# PDS Wealth Management

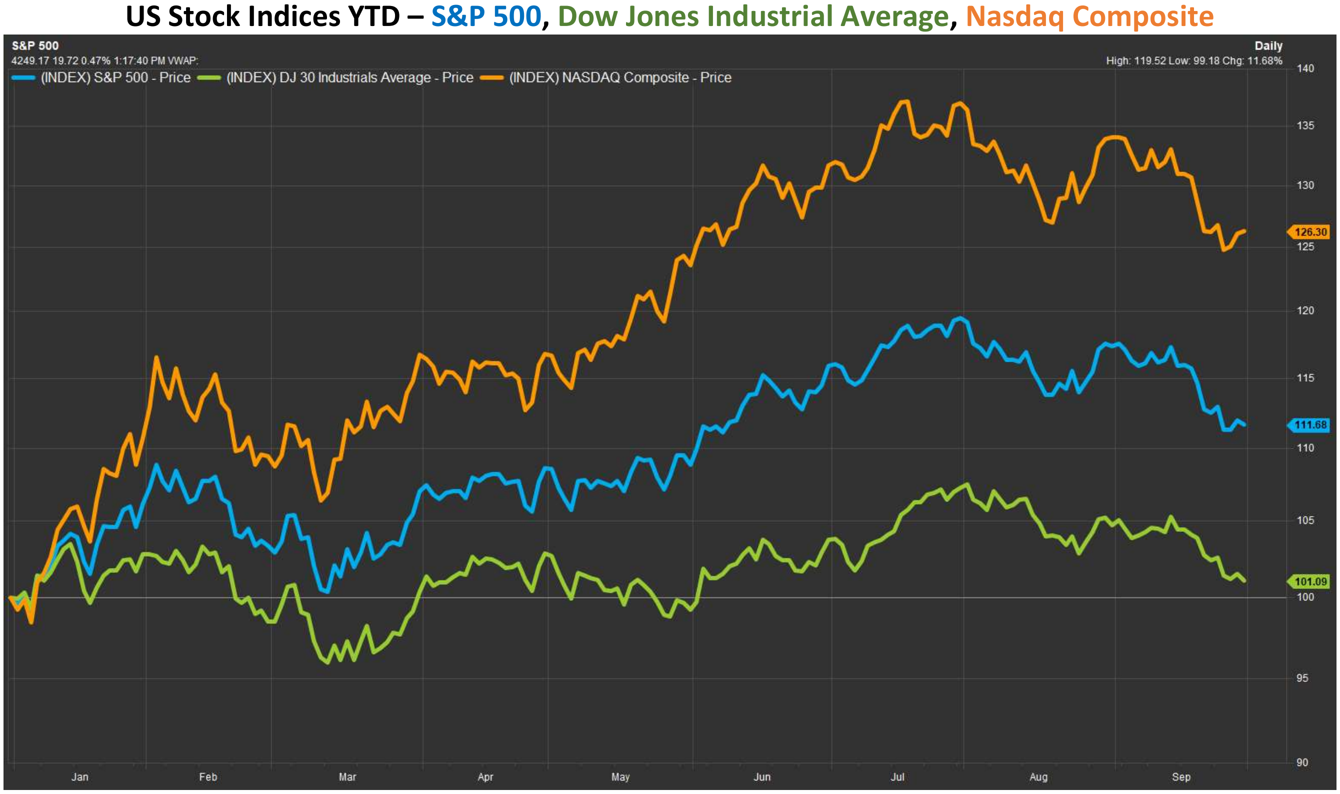
## Quarterly Investment Report – Q3 2023

We have entered the final innings of 2023, and the game is moving fast. What was a mostly placid third quarter closed with uneasiness amid rising market volatility. That anxiety is trending higher still into Q4 as geopolitical tensions heat up abroad and political wrangling continues unabated at home. Markets fret about the future path of the Fed's rate tightening cycle, about which the Fed themselves seems unsure. We don't know the outcome, but we'll take the pitches as they come and try to stay in the game. Please enjoy our review of the previous innings (quarter) and don't hesitate to reach out to our bullpen if we can provide some relief!

## Markets Review

### Stocks

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




*Source: FactSet; as of September 30, 2023*

Stocks traded in a narrow range for most of Q3 before coming under pressure in the final weeks as longer-dated interest rates spiked higher and the seasonally weak period of September and October arrived. Overall, for the third quarter, the DJIA lost 2.6%, the S&P 500 fell 3.3%, and the Nasdaq gave back 3.9%.

