# PDS Wealth Management

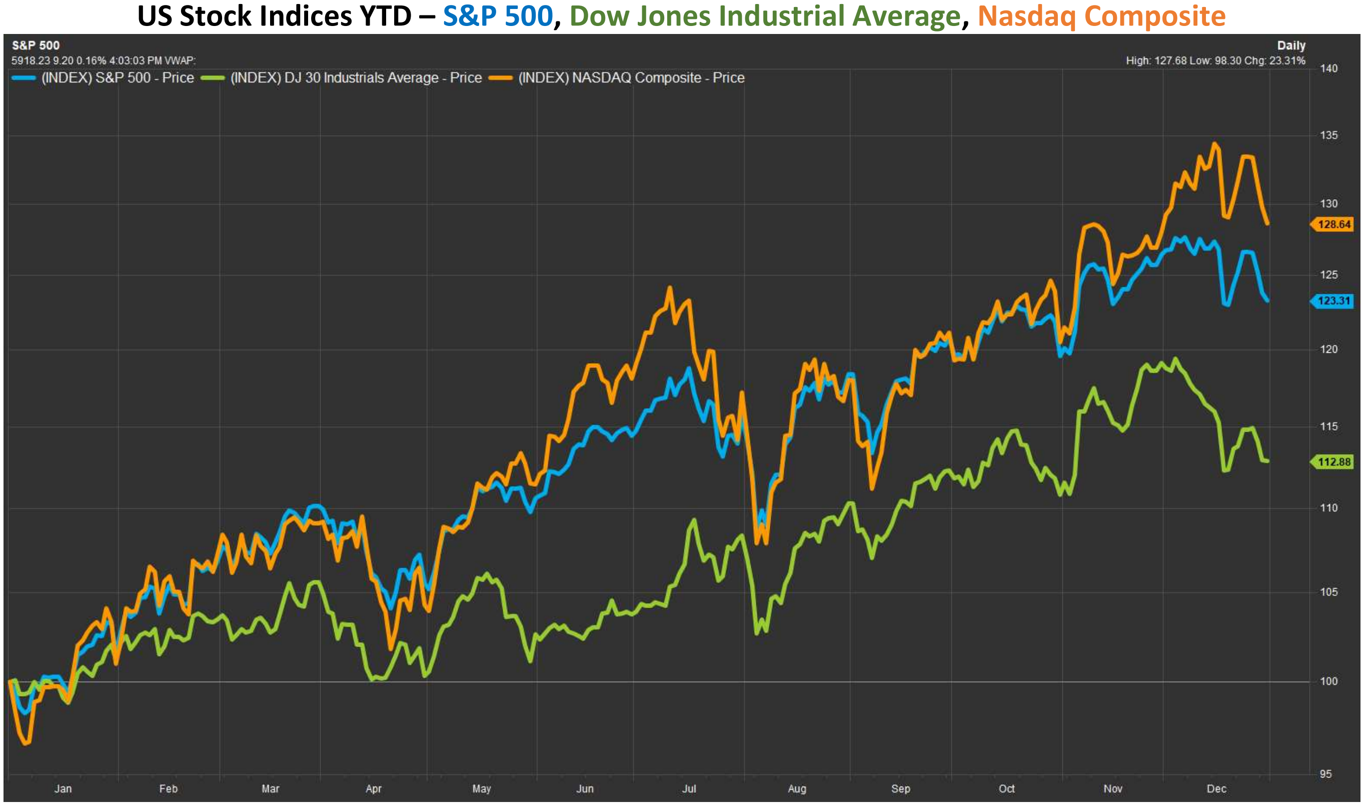
## Quarterly Investment Report – Q4 2024

Greetings and Happy New Year from PDS Wealth! We hope 2025 finds you and your family safe, healthy, and well-rested ahead of what promises to be an eventful year. With a new political regime in place, we will be keeping a close eye on policy changes that may impact markets and your investments. For now, though, we take a look back at Q4 of last year, which saw devastating hurricanes, continuing geopolitical upheaval abroad, and a historic election at home. Please let us know if we can answer any questions or offer any guidance.

