Coffee & Commentary

May 19, 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 climbed more than 5% for the week, as major U.S. indexes staged a strong rebound from the previous week's modest losses. This marks the fourth weekly gain in the past six weeks, reflecting continued recovery in equity markets as stocks work to regain momentum after the sharp declines seen from late February through early April. Final results on the week were; S&P 500 +5.3%, NASDAQ +7.2%, and the Dow +3.4%.
- The majority of U.S. stock gains for the week occurred on Monday, fueled by renewed optimism following trade discussions between the United States and China. Negotiators from both countries agreed to significantly lower many of the recently imposed tariffs for a 90-day period, creating a window for continued talks aimed at reaching a more comprehensive, long-term trade agreement.
- The NASDAQ has experienced greater volatility than other major U.S. indexes in recent months and marked a notable milestone on Monday by entering a bull market—just six weeks after briefly dipping into bear market territory. A 4% surge that day propelled the index to more than 20% above its recent low on April 8. By Friday, the NASDAQ had closed within 5% of its all-time high set on December 16, 2024.

2. How are we to prepare and act?

- Markets found renewed stability last week as encouraging trade developments and better-than-expected economic data helped ease investor concerns. The temporary truce between the U.S. and China, though limited in scope, marked a significant step in de-escalating tensions between two of the world's largest trading partners. This, coupled with eased restrictions on AI chip exports and a major tech deal involving NVIDIA, gave investors reason for optimism, particularly in the technology sector. The stock market responded accordingly, with the S&P 500 and Dow rebounding into positive territory for the year. Though this progress may prove fragile, the shift from crisis-driven tariffs toward more measured policy suggests that the worst-case economic outcomes may now be less likely. Tariffs appear to be settling into a range of 10% to 15% on average—high enough to potentially cause a slight increase in inflation, but not severe enough to tip the economy into a full-blown recession. As investors digest this evolving policy landscape, the focus has turned toward maintaining diversified portfolios that can withstand potential volatility while still capturing growth opportunities, particularly in U.S. large- and mid-cap stocks.
- Beyond trade headlines, markets also took comfort in recent hard data that showed the broader economy is holding up better than some sentiment surveys had suggested. Consumer prices rose modestly in April, and core inflation remains contained, providing the Federal Reserve with room to remain patient as it gauges the longer-term effects of tariffs and economic shifts. Retail sales showed some signs of slowing, and consumer confidence has dropped sharply in response to policy uncertainty, but jobless claims remain stable and household finances are supported by solid wage growth. While the true impact of tariffs may take time to fully materialize as businesses adjust their purchasing strategies and pricing decisions, these crosscurrents indicate that despite consumer sentiment having weakened, the actual economic data is still relatively resilient.

3. Taking a look at the week ahead.

- Thursday — Weekly unemployment claims
- Friday — New home sales

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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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