ALPHA ZERO

Coffee & Commentary

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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?

- The major U.S. stock indexes finished lower for the second week in a row, as concerns over the cost and payoff of artificial intelligence spending weighed on several large technology names, while rising oil prices and higher Treasury yields also pressured investor sentiment. Final results on the week were; S&P 500 -0.6%, NASDAQ -2.1%, and the Dow -0.4%.
- Technology earnings remained a key focus, as investors reacted negatively to elevated AI capital spending plans from several mega-cap companies. Alphabet and Tesla were among the largest drags on the market, with investors increasingly questioning whether aggressive AI-related investments will translate into enough future revenue and profit growth to justify current valuations. The broader takeaway is not that the AI theme is broken, but that markets are becoming more selective and are demanding clearer evidence of return on investment.
- Oil prices rose sharply as renewed U.S.-Iran tensions and continued disruption around the Strait of Hormuz revived concerns about global energy supply. U.S. crude climbed more than 9% for the week to roughly $89 per barrel, while Brent crude briefly moved above $100 before easing back below that level on Friday. The move in oil also pushed bond yields higher, with the 10-year Treasury yield rising to around 4.68%, reinforcing concerns that higher energy prices could keep inflation elevated and complicate the Federal Reserve's policy path.

2. How are we to prepare and act?

- Markets are entering one of the most important stretches of the summer, with investors facing a heavy mix of Federal Reserve policy, inflation data, GDP data, geopolitical headlines, and a major wave of technology earnings. The broader economic backdrop remains resilient, but the market is becoming less forgiving. Earlier this year, investors were willing to reward almost anything tied to AI. Now, the market is asking a harder question -- are companies spending aggressively because the opportunity is truly massive, or because they have no choice but to keep up? That distinction matters because investors will eventually need to see that spending translate into revenue growth, productivity gains, and/or a clear competitive advantage, or they may look to position their capital elsewhere.
- That is why balance becomes more important from here. AI remains one of the most important long-term investment themes, and we still believe investors should maintain exposure to the companies best positioned to benefit from it. However, expectations are high, valuations are less forgiving, and leadership may remain choppy as the market separates durable winners from companies simply spending heavily to stay relevant. At the same time, higher oil prices and bond yields could create more volatility in the near term, especially with the Fed meeting this week, but earnings growth remains the key support for stocks. As long as corporate profits hold up and the economy avoids a meaningful slowdown, pullbacks should be viewed as an opportunity rather than a reason to abandon ship.

3. Taking a look at the week ahead.

- Monday — Durable goods orders
- Tuesday — Consumer confidence, Fed meeting begins
- Wednesday — Fed meeting concludes, Chair Warsh press conference
- Thursday — Second-quarter GDP, PCE inflation, weekly jobless claims
- Friday — Consumer sentiment, major earnings continue

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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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