

# PDS WEALTH MANAGEMENT



## Quarterly Investment Report – Q2 2023

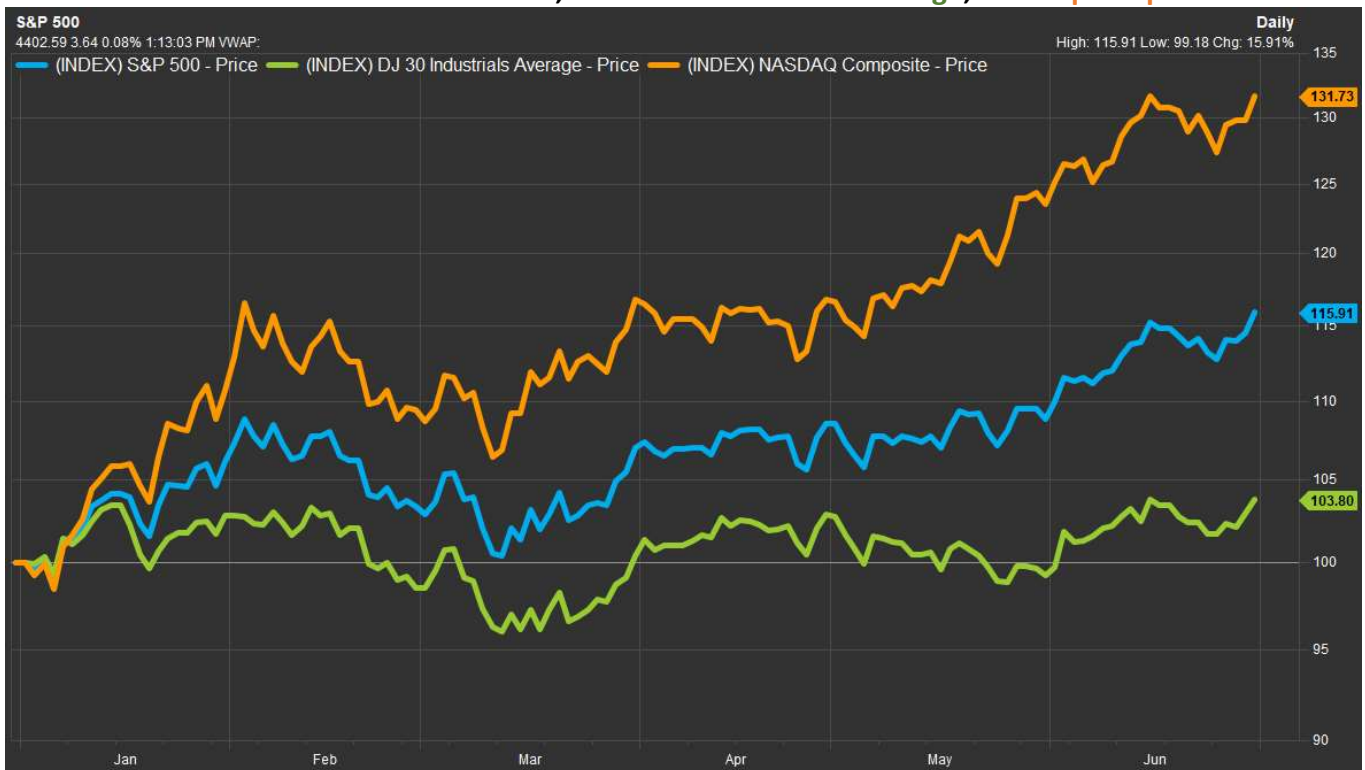
The first half of 2023 was over faster than a Russian military coup. And while investors have been handwringing about an impending recession (which has yet to arrive), the markets and economy defied expectations and posted another solid quarter. In fact, the S&P 500 is off to one of its best starts in history, climbing the proverbial “wall of worry.” While the fun usually comes to an end eventually, it is said that markets tend to fool the majority. If skepticism continues to prevail, more fools may be made before the fun stops.

Please find below a summary of key market and economic events from the first half of 2023, and we wish you all the best for the balance of 2023.