## Markets

### Stocks

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




*Source: FactSet; as of December 31, 2024*

Stocks posted modest gains in the fourth quarter, most of which occurred following the November election and before a December slide as the "Santa Clause" rally failed to materialize. For the full year, the Dow Jones Industrial Average delivered a total return (including dividends) of 12.8%, the S&P 500 rose 25%, and the Nasdaq gained 29.6%.

Growth sectors enjoyed the greatest upside in 2024 with Communication Services adding over 40%, followed by a 37% return for Technology and 30% gains for Financials and Consumer Discretionary. Despite the headwind of rising interest rates, and powered by the AI craze, Utilities posted a +23.4% return. The Consumer Staples and Industrials sectors both delivered mid-teens returns while Energy, Real Estate, and Healthcare were relative laggards with respective gains of 5%, 5%, and 2.6%. Materials were flat.

Value stocks lagged growth stocks by ~15% in 2024, though that trend has reversed modestly so far in 2025. Most international stock markets lagged US markets - the MSCI EAFE Index posted a gain of 8.4%.

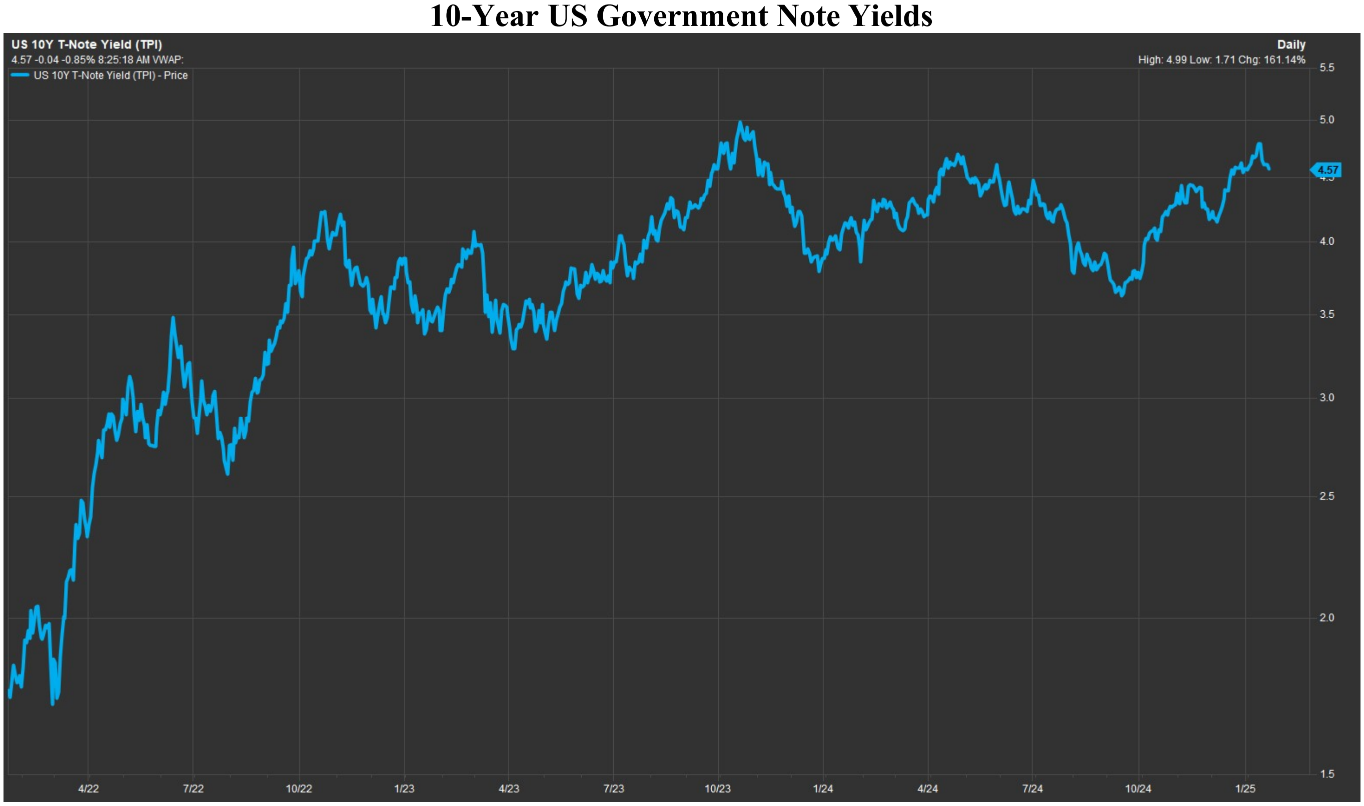
As we point out from time to time, over the last 45 years, the S&P 500 has seen an average intra-year pullback of 14.1%. The last two years, however, have only suffered drawdowns of 10% and 8%, respectively, so a more significant shakeout should not come as a surprise whenever it arrives.

