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THE KATZ GROUP
comprehensive financial services for individuals, families and businesses

Prudential

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The Katz Group Newsletter **Edition: Q3 2023**

"23" in '23

We hope all is well and that your summer of '23 is off to a great start. As I put pen to paper to gather my thoughts and ideas for this newsletter, I had just watched Novak Djokovic defeat Casper Ruud in the men's French Open final to capture his record-breaking 23rd grand slam title, matching the iconic jersey number of greatest basketball player of all time and further strengthening his case to be considered the greatest tennis player of all time. In sports, the number 23 has long been synonymous with greatness thanks to its connection to the aforementioned high-flyer from Chicago and now this historic achievement in tennis. In numerology, an ancient study that draws meaning from numbers, it is believed that the number 23 signifies a new start, a revolution, or a transformation. After more than 500 basis points of rate hikes by the Federal Reserve[1], a transformation in the trajectory of inflation and, consequently, the start of a new monetary policy regime remains atop the wish list of many individuals. Fortunately, as the summer of '23 heats up, consumers and investors alike are seeing continued evidence of a sustained pattern in which inflation is indeed cooling down[2]. And if you look closely enough, you might even find some signs of that ubiquitous number 23 appearing within the data that supports this ongoing trend.

Inflation has been a hot topic (pun intended) ever since we emerged from the depths of the covid pandemic, and rightfully so. Not only have we, as consumers, felt its widespread effects in our daily lives (whether we're ordering eggs at a deli, shopping for a new car, or just about everything in between), but, as investors, we have simultaneously been faced with a prolonged period of elevated market volatility due in large part to the Fed's aggressive rate hiking cycle. Needless to say, inflation reports are now among the highest prioritized and closest scrutinized of all economic data releases and have the potential to dramatically move markets as investors evaluate their impact on the future path of monetary policy. Two commonly cited measures of inflation are the Consumer Price Index (CPI) and Personal Consumption Expenditures Price Index (PCE). Although the methodologies used for constructing their respective baskets of good and services differ, both indices are designed to track changes in the prices paid by US consumers across a wide range of expenses[3]. While CPI and PCE attract most of the attention and garner most of the headlines, we'd like to turn our focus to another important, yet often overlooked, inflationary gauge. The Producer Price Index (PPI) is a measure of wholesale inflation, reflecting changes over time in the selling prices received by domestic producers of goods and services[4]. Because it calculates price changes before they actually reach the consumer, PPI tends to act as leading indicator for the future direction of the more popular CPI and PCE indices. This historical relationship has in fact been visible once again throughout the current inflationary cycle. For example, PPI led CPI on the way up, with the year-over-year increase in producer prices as measured by

[1] JPMorgan Guide to the Markets, Q2 2023 edition as of May 31, 2023, page 34
[2] JPMorgan Guide to the Markets, Q2 2023 edition as of May 31, 2023, page 30
[3] Bls.gov/cpi, bea.gov/data/personal-consumption-expenditures-price-index
[4] Bls.gov/ppi/overview.htm

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PPI peaking in March of 2022[5], whereas the annual change in consumer prices as measured by CPI didn't reach its highest level until three months later in June[6]. And so far, PPI has continued to lead CPI on the way back down. At the time of this writing, the most recent PPI release was for April 2023 and came in at a modest year-over-year increase of, drumroll please… 2.3%[7]. Aside from the (coincidental?) appearance of our numerical protagonist (23), this reading is consistent with the ongoing trend of cooling underlying price pressures and perhaps an encouraging sign of things to come.

After a painful 2022, we are hopeful that '23 will ultimately be looked back on as a year of greatness (as MJ and Novak would insinuate), or (as numerology would suggest) a year of transformation and new beginnings. For consumers yearning for relief in the cost of their daily living expenses, we hope for a continued transformation in which lower annual increases in producer prices (currently 2.3%) pave the way for lower CPI and PCE inflation going forward. For investors eagerly awaiting the Fed's pivot to a more market-friendly policy stance and a continued rebound from the worst calendar year since 2008, we hope that '23 is reminiscent of '09 when the S&P 500 marked the beginning of a new bull market by posting an annual return of, you guessed it… 23%[8]. And despite a plethora of uncertainties and risk factors, financial markets are off to a strong start thus far in '23. Today (6/11/23), the S&P 500 (although still well below its most recent peak) has bounced back nicely off last year's lows and currently trades at 4,298[9] which, if you add up the four digits, equals… well, I'll let you do the math.

As always, we'd like to thank our clients for their loyalty, trust and confidence. Please feel free to reach out to us with any questions, comments, or concerns. We look forward to hearing from you.

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Financial Advisor

*Please note: In between the initial drafting and the official publication of this newsletter, producer prices have since fallen further to an annual increase of 1.1% as of the May 2023 PPI data release[10].

[5] Bls.gov/charts/producer-price-index/final-demand-12-month-percent-change.htm
[6] JPMorgan Guide to the Markets, Q2 2023 edition as of May 31, 2023, page 34
[7] Bls.gov/charts/producer-price-index/final-demand-12-month-percent-change.htm
[8] JPMorgan Guide to the Markets, Q2 2023 edition as of May 31, 2023, page 15
[9] Marketwatch.com/investing/index/spx/download-data?mod=mw_quote/tab
[10] Bls.gov/charts/producer-price-index/final-demand-12-month-percent-change.htm