

PDS WEALTH MANAGEMENT



Quarterly Investment Report – Q3 2024

“October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February.” -Mark Twain

Welcome to the fourth quarter and one of the most perilous months for stock investors, along with all the others, as Mr. Twain reminds us above. Since our last memo in July, there has been a flurry of economic and geopolitical news flow – assassination attempts, a new Democratic party nominee, escalating conflicts in the Middle East, and interest rate cuts here and abroad, just to name a few. As residents of the Southeast US are recovering from Hurricane Helene and Milton is barreling towards the west coast of FL as a major hurricane, there is much to keep an eye on.

Below we take a quick trip down memory lane to the third quarter, reviewing the market and economic highlights. Please reach out if we can answer any questions or offer further insights.

Markets

Stocks

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



Source: FactSet; as of September 30, 2024

Stocks declined in July and into early August, punctuated by a 1000 point decline in the Dow Jones Industrial Average on August 5th as volatility in currency markets (the Japanese Yen) rippled across markets. The fear was short-lived, however, as interest rate relief came into focus and economic indicators remained robust. Overall, in Q3 the S&P 500 rose 5.9%, the Nasdaq composite gained 2.8%, and in a changing of the guard from previous quarters, the Dow Jones Industrial Average led the indices higher, tacking on 8.2%.

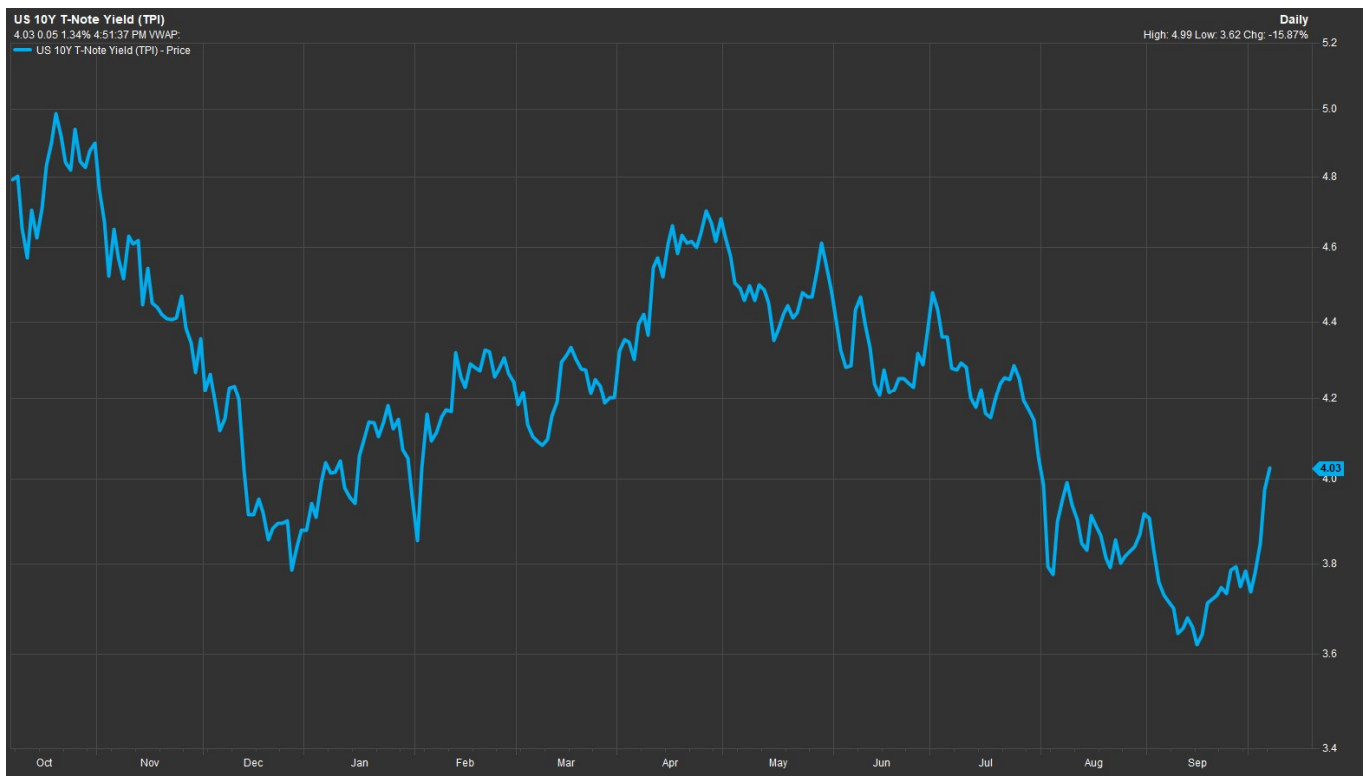
Interest rate sensitive sectors were the best performers in Q3 - Utilities posted a 19.4% gain followed closely by a 17% rise for the Real Estate sector. Industrials, Financials, Materials, Consumer Discretionary, and Staples all added between 8-12%; Healthcare gained 6%. Technology and Communication Services were relative laggards, increasing between 1-2%, while Energy was the only sector to lose ground, falling 2.3% as oil prices remained under pressure.

