First Citizens Wealth Management

Making **Sense**

Quarterly Market Review

First Quarter 2024

Capital Management Group

4/1/2024

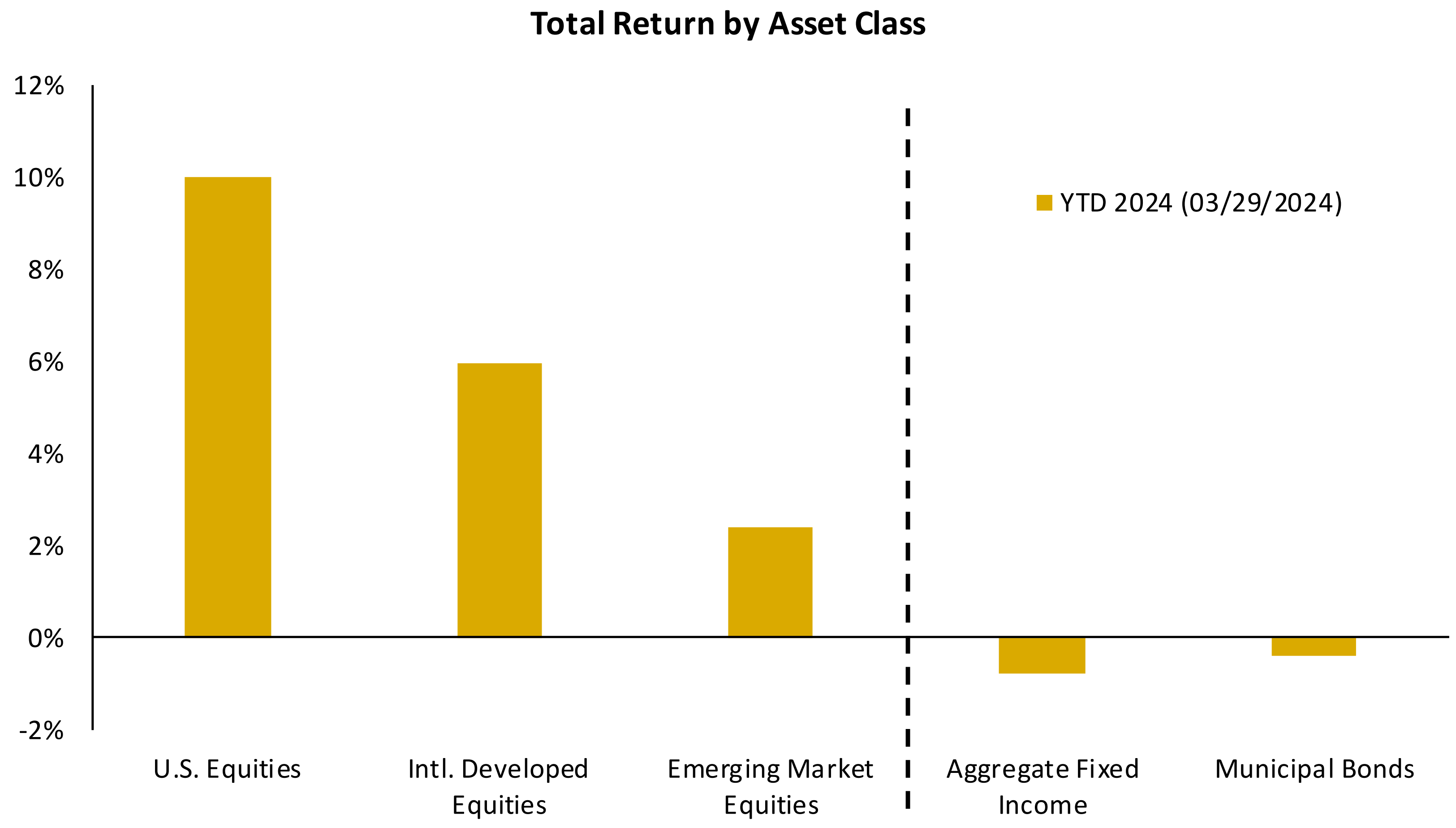
Global Markets

The first quarter delivered substantially higher asset returns and a rebound in bond yields. The outlook for rate cuts was pushed back somewhat, but markets still expect easier monetary policy this year. The US dollar strengthened, and crude oil prices rose.

