First Citizens
Wealth Management

Making **Sense**

Quarterly Market Review

Third Quarter 2023

Capital Management Group

10/3/2023

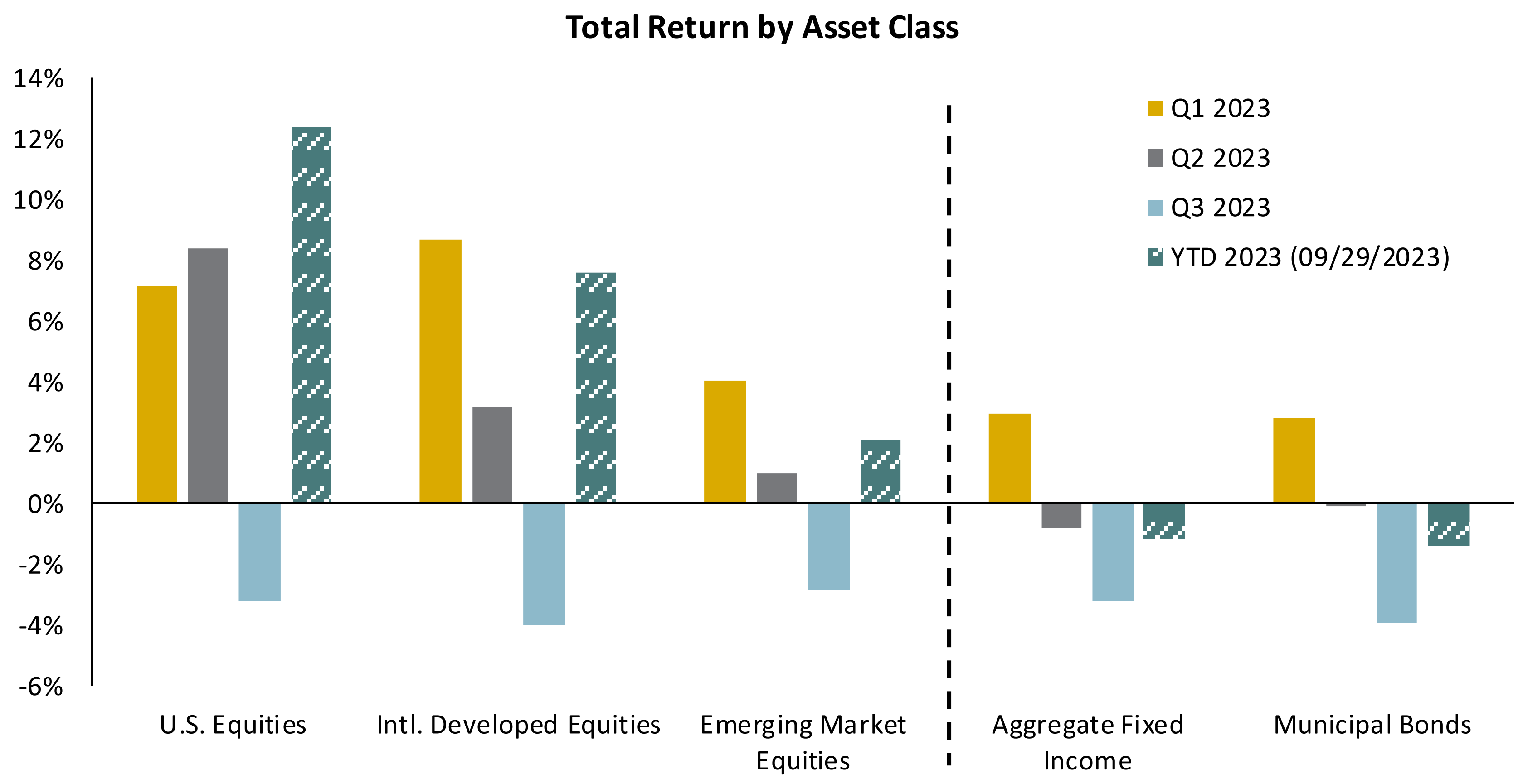
Global Markets

The third quarter was characterized by negative asset returns and sharply higher bond yields. Global growth concerns persisted, even as investors came to terms with higher-for-longer interest rates. Additionally, a material rise in the price of crude oil renewed inflation worries.

