



Coffee & Commentary

May 5, 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 major U.S. indexes rose approximately 3% last week, building upon gains from the prior week and continuing the recent positive market momentum. Notably, the S&P 500 advanced on Friday for the ninth consecutive trading day, marking its longest winning streak since November 2004. Final results on the week were; **S&P 500 +2.9%**, **NASDAQ +3.4%**, and the **Dow +3.0%**.
- U.S. markets climbed on Friday following a stronger-than-expected jobs report, marking the second consecutive month of positive surprises. The economy added 177,000 jobs in April, surpassing the consensus forecast of approximately 130,000, while the unemployment rate remained unchanged at 4.2%.
- The S&P 500's slight decline of 0.7% in April masks the significant volatility that unfolded throughout the month, largely driven by heightened trade tensions. By April 8, the index had plunged 12.6% from its end-of-March closing level, but over the following three weeks, it rebounded sharply, recovering nearly all of those losses to close the month only marginally lower.

2. How are we to prepare and act?

- In recent weeks, investors have been navigating a complex but revealing mix of earnings reports, economic indicators, and labor market data—all of which paint a picture of an economy that entered the year with solid underlying momentum but now faces a range of growing uncertainties. First-quarter corporate earnings have largely exceeded expectations, with most companies reporting better-than-anticipated results, particularly in the technology sector where capital spending on artificial intelligence remains strong. However, this upbeat start has been met with cautious forward guidance as companies brace for the potential impact of trade tensions and consumer weakness. The broader economic backdrop reflects a similar duality: while U.S. GDP contracted slightly in the first quarter, underlying consumer spending and business investment remained resilient. This suggests the economy may bounce back in the coming months, though expectations for the rest of the year have been tempered. The labor market has also held up well, with job growth outpacing forecasts and wages continuing to rise faster than inflation, providing households with some financial breathing room. However, even here, there's a note of caution: wage growth is cooling, and future layoffs could emerge if tariffs drive inflation higher and economic momentum slows.
- Looking ahead, market sentiment remains cautiously optimistic but sensitive to upcoming developments across both trade policy and monetary decisions. While recent rebounds in the S&P 500 and Nasdaq have been fueled by solid data and a softer tone from policymakers, lasting progress will likely require more than just improved rhetoric and will depend on finalized trade agreements and greater policy clarity. Investors are also watching the Federal Reserve closely, as the timing and scale of interest rate cuts are likely to hinge on further signs of economic deceleration and labor market softening. At present, the Fed appears more inclined to act in the latter half of the year, which could provide support for both equity and bond markets. While short-term risks remain, there is growing potential for a more favorable backdrop as we move towards the second half of the year, and we remain optimistic that either an ease in trade tensions or encouraging developments on the monetary policy front would push us further in this direction.

3. Taking a look at the week ahead.

- Wednesday — Fed meeting concludes, Powell press conference
- Thursday — Weekly unemployment 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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