## Bonds

Since the Federal Reserve commenced its rate cutting cycle in September with a 50bp cut (followed by 25bp cuts in both November and December), longer-dated yields have risen sharply, pressuring bond prices and triggering some angst across currency and stock markets.

As the chart below shows, the recent lows for the 10-Year Treasury Note (~3.5%) coincided with the September rate cut. Since then, 10-year yields ramped to 4.58% by year-end and just touched over 4.8% last week.

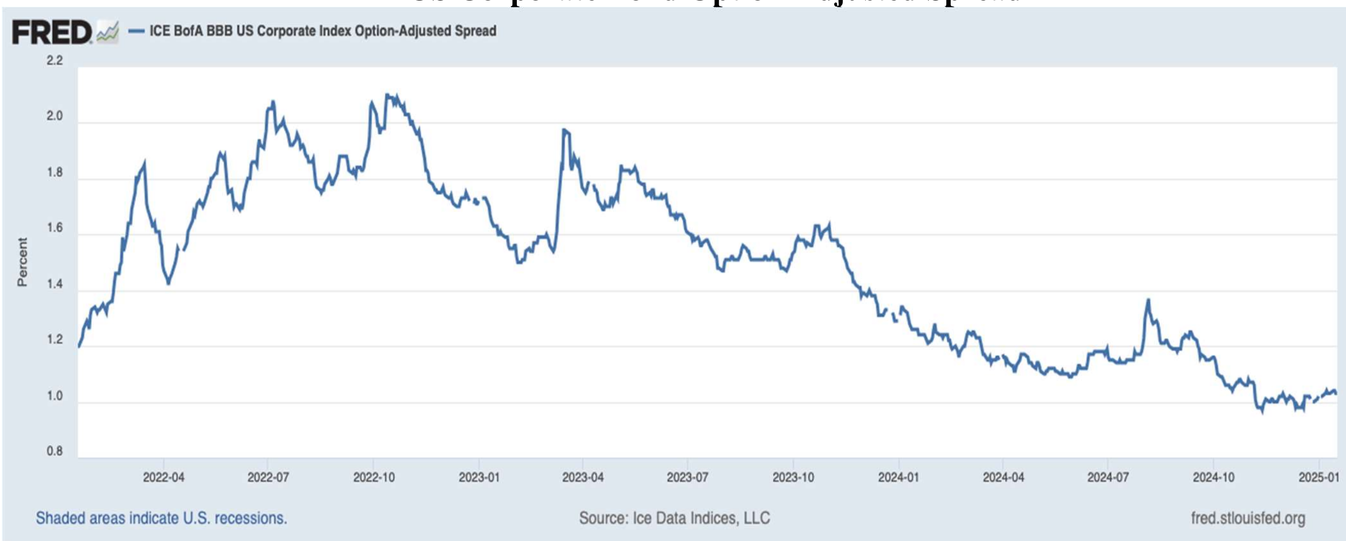
**10-Year US Government Note Yields**




*Source: FactSet; as of January 21, 2025*

For 2024, the US Aggregate Bond Index eked out a 1.25% total return, the S&P 500 Bond Index (investment-grade corporate bonds) delivered 2.1%, and the S&P 500 High Yield Corporate Bond Index returned 8.7%. As visualized in the below chart, corporate bond spreads are hovering at low (tight) levels, indicating a healthy near-term outlook for the corporate sector.

