PDS WEALTH MANAGEMENT

Quarterly Investment Report – Q4 2022

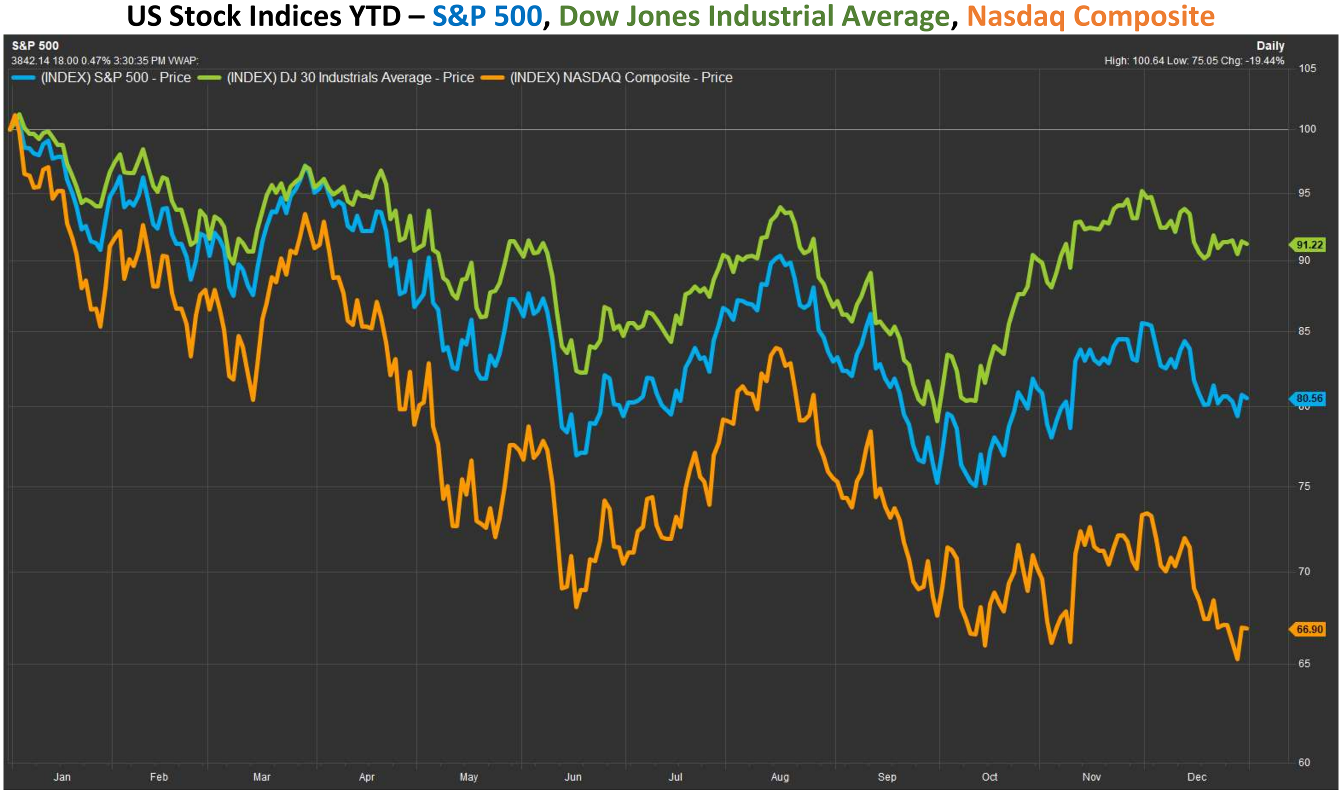
2022 was a year that most investors are glad to have in the rear-view mirror. Markets were under pressure and volatile. The Fed embarked on an aggressive tightening cycle as inflation, which they previously considered to be "transitory," proved to not be so. Layer in the removal of COVID-era stimulus and the Russian invasion of Ukraine, and the fix was in for a challenging year.

2022 was the first year in history in which both bonds and stocks declined by more than 10%, and only the third time in 50 years where both fell in tandem. On the bright side, barring a nasty recession, markets have historically rebounded in years following such performance.

