

PDS WEALTH MANAGEMENT



Quarterly Investment Report – Q1 2024

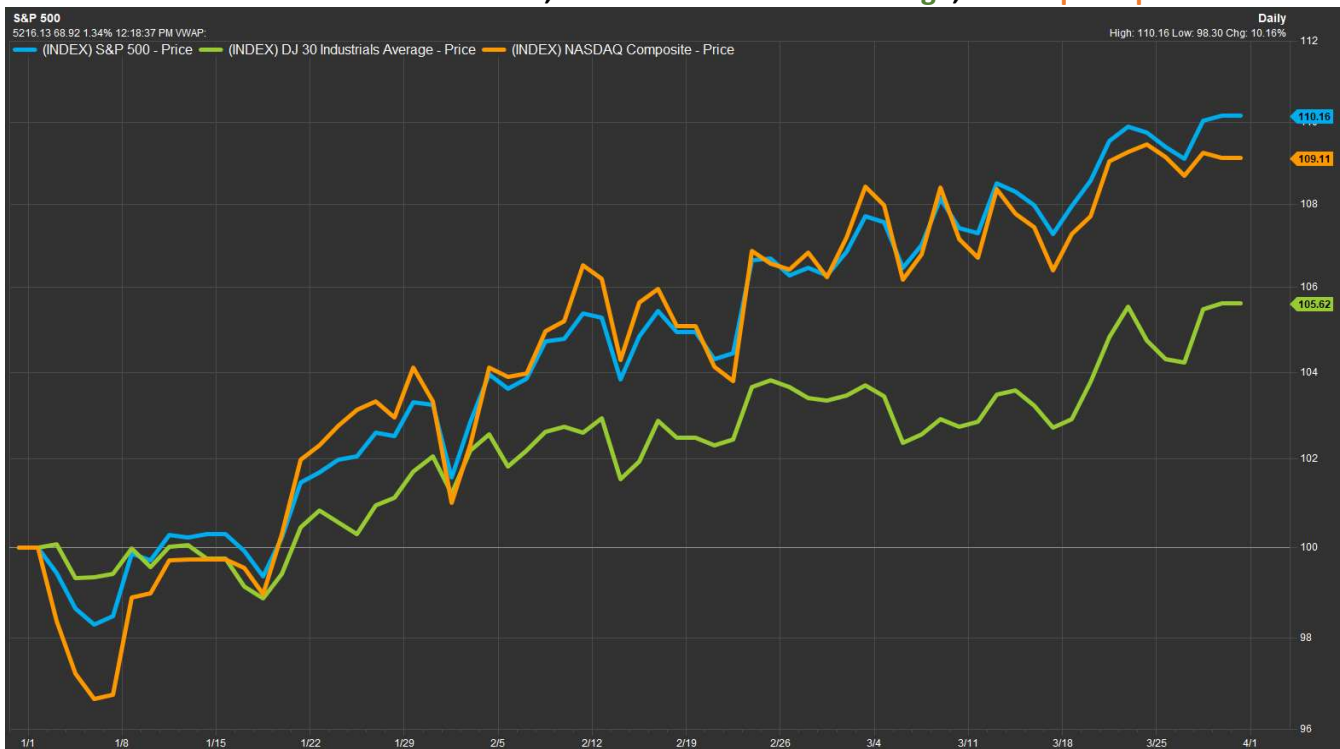
The first quarter of 2024 is behind us, and it was pretty smooth sailing for the stock market. On the flip side, the bond market faced headwinds from the delayed prospects of interest rate cuts. Inflation lingers at uncomfortable levels. The economy, however, is resilient and providing cover for the Fed to take a “wait and see” approach as a recession does not appear to be on the near-term horizon.

Domestic politics and geopolitical volatility persist and will continue to buffer markets, but that’s nothing new and won’t be going away anytime soon. At PDS Wealth, we aim to allow our clients the ability to ignore the news and enjoy a smooth journey, no matter the conditions.

