



Coffee & Commentary

February 3, 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?

- In a week that started on shaky ground, the S&P 500 and NASDAQ declined modestly while the Dow managed a small gain. Technology stocks weighed on the broader market following reports released on Monday that a Chinese startup called DeepSeek poses a new competitive threat to U.S. tech companies' AI initiatives. Final results on the week were; **S&P 500 -1.0%**, **NASDAQ -1.6%**, and the **Dow +0.3%**.
- The U.S. economy continued to expand toward the end of 2024, though the fourth quarter's GDP figure fell slightly short of economists' projections. GDP grew at an annual rate of 2.3% in the period, capping a year in which overall growth reached 2.8%—a bit below 2023's 2.9% rate.
- As expected, the U.S. Federal Reserve ended its two-day meeting on Wednesday without changing its benchmark interest rate. Meanwhile, the following day the European Central Bank enacted its fifth consecutive rate cut.

2. How are we to prepare and act?

- The U.S. economy ended 2024 on a strong note, as consumer spending, which accounts for about 68% of the economy, rose by a robust 4.2%

annualized—the highest reading since early 2023. Meanwhile, the labor market continues to show resilience, with the unemployment rate at 4.1% and job openings exceeding the number of unemployed individuals, helping wages stay above the rate of inflation. The U.S. manufacturing sector, which has been in contraction for much of the last two years, now appears to be stabilizing, potentially adding momentum to economic growth in the coming months. Though there are expectations that consumers might pull back a bit on discretionary spending in the first half of this year, most analysts do not foresee a recession and believe that growth could pick up, encouraged by possible Fed interest rate cuts and other measures intended to support economic expansion. While the Fed left rates unchanged and made no immediate changes to its ongoing balance-sheet reduction, many observers anticipate that quantitative tightening will end in the coming months, a shift that may help keep bond yields contained and maintain easier access to credit.

- Corporate earnings have also contributed to the positive atmosphere, highlighted by the “Mag 7” technology firms, although their latest results were somewhat mixed. Apple, Microsoft, and Meta reported stronger-than-expected earnings and revenue, while Tesla missed on both measures but still saw its share price rise on optimism around a favorable regulatory environment and overall autonomous vehicle progress. Market jitters briefly spiked following news of Chinese AI startup DeepSeek, whose model reportedly competes with top U.S. tech offerings at a fraction of the cost, sparking questions about whether some U.S. firms are overspending on AI. However, U.S. technology giants are generally expected to retain their leadership position, aided by sizeable financial resources and top-level expertise, and may even benefit from integrating open-source enhancements originating from DeepSeek. Beyond technology, a broader rise in corporate earnings is expected, with analysts projecting S&P 500 earnings growth of around 12% this quarter, potentially the best pace since 2021. Although technology stocks dipped early in the week, other sectors such as financials and industrials have outperformed technology over the past six months, hinting at a broader market recovery beyond high-profile tech names. With lower interest rates potentially on the horizon, a steady labor market keeping real wages positive, and various growth-oriented initiatives in play, the economic backdrop remains supportive of further expansion.

3. Taking a look at the week ahead.

- Wednesday — ADP National Employment Report
- Friday — Consumer credit

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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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