

WHAT'S NEXT?

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Making Sense

Balance Between Stocks and Bonds Will Matter in 2023 and Beyond

In our January update, we covered three main topics:

1. Key Economic Factors

Growth across global developed markets is expected to slow materially from 2022 into 2023. Specifically, consensus expects modest growth in U.S. real GDP for calendar years 2022 and 2023 (2.1% and 0.5%, respectively).ⁱ

The path of inflation is expected to continue its decline. Since its June peak of 9.1%, inflation has fallen each month with December's reading at 6.5%.ⁱⁱ We believe that trend will continue in 2023.

The labor market continues to be tight. The number of job openings per unemployed person 1.74 (almost 2 open positions for every unemployed person). Despite layoffs in some industries, the unemployment rate is at 3.5%. For perspective, the 50-year average rate is 6.2%.ⁱⁱⁱ

2. Market Observations

2022 was truly an outlier. Just 4 out of 95 years saw negative annual returns for both stocks and government bonds, including last year.^{iv}

The turbulent year created a great starting point for the next decade. U.S. fixed income had a difficult year in 2022 from a total return perspective. Despite the disjointed nature of returns, 2022 saw significantly higher yields than in the previous year. Current yields tend to be indicative of forward returns.

3. Our Views

In our [2023 market and economic outlook](#), we covered five views for 2023. In [this month's discussion](#), we focused in on three of them.

1. Our base case S&P 500 price target for the next twelve months is 4,100 (+2.1% from close on January 24, 2022).
2. We believe the balance between stocks and bonds will matter greatly in 2023 and beyond. (Figure 1) Stocks returned 16.3% (~51% above long-term average) in the ten years through 2021. Aggregate bonds are yielding 4.3% today, * compared to 1.03% during August 2020.
3. Further, we believe diversification within a balanced portfolio will matter in 2023 and beyond.

Bottom line: We believe markets will experience a bumpy road this year. Having the right balance between stocks and bonds as part of a thoughtful and strategic financial plan will help you reach your return goals.

Figure 1^v

Asset	Annualized Returns Through 12/31/2021				
	1-Year	5-Years	10-Years	15-Years	20-Years
US Large Cap Stocks	28.7%	18.5%	16.5%	10.6%	9.5%
US Stocks	25.6%	17.9%	16.3%	10.6%	9.7%
International Stocks	8.3%	10.2%	7.8%	4.3%	7.3%
Taxable Bonds	-1.5%	3.6%	2.9%	4.1%	4.3%
Municipal Bonds	0.9%	3.6%	3.0%	3.9%	4.1%

Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615

Brent Ciliano, CFA | SVP, Chief Investment Officer

brent.ciliano@firstcitizens.com | 919.716.2650

First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615

Phillip Neuhart | SVP, Director of Market and Economic Research

phillip.neuhart@firstcitizens.com | 919.716.2403

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ⁱ Bloomberg

ⁱⁱ Strategas Research

ⁱⁱⁱ BLS, Strategas Research

^{iv} Morningstar, Bloomberg

^v : Bloomberg, 12/31/2021. Benchmarks above (in descending order) are: S&P 500, Russell 3000, MSCI ACWI ex-US, BarCap US Agg. Bond index, and Barclays Municipal 1-15 year bond index. *1/20/2023