Markets

Stocks

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



Source: FactSet; as of March 31, 2024

Stocks modestly declined in the first week of 2024 before resuming their upward trajectory for the remainder of Q1. For the quarter, the Dow Jones Industrial Average gained 6.1%, the S&P 500 added 10.6%, and the Nasdaq Composite rose 9.3%.

Nearly all sectors enjoyed gains in Q1. Leading to the upside was Communication Services with a 15.8% gain, followed closely by a 13.7% rise in the Energy sector and a 12.5% gain in both Technology and Financials. Industrials and Materials tacked on 11% and 9%, respectively. Consumer Staples, Consumer Discretionary, Healthcare, and Utilities were relative laggards, adding between 4-9%. Real Estate was the only sector that lost ground, falling 1.1%.

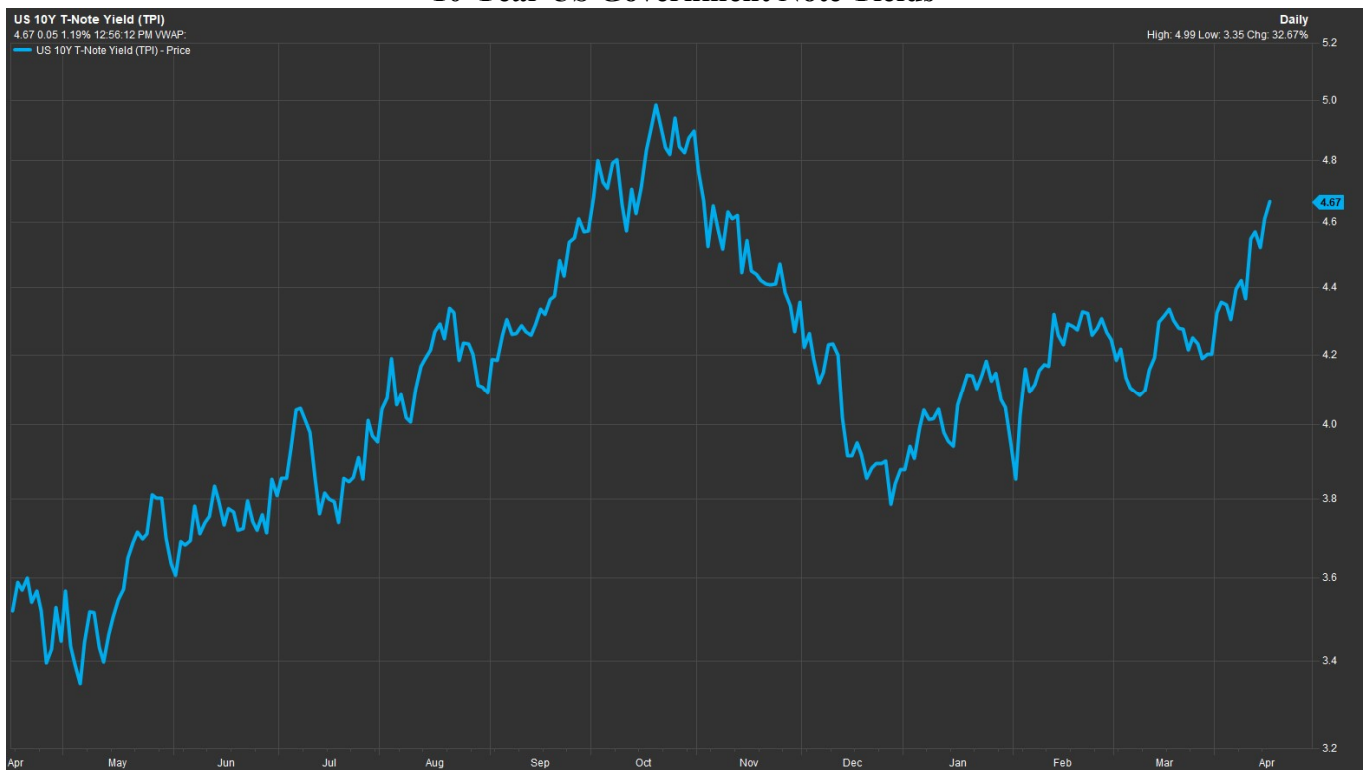
A few weeks into Q2, we find ourselves in the midst of a (thus far) modest pullback in stocks. The Dow Jones Industrial Average has given up its year-to-date gains while the S&P 500 and Nasdaq have pulled back between 4-5%. It is worth remembering that over the last 40 years, the S&P 500 has seen an average intra-year drawdown of 14%, so further weakness would not be all that unusual and may offer an attractive buying opportunity.

