Coffee & Commentary
September 22, 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?

- After a modest midweek pullback, U.S. stock indexes finished the week on a strong note. The NASDAQ gained more than 2%, while the S&P 500 and Dow each rose over 1%. These gains pushed all three indexes to new record highs, with the S&P 500 marking its sixth positive week out of the past seven. Final results on the week were; S&P 500 +1.2%, NASDAQ +2.2%, and the Dow +1.0%.
- U.S. Federal Reserve policymakers voted 11-1 to approve a quarter-point interest rate cut, marking the first reduction since late 2024. The decision matched market expectations, with futures pricing on Friday afternoon indicating a 92% likelihood of two additional quarter-point cuts in October and December.
- The Federal Reserve's rate cut continued to influence the U.S. housing market, with the average 30-year fixed mortgage rate declining for a fourth straight week. As of late Thursday, rates had fallen to 6.26%, down from 6.35% the week before and 7.04% in January.

2. How are we to prepare and act?

- The Federal Reserve has resumed cutting interest rates for the first time in nearly a year, signaling a cautious shift in monetary policy as the central bank works to balance rising risks in the labor market with persistent inflation pressures. The quarter-point reduction was widely anticipated by markets and supported by nearly all policymakers, with only one member advocating for a larger half-point cut. The decision reflects growing concern over signs of a slowing job market, as recent data showed private-sector hiring averaging just 29,000 jobs per month over the past three months—a pace historically seen only during or just before recessions. Job openings have also fallen below the number of unemployed Americans for the first time in nearly a decade, excluding the pandemic period. Despite these warning signals, the broader economy remains resilient, with retail sales strong and GDP growth tracking a solid 3.3% annualized pace for the third quarter. This suggests the Fed does not believe the U.S. is on the verge of a recession but is taking preemptive action to prevent a deeper downturn. Investors welcomed the move, with rate-sensitive areas of the market, such as small-cap stocks, rallying sharply.

- While the median forecast among policymakers suggests two more rate cuts this year, there is significant disagreement, with some members projecting no further easing in 2025 and a wide range of expectations for where rates might end up by 2026. Fed Chair Jerome Powell emphasized that decisions will be made on a meeting-by-meeting basis, heavily dependent on incoming data related to employment, growth, and inflation. This lack of clarity is likely to increase market volatility as investors react to each new data release, particularly with major indexes trading near record highs. In our view, further weakness in labor market reports will keep pressure on the Fed to continue easing, although a sudden rebound in job growth or a sharp acceleration in inflation—possibly driven by tariff-related costs being passed on to consumers—could complicate the Fed's plans. For now, lower interest rates combined with recently enacted tax cuts are expected to help support economic growth, easing some of the drag from trade tensions and providing a constructive backdrop for corporate earnings and equity markets.

3. Taking a look at the week ahead.

- Monday — No major reports
- Tuesday — No major reports
- Wednesday — New home sales
- Thursday — Weekly unemployment claims
- Friday — Personal Consumption Expenditures (PCE) Price Index

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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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