### Markets Review

#### Stocks

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



Source: FactSet; as of June 30, 2023

Stocks continued their strong performance in Q2, swimming against a tide of rising interest rates, debt-ceiling drama, and a pervasive apathy towards markets and the economy. But not all stocks are participating in the revelry. This year's positive returns can be attributed to a small selection of stocks (large cap tech), rather than a broad swath, though so-called "breadth" has improved in recent weeks. Time will tell if the laggards catch *up*, or the winners catch *down* to the rest of the bunch.

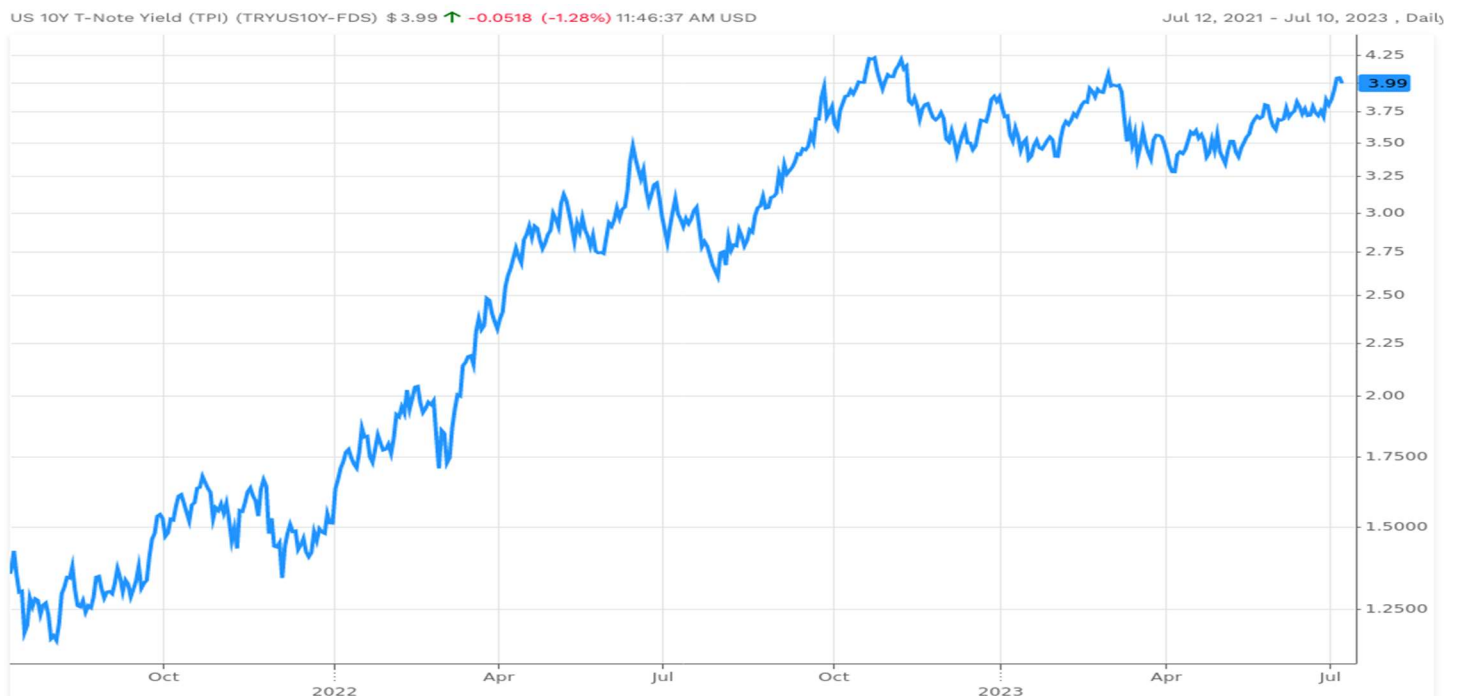
In the second quarter, the S&P 500 Index delivered a +8.7% return and now stands +16.9% through the half-way point of 2023. The Nasdaq added 13% in the quarter and sits up more than 30% on the year. The Dow Jones Industrial Average gained 4% in Q2 and remains the relative year to date underperformer with just a +5% return through the end of June.