Global equity markets rallied in each month of the first quarter, as the stock market rally continued. For the quarter, US stocks rose 10.0% (total return), outperforming international developed (+5.8%) and emerging market equities (+2.1%).

Aggregate fixed income sold-off 0.8% during the quarter, as bond yields rose sharply. Similarly, municipal bonds lost 0.4% in total return terms.

Global Markets: Equity Rally in Q1



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

US Equity Performance

As had been the story for much of last year, growth outperformed value across the market cap spectrum in the first quarter. Small-cap value stocks lagged the broader market as bond yields rebounded somewhat after falling in Q4.

Large companies have, once again, led the market so far this year, but there is evidence of a recent broadening of returns. In fact, the equal-weighted S&P 500 has outperformed the market capitalization-weighted index since early February.

US Equity Performance

QTD US Equity Returns
As of 03/29/2024

	Value	Blend	Growth
Large	9.4%	10.8%	11.7%
Mid	8.2%	8.6%	9.5%
Small	2.9%	5.2%	7.6%

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

US Equity Performance

By the end of Q1, the S&P 500 rallied 28% (price return) since last October and 47% since its October 2022 low. The index finished the quarter at 5,254, a record high and 9.5% above the record-high level from the start of 2022.*

Strong earnings growth expectations have superseded much of the previous concern about the macroeconomic outlook, propelling Q1's substantial equity-market returns.

*The S&P 500 closed at an all-time high on 3/28/2024. Before the 2022 market selloff, the all-time high was 4,797 on 1/3/2022.

