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THE KATZ GROUP

comprehensive financial services for individuals, families and businesses

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The Katz Group Newsletter **Edition: Q4 2023**

The Final Descent

We hope this publication finds you and your families healthy and well. In last quarter's newsletter, we discussed inflation and highlighted that price pressures were cooling down as the summer temperatures were heating up (in case you missed it, read it **here**). Now, as the weather has started to cool down, some pockets of warmth have begun to emerge in the most recent inflation readings. That being said, we still believe that inflation remains on a downward trajectory towards the Federal Reserve's 2% target. In this edition of our quarterly newsletter, we'll continue to examine the path of inflation through a unique and relatable perspective.

As I furiously type up my notes for this piece, I had just landed in the Dominican Republic for a friend's bachelor party. Sound familiar? If so, thanks for reading last year's third quarter edition of our newsletter entitled "Navigating Market Volatility: Lessons from 30,000 Feet" which, coincidentally, was also written on an airplane heading to the DR for a different friend's bachelor party. If not, you can check that one out **here**. As an admittedly anxious flyer, I often turn off my in-flight entertainment to watch the GPS map during the descent. While I am pleased that the flight is almost over, I also get more impatient as the altitude gets lower and the distance to the destination gets shorter. In other words, the closer I get to landing, the more I want the flight to be over. Barring any turbulence, I typically enjoy the initial descent when the plane's elevation tends to decline steadily and consistently in fairly big chunks. On this particular occasion, it took seemingly no time at all to go from 35,000 feet down to about 3,000 feet. It's easy to extrapolate that trend and jump to the conclusion that we'll be on the ground imminently. But often times, as was the case on this flight, the last 3,000 feet of the descent can take quite a bit longer than the first 30,000. In fact, it was during this flight's final descent, when I got the inspiration for this year's final newsletter.

With inflation's initial descent likely behind us, during which the year-over-year headline Consumer Price Index (CPI) declined from a peak of 9.1% in June of 2022 all the way down to 3.0% in June of 2023[1], investors, like airplane passengers, should recognize that the final descent is not always equally quick and easy. On my flight to the DR, not only did the final descent test my patience by taking longer than I anticipated (especially given the ease and swiftness of the initial descent), but it also tested my nerves. After leveling off right around 3,000 feet, there were a couple of instances when I felt a slight rising sensation and noticed on the screen in front of me that our altitude had indeed climbed modestly to a range between 3,600 and 4,000 feet. Despite being counter-intuitive for the plane's altitude to rise on the way down, when I looked around at my fellow passengers, it was clear from their calm demeanor that these temporary upticks were viewed as par for the course during the landing process rather than a cause for concern. Inflation's final descent often charts a similar path in which the significant downward movements of the initial descent start to decelerate and ultimately appear to stall as the math that goes into the year-over-year comparisons becomes more and more difficult to improve upon (the hotter prints achieved while

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[1] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

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inflation was surging have already rolled off the preceding 12 months and been replaced by cooler figures throughout the initial descent). During this range-bound phase when inflation tends to level off and plateau, it is not uncommon to experience some bumps along the way that temporarily push up the year-over-year numbers (the cooler monthly readings posted throughout the initial descent now begin to roll off the preceding 12 months, making it much more challenging to see similar progress during the final descent even if the incoming data remain favorable). Recently, we have seen this dynamic play out with the annual change in the headline CPI increasing slightly to 3.2% in July and 3.7% in August[2]. At the same time, however, core CPI inflation, which excludes the volatile categories of food and energy (and is often prioritized by economists and policymakers) has continued to decelerate in recent months, coming in at 4.3% year-over-year in August (down from 4.8% in June and a peak of 6.6% last September)[3]. Given the immense attention and scrutiny paid to incoming inflation reports, and their undeniable importance in the future path of monetary policy and interest rates, it is not at all surprising that market participants have demonstrated tremendous sensitivity to each and every data release. But, like my fellow passengers en route to the DR, we believe that recent inflationary behavior remains broadly consistent with the final descent rather than a reversal of its longer-term downward trajectory. And based on the September 2023 "Summary of Economic Projections," it appears that the Fed itself largely agrees- not only forecasting continued progress toward its 2% inflation target going forward, but also projecting continued strength in the labor market and real GDP as the Fed Funds rate gradually, albeit more slowly than previously expected, normalizes toward a more neutral level (precisely the ingredients for a so-called "soft-landing")[4]. Despite a somewhat lengthy and sometimes frustrating final descent, my flight to the DR touched down smoothly at our destination and we are hopeful that the Fed will be able to engineer a similar outcome. Although the runway for a soft-landing certainly seems to have gotten wider as the Fed has gotten closer to its destination, there are always a plethora of uncertainties and risk factors that could create unforeseen turbulence, so it is imperative that investors keep their seatbelts firmly fastened by being patient, disciplined, and highly diversified.

Inflation and interest rates continue to dominate financial headlines and act as the primary driving forces behind market movements so, naturally, we'll continue to monitor ongoing developments very closely and work with our clients accordingly. As always, we'd like to thank our clients for their loyalty, trust and confidence and we encourage you to contact us with any questions, comments or concerns. We look forward to hearing from you.

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[2] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm
[3] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm
[4] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230920.pdf