Continuing the trend from Q1, the best performing sectors in Q2 were amongst the worst performers in 2022, while last year's relative winners have lagged. Technology was again the leading sector performer, ramping 17.2% in Q2 and leading the way through the first half with a 42.8% gain (the sector fell 30% in 2022). The Consumer Discretionary sector rose 14.6% in Q2, followed closely by the Communication Services sector with a 13.1% increase. Industrials gained 6.5% in the quarter, Materials rose 3.3%, Healthcare increased 3%, Financials added 5.3%, and Consumer Staples tacked on 0.5%. Energy and Utilities were the only sectors to lose ground in Q2 and settled down 5.5% and 5.7% for the year, respectively.

## Bonds

Bond prices were under pressure during Q2 as interest rates rose, though the broader bond indices managed to eke out positive total returns when factoring in interest payments. The US Aggregate Bond Index finished the first half of the year with a +2.1% total return, a 4.8% yield, and an 8.6-year duration. The yield on the 10-Year Treasury Note finished the second quarter at 3.8%, down 10bps since the beginning of the year but up 30bps in the quarter.

### 10-Year US Government Note Yields



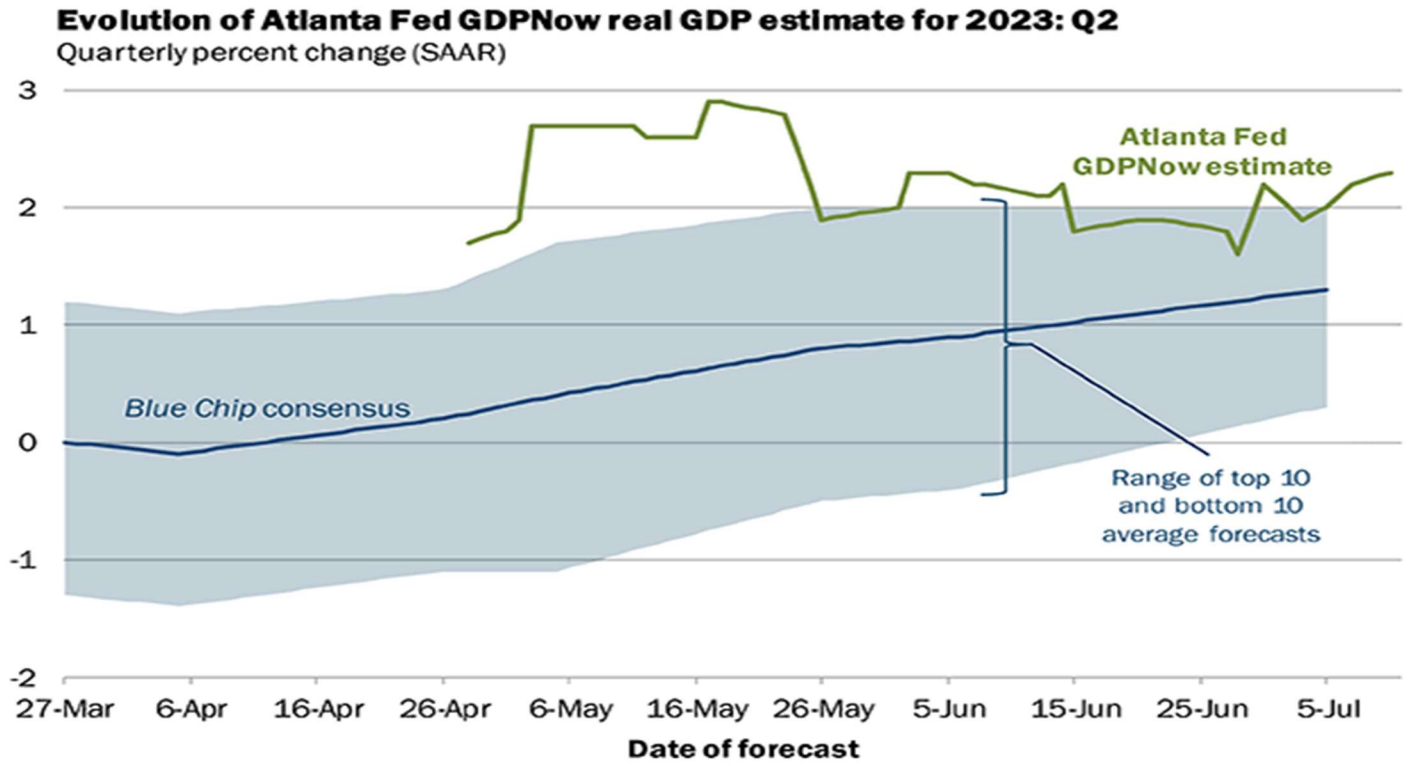
Source: FactSet; as of July 10, 2023

## Economic Review

The Fed slid through another 0.25% increase to the Fed Funds target rate in early May, taking the upper bound to 5.25%. However, after raising rates at their previous ten consecutive meetings, the Board took a pause at their