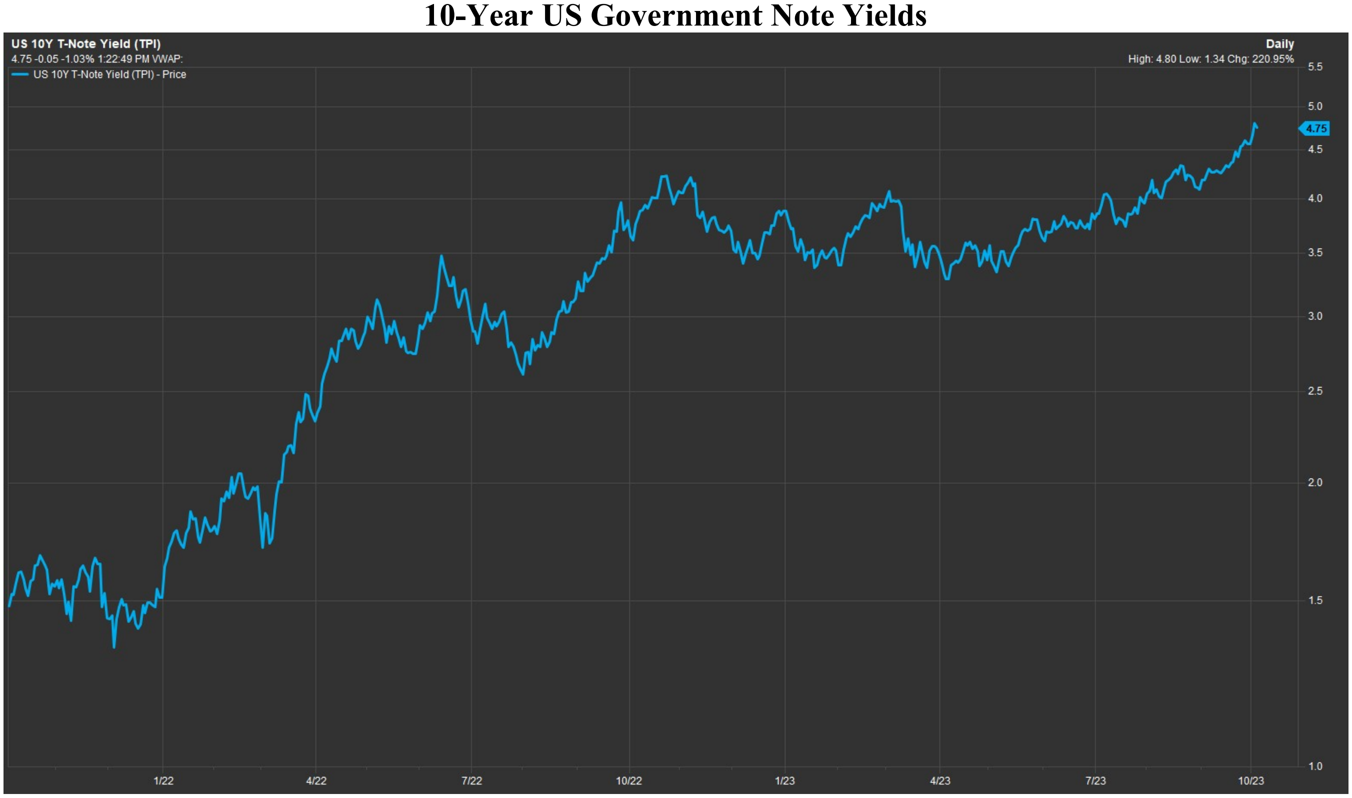
The Energy sector moved from the back of the pack to the front, posting a 12% positive return in Q3 as oil prices rallied on strong supply/demand dynamics. The Communication Services sector was the only other sector to post a positive return in the quarter with a 3% gain; it leads all sectors on a year-to-date basis with a +40% return. The Materials, Industrials, Consumer Discretionary, Technology, and Staples sectors all lost between 4-6% in the quarter. Real Estate and Utilities stocks, both heavily influenced by changes in interest rates, led to the downside with losses of 9.5% and 9.2%, respectively.

The broader stock market's performance year-to-date has closely followed historical seasonal patterns with strength in the early part of the year followed by weakness in the later summer and into the fall. The S&P 500 reached its high for the year (thus far) at the end of July, then pulled back 8% through early October. Seasonality often improves starting in mid-October, and November and December are historically some of the strongest months. We'll see if the pattern holds this year.