S&P Has Rallied Since October '22

Source: Bloomberg

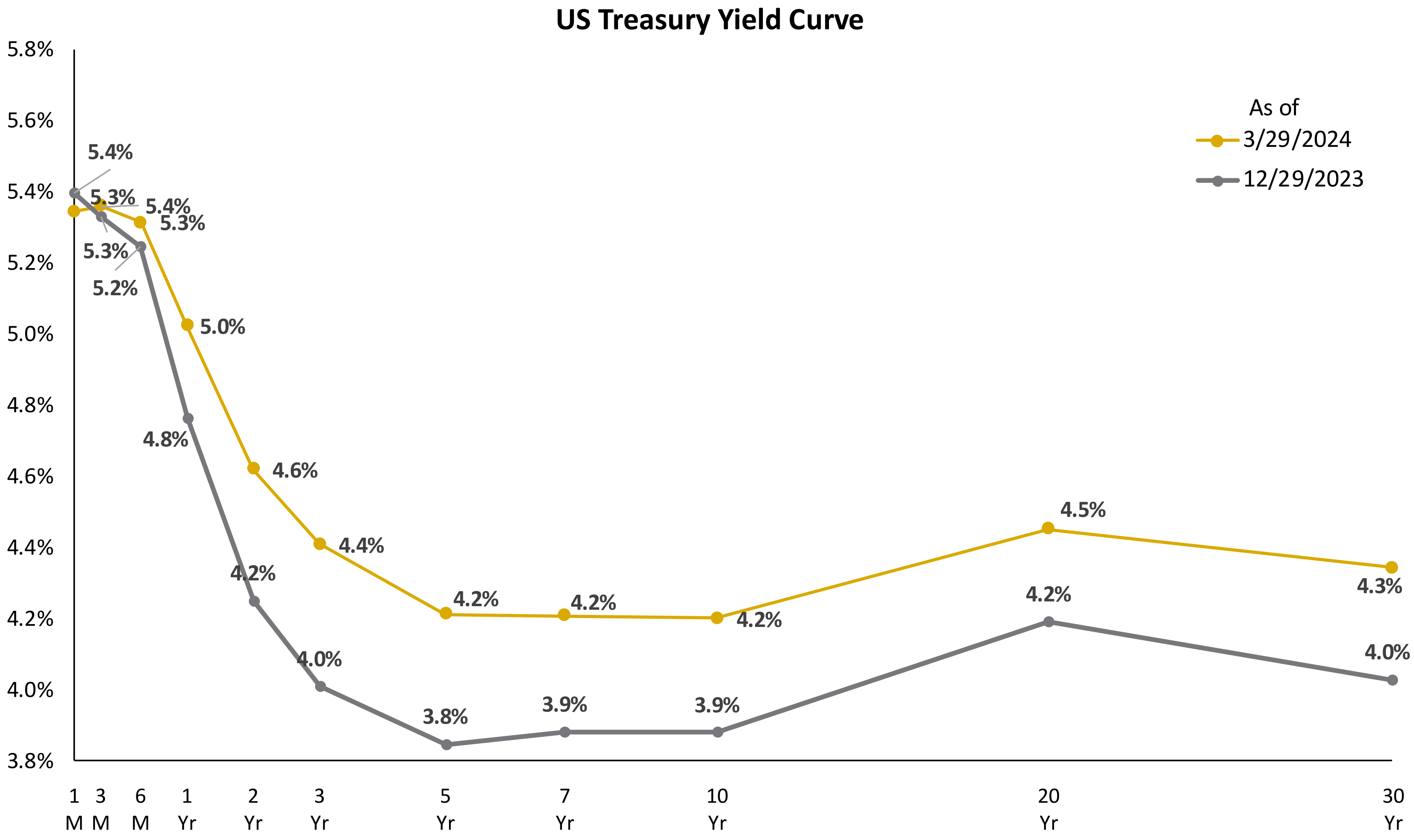
Fixed Income

US Government bond yields rebounded after a significant decline in the fourth quarter of 2023. The 2- and 10-year Treasury yields rose to 4.62% and 4.20% respectively, up 37 and 32 basis points each from the end of last year.

The outlook for quick, aggressive interest-rate cuts from the Federal Reserve diminished significantly over the course of the first quarter. At the start of the year, markets priced six or seven 0.25% cuts for the year beginning as soon as March. Fed officials have reset market expectations on the back of firm economic and inflation data. Now markets expect three cuts potentially starting in June at the earliest.

The Treasury yield curve remains significantly inverted despite these moderate increases at the belly and longer end of the curve. Investors have historically viewed yield curve inversion as a sign of impending recession, but the economy has so far proved surprisingly resilient.

US Yield Curve Remains Inverted



Source: Bloomberg

Fixed Income

Bond yields remain highly attractive compared to levels as recently as late-2021. As the table shows, this is true across Treasuries, investment grade, high yield, and municipals bonds.

The aggregate bond index, for example, was yielding 4.85% at quarter-end, 2.8 times higher than its 1.75% yield at the end of 2021. Investors are now able to generate yield from risk-managing assets.

Yield Levels Still Attractive

US Fixed Income Indices	Yield-to-Worst	
Index	12/31/2021	3/29/2024
2-Year Treasury	0.73%	4.62%
10-Year Treasury	1.51%	4.20%
Aggregate Bond	1.75%	4.85%
Intermediate Government/Credit	1.30%	4.70%
Municipal Bond	1.11%	3.49%
Investment Grade Corporate Bond	2.33%	5.30%
High Yield Corporate Bond	4.21%	7.66%

