PDS Wealth Management

Quarterly Investment Report – Q1 2023

2023 is flying by faster than a Chinese spy balloon. And while there is plenty of time to go, the year thus far is a more pleasant one for investors than the last. Stocks and bonds were both up in Q1 and volatility was relatively tame, even with two high profile bank failures during the quarter. The Fed raised interest rates at each of its two meetings in Q1 but may be nearing the end of its tightening cycle. Some even expect rates will be cut later in the year.

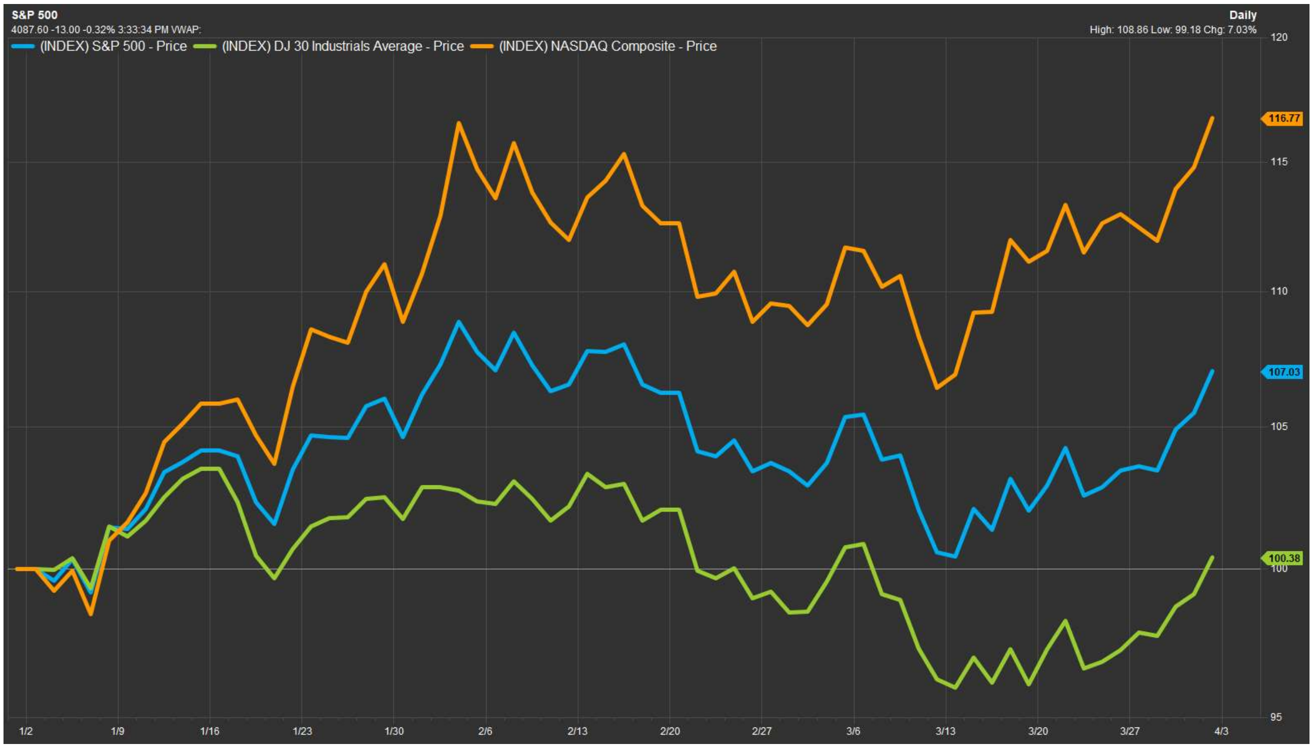
But the list of worries hasn't deflated entirely. Will inflation keep falling? Will job losses pick up? When will the recession arrive and how bad will it be, or will the Fed orchestrate a soft landing? Does the banking crisis accelerate? Will Congress raise the debt ceiling? Do geopolitical tensions with Russia and China deteriorate into a wider conflagration?

At PDS Wealth, we refrain from predicting any outcomes but try to be prepared for whatever may float our way. Please let us know if you would like to discuss any topics contained herein.

Markets Review

Stocks

US Stock Indices YTD – S&P 500, Dow Jones Industrial Average, Nasdaq Composite



Source: FactSet; as of March 31, 2023

Q1 was generally upbeat for stock investors, a welcome change following a deflating 2022. The upside came in January and the final three weeks of March, with choppy, sideways action in between. The quarter reflected a mirror image of last year's performance with growth stocks surging while value stocks were mostly flat. The S&P 500 gained 7.5%, the Dow Jones Industrial Average added 0.4%, and the Nasdaq rose a whopping 17%.

The growth/value performance disparity is evidenced in the quarter's sector winners and losers. The Technology and Communication Services sectors led the way higher as both enjoyed 20%+ gains. Consumer Discretionary followed closely behind with a 16% gain. Last year's biggest winner, energy, along with utilities and healthcare, all lost between 3-5%. Financials were the biggest loser, falling 5.6%, driven by turmoil in the banking sector amid the closures of Silicon Valley Bank and Signature Bank in mid-March.

