



## Coffee & Commentary

June 16, 2025

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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. stock indexes declined on Friday as rising tensions in the Middle East weighed on investor sentiment, leading to a negative week for the broader market. After two consecutive weeks of gains, the S&P 500 and NASDAQ ended the week with modest losses, while the Dow posted a larger decline of more than 1%. Final results on the week were; **S&P 500 - 0.4%**, **NASDAQ -0.6%**, and the **Dow -1.3%**.
- A monthly report on U.S. consumer prices showed that inflation remained relatively subdued, helping to ease worries about the inflationary effects of elevated tariffs. In May, the Consumer Price Index (CPI) rose just 0.1% from the previous month, coming in below most economists' forecasts. On an annual basis, inflation held steady at 2.4%, matching expectations and staying close to the four-year low seen in April.
- U.S. and Chinese officials held two days of talks focused on tariffs and broader trade issues, reaching consensus on several key points of contention. Both countries indicated they will now seek approval from their respective presidents before moving forward with implementing the agreed-upon framework.

### 2. How are we to prepare and act?

- Despite ongoing uncertainty around trade, geopolitics, and domestic policy, the first half of 2025 has been marked by stronger-than-expected economic resilience. Key data points—GDP growth, inflation, and labor market trends—have all come in better than feared, helping to stabilize market sentiment. U.S. GDP is on pace to exceed 3% in the second quarter, supported by steady consumer spending, even as consumer sentiment remains cautious. The labor market has also shown signs of durability, with unemployment holding near historic lows and wage growth continuing to outpace inflation, giving households real purchasing power. Meanwhile, inflation appears to be cooling, with May's CPI and PPI readings surprising to the downside, and headline inflation holding well below the peak levels seen in 2022. These data points suggest that, while growth may moderate in the second half of the year, the economy remains fundamentally healthy. Market performance has reflected this as well—the S&P 500 has rebounded more than 20% since its April low—though risks remain from trade policy decisions, geopolitical developments, and pending fiscal legislation.
- Looking ahead, several key events could shape the second half of the year. The July 9 expiration of the tariff pause with major trading partners and the ongoing China-U.S. negotiations are expected to influence inflation and economic growth, though recent progress suggests the worst-case trade scenarios may be avoided. Tensions in the Middle East have added a layer of uncertainty, but historical patterns show that such geopolitical shocks tend to have short-lived impacts on markets, particularly in the U.S., which is more insulated from global energy shocks. Domestically, the Senate is expected to take up a major tax bill before July 4, with the proposed extension of the 2017 tax cuts likely to offer modest support to corporate sentiment heading into 2026. Additionally, with inflation trending lower and economic growth moderating, the Federal Reserve is expected to cut interest rates once or twice before year-end. Taken together, these factors suggest a more constructive backdrop could emerge by 2026, with the potential for renewed earnings growth and policy clarity.

### **3. Taking a look at the week ahead.**

- Tuesday — Retail sales
- Wednesday — Fed meeting concludes

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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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