



Coffee & Commentary

October 5, 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 mixed during a week shaped by rapidly changing interest rate expectations, elevated Treasury yields, and divergent corporate earnings. Final results on the week were; **S&P 500 -0.3%**, **NASDAQ +0.5%**, and the **Dow -1.3%**.
- The U.S. economy added just 29,000 jobs in September, well below expectations, while August's gain was revised down to 133,000. Meanwhile inflation moderated more than expected, with the PCE index rising 3.4% year over year while core PCE increased by 3.0%. Following the reports, futures markets indicated an 84% probability that the Fed will leave rates unchanged in October, although a December increase remained the base case expectation.
- Oil prices declined for the week as shipments through the Strait of Hormuz improved and the G7 agreed to release emergency reserves, with West Texas Intermediate finishing near \$89 per barrel and Brent near \$100, although negotiations between the U.S. and Iran remained stalled.

2. How are we to prepare and act?

- A cooling labor market has finally introduced a meaningful counterweight to the inflation signals that dominated September. Payroll growth of 29,000 is not, by itself, evidence that the expansion is ending, particularly

when layoffs remain limited and the increase in unemployment came alongside greater labor force participation. It does, however, suggest that businesses are becoming more deliberate about adding workers as financing, energy, and wage costs remain elevated. That patience is supported by the softer PCE report, but inflation at 3.4% remains too high for policymakers to declare success. The distinction between pausing and finishing the hiking cycle is therefore important, as a pause in October would acknowledge the weaker hiring trend without abandoning the Fed's inflation objective, while another increase in December could remain appropriate if energy costs and core prices stay persistent. Long-term Treasury yields above 5% also add an independent form of restraint because mortgage rates, business borrowing costs, and equity valuation assumptions will respond even when the Fed does nothing.

- The week's corporate reports drew a sharper line between companies monetizing AI demand and businesses still dependent on broad consumer confidence. Taken together, the reports strengthened the argument that the technology investment cycle is supporting revenue and earnings rather than valuations, while also raising the standard for what markets will require next. Capital intensive expansion must eventually produce utilization, margins, and free cash flow sufficient to offset higher funding costs, especially with Treasury yields at levels not seen in decades. Growth continues to remain present, although its quality increasingly depends on whether companies can translate investment and pricing power into additional cash flow.

3. Taking a look at the week ahead.

- Monday — S&P Global and ISM services PMIs
- Tuesday — Trade balance
- Wednesday — Federal Reserve meeting minutes
- Thursday — Weekly jobless claims
- Friday — Factory orders

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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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