Coffee & Commentary

October 20, 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?

- All three major U.S. stock indexes gained for the week, recovering from the previous week's decline of more than 2%. Trading was volatile, with sharp price swings in assets like cryptocurrencies adding to the market's choppiness. Final results on the week were; S&P 500 +1.7%, NASDAQ +2.1%, and the Dow +1.6%.
- Major U.S. banks that opened earnings season reported third-quarter profits and revenues that topped analysts' expectations, helped in part by higher investment banking income. As of Friday, analysts estimated that earnings for the financials sector grew 18.2%, outpacing the 8.5% growth projected for all S&P 500 sectors.
- Gold futures jumped more than 5% for the week, marking their ninth consecutive weekly gain. The metal briefly touched a new high of $4,392 per ounce on Friday morning—just over a week after surpassing the $4,000 mark for the first time.

2. How are we to prepare and act?

- After six months of steady gains, and having risen about 35% without a meaningful pullback, several headwinds have recently emerged that may challenge the pace of the rally for the S&P 500. Ongoing trade tensions between the United States and China, a prolonged U.S. government shutdown, and renewed worries about the credit quality of smaller regional banks have all contributed to growing uncertainty. With concerns rising about the impact of Washington gridlock, it should be noted that the 2018 shutdown reduced quarterly GDP growth by 0.4%, though the economy today remains stronger than it was at that time. Still, as missed paychecks and service delays mount, a longer closure could begin to weigh more heavily on markets and the broader economy.

- In addition to political and trade-related uncertainty, new concerns have surfaced around small regional banks, after reports of loan fraud tied to two institutions sparked a brief sell-off in the sector. While larger banks remain well-capitalized, investors are watching closely for any signs of broader credit weakness. At the same time, volatility indicators such as the VIX have ticked higher, Treasury yields have fallen, and demand for safe-haven assets has increased—suggesting investors are turning more cautious after months of optimism. Despite these developments, most analysts do not expect the market's pullback to evolve into a prolonged downturn. Several supportive forces remain in place, including anticipated Federal Reserve rate cuts, a tax bill aimed at boosting business investment, and continued corporate earnings growth. Early earnings reports show that 85% of companies have exceeded expectations, and profits are projected to rise around 10% in 2025, with further acceleration in 2026.

3. Taking a look at the week ahead.

- Monday — Conference Board Leading Economic Index
- Tuesday — No major reports
- Wednesday — No major reports
- Thursday — Weekly unemployment claims
- Friday — University of Michigan Index of Consumer Sentiment

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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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