A typical election year sees some volatility (around now) heading into the election before seasonal tailwinds kick in. Hopefully we'll have a definite result on November 6th and will be able to return our focus to what comes next. At least the political ads will stop.

Bonds

Bond prices enjoyed a rebound in Q3 as interest rates moderated in anticipation of the Fed's first interest rate cut since the Covid era, which arrived in mid-September. The Bloomberg Barclays Aggregate Bond Index has returned 4.5% year-to-date, with most of that upside coming in Q3. During the quarter, the yield on the 10-year Treasury Note fell by 58bps to 3.8%, though it has since rebounded to over 4% in the first weeks of Q4.

10-Year US Government Note Yields

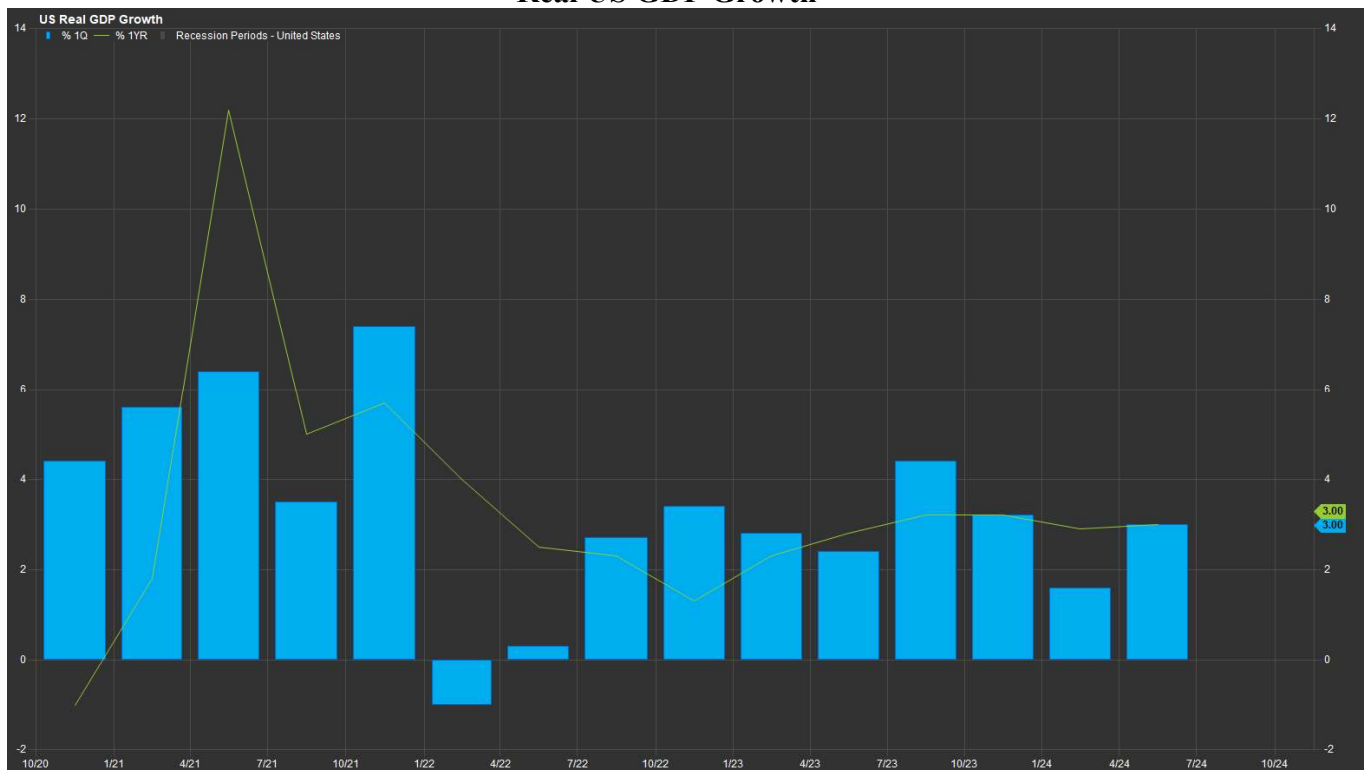


Source: FactSet; as of October 7, 2024

Economics

After months of laying the groundwork, the Federal Reserve Board delivered their first interest rate in years, trimming the Fed Funds rate by 50bps, to 5%, in mid-September. Cutting interest rates with GDP still robust (+3% in Q2) is not the usual order of economic cycles, usually things are weakening rapidly or falling apart entirely...