June 14<sup>th</sup> gathering, acknowledging some progress on the inflation fight. Nonetheless, the inflation fight is not over, and more increases are likely in the offing in coming months (July 28<sup>th</sup> is the next scheduled meeting where another 25bp hike is expected), especially if the labor market and economic activity remain robust.

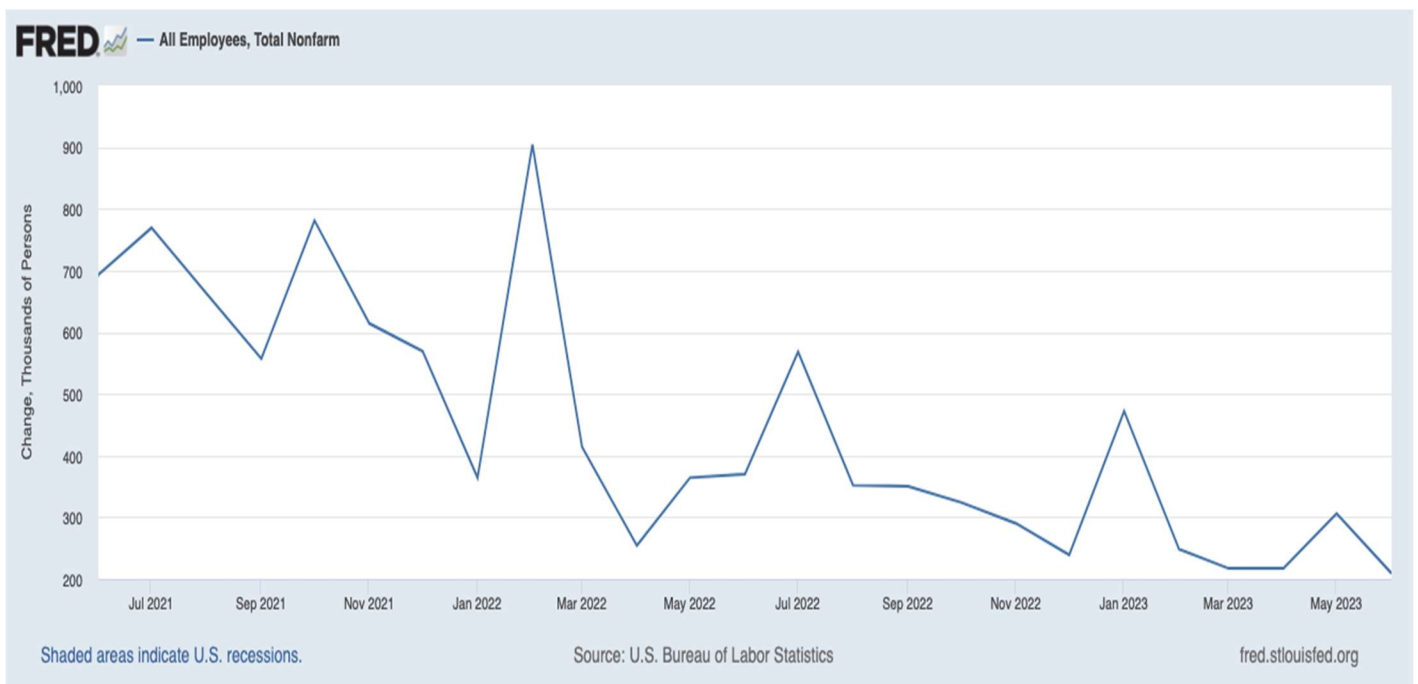
In what is becoming a recurring theme, real time GDP continues to track above economists' estimates...



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

...and while job growth has moderated, monthly nonfarm payrolls are coming in consistently above 200,000.