Markets Review

Stocks

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



Source: FactSet as of 12/31/2022

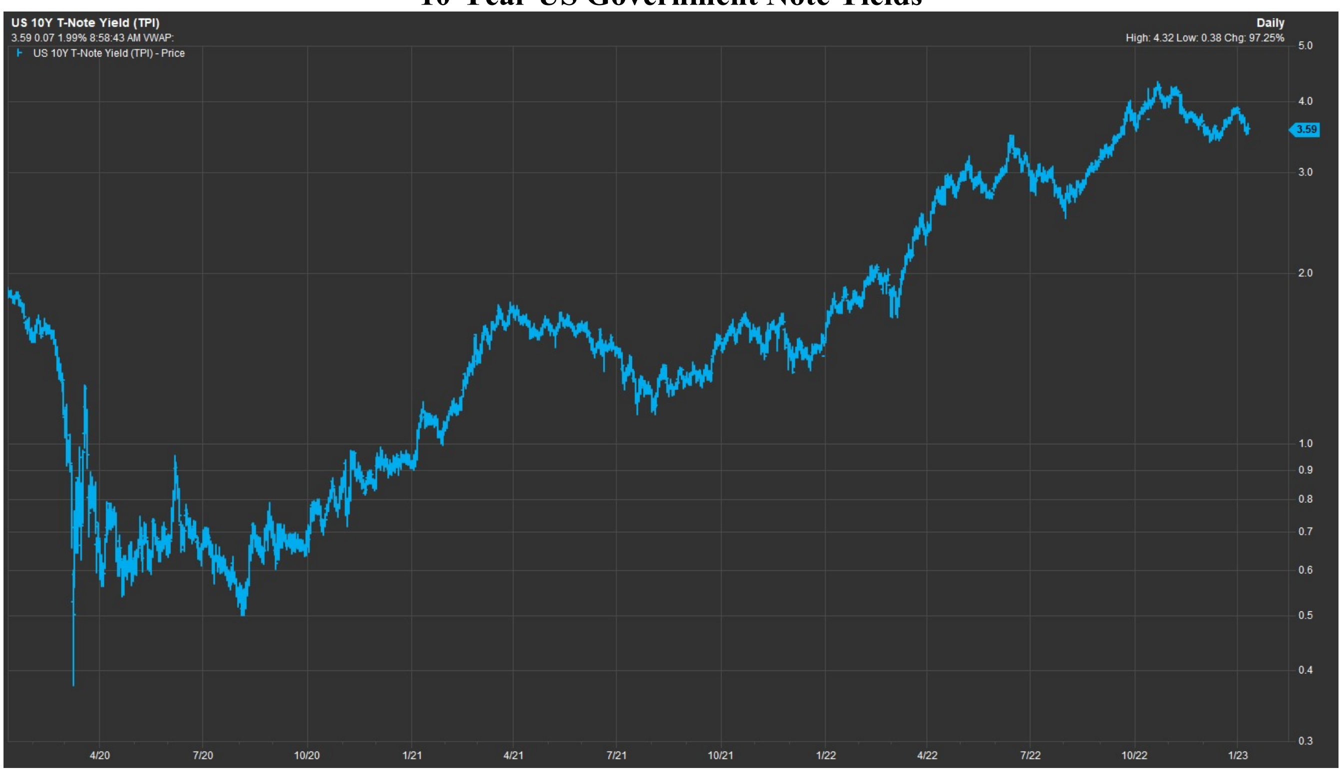
Would you believe that the stock market made a new, all-time high in 2022? It did just that. The S&P 500 reached its zenith on January 3rd, the first trading day of the year, before coming under pressure for the remainder. As the chart above illustrates, all the major US indexes fell in 2022, but to varying degrees. The Dow Jones Industrial Average lost "only" 9% while the Nasdaq dropped 33%. Performance for the S&P 500 landed in the middle with a 19% slide. The 4th quarter wasn't all that bad, however – the S&P 500 rose 7.6% in the final three months to close out a year to forget.

The Communication Services and Consumer Discretionary sectors suffered the worst in 2022, falling 39% and 37%, respectively, followed closely by Technology with a 28% slide. Utilities managed to eke out a 1.6% gain while two other defensive sectors, Healthcare and Consumer Staples, fell between 0-2%. Energy was the standout group to the upside, posting gains of 66% (!), boosted by tight supply demand dynamics in oil and natural gas and heavily influenced by Russia's invasion of Ukraine.