**BBB US Corporate Bond Option-Adjusted Spread**

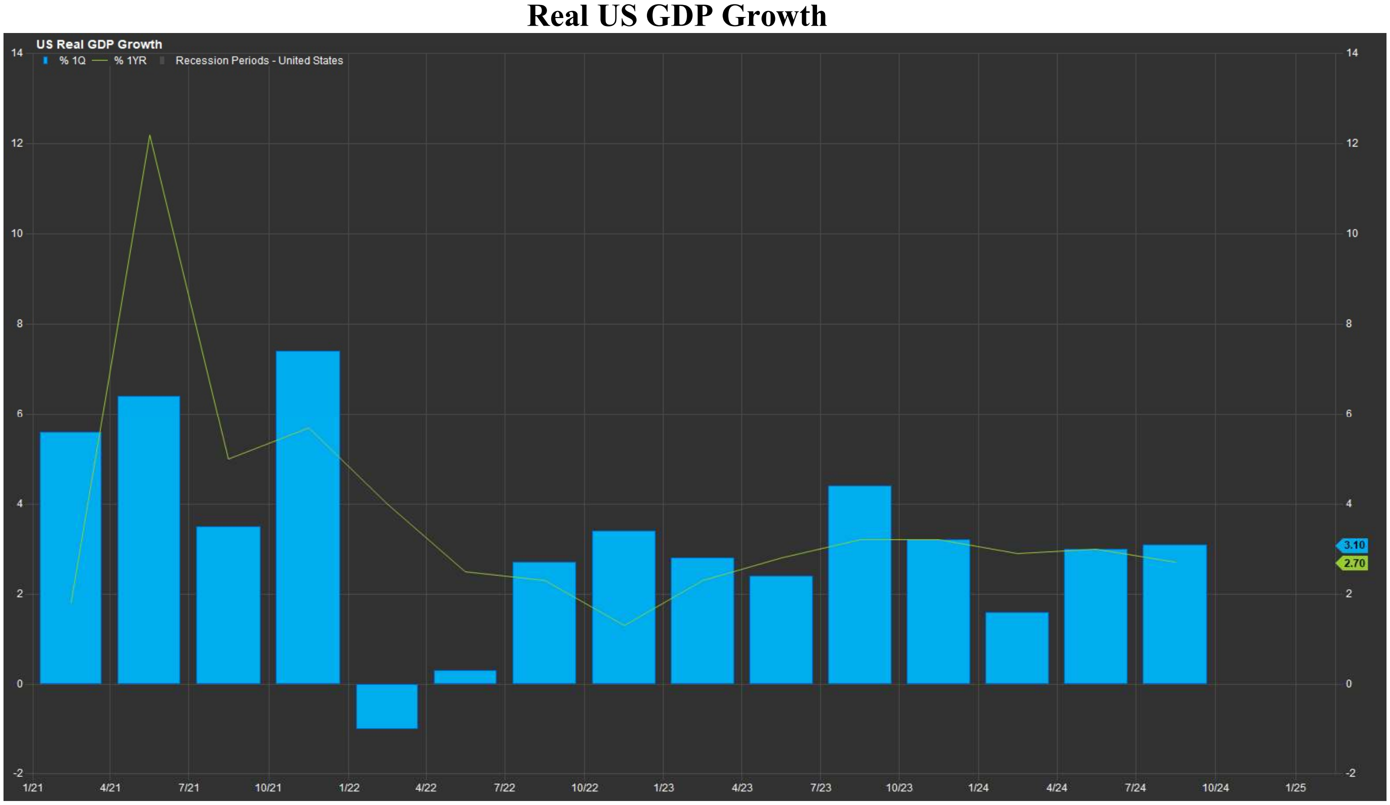



*Source: St. Louis Federal Reserve; as of January 16, 2025*

## Economics

It sounds like a broken record quarter after quarter, but the economy remains strong – other than a modest 1.6% reading in Q1 2024, real GDP growth has held steady at ~3% and is forecasted to have grown by a similar amount in Q4.