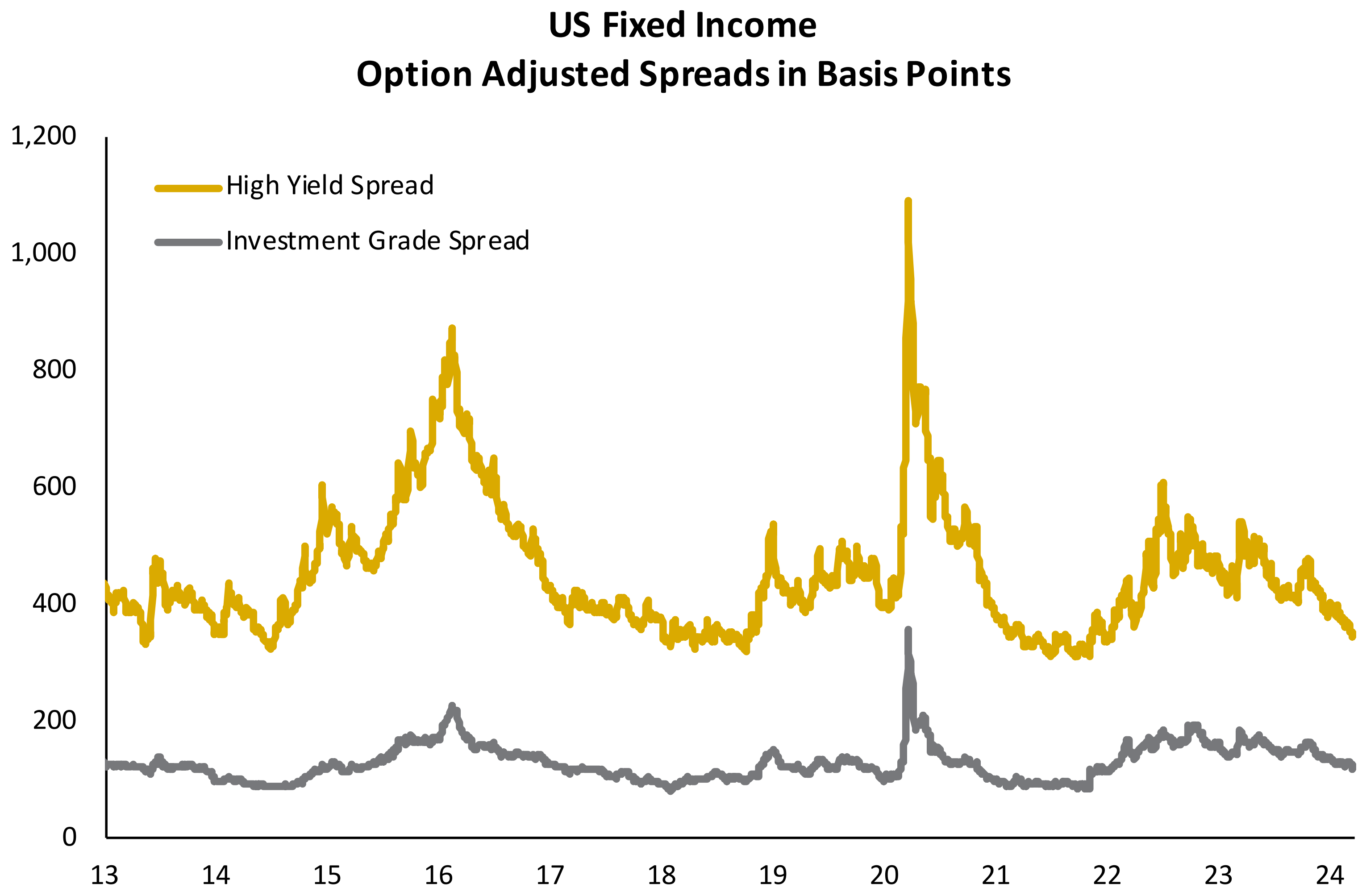
Source: Bloomberg

Fixed Income

Credit spreads for investment grade and high yield corporate bonds contracted once again during the first quarter. As the chart shows, spreads remain tight compared to history.

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 widening of spreads before any severe economic downturn.

Corporate Credit Spreads Remain Tight



Source: Bloomberg

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