Bonds

The bond market offered no reprieve for weary investors in 2022. The Barclays Aggregate Bond Index fell 13%, by far the worst performance in its 47-year history. Rates on the 10-year US Government Note, shown in the chart below, began the year around 1.5%, topped out at 4.3% in October, and closed the year at 3.9%.

10-Year US Government Note Yields



Source: FactSet as of 01/06/2023

Economic Review

While the markets rode a downward-sloping rollercoaster for much of the year amidst the fastest rate hiking cycle in history, the economy overall was relatively robust. Inflation, the Fed's primary concern currently, remains elevated. Jobs are plentiful and unemployment is hovering near historic lows.

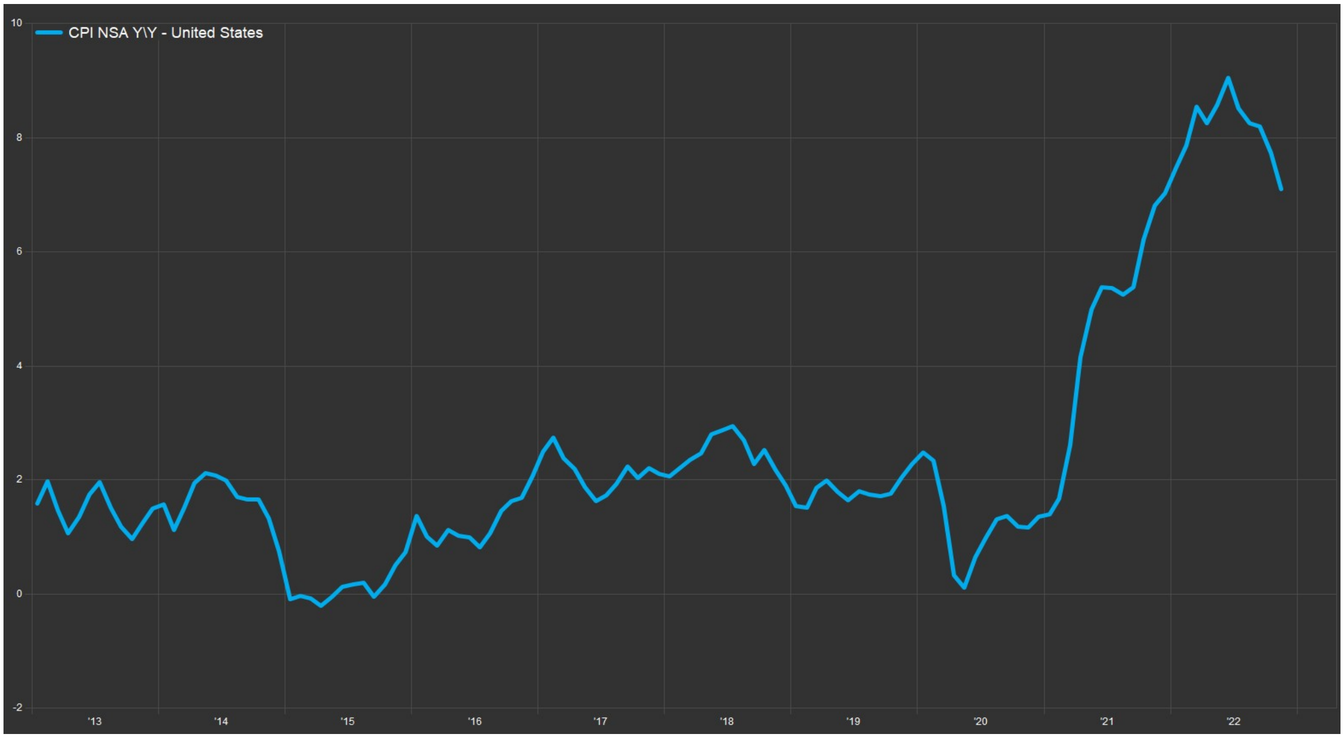
If you take them at their word, the Fed will continue raising rates until they have vanquished inflation, regardless of an uptick in unemployment or if they cause a recession, which is apparently a foregone conclusion if you believe the talking heads on the financial news networks.

Fed members currently project a peak Fed Funds rate of over 5% in the coming months. It is worth remembering, however, that at the beginning of 2022, Fed governors were forecasting just a handful of rate increases for the whole year and had yet to put a stop to their aggressive quantitative easing program. Keep that in mind while the financial networks obsess over their every word.