## Bonds

Bond prices fell during Q3 as interest rates rose. The Bloomberg Barclays US Aggregate Bond Index slid 3% in Q3 and sports a modestly negative total return (-1.2%) for the year. The 10-year Treasury Note has delivered a -3.4% return through the end of Q3; the 30-year Treasury Bond has fallen 10% over the same period.

**10-Year US Government Note Yields**




*Source: FactSet; as of October 4, 2023*

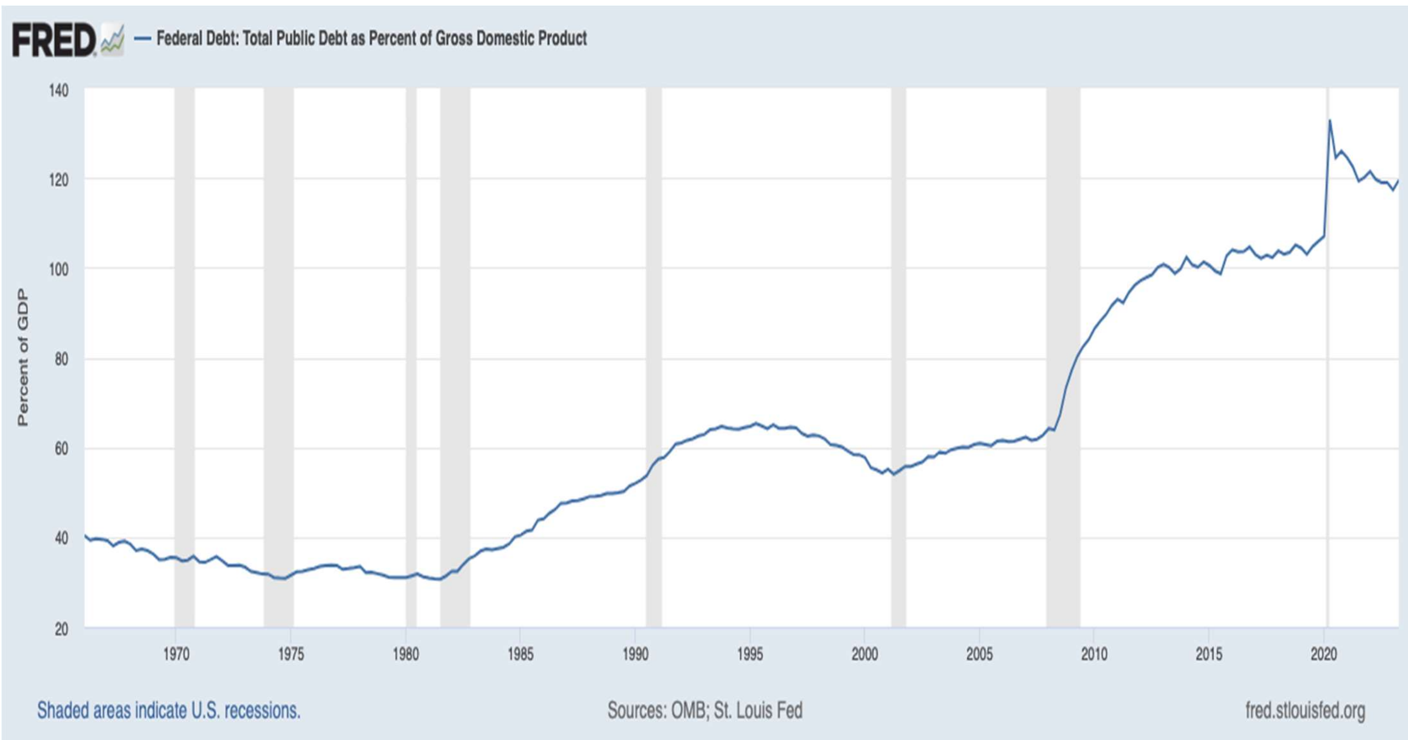
In a *Wall Street Journal* Op-Ed from October 4th, former Fed governor, Kevin Warsh, pointed to the 10-year Treasury rate as "the most consequential price of the most important asset anywhere in the world." While the Fed controls the front end of the yield curve, the bond market sets the rest. The recent surge in longer-dated interest rates is sending shockwaves throughout capital markets and has broad implications for interest rate sensitive sectors like housing, autos, and banking.

# Economic Review

The Federal Reserve Board raised the Fed Funds target rate another 0.25% at their late July meeting, taking the upper bound to 5.5%. They held off on making any moves at their September meeting and expectations for further hikes have moderated as inflation has moderated. Now the mantra coming from Fed speakers is "higher for longer."