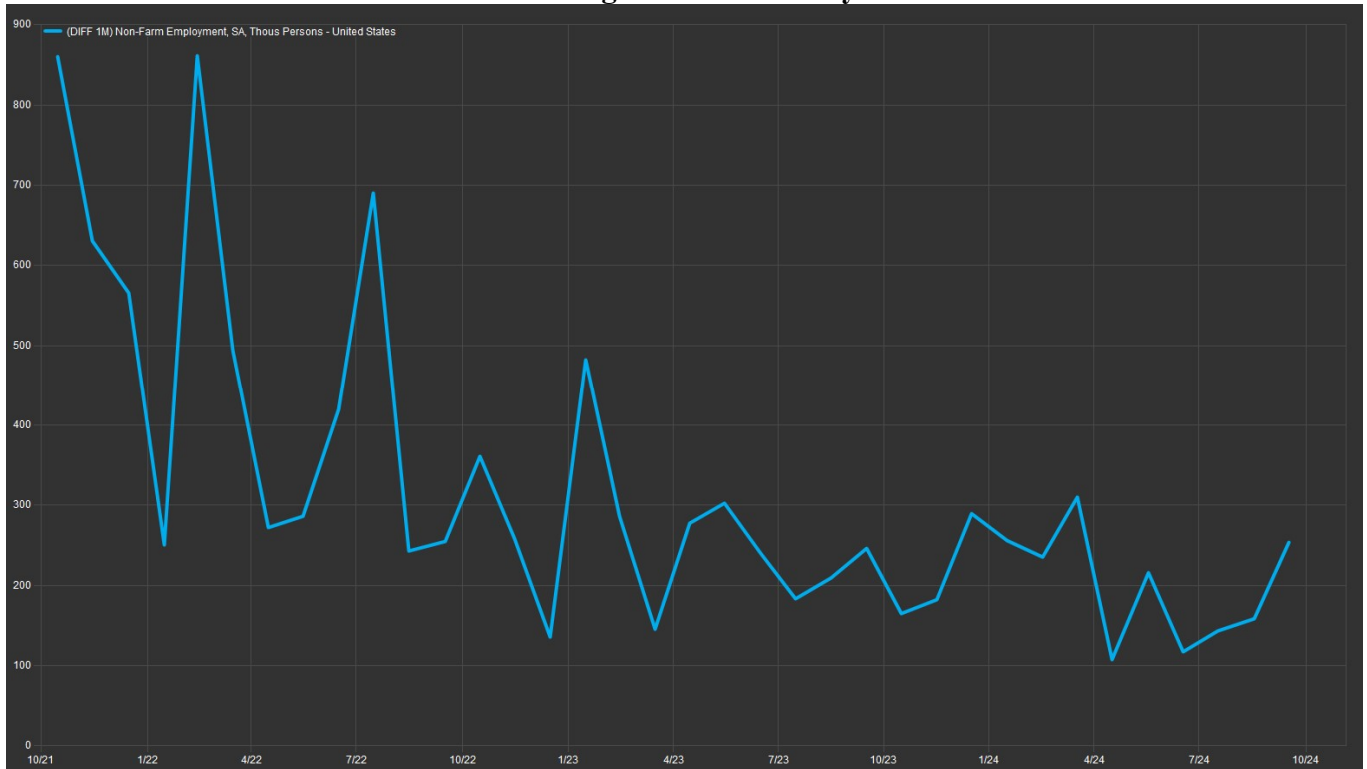
Real US GDP Growth



Source: FactSet; as of June 27, 2024

...but job growth stalled in the spring and into summer, which opened the door for lower rates.

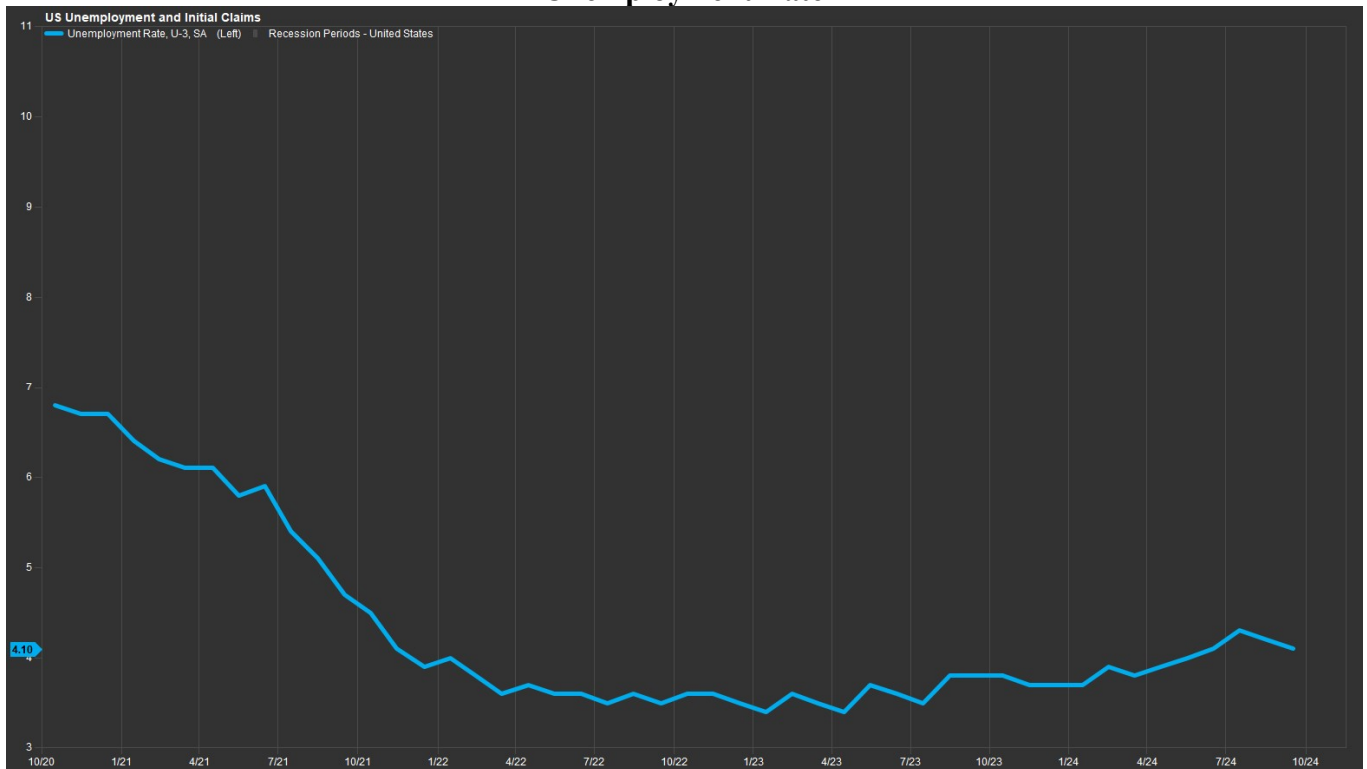
M/M Change in Nonfarm Payrolls



Source: FactSet; as of September 30,, 2024

The unemployment rate also ticked higher, which has the Fed's attention, especially with an approaching election (interestingly, much of the recent job growth is coming from government hires).