Global equity markets rallied in July but returns faded in August and September as investors assessed elevated valuations and the prospect of persistently tight monetary policy. For the quarter, US stocks fell 3.3% (total return), outperforming international developed (-4.0%) but underperforming emerging market equities (-2.9%). Year-to-date, equities have rallied, particularly in the US, with the Russell 3000 returning 12.4% through September.

Aggregate fixed income sold-off -3.2% during the quarter, while municipal bonds fell 4.0%. Year-to-date, bond total returns are now negative with aggregate fixed income down 1.2% and municipal bonds off 1.4%.

Global Markets: Lower During Q3



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond

US Equity Performance

In a reversal of the year-to-date trend, value outperformed growth during the third quarter (left). Large-cap companies continued to outperform mid and small during the quarter.

Performance might have broadened out marginally in the third quarter, but year-to-date (right side), US equity performance has been dominated by large-cap growth. Mid-cap, small-cap, and value have lagged as a select few large-cap growth stocks have led the overall market.

US Equity Performance

QTD US Equity Returns As of 09/29/2023			
	Value	Blend	Growth
Large	-2.4%	-2.7%	-2.8%
Mid	-4.5%	-4.7%	-5.2%
Small	-3.0%	-5.1%	-7.3%

YTD US Equity Returns As of 09/29/2023			
	Value	Blend	Growth
Large	2.4%	16.2%	28.5%
Mid	0.5%	3.9%	9.9%
Small	-0.6%	2.5%	5.2%

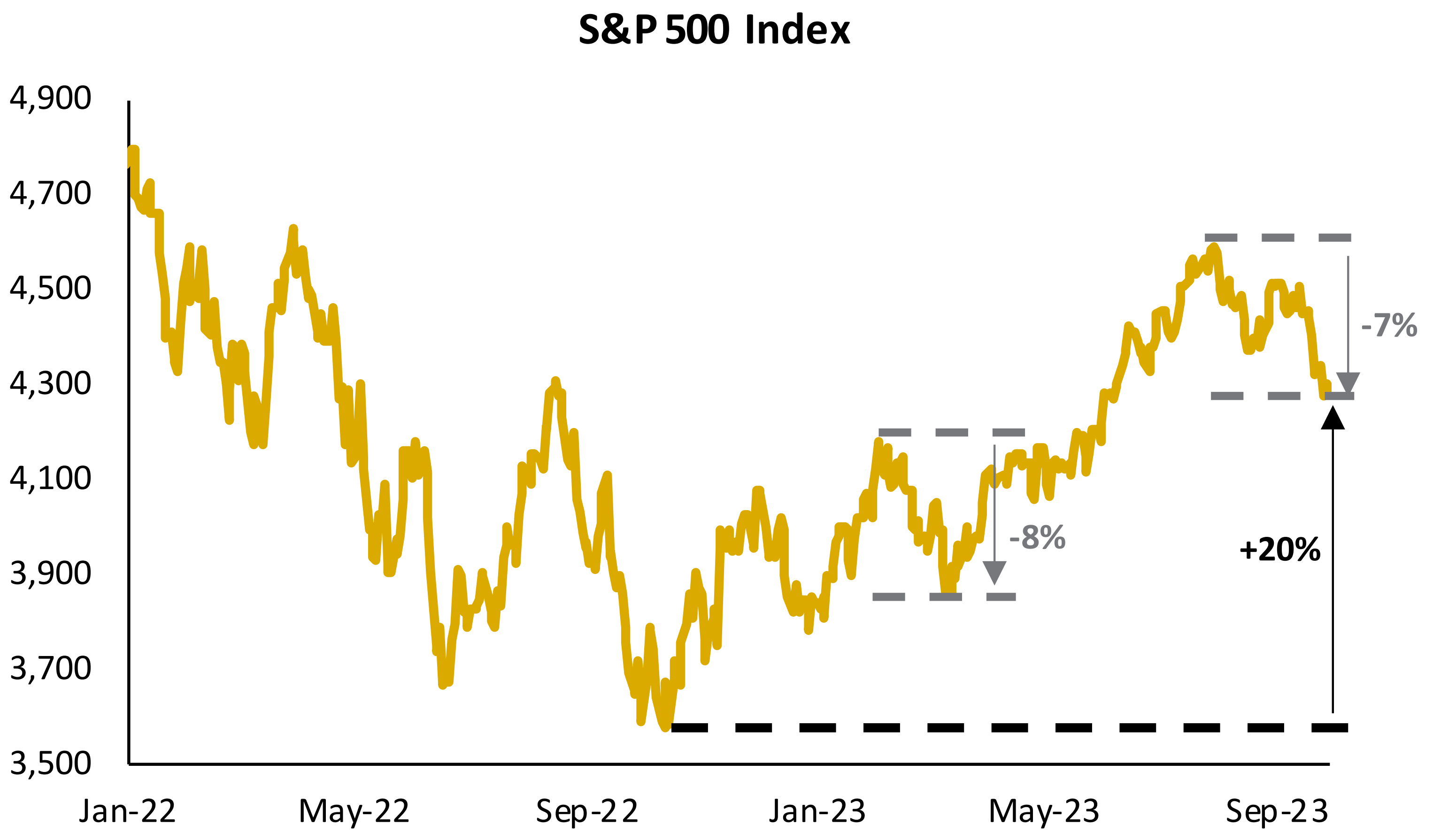
Source: Bloomberg. Note: Chart data represents Russell Top 200, Russell Midcap, and Russell 2000

