Coffee & Commentary
August 31, 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?

- The major U.S. stock indexes finished higher for the week despite pulling back on Friday, as exceptional technology earnings offset renewed concerns about inflation and interest rates. Nvidia drove a broad AI and semiconductor rally after reporting quarterly revenue of $96.2 billion, more than double the prior-year level, and issuing another strong forecast for AI infrastructure demand. Final results on the week were; S&P 500 +0.5%, NASDAQ +0.9%, and the Dow +0.5%.
- Inflation and Federal Reserve policy remained central to the market's direction. The July PCE price index increased 3.7% from a year earlier, slightly above expectations and unchanged from June. At Jackson Hole, Chair Warsh reiterated the Fed's commitment to returning inflation to its 2% target and indicated that another rate increase could become necessary. Markets responded by raising the probability of a September hike.
- Economic reports continued to present a mixed picture. Second-quarter GDP growth was confirmed at a 1.5% annualized rate, and durable goods orders increased 1.1% in July, signaling continued business investment. However, new home sales fell 10.5% to their lowest level since January, while consumer confidence declined to a seven-month low.

2. How are we to prepare and act?

- The contrast between Nvidia's results and the Fed's message captures the central tension facing markets: the most powerful corporate growth cycle in years is unfolding alongside an inflation problem that has not been fully resolved. AI spending is no longer being treated simply as a promise about the distant future. It is generating extraordinary revenue growth across chips, data centers, networking, cloud infrastructure, and enterprise software, which gives large technology companies a fundamental earnings engine capable of supporting elevated valuations. Yet those valuations still depend on the rate used to discount future profits, and that rate moved in the wrong direction after Chair Warsh reinforced the Fed's commitment to 2% inflation. The economy therefore does not need to fall into recession for markets to experience periodic pressure. The earnings backdrop remains powerful, especially in AI-related industries, but the market's willingness to pay for that growth will continue to rise and fall with inflation expectations and the perceived path of Fed policy. The result is a market supported by real profit growth, but operating with far less room for disappointment than headline index levels may suggest.
- September's opening week will place the labor market at the center of that balancing act, because employment is the clearest remaining argument against a near-term rate increase if inflation continues to run above target. Recent figures have described a low-hiring economy rather than a broad collapse: job creation has slowed materially, revisions have reduced earlier estimates, and consumers are increasingly uneasy about future income, yet layoffs and unemployment have not accelerated enough to establish a decisive downturn. That ambiguity makes the sequence of JOLTS, ADP, jobless claims, and Friday's payroll report more important than any one release in isolation. A softer set of readings could reduce pressure on the Fed, but it would also raise questions about household spending and the durability of economic growth. Firmer labor data would support the earnings outlook and consumer demand, while strengthening the case for another rate increase. Oil remains the additional variable capable of complicating either conclusion. Prices declined last week as traders considered the possibility of improved access through the Strait of Hormuz and additional Venezuelan supply, but physical flows remain disrupted and the conflict has not been resolved. Taken together, the economy continues to show pockets of exceptional strength alongside increasingly visible rate sensitivity, leaving the next phase dependent on whether slower hiring can cool inflation without undermining the earnings expansion.

3. Taking a look at the week ahead.

- Monday — No major reports
- Tuesday — Manufacturing PMI, ISM manufacturing,
- Wednesday — ADP employment, Federal Reserve Beige Book
- Thursday — Weekly jobless claims
- Friday — August employment report

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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,

Eric Mechler, CFP®, ChFC®, AIF®, BFA™, RICP®
Founder, CEO & CIO
Alpha Zero
2500 N Military Trail, Suite 316
Boca Raton, FL 33431
Phone: (561) 576-2599 Ext. 124
eric@alphazerowealth.com

Visit our website

Alpha Zero
2500 N Military Trail, Suite 316, Boca Raton, FL 33431
Phone: (561) 576-2599 Ext. 124
eric@alphazerowealth.com

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Alpha Zero | 2500 N Military Trail Suite 320 | Boca Raton, FL 33431 US