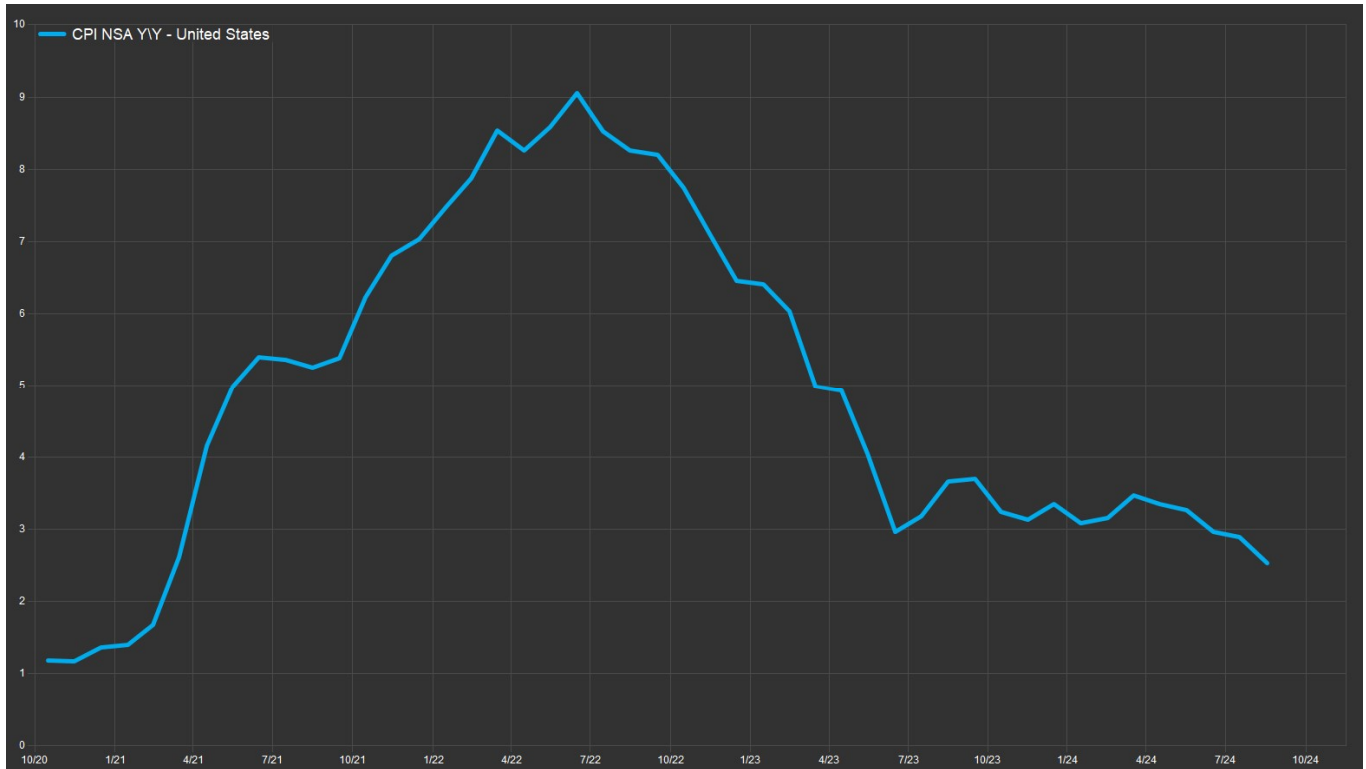
Unemployment Rate



Source: FactSet; as of September 30, 2024

And with inflation moderating, the Fed is able to concentrate more on the employment side of their dual mandate.

Y/Y Headline CPI



Source: FactSet; as of August 30, 2024

Current expectations are for further cuts of 25bps at both the November and December meetings this year and another 100-125bps over the course of 2025.

Conclusion

As Milton approaches the west coast of Florida, we wish you a healthy, safe, and peaceful Q4 and holiday season. If we can offer any guidance or assistance, please don't hesitate to reach out.

Paul Spencer, CFA®

Director

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