that core inflation rose at a 3.3% annual rate in January, surpassing economists' projections and edging slightly above the results from December.
- In congressional testimony this past week, U.S. Federal Reserve Chair Jerome Powell indicated that policymakers want to see more meaningful progress in lowering inflation before moving ahead with additional rate cuts. However, Powell declined to provide a specific inflation threshold that would prompt a further reduction in the Fed's benchmark rate, which has remained in the 4.25% to 4.50% range since the most recent cut in December.

2. How are we to prepare and act?

- Investors are currently sorting through a range of conflicting signals as inflation data, Fed policy, and shifting market leadership generate headlines that sometimes clash with on-the-ground realities. While January inflation data did raise concerns about whether price pressures might rekindle, most analysts see the increase as a potential one-off event, especially given moderating oil prices and unique factors such as the avian flu's impact on the cost of eggs. The possibility of tariffs, including a reciprocal tax strategy set to be unveiled on April 1, adds another layer of uncertainty, leaving some economists worried that new or higher import taxes could feed into broader goods inflation and keep prices stubbornly high. Beyond these inflationary concerns, markets also face a changing corporate landscape: the once-dominant "Magnificent 7" technology giants are grappling with slower growth rates after years of leading performance, whereas much of the rest of the S&P 500 is posting renewed earnings momentum.
- Amid these crosscurrents, investors are encouraged to look past the sensational aspects of daily headlines and focus on the broader strengths underpinning the global economy. Wage growth remains positive, which can support ongoing consumer spending despite higher prices at the checkout counter. While the Fed is in no hurry to either hike or slash interest rates, its current stance of patience underscores that monetary policy is already restrictive and could, over time, gradually bring inflation closer to target levels. Meanwhile, although the potential for new or intensified tariffs is an open question, many analysts believe that even if temporary spikes in prices occur, the broader bull market is buoyed by sturdy fundamentals, renewed sector participation, and the gradual thawing of certain manufacturing and supply chain bottlenecks. A more balanced market appears to be unfolding, with technology stocks no longer being required to carry the majority of the load.

3. Taking a look at the week ahead.

- Monday — Presidents' Day, markets closed
- Wednesday — Release of minutes from January Fed meeting

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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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