

Making Sense

2025 Market Outlook

December 11, 2024



Brent Ciliano, SVP
Chief Investment Officer



Phillip Neuhart, SVP
Director of Market and
Economic Research


Five Themes for 2025

1. **Fundamentals: Still in Place?**
2. **The Fed May Deliver Fewer Cuts**
3. **We Expect Lower Future Returns from Here**
4. **Portfolio Balance and Broader Diversification Is Critical**
5. **Market Tenets to Remember**


But first ... a look back at 2024

2024 Lookback: The US Economy Outperformed, but Inflation Persists


Economic Activity GDP Growth

+1.3%  **+2.7%**
Expectation for 2024,
1 year ago Actual 2024
outcome


Labor Market New Jobs per Month

+74,000  **+190,000**
Expectation for 2024,
1 year ago Actual 2024
outcome


Inflation Consumer Price Index

2.6%  **2.9%**
Expectation for 2024,
1 year ago Actual 2024
outcome

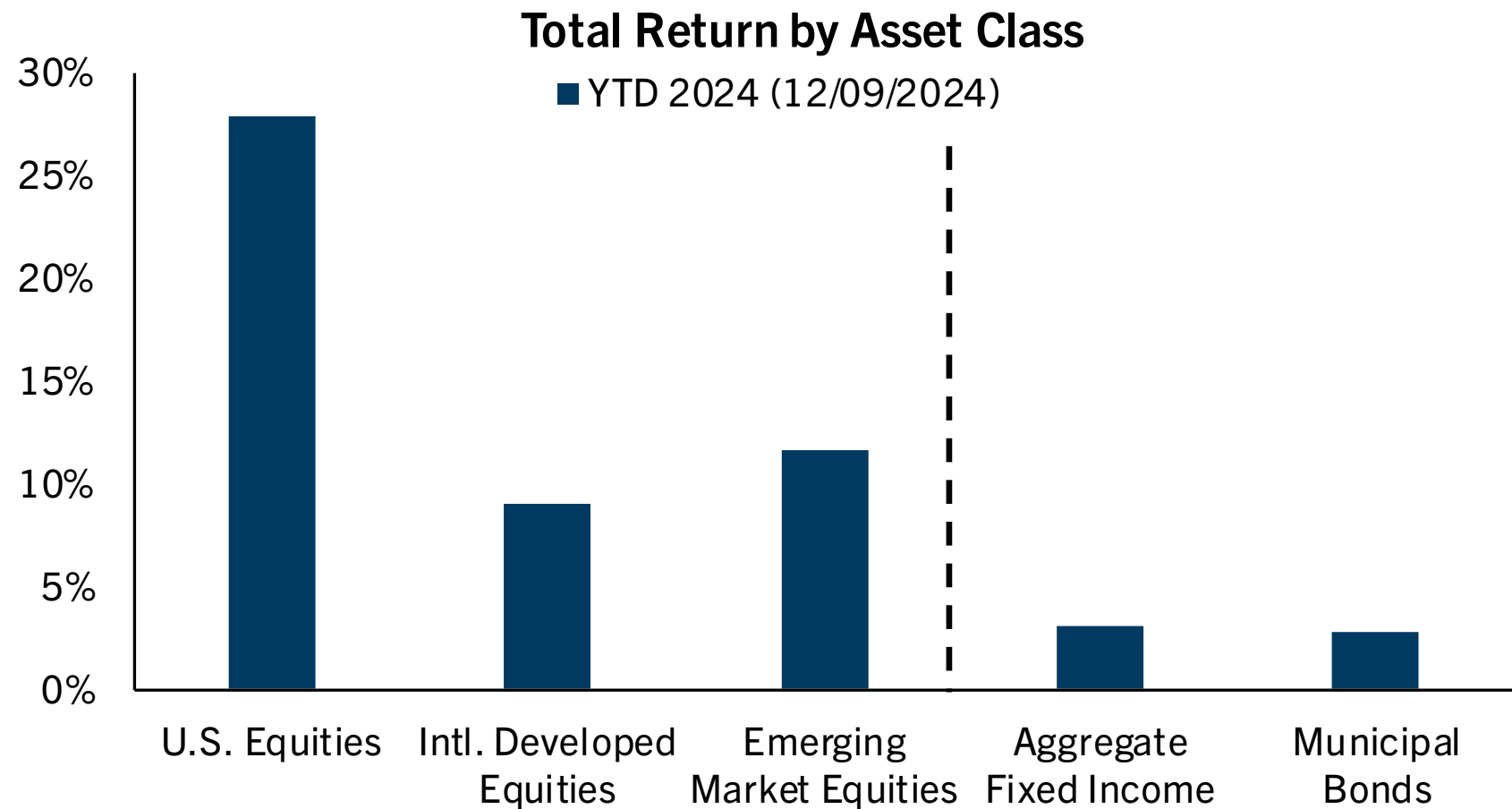
Interest Rates Federal Funds Rate

3.8%  **4.5%**
Expectation for
end-2024,
as of 1 year ago Expectation for
end-2024,
as of today