Bonds

Expectations that interest rates will remain “higher for longer” weighed on bond prices in the first quarter of 2024. The Barclays US Aggregate Bond Index returned -0.78% as the yield on the index rose 0.3% during the quarter to 4.85%. Yields on the US Government Notes and Bonds (see 10-year yield chart below) rose a similar amount, leading to price declines of 1.7% for the 10-year Treasury Note and 4% for the 30-year Bond.

The trend continues into April with the 10-year yield up another 47bps to begin Q2.

10-Year US Government Note Yields



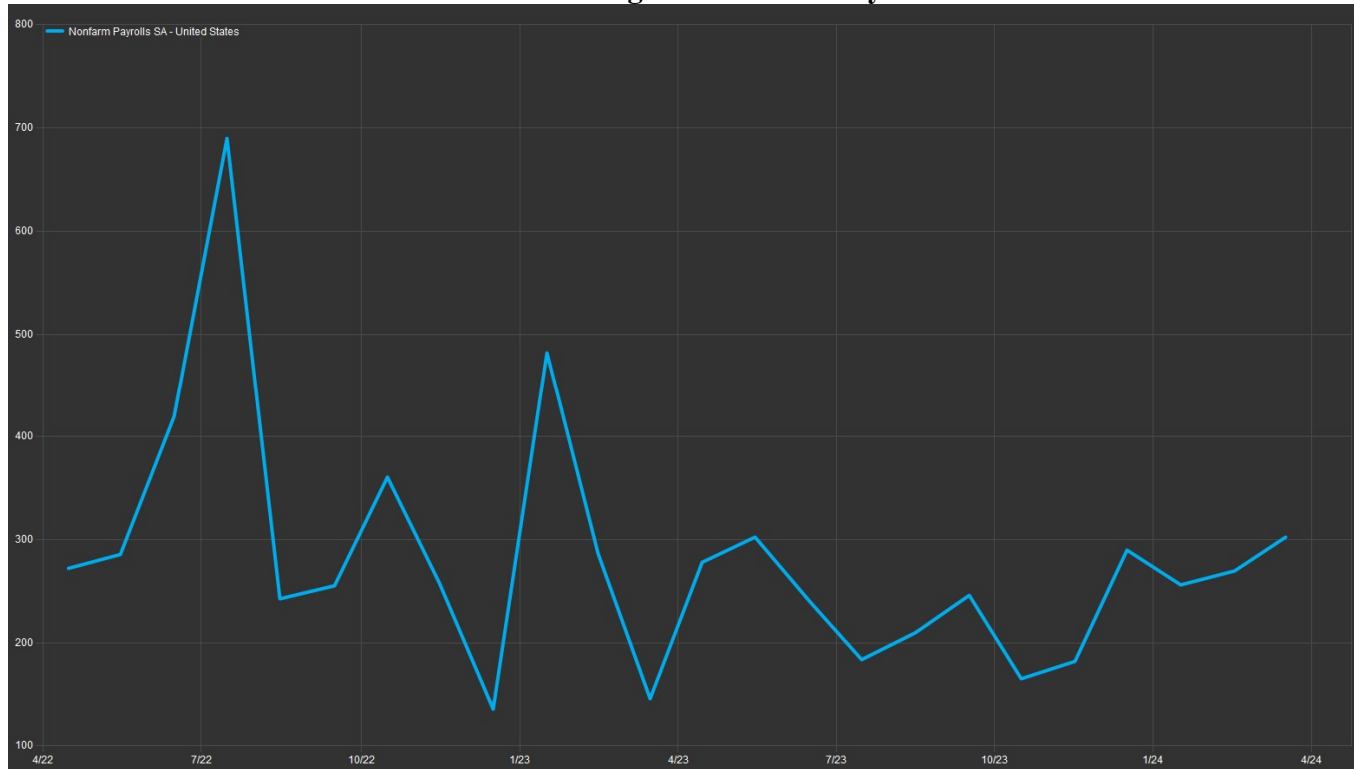
Source: FactSet; as of April 16, 2024

Economics

The US economy continued to surprise to the upside in Q1, as it has for much of the post-COVID era. The latest reading for GDP (Q4 2023) showed real (inflation-adjusted) growth of 3.4%. The Atlanta Fed’s forecast for Q1

2024 is 2.9%. Monthly non-farm payroll reports have hovered near 300,000 per month, which has handily beaten estimates closer to 200,000.

