



Coffee & Commentary

September 1, 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 major U.S. stock indexes ended the week slightly lower, as a Friday decline erased midweek gains heading into the holiday weekend. On Thursday, the S&P 500 closed above the 6,500 mark for the first time, only to fall back below that level the following day. Final results on the week were; **S&P 500 -0.1%**, **NASDAQ -0.2%**, and the **Dow -0.2%**.
- The Federal Reserve's preferred inflation measure climbed to its highest point in five months, according to Friday's report on the Personal Consumption Expenditures Index. Core PCE, which excludes food and energy, rose at an annual rate of 2.9% in July, while the overall index, including those categories, increased at a slower 2.6% pace.
- The U.S. economy grew in the spring at a somewhat quicker pace than first reported, with Thursday's revision putting second-quarter GDP growth at an annual rate of 3.3%, up from last month's 3.0% estimate. The pickup marks a rebound from the slight contraction seen in the first quarter, though recent figures have been influenced by tariff-driven changes in trade flows between imports and domestic goods.

2. How are we to prepare and act?

- The U.S. stock market closed out the summer on a strong note, extending

gains for a fourth consecutive month, with much of the momentum driven by enthusiasm for artificial intelligence and the prospect of easier Federal Reserve policy ahead. AI remains a powerful market theme, as companies like NVIDIA, with its \$4.2 trillion valuation and heavy influence on the S&P 500, highlight both the potential and the pressures of lofty expectations. NVIDIA's latest earnings report showed impressive growth, with revenue up 56% year over year, yet its muted stock reaction underscored how difficult it is for even leading firms to continually exceed already-high investor hopes. Still, the broader story of AI is far from over. Technology giants such as Amazon, Google, Microsoft, and Meta have doubled their spending on AI infrastructure in recent years, with U.S. investment in computer hardware and software making meaningful contributions to GDP growth in the second quarter. While these investments are costly, the perception that missing out on AI innovation poses a greater risk than overspending is pushing companies to keep fueling the sector. At the same time, the market rally is beginning to broaden beyond mega-cap technology stocks. Sectors such as autos, homebuilders, and airlines, along with smaller-cap and value-oriented companies, gained ground in August, suggesting a healthier rotation beneath the surface of the indexes.

- A key driver of this shift has been changing expectations for Federal Reserve policy, following Chair Jerome Powell's comments at the Jackson Hole conference. While inflation remains somewhat elevated, Powell emphasized the risks of a cooling labor market, which bond markets interpreted as a strong signal that rate cuts are on the horizon. Futures markets now place the probability of a September rate cut at roughly 85%, with further reductions likely in the months ahead. History shows that rate cuts tend to support stocks when the economy is not in recession, and recent data confirmed that the U.S. economy remains on solid footing. Still, easier financial conditions also carry risks, as excess liquidity can fuel speculative behavior, as seen in past cycles. For now, however, the combination of AI-driven innovation, resilient consumer spending, and the potential for a more accommodative Fed offers a supportive environment for markets as we head into the fall.

3. Taking a look at the week ahead.

- Monday — Labor Day holiday
- Tuesday — Constructing spending
- Wednesday — Factory orders
- Thursday — Trade balance

- Friday — Jobs and unemployment

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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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