Bonds

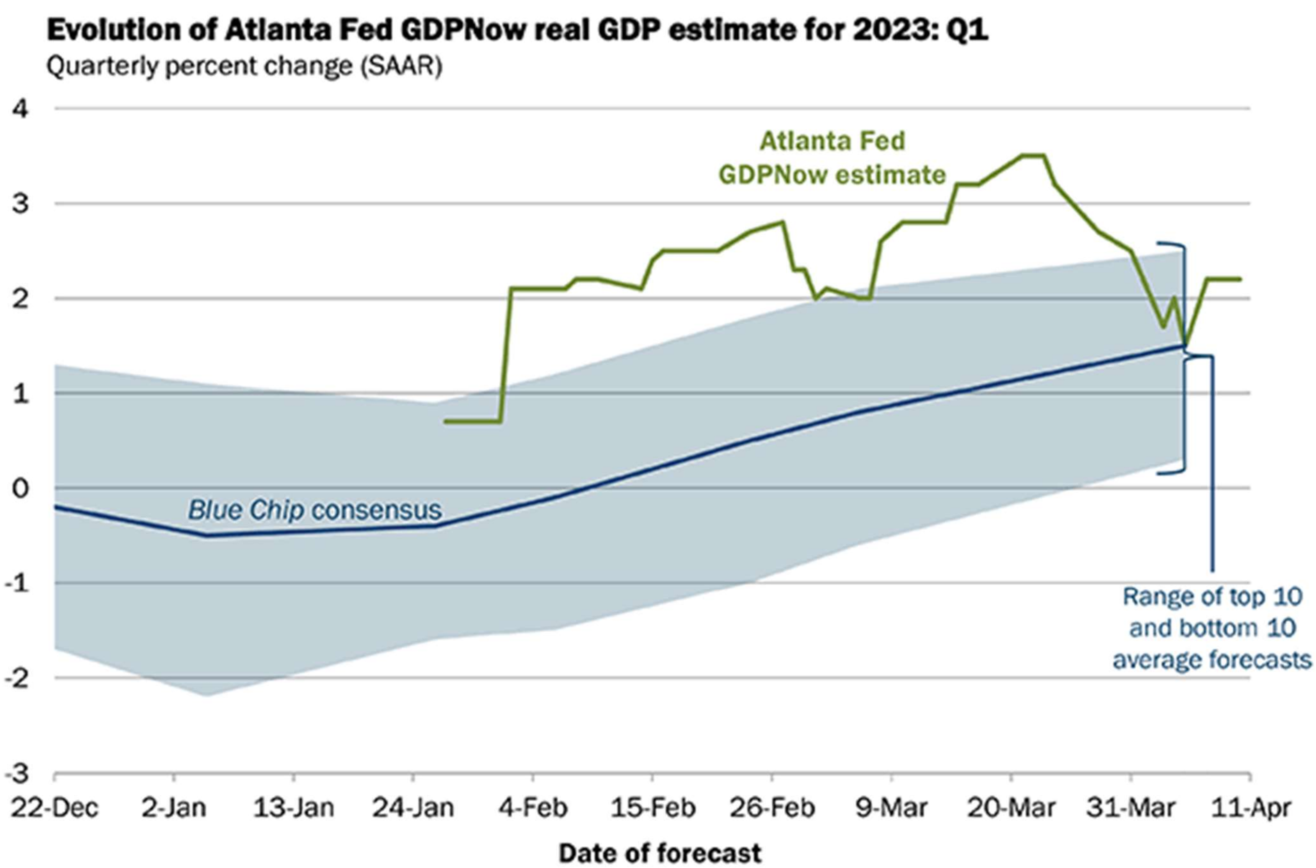
The Federal reserve raised interest rates by 0.25% at each of their meetings in Q1, taking the upper bound of their target range to 5%. Spurred by fears of bank failures, however, bond yields on longer-dated bonds fell (rose in price) as investors flocked to safe-haven Treasuries. The price of the 10-year Treasury Note rose 3.76% in Q1 as the yield fell from 3.88% to 3.49% (see chart below). The US Aggregate Bond Index rose 2.96%, a modest reversal of its 13% slide in 2022.

