ALPHA ZERO

Coffee & Commentary

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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?

- U.S. stocks wobbled between modest gains and losses throughout the week, but ultimately finished slightly above where they started. By Friday's close, the S&P 500 was up 0.5% for the week, ending a four-week losing streak that had briefly sent the index into correction territory. Final results on the week were; S&P 500 +0.5%, NASDAQ +0.2%, and the Dow +1.2%.
- The U.S. Federal Reserve left its benchmark interest rate unchanged this week, continuing its cautious stance amid economic uncertainties. While policymakers reiterated their expectation for two rate cuts by year-end, they also lowered their growth forecast and revised inflation projections upward.
- U.S. companies in the S&P 500 set a new record for share buybacks in 2024, spending $943 billion—an increase of nearly 19% over the prior year's $795 billion. Quarterly repurchases also rose 7% in the fourth quarter compared with the third quarter.

2. How are we to prepare and act?

- While the Fed left rates steady and reiterated the likelihood of two cuts later this year, they also announced a reduction in the pace of its balance sheet runoff, moving from $25 billion in monthly Treasury reductions to just $5 billion. This slower pace of quantitative tightening could help keep bond yields from rising too fast, since the Fed will remain an active participant in U.S. Treasury auctions. Currently, the fed funds rate hovers near 4.35%, and with inflation drifting around 2.5%, the gap between the two suggests the Fed's policy is indeed restrictive. Meanwhile, a softer U.S. dollar and a shift in global capital flows have combined to bolster international equities, which are up by solid margins this year. U.S. bonds have also delivered positive returns, largely because yields have pulled back on the idea that the Fed might cut rates more than once if growth continues to slow.

- Even with this apparent cooling, the economic backdrop remains more resilient than one might guess from reading the headlines. The Conference Board's Leading Economic Index, though on a gentle downward trend, is not flashing a recession warning, and unemployment claims have risen only modestly above last year's average. Manufacturing output surprised to the upside in February, with automotive production driving a 0.9% rise, hinting that manufacturers are restocking inventories ahead of possible tariffs later this spring. While big uncertainties remain—such as how pending tariff announcements could nudge inflation and corporate decision-making—the Fed's slower pace of tightening and the potential for pro-growth policies later in the year should offer a buffer. Lower borrowing costs can bolster consumer spending, corporate earnings, and new investment if economic clouds persist. Although U.S. equities have retreated from their peak, they have steadied somewhat, suggesting that market participants are looking past near-term risks to the possibility of stronger conditions in the second half of the year.

3. Taking a look at the week ahead.

- Tuesday — Consumer confidence
- Thursday — Initial jobless claims

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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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