



Coffee & Commentary

August 18, 2025

Good Morning!

Welcome to Coffee & Commentary, presented by Alpha Zero's CEO and CIO, Eric Mechler CFP®, ChFC®, AIF®, BFA™, RICP®.

Let's get started.

1. What is currently impacting financial markets?

- The S&P 500 and NASDAQ each gained about 1%, marking their second straight week of advances. The momentum was more modest than the week prior and both indexes have now posted gains in six of the past eight weeks. Final results on the week were; **S&P 500 +0.9%**, **NASDAQ +0.8%**, and the **Dow +1.7%**.
- Two reports offered a mixed view of inflation pressures at both the consumer and wholesale levels. The Consumer Price Index held steady at a 2.7% annual pace in July, matching expectations, though higher tariffs pushed up prices more quickly in certain categories. In contrast, producer prices—reflecting business costs—jumped 3.3%, the largest increase in five months and above economist forecasts.
- Bond market activity on Friday reinforced rising expectations that the Federal Reserve will lower its benchmark interest rate at its September 17 meeting. Futures pricing suggested most investors anticipate the year's first quarter-point cut next month, with additional cuts coming in October and December.

2. How are we to prepare and act?

- The Federal Reserve's upcoming decision on interest rates has become a

defining question for markets, as investors weigh the balance between slowing economic momentum and still-resilient growth. Recent data has shown that while job creation continues, the pace of hiring has slowed to its weakest three-month average since 2020, pointing to signs of cooling in the labor market. At the same time, consumer spending and corporate profits remain healthy, suggesting the economy is not in immediate danger of slipping into recession. This combination of softer labor trends and steady growth has fueled speculation that the Fed may soon pivot from holding rates steady to providing an “insurance” cut, a move designed to support the expansion before more serious headwinds emerge. The mixed picture has left policymakers carefully evaluating whether easing now would help sustain momentum without reigniting inflation pressures, making the September meeting one of the most closely watched of the year.

- Against this backdrop, the probability of a September rate cut has climbed to more than 80%, reflecting investors’ belief that the Fed is ready to pivot. History shows that when the Fed introduces “insurance” cuts—like those in 1995, 1998, and 2019—markets often respond positively, as such measures are designed to support growth before a downturn takes hold. Should the Fed proceed, certain areas of the market may benefit more than others, including small- and mid-sized companies, value stocks, and sectors sensitive to borrowing costs such as consumer discretionary, financials, and real estate. Looking ahead, the Fed’s decision at its September meeting—and Chair Powell’s remarks at the Jackson Hole Symposium—are expected to set the tone for both monetary policy and portfolio positioning in the months to come.

3. Taking a look at the week ahead.

- Monday — Housing Market Index
- Tuesday — Housing starts
- Wednesday — Release of Fed minutes from July 29-30 meeting
- Thursday — Weekly unemployment claims
- Friday — No major reports

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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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