10-Year US Government Note Yields

Source: FactSet; as of March 31, 2023

Economic Review

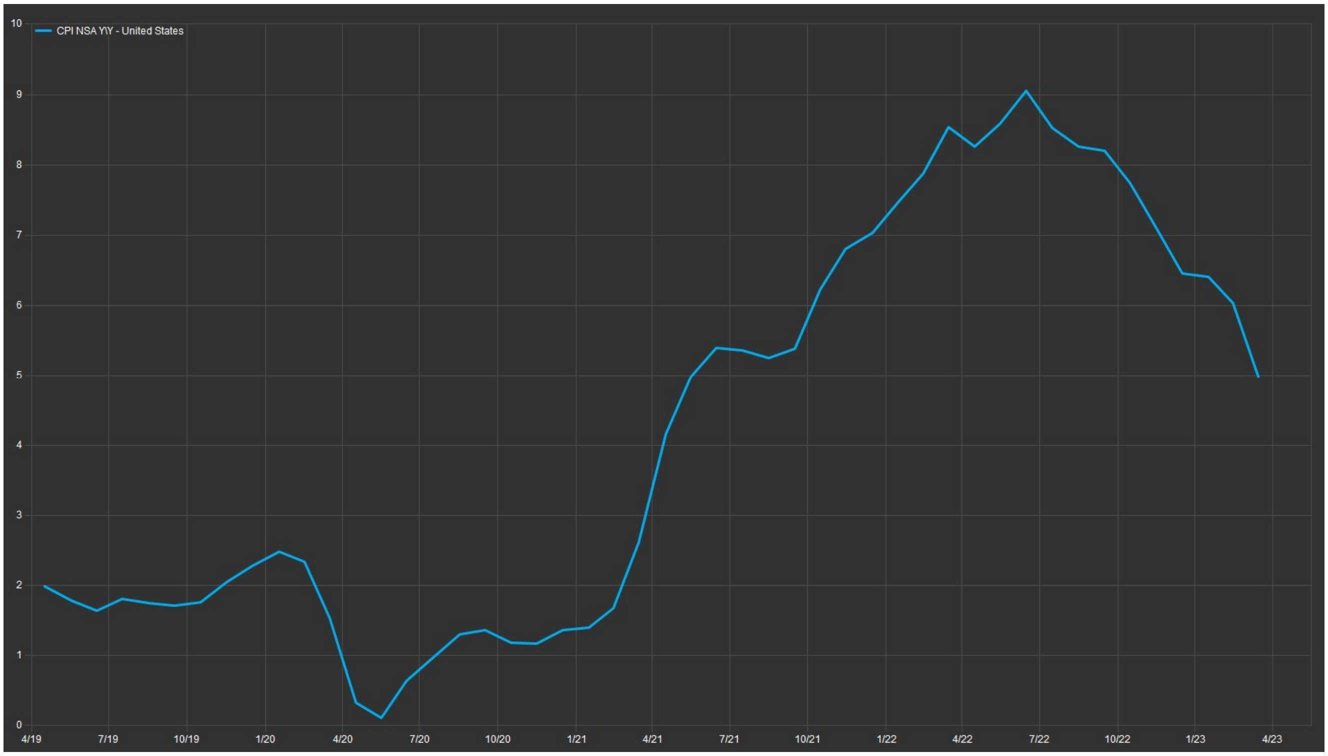
Despite the headwinds from one of the fastest tightening cycles of all time, economic growth remains robust. GDP remained positive for 2022 and forecasts for Q1 hover just above 2%, per estimates from the Atlanta Fed below.



Source: AtlantaFed.org; as of April 10, 2023

But the Fed finds themselves hovering over a sensitive economy and skittish markets. While they want to ensure financial stability (no more bank runs), they also may need to continue hiking rates to shoot down inflation (see CPI chart below). While the air is coming out of the inflation balloon, current readings (+5% y/y as of March) remain well above the Fed's stated 2% inflation target.

Y/Y Headline CPI



Source: FactSet; as of March 31, 2023

The tricky issue is that rate hikes, and the subsequent losses incurred in bank's bond portfolios, were a primary cause of the recent banking turbulence. The situation requires delicate maneuvering. Current market expectations are for at least one more 0.25% hike at the Fed's May 3rd meeting; a growing chorus, including among some Fed governors, is calling for that to be their last.

Conclusion

Following a challenging 2022, Q1 2023 offered a welcome shift in tone to the stock and bond markets. But surveillance of the landscape shows a number of potential trouble spots that bear watching. With the winds of the economy and financial markets constantly shifting, we hope you won't get caught up in the up and downdrafts. Let us know if we can help.

Paul Spencer

Paul Spencer, CFA®

Director

PDS Wealth Management is a group comprised of investment professionals registered with Hightower Advisors, LLC, an SEC registered investment adviser. Some investment professionals may also be registered with Hightower Securities, LLC, member FINRA and SIPC. Advisory services are offered through Hightower Advisors, LLC. Securities are offered through Hightower Securities, LLC. This is not an offer to buy or sell securities. No investment process is free of risk, and there is no guarantee that the investment process or the investment opportunities referenced herein will be profitable. Past performance is neither indicative nor a guarantee of future results. The investment opportunities referenced herein may not be suitable for all investors. All data or other information referenced herein is from sources believed to be reliable. Any opinions, news, research, analyses, prices, or other data or information contained in this presentation is provided as general market commentary and does not constitute investment advice. PDS Wealth Management and Hightower Advisors, LLC or any of its affiliates make no representations or warranties express or implied as to the accuracy or completeness of the information or for statements or errors or omissions, or results obtained from the use of this information. PDS Wealth Management and Hightower Advisors, LLC assume no liability for any action made or taken in reliance on or relating in any way to this information. The information is provided as of the date referenced in the document. Such data and other information are subject to change without notice. This document was created for informational purposes only; the opinions expressed herein are solely those of the author(s) and do not represent those of Hightower Advisors, LLC, or any of its affiliates.