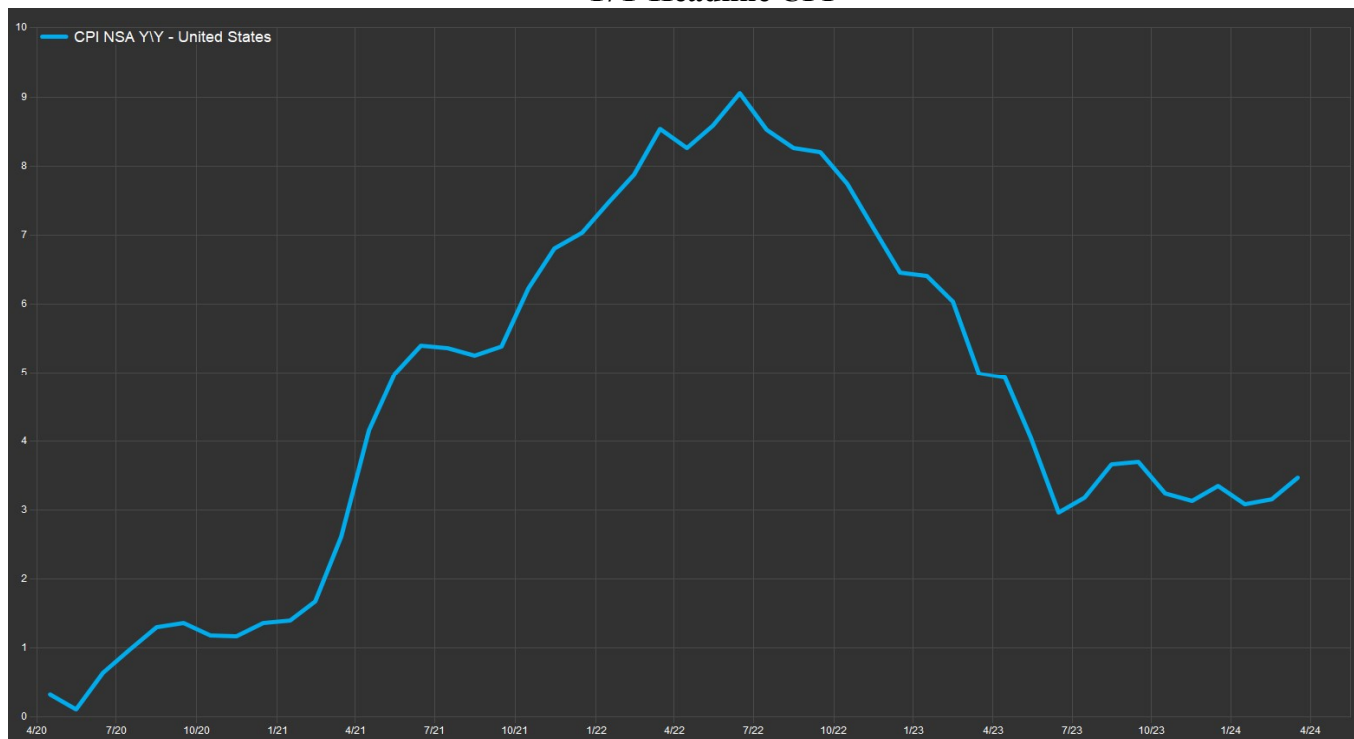
M/M Change in Nonfarm Payrolls



Source: FactSet; as of April 5, 2024

But what price are we paying for these strong job and economic growth numbers? For one, diminishing purchasing power - inflation hovers in the 3-3.5% range, stubbornly above the Federal Reserve Board's stated 2% target - so close, yet so far away.

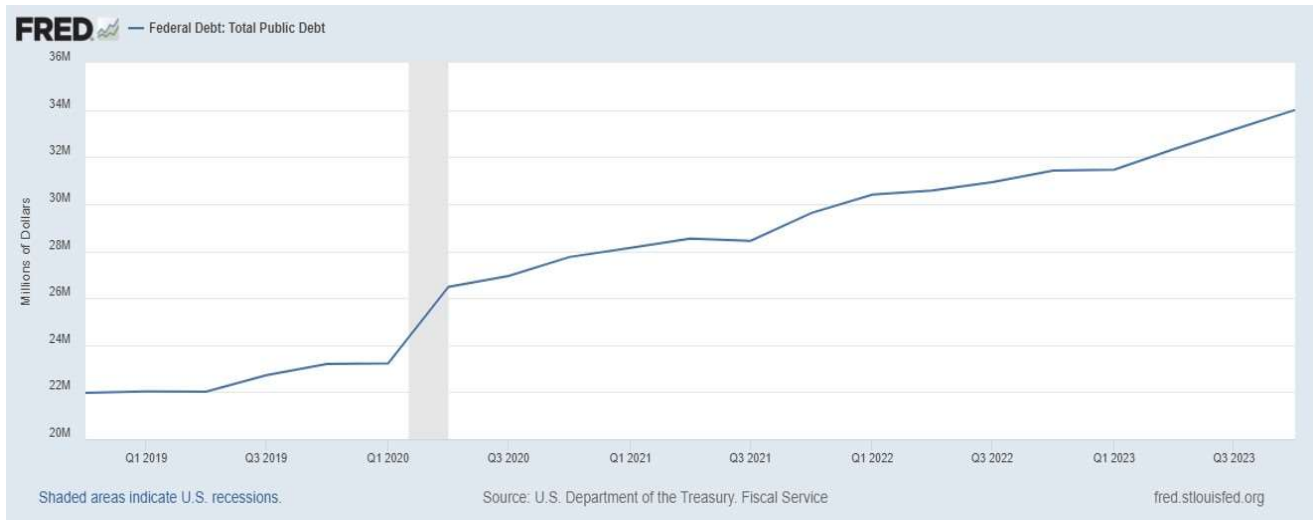
Y/Y Headline CPI



Source: FactSet; as of March 29, 2024

Another glaring issue is government spending, where budget deficits are running at 7% of GDP - levels typically only seen during recessions and wartime. As a result, the federal government debt has skyrocketed to over \$34 trillion. Where it stops, no one knows.

Total US Federal Debt



Source: St. Louis Federal Reserve; as of March 4, 2024

All of the above economic factors have led to a delay in anticipated rate cuts. At the beginning of 2024, markets (feeding off the Fed’s own forecasts) were expecting six rate cuts for the year, implying a Fed Funds target rate of ~4% by year-end. Those estimates have moderated following each hot inflation report and now currently range from zero to three cuts. With an election looming, the Fed is in a delicate position of maintaining economic and capital market stability while not appearing to be political (good luck with that!).

Conclusion

While we refrain from making predictions, we at least hope this report offers a glimpse of where we stand today as we chart a course for the future. We hope that you won’t hesitate to check in with us if we can provide any guidance or assistance.

Paul Spencer, CFA®

Director

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