Coffee & Commentary
September 15, 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?

- Steady gains on Tuesday followed by a stronger rally on Thursday pushed all three major U.S. stock indexes to record highs this past week. The S&P 500 has now logged five positive weeks in the past six and is up nearly 4% since the beginning of August. Final results on the week were; S&P 500 +1.6%, NASDAQ +2.0%, and the Dow +1.0%.
- The U.S. Bureau of Labor Statistics released data that showed the economy created 911,000 fewer jobs between March 2024 and March 2025 than previously estimated. In a separate report, weekly unemployment claims rose to 263,000, the highest level in nearly four years.
- Bond market activity continued to signal strong expectations for an interest rate cut at the Federal Reserve's meeting ending Wednesday, September 17. By Friday's close, futures pricing reflected a 96.4% chance of a quarter-point cut and a 3.6% likelihood of a larger half-point move.

2. How are we to prepare and act?

- Recent economic data is shaping expectations for the Federal Reserve's next move, as investors assess mixed signals from inflation and the labor market. August's Consumer Price Index (CPI) report showed inflation rising at a 2.9% annual rate, slightly higher than July's 2.7% and in line with forecasts. Core inflation, which excludes food and energy, held steady at 3.1%, while energy costs, particularly gasoline, were a key driver of the overall increase. While tariffs are expected to add some upward pressure to prices in the near term, economists believe most of these effects will be temporary rather than persistent. Producer price index (PPI) data told a different story, showing wholesale inflation cooling significantly, with the headline PPI falling to 2.6% and core PPI dropping to 2.8%, both well below expectations. These figures suggest that despite elevated consumer prices, underlying inflationary pressures remain contained. Against this backdrop, bond markets rallied on expectations that the Fed will cut interest rates, pushing the 10-year Treasury yield briefly down to 4.0%, matching its lowest level of the year. Lower yields help reduce borrowing costs for businesses and households, which can support economic growth and corporate earnings, especially at a time when equity markets remain near or at record highs.

- On the labor front, data is showing further signs of cooling while the surge in weekly jobless claims reinforced the picture of a softening employment landscape. The unemployment rate has risen to 4.3%, still below the long-term average but trending higher, while labor force participation has edged lower, partly due to demographic shifts and changes in immigration trends. With inflation elevated but stable and the job market weakening, the Fed is expected to shift its focus toward supporting employment by lowering rates, likely beginning with one or two cuts this year and continuing into next year. Markets are pricing in a faster pace of easing than the Fed's official forecasts, anticipating the benchmark rate could fall below 3% by late 2026.

3. Taking a look at the week ahead.

- Monday — No major reports
- Tuesday — Retail sales
- Wednesday — Fed meeting concludes
- 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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