Another noteworthy event during the quarter came in early August when credit ratings agency, Fitch, downgraded their US sovereign credit rating from AAA to AA+. Fitch noted "fiscal deterioration, high debt burden, and erosion of governance" in their downgrade report. While a government shutdown was just averted, another looms in mid-November and the House of Representatives is without a Speaker. As to the debt burden, the below chart shows US national debt as a percent of GDP through April 1st. Worth noting that the chart does not reflect the ~$2 **trillion** increase to the debt in recent months.

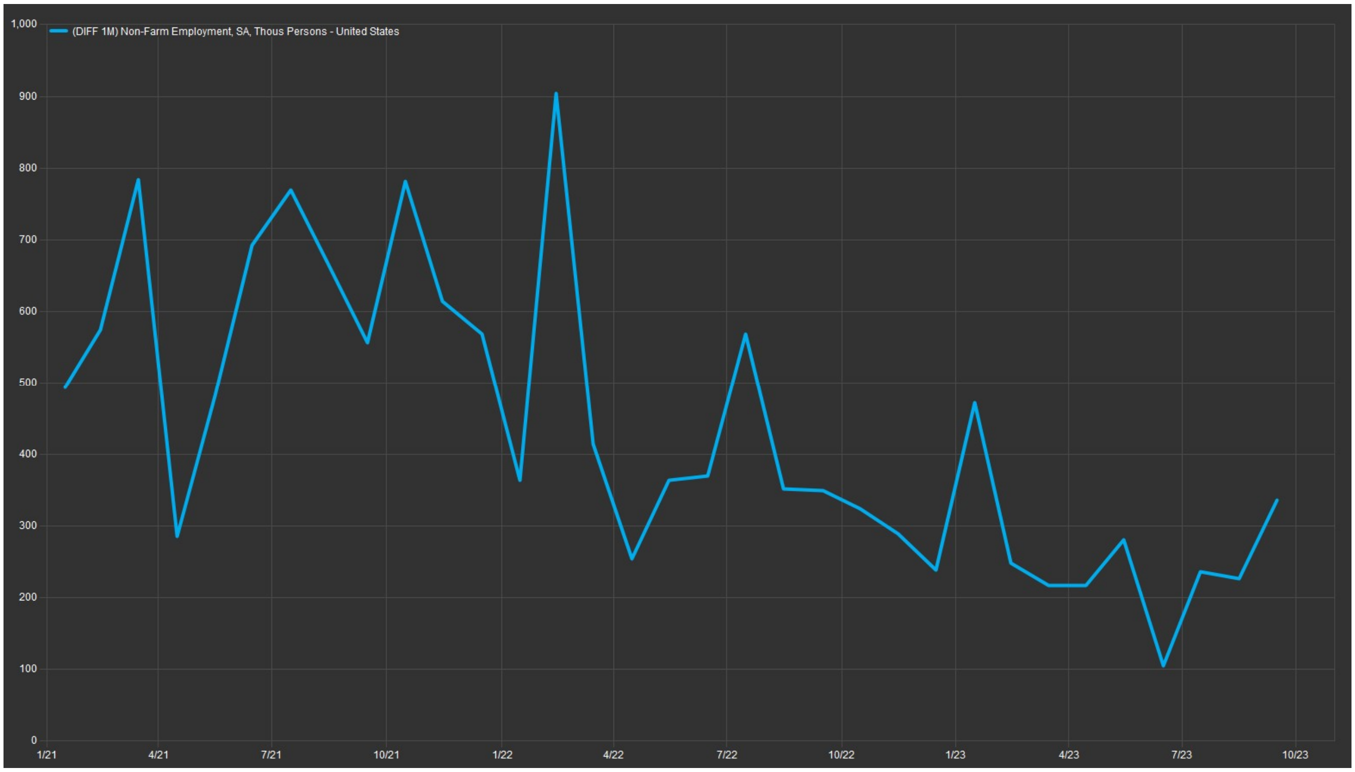
**Total Public Debt as a Percent of GDP**




*Source: St. Louis Federal Reserve Bank; as of April 1, 2023*

The jobs market remains robust as evidenced by strong non-farm payroll additions throughout the quarter, along with last week's +336,000 Nonfarm Payrolls report. The unemployment rate ticked up slightly in September to 3.8% from April's low of 3.4% due to increased labor force participation, rather than job losses.

