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# THE KATZ GROUP

*comprehensive financial services for individuals, families and businesses*



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The Katz Group Newsletter

Edition: Q2 2024

## A New “Magnificent 7” - Demystifying 7 Popular Buzz Words

We hope this edition of our quarterly newsletter finds you well. Although market leadership has shown signs of broadening out after a historical stretch of outperformance by a very small subset of stocks, the “Magnificent 7” continue to garner much attention among investors and the financial media alike. With the year buzzing by, we’d like to use this publication to highlight, and hopefully help clarify, 7 of the most popular buzz words that dominate today’s news headlines and consistently appear throughout current market commentaries.

**Magnificent Seven-** Coined during a furious rally in 2023 (after an abysmal 2022), these 7 tech giants (Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla) significantly outperformed their counterparts in the broad equity markets while their outsized weightings in popular cap-weighted indices, such as the S&P 500, continued to grow<sup>1</sup>. In fact, the top 10 stocks in the S&P 500 now represent a whopping 33.5% of the index.<sup>2</sup>

**Hawkish-** A hawkish stance refers to the Federal Reserve’s tilt toward tighter and more restrictive monetary policy. Often characterized by higher interest rates and a shrinking balance sheet, a hawkish Fed typically seeks to tame inflation and/or slow an overheating economy.

**Dovish-** A dovish stance, on the other hand, refers to the Federal Reserve’s tilt towards looser and more accommodative monetary policy. Often characterized by lower interest rates and an expanding balance sheet, a dovish Fed typically seeks to stimulate inflation and/or boost a faltering economy.

**Disinflation-** An admittedly paradoxical term, disinflation occurs when the annual inflation rate is decelerating. In other words, a disinflationary environment is one in which inflation is positive and prices are still increasing, but the year-over-year pace is slowing. For example, after peaking at 9.1% in June of 2022, the Consumer Price Index (CPI) has eased to 3.5% as of March 2024<sup>3</sup>. It is important to note, disinflation is not synonymous with deflation. Deflation refers to an environment in which inflation is negative as prices are actually falling on a year-over-year basis.

<sup>1</sup> JPMorgan Guide to the Markets, Q2 2024 edition, page 11

<sup>2</sup> JPMorgan Guide to the Markets, Q2 2024 edition, page 10

<sup>3</sup> <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm>

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**Sticky-** Although price pressures have eased meaningfully over the last couple of years as the Fed's hawkish policy of rate hikes has helped disinflation take hold, progress has seemingly stalled in recent months. Inflation that stays stubbornly higher than desired or expected is often labeled by market commentators as "sticky."

**Higher for Longer-** Sticky inflation and strong economic data have fueled speculation among investors that the Fed's dovish pivot toward rate cuts may be a bit further away than the markets were anticipating at the beginning of the year. This has triggered renewed volatility as the markets grapple with the potential for a "higher for longer" environment in which interest remain at elevated levels, and perhaps only decline marginally, within the foreseeable future.

**Soft Landing-** The ultimate goal of the Fed's aggressive rate hiking campaign, subsequent pause, and eventual rate cutting cycle is to engineer a so-called "soft landing." This market-friendly outcome, originally viewed by many pundits and economists as nothing more than wishful thinking, is one in which inflation cools down while unemployment remains low and consumption/economic growth remains healthy. Despite the potential for a higher for longer backdrop, many investors have come around to embrace a soft landing as a very realistic possibility.

With all eyes on the Fed, the FOMC (Federal Open Market Committee) meetings have become must watch TV. Now that you have a better understanding of these popular buzz words, hopefully you won't feel the same sense of FOMO (fear of missing out) as you tune in to hear about upcoming FOMC decisions. As always, we'd like to thank all of our clients for their continued loyalty, trust, and confidence. The year is buzzing by, so please don't hesitate to reach out to us with any questions, comments, concerns, or pressing needs. We look forward to hearing from you.

A handwritten signature in black ink, appearing to read "BKatz", written over a light blue circular background.

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