US Equity Performance

As of quarter-end, the S&P 500 rallied 20% since its October 2022 low but has not reached the January 2022 record high. The closest the index has come this year to that all-time high was 4.3% on July 31st.

Given persistent macro concerns, the US stock market has been resilient in 2023. The market sold-off 8% during the first quarter regional banking crisis, and its peak decline during the recent sell-off since July 31st is 7%, so far. The average intra-year sell-off in a given year since 1990 is 15%.

The S&P Has Rallied 20% Since October



Source: Bloomberg

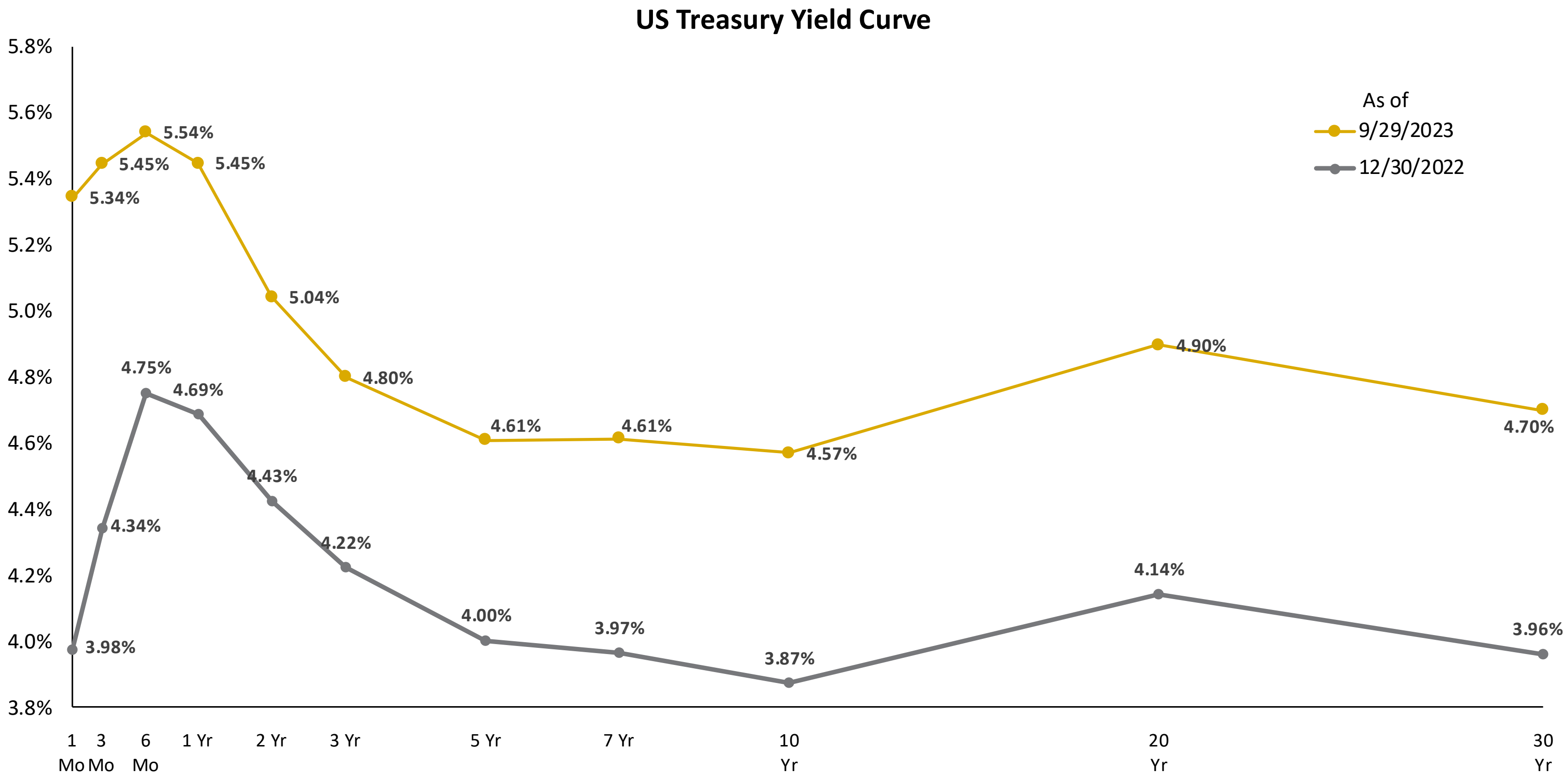
Fixed Income

Government bond yields rose sharply during the third quarter, as investors came to the realization that monetary policy could remain tighter for longer. The 2-year and 10-year Treasury yielded 5.04% and 4.57% at quarter-end, respectively.

As the chart shows, Treasury yields are materially higher than at the start of the year and the yield curve remains inverted. Treasury yields are achieving levels not seen since before the Great Financial Crisis. The 10-year yield, for example, hit its highest level since 2007 during the third quarter.

Driving short-term yields, the Federal Open Market Committee raised the federal funds rate 0.25% during the quarter, bringing the overnight rate to a range of 5.25%-5.50% at quarter-end. The FOMC opted to raise the overnight rate in July but leave it unchanged at their September meeting.

US Yield Curve Remains Inverted



Source: Bloomberg

Fixed Income

Yields are quite attractive compared to their levels seven quarters ago. This is true across Treasuries, investment grade, high yield, and municipals bonds.

The aggregate bond index, for example, was yielding 5.39% at quarter-end 3.1 times higher than its 1.75% yield at the end of 2021. Prior to the sharp increase in yields last year, late - 2008 was the last time the aggregate bond index yielded over 5.0%. Investors are now finally able to generate excess yield from risk-managing assets.

Yield Levels Remain Attractive

US Fixed Income Indices		
	Yield-to-Worst	
Index	12/31/2021	9/29/2023
2-Year Treasury	0.73%	5.04%
10-Year Treasury	1.51%	4.57%
Aggregate Bond	1.75%	5.39%
Intermediate Government/Credit	1.30%	5.23%
Municipal Bond	1.11%	4.32%
Investment Grade Corporate Bond	2.33%	6.04%
High Yield Corporate Bond	4.21%	8.88%

