

Coffee & Commentary

December 29, 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?

- Stocks extended their rally during the holiday-shortened week, with the S&P 500 and Dow both surpassing all time highs set less than two weeks earlier. Final results on the week were; **S&P 500 +1.4%, NASDAQ +1.2%, and the Dow +1.2%**.
- The government's long-delayed initial estimate of third-quarter U.S. economic growth came in well above expectations, with GDP expanding at a 4.3% annualized pace during the July–September period, materially ahead of the 3.2% consensus forecast. The strong showing follows 3.8% growth in the second quarter, rebounding sharply from a 0.6% contraction in the first quarter of the year.
- Following three interest rate cuts in 2025, bond market pricing continues to support expectations for additional easing in 2026. As of Friday's close, rate futures implied a 74% probability that the Fed delivers at least two quarter-point cuts over the course of the next twelve months.

2. How are we to prepare and act?

- As we move into the last week of trading, 2025 stands out as a year that ultimately rewarded investors who were willing to remain patient through uncertainty and volatility. The S&P 500 has reached 39 new all-time highs over the course of the year, while major international markets such as Germany, the U.K., and Japan also climbed to record levels. Although

equities clearly outpaced bonds, fixed income still played an important role, as U.S. investment-grade bonds recorded their strongest annual return since 2020, and credit-sensitive areas like emerging-market debt and high-yield bonds gained more than 8%. After two relatively calm years, volatility returned forcefully in 2025, driven largely by trade-policy disruptions that pushed effective U.S. tariff rates to levels not seen in roughly a century.

- Beneath the surface, several structural forces shaped market leadership and reinforced the case for diversification. Technology and communication services once again ranked among the strongest U.S. sectors, fueled by profit growth and sustained investment in AI-related infrastructure. Data-center construction and broader technology spending accelerated meaningfully, providing a tangible boost to U.S. economic growth even as other areas of investment normalized. Meanwhile, declining short-term yields reduced returns on cash, highlighting the opportunity cost of holding excess liquidity. Looking ahead, the experience of 2025 underscores the importance of maintaining appropriate diversification, and while uncertainty and volatility are inevitable, steady economic growth, ongoing innovation, and broadening market leadership paved a path towards another successful year.

3. Taking a look at the week ahead.

- Monday — Pending home sales
- Tuesday — Composite Home Price Index
- Wednesday — December Fed meeting minutes
- Thursday — News Year's Day
- Friday — Construction spending

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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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