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 mixed for the week, with the S&P 500 posting a modest gain and reaching another record close, while the NASDAQ finished nearly flat and the Dow moved lower. Stocks benefited from softer inflation data and renewed strength in select AI and semiconductor-related names, but gains were limited by weaker retail sales, deteriorating consumer sentiment, and ongoing uncertainty around the Federal Reserve's next move. Final results on the week were; S&P 500 +0.4%, NASDAQ +0.1%, and the Dow -0.6%.
- Inflation data was the most important economic development of the week. The July Consumer Price Index rose 0.1% for the month, while the annual inflation rate eased to 3.4% from 3.5% in June. Core CPI, which excludes food and energy, rose 0.2% for the month and slowed to 2.5% year over year. Wholesale inflation also moderated, with the Producer Price Index unchanged in July and rising 4.7% over the prior year, down from 5.5% in June. Together, the reports helped reduce expectations for a near-term Fed rate hike.
- The consumer side of the economy looked softer, as July retail sales fell 0.6%, marking the first monthly decline in nine months. The drop was partly tied to lower gasoline prices and the timing of Amazon's Prime Day, which pulled some online spending into June, but it still raised questions about the durability of household spending. Oil prices moved higher late in the week amid renewed Middle East tensions, with U.S. crude rising to

roughly $82 per barrel, keeping energy markets and inflation expectations in focus.

2. How are we to prepare and act?

- Markets are now processing a more subtle shift in the economic backdrop. Earlier in the summer, the dominant concern was whether inflation would remain too high and force the Fed toward another rate hike. Last week's inflation data helped calm that concern, but the softer retail sales report introduced a different question: whether the economy is cooling in an orderly way or beginning to show early signs of pressure beneath the surface. That distinction matters because lower inflation and lower rate pressure are generally supportive for asset prices, but only if they occur alongside stable growth and healthy earnings. The current setup is therefore not simply "good news" or "bad news.", and is a more balanced environment where inflation is improving, the Fed has more room to be patient, and the consumer is becoming more important to watch. Markets are still near record highs, but the path forward appears more dependent on incoming data than on enthusiasm alone.
- The broader market story also continues to evolve away from a single-theme rally. AI and semiconductor stocks remain central to investor psychology, and last week's strength in several chip and memory-related names showed that appetite for the theme is still very much alive. At the same time, the market is becoming more aware of the difference between companies that can clearly benefit from the AI buildout and those that may simply be spending heavily to keep pace. Earnings growth is still providing support, but the burden of proof is rising as valuations remain elevated and interest rates remain well above the levels investors became used to in the prior cycle. The simultaneous decline in inflation, softness in consumer spending, and renewed rise in oil prices creates a market that is constructive but not simple. Leadership may continue to rotate as investors weigh technology optimism against consumer resilience, Fed patience, energy volatility, and the durability of corporate profits.

3. Taking a look at the week ahead.

- Monday — Housing Market Index
- Tuesday — Housing starts, building permits, pending home sales
- Wednesday — Fed meeting minutes
- Thursday — Weekly jobless claims
- Friday — S&P Global Manufacturing and Services PMI

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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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