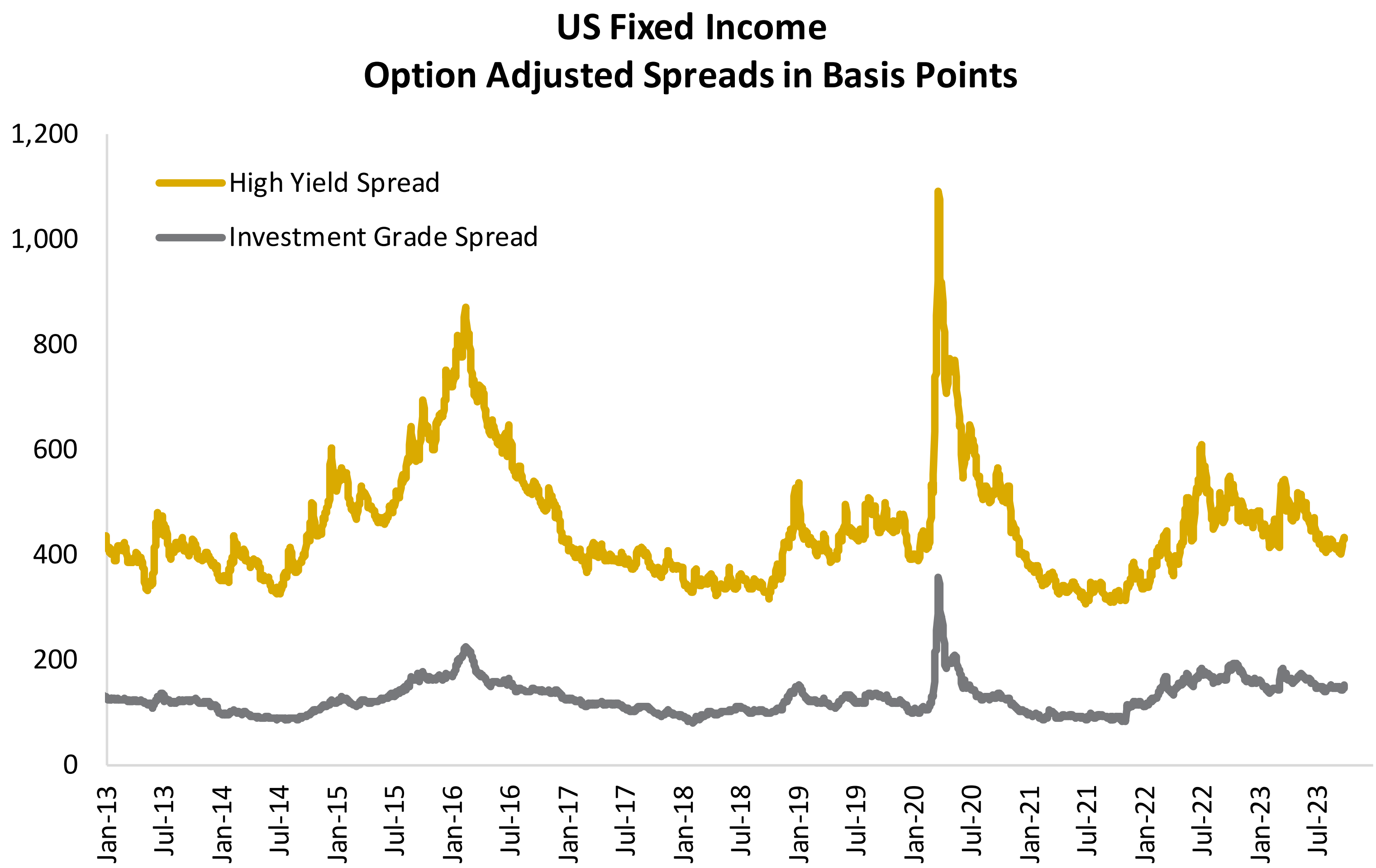
Source: Bloomberg

Fixed Income

Credit spreads for investment grade bonds widened slightly during the quarter, and high yield corporate bonds were essentially unchanged. As the chart shows, spreads remain tight compared to history. We should note, spreads might have been relatively flat compared to the prior quarter-end but did widen in late-September during the equity market sell-off.

Credit spreads are a good proxy for perceived risk, and fixed income markets are not currently pricing an imminent dislocation. We would expect to see a further widening of spreads before any severe economic downturn.

Credit Spreads Still Tight



Source: Bloomberg

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