Coffee & Commentary

March 10, 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?

- Weighed down by trade tensions, the S&P 500 recorded its third consecutive weekly decline and its worst week since last September. The index fared slightly better than the NASDAQ, while the Dow finished down moderately as well. Final results on the week were; S&P 500 -3.1%, NASDAQ -3.5%, and the Dow -2.4%.
- On Thursday, the NASDAQ entered correction territory, falling more than 10% below its record high from nearly three months ago. Although the S&P 500 and Dow have also both declined from their recent peaks, neither has yet crossed the 10% correction threshold.
- Trade tensions rocked financial markets after the United States imposed a 25% tariff on most goods from Canada and Mexico on Tuesday, alongside increased duties on Chinese imports. In response, those three key trading partners introduced their own tariffs, prompting U.S. officials to temporarily withdraw some levies on Canadian and Mexican goods for a month.

2. How are we to prepare and act?

- The U.S. economy appears to be transitioning into a slower growth phase early in 2025, with first-quarter indicators such as retail sales and consumer spending coming in weaker than anticipated. After a robust fourth quarter in 2024 that saw GDP growth at 2.5% and healthy consumer consumption, forecasts are now pointing to a potential soft patch. Although part of this decline may stem from companies rushing to import goods before tariffs take full effect, the more concerning shift is in consumer behavior, now expected to contribute just 0.4% to GDP growth this quarter, down from over 4% previously. Adding to the uncertainty, corporations have lowered earnings expectations for the first half of the year, though overall projections still suggest around 11% growth for 2025. Underlying this backdrop is heightened policy uneasiness, as policy swings appear to be chipping away at both consumer confidence and corporate plans, leaving investors to question whether the slowdown in economic momentum might persist. That said, interest rate cuts by the Federal Reserve remain a possibility, particularly if inflation doesn't flare up and labor-market data shows further signs of cooling. Historically, such moves can cushion weaker economic patches, and many analysts note that the economy is coming off a strong base, making a full-fledged recession less likely in the near term.

- Against this backdrop, financial markets have adopted a more defensive posture. Investors have rotated into traditionally steadier areas, and the once-soaring tech sector has lost some luster, possibly due to already-high valuations and fears that trade disputes could disrupt global supply chains. Despite this, there is still a silver lining in the possibility of more pro-growth policies later this year, such as tax cuts or deregulation, potentially offsetting tariff-driven anxieties. While the short-term picture may remain turbulent—elevated by uncertainty around government layoffs and possible new tariffs set to take effect in April—the longer-term outlook still benefits from positive fundamentals like modest inflation, ongoing wage growth, and steady corporate profits. Historical precedent tells us that market corrections are not only normal, but that they present opportunities for investors to pick up undervalued assets.

3. Taking a look at the week ahead.

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

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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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