Coffee & Commentary

May 25, 2026

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 rebounded from a weak start to the week, turning higher on Wednesday as the S&P 500 recorded its eighth consecutive weekly gain, its longest winning streak since late 2023. The Dow led the advance, surpassing the record high it had set more than three months earlier. Final results on the week were; S&P 500 +0.9%, NASDAQ +0.5%, and the Dow +2.2%.
- The outsized influence of the "Magnificent Seven" on overall market earnings became even clearer after quarterly results were finalized, with the group delivering average first-quarter earnings growth of 63% compared with 17% for the other 493 companies in the S&P 500. For the Mag Seven, it marked the strongest quarterly earnings growth rate in nearly six years.
- Minutes from the Federal Reserve's most recent meeting showed policymakers increasingly open to keeping interest rates elevated for longer than previously anticipated, and potentially raising rates if inflation remains persistent. A majority of Fed officials indicated that additional monetary tightening could become appropriate if inflation continues to run above the central bank's long-term 2% target.

2. How are we to prepare and act?

- Although momentum has slowed compared to the rapid gains seen earlier in the Spring, equities have remained remarkably durable despite bond yields climbing back toward multi-year highs. Much of the market's strength has been powered by corporate earnings, with the most recent earnings season being exceptionally strong not only on the profit side but also in terms of revenue growth, with S&P 500 companies on pace to deliver their fastest revenue expansion since 2022 and their strongest earnings growth since late 2021. This combination of resilient demand, expanding profit margins, and accelerating AI investment has provided a powerful offset to concerns surrounding higher oil prices, inflation, and tighter financial conditions.
- At the same time, bond markets have been sending a more cautious signal, reflecting growing uncertainty around the future path of monetary policy. The 10-year Treasury yield has climbed sharply from its lows earlier in the year, driven by a mix of stronger economic growth, higher inflation expectations, and concerns that interest rates may remain elevated for longer than previously anticipated. Even with the leadership transition now underway at the Federal Reserve, markets appear to expect continuity in the Fed's near-term approach. Interest rates are already elevated, the labor market is more balanced, and fiscal stimulus is far less aggressive, giving policymakers greater flexibility to remain patient rather than react forcefully to every upside inflation surprise. Looking ahead, markets may face more volatility as higher yields begin to challenge valuations and as investors reassess how much earnings growth can continue to offset tighter financial conditions.

3. Taking a look at the week ahead.

- Monday — Memorial Day, financial markets closed
- Tuesday — Consumer Confidence Index
- Wednesday — No major reports
- Thursday — Personal Consumption Expenditures Index
- 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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