Inflation/ Employment

As visualized in the chart below, prices are trending downward but remain elevated compared to history and to the Fed's 2% inflation target. While the trend is encouraging….

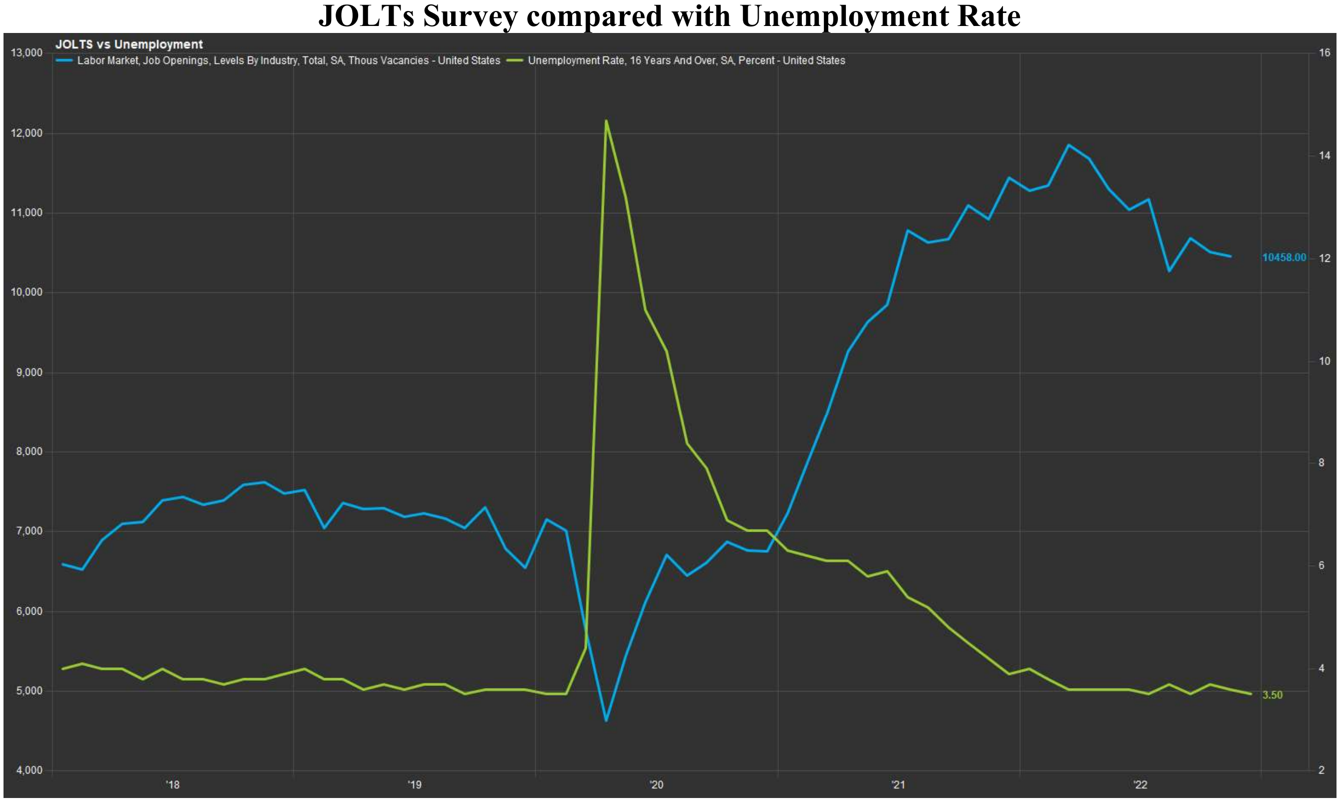
Y/Y Headline CPI



Source: FactSet as of 12/13/2022

...the Fed wants to see the below lines converge (job openings compared with the unemployment rate) to help cool upward wage pressure.

JOLTs Survey compared with Unemployment Rate



Source: FactSet as of 01/04/2023

Conclusion

With 2022 in the rear-view mirror, it's time to look ahead and drive on. As mentioned in last quarter's missive, the markets may be the best predictors of future events and often discount the news in advance of it happening.

We won't claim to know exactly where we're headed, but the worst may be behind us. If you need any help navigating, give us a call.

Wishing you and your family a healthy and prosperous 2023!

Paul Spencer, CFA®

Director