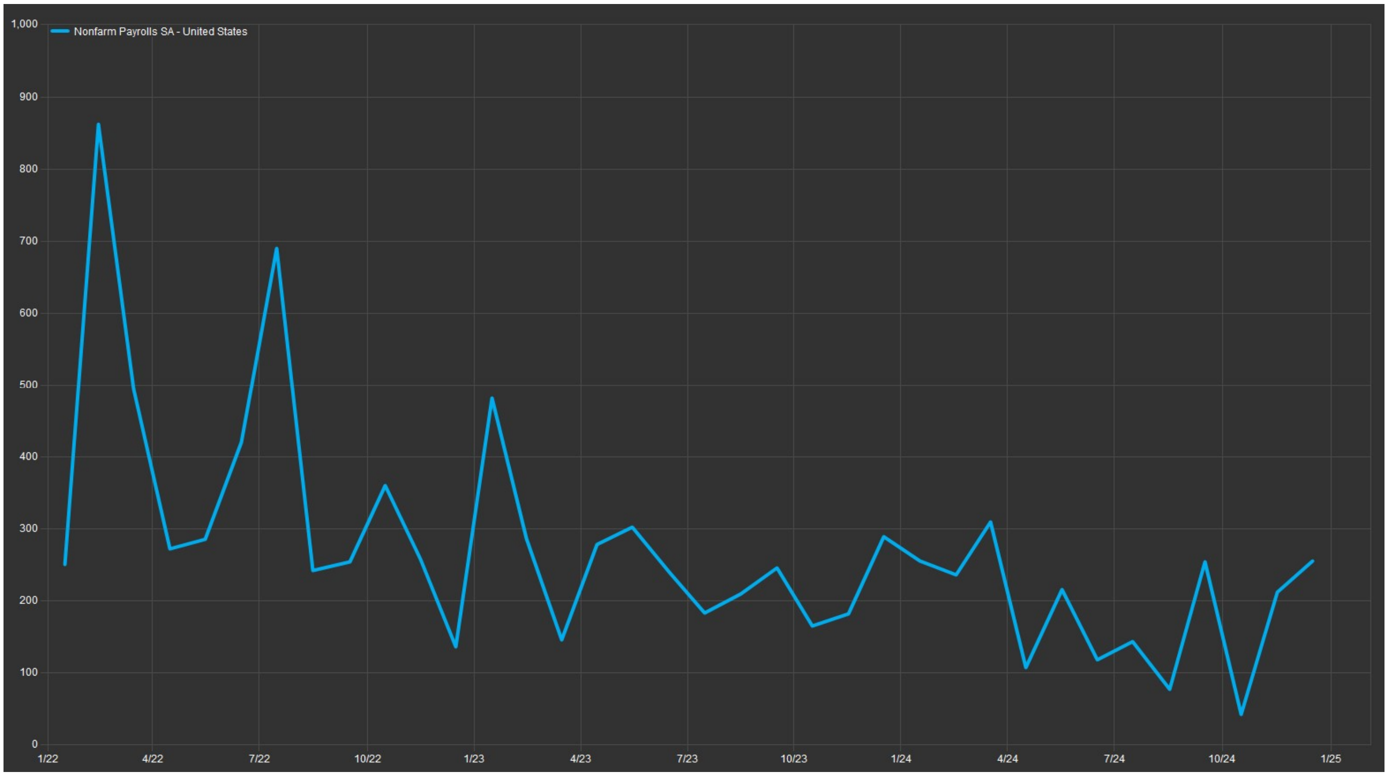
**Real US GDP Growth**




*Source: FactSet; as of October 30, 2024*

Job growth has been volatile in recent months, but remains positive with the most recent reading over 200,000…..