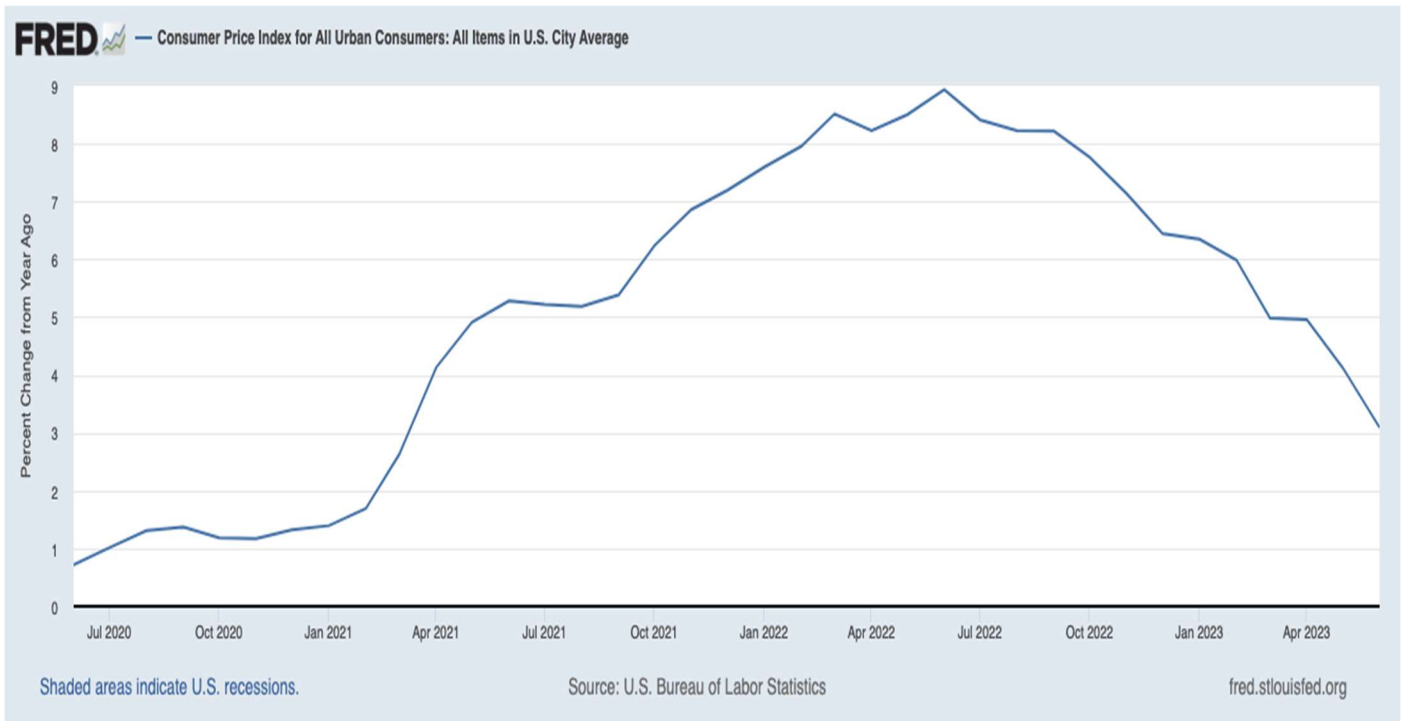
### M/M Change in Nonfarm Payrolls



Source: US Bureau of Labor Statistics, St. Louis Fed; as of July 7, 2023

Inflation is trending in the right direction (down) yet remains above the Fed's stated 2% target. The final push from 3.1% (the just-released June 2023 reading) to 2% may prove more difficult than the drop from 9% (the June 2022 high water mark) to 3% as energy prices have increased lately and wage pressure remains to the upside.

### Y/Y Headline CPI



Source: St. Louis Fed; as of July 12, 2023

### Conclusion

Calls for an impending recession continue to dominate the headlines, but the economic data remains strong. Markets are likely reflecting some optimism that there may be a “soft landing” rather than a hard one, but skepticism and disbelief prevail which is lending contrarian support to markets.

If you have any questions or comments on the above, or anything else for that matter, don't hesitate to check in with us.

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.*