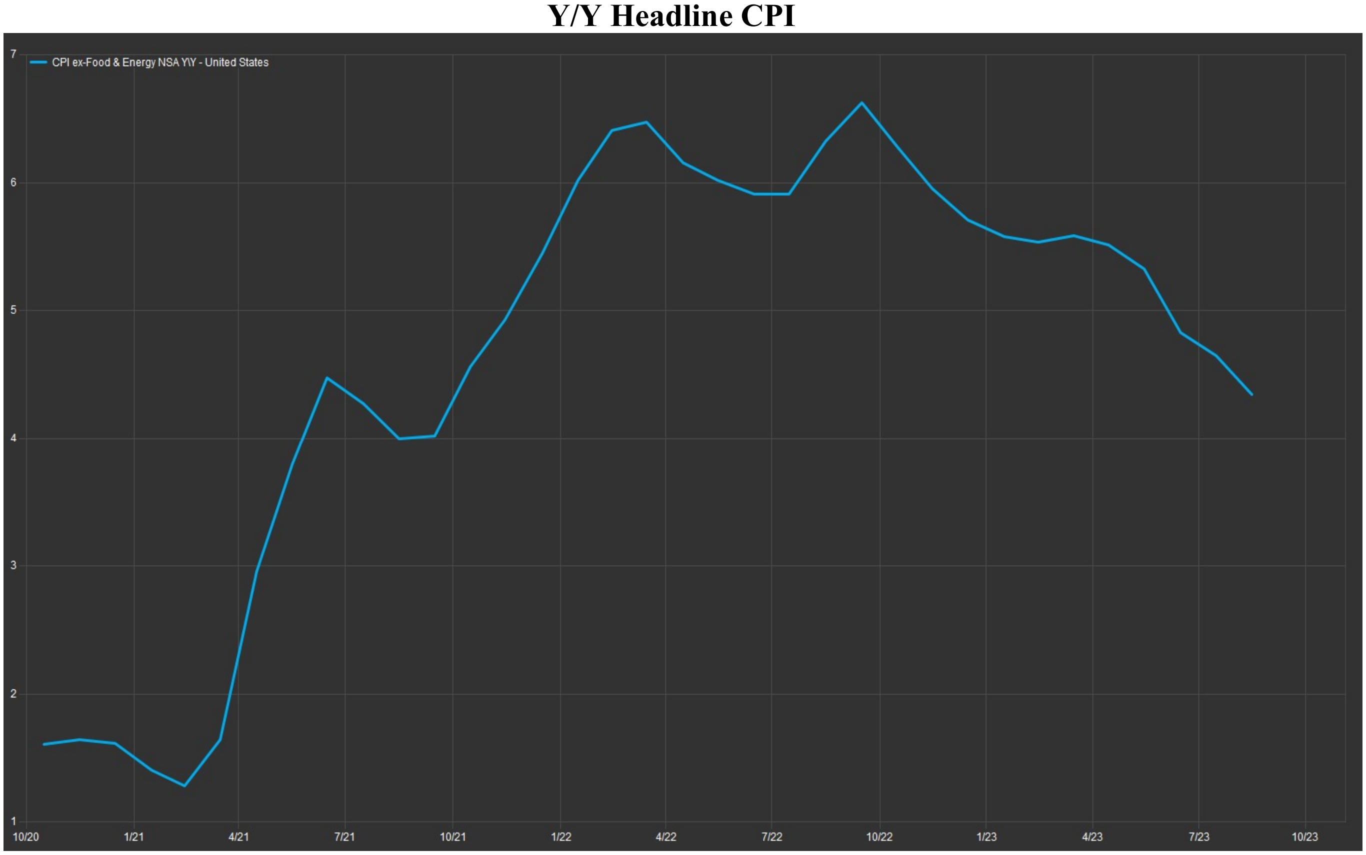
**M/M Change in Nonfarm Payrolls**




*Source: FactSet; as of October 6, 2023*

Inflation is cooling (see chart below) but remains sticky at levels above the Fed's stated 2% target. The September Core CPI released on Wednesday showed year-over-year inflation at 4.1%, slightly down from 4.3% in August and 4.7% in July.

**Y/Y Headline CPI**




*Source: FactSet; as of October 12, 2023*

## Conclusion

There is much to be worried about in the world, as is often the case. But markets frequently climb the "wall of worry," and stocks are entering their seasonally stronger period of the calendar. We remain hopeful, and like a good Boy Scout, prepared for whatever may come. The team at PDS Wealth wishes you and your family a safe and healthy finish to 2023.

Paul Spencer, CFA®

Director