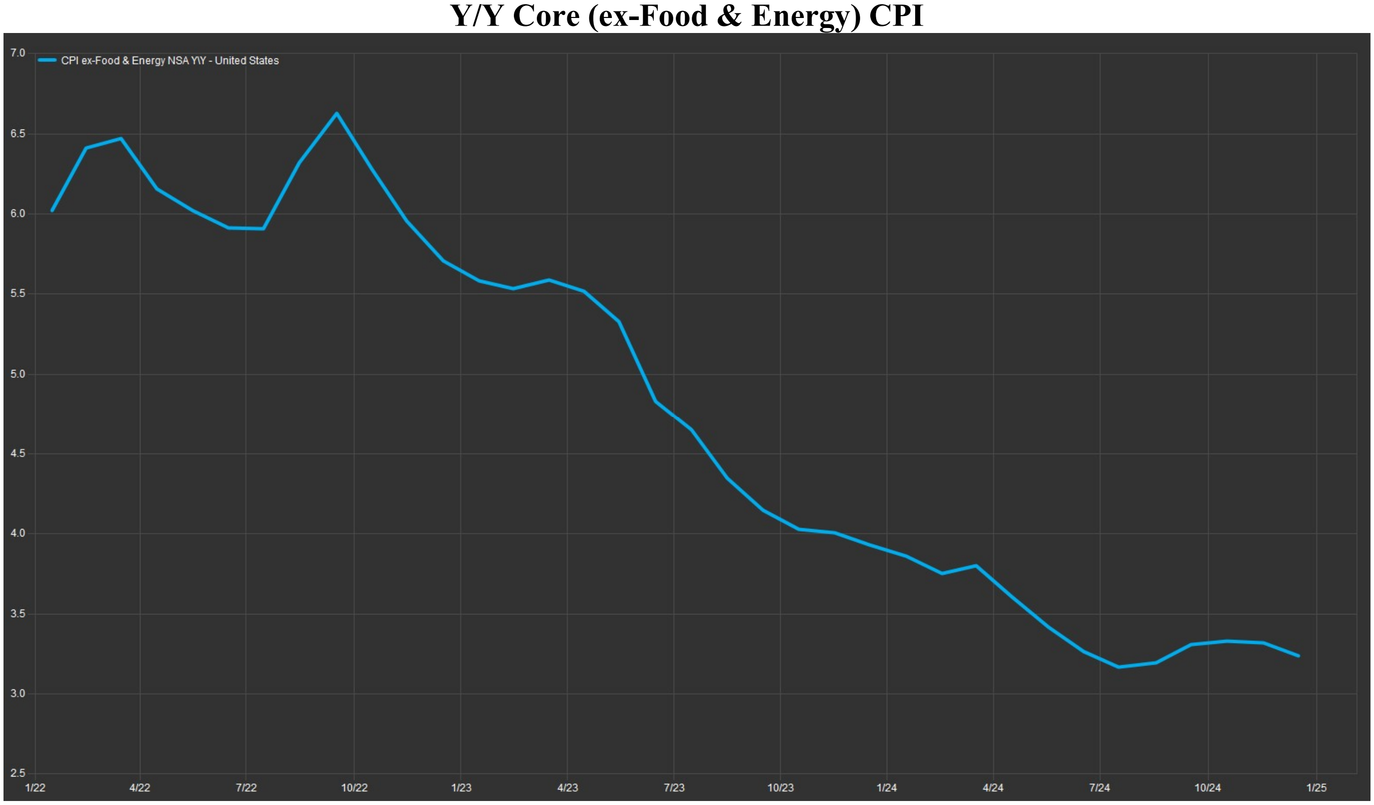
**M/M Change in Nonfarm Payrolls**




*Source: FactSet; as of January 10, 2025*

….and the focus remains on inflation, which has moderated but hovers stubbornly above the Fed's 2% target.

**Y/Y Core (ex-Food & Energy) CPI**




*Source: FactSet; as of January 15, 2025*

Current expectations for further rate cuts are mixed for 2025. Forecasts range from none to two 25bp cuts for the year, but given the strength of the economy and still elevated inflation, it is likely the Fed will be on "pause" for the time being.

## Conclusion

There is sure to be a torrent of news flow in the coming weeks as the Trump administration begins implementing policies, many of which will impact the financial markets. We will be watching closely and will make adjustments as needed but expect some patience will be required to discern actual policy impacts from headlines.

We wish you a safe, healthy, and prosperous 2025! Please let us know if we can provide any assistance or guidance throughout the year.

Paul Spencer, CFA®

Director

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