



Ben's Bow Tie Brief

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THE GREAT NORMALIZATION **FEBRUARY 2025**

In September 2024, I wrote a brief titled [“Warning Signs”](#) about the mega-cap technology stock mania taking place in the S&P 500 capitalization-weighted index.

In November of 2024, I wrote a brief titled [“Starting Points Matter”](#) in which I opined that the presidential election results seemed to have ignited “animal spirits”, despite already lofty market expectations, driven by perceived certainty around potential policy action on tax cuts/deregulation etc.

In December of 2024, I wrote a brief titled [“The Roll of Confidence in Markets”](#) to remind everyone that investor confidence plays a significant role in driving stock prices, often beyond what supposedly rational people in perfectly efficient markets would do. I stressed that folks have just as much capacity to sell without regard for value or other fundamentals as they do for buying that way - though at that time nobody thought selling was going to begin any time soon.

And in January of 2025 I wrote a brief titled [“A Time for Managing Expectations”](#) in which I expressed concern we might be in a period of potential maximum danger for investors due to performance chasing. I noted that the equity market, as measured by the S&P 500, was historically expensive and fearfully concentrated, with many investors struck by FOMO (Fear of Missing Out). A lot of people seemed to think that

concentrating in the stocks in the S&P 500 was raising the potential return profile of their portfolio, but in fact they could be substantially raising their risk profile. I stated that, in a sense, they're not even really investing anymore, but speculating on the continuation of a concentration trend that may already be largely priced in. I questioned if these currently red-hot areas go down (and possibly a lot), do these people have the intestinal fortitude or financial capacity to ride out that potential shock? I worried (and still do) that many do not.

Fast forward to today and it's clear that caution is still warranted, if not more. For most of the US bull market that began in October of 2022, the narrative has been simple: Fed easing will deliver a soft landing, and "US exceptionalism" in tech innovation, as embodied in "Magnificent Seven" AI dominance, will sustain the momentum. This supported rich valuations and hopes for productivity-driven earnings growth. But just last week the Federal Reserve chose not to emphasize an accommodative policy stance (could interest rates remain higher for longer?) and Chinese AI developer DeepSeek announced a cost competitive offering, potentially undermining "US-only" dominance. Not to mention the new administration announced several policy initiatives, including aggressive tariffs on certain trading partners.

Recent events add to strengthen my view that the narrative may well be shifting, and we might be entering the **"Great Normalization"**, dominated by interest rate and valuation normalization; a renewed focus on earnings growth as the driver of equities; and possibly a rotation of stock index leadership from the "Mag 7" toward other areas of the market (index "deconcentration").

The bottom line is, there is a lot going on right now. The pace of change is feverish, uncertainty (and volatility) is rising, and conditions/sentiment could shift quickly. It's hard to know exactly what to do.

I want to reiterate what I wrote in January - there are no "new tricks" for building and preserving wealth. And while concentration-based strategies can help accelerate the pace, they can also destructively decelerate or at worst permanently limit the possibility.

Remember - maintaining a broadly diversified portfolio aimed at capturing potential returns on assets in some proportion appropriate to one's risk tolerance and goals; being prepared for unknowable market drawdowns; and regularly rebalancing allocations - has a solid track record helping to build and preserve wealth.

I welcome your questions and comments and look forward to talking with you soon.

Best,

Ben

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