



Coffee & Commentary

May 12, 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?

- Stocks moved within a tight range for most of the week, with the major U.S. indexes ending slightly lower overall, signaling a temporary pause following a period of heightened market volatility. Although the S&P 500 has posted gains in recent weeks, it still sits nearly 8% below its all-time high set in mid-February. Final results on the week were; **S&P 500 -0.5%**, **NASDAQ -0.3%**, and the **Dow -0.2%**.
- U.S. stocks declined last Monday and Tuesday but rebounded midweek as optimism around trade discussions boosted investor confidence. The turnaround was driven by announcements that the United States and United Kingdom had established a framework for a future trade agreement, while U.S. and Chinese officials also revealed plans to resume negotiations following recent tariff hikes.
- The U.S. Federal Reserve held interest rates steady for the third consecutive meeting, continuing its cautious wait-and-see approach amid an uncertain economic outlook. In its statement, the Fed acknowledged that "the risks of higher unemployment and higher inflation have risen," while Chair Jerome Powell emphasized the central bank's uncertainty, stating it's "not at all clear" what the appropriate next steps should be.

2. How are we to prepare and act?

- While the U.K. represents a relatively small portion of total U.S. trade, the new trade deal between the two nations offers a framework for future negotiations and a hopeful signal to global markets. The agreement maintains a 10% tariff on most U.K. imports but reduces or eliminates tariffs on specific U.S. exports like beef and ethanol, while lifting duties on U.K. steel and aluminum. Although modest in direct economic impact, the symbolic value of this deal may open the door to more substantive negotiations, especially as U.S. officials prepare to meet with their Chinese counterparts in Geneva. Markets responded positively to these signs of easing trade tensions, particularly given how closely financial sentiment has been tied to tariff policy in recent months. These developments, combined with the Fed leaving rates unchanged at their latest meeting, are causing bond markets to anticipate several rate cuts through the remainder of the year, with the first expected as early as July.
- On the data front, information released from the services sector, which makes up the majority of the U.S. economy, continues to remain mixed but still in growth territory. Notably, the services sector is generally less affected by tariffs, which typically target goods, though broad trade tensions can still dampen consumer confidence. Overall, U.S. stocks have rebounded in recent weeks, buoyed by a resilient labor market, solid earnings reports, and growing optimism that trade and monetary policy may become more supportive. With potential rate cuts, continued progress in trade talks, and the possibility of pro-growth policy reforms, the market outlook—though still uncertain—has begun to stabilize, offering a more clear path forward.

3. Taking a look at the week ahead.

- Monday — Federal Budget
- Tuesday — Consumer Price Index (CPI)

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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®

Founder, Managing Partner

Chief Investment Officer

Alpha Zero

2500 N Military Trail, Suite 316

Boca Raton, FL 33431

Phone: (561) 576-2599 Ext. 124

eric@alphazerowealth.com

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Alpha Zero

2500 N Military Trail, Suite 316, Boca Raton, FL 33431

Phone: (561) 576-2599 Ext. 124

eric@alphazerowealth.com



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Alpha Zero | 2500 N Military Trail Suite 316 | Boca Raton, FL 33431 US

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