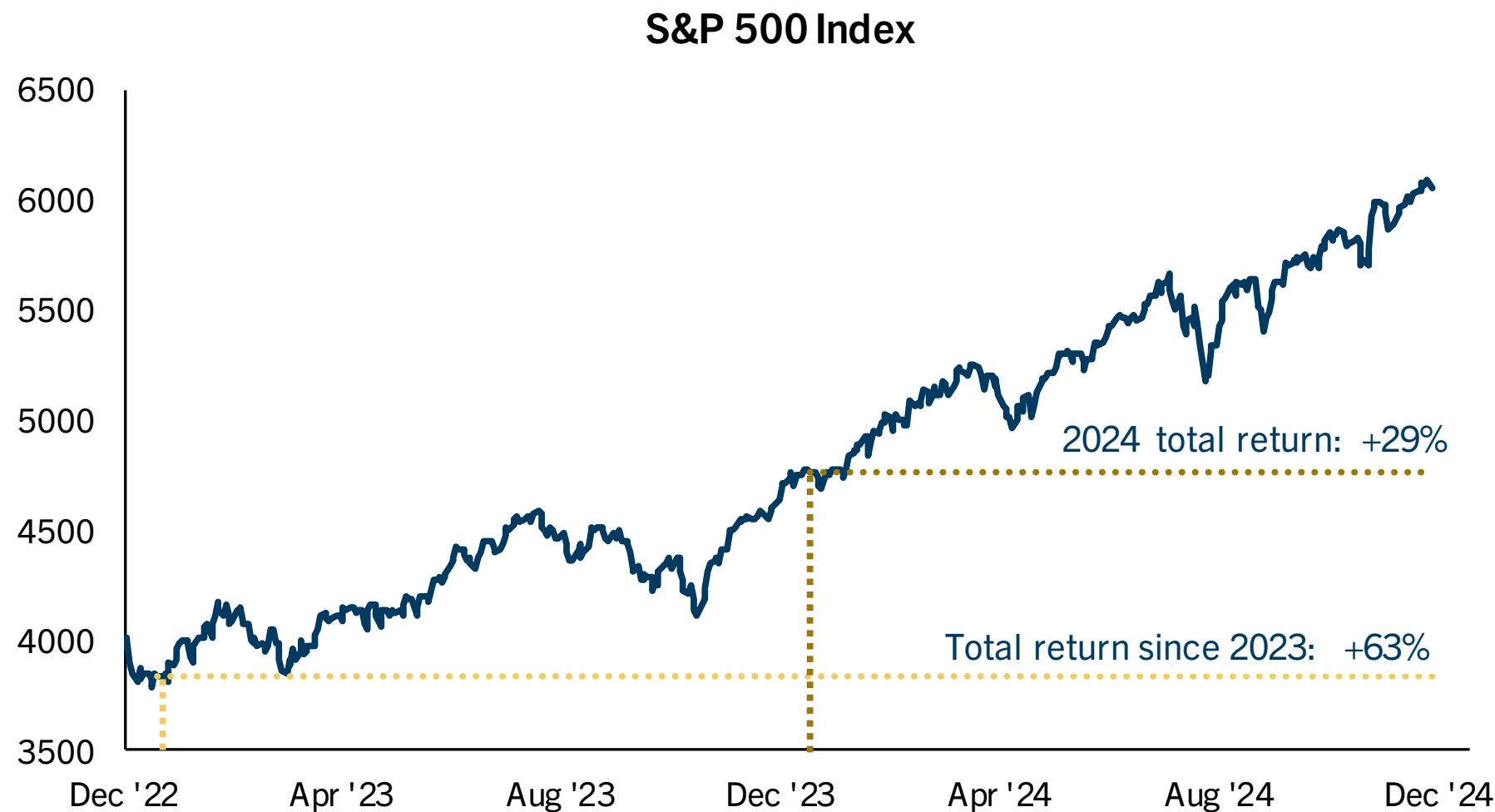
Recession Probability, Next 12 Months

50%  **25%**
Expectation for 2024,
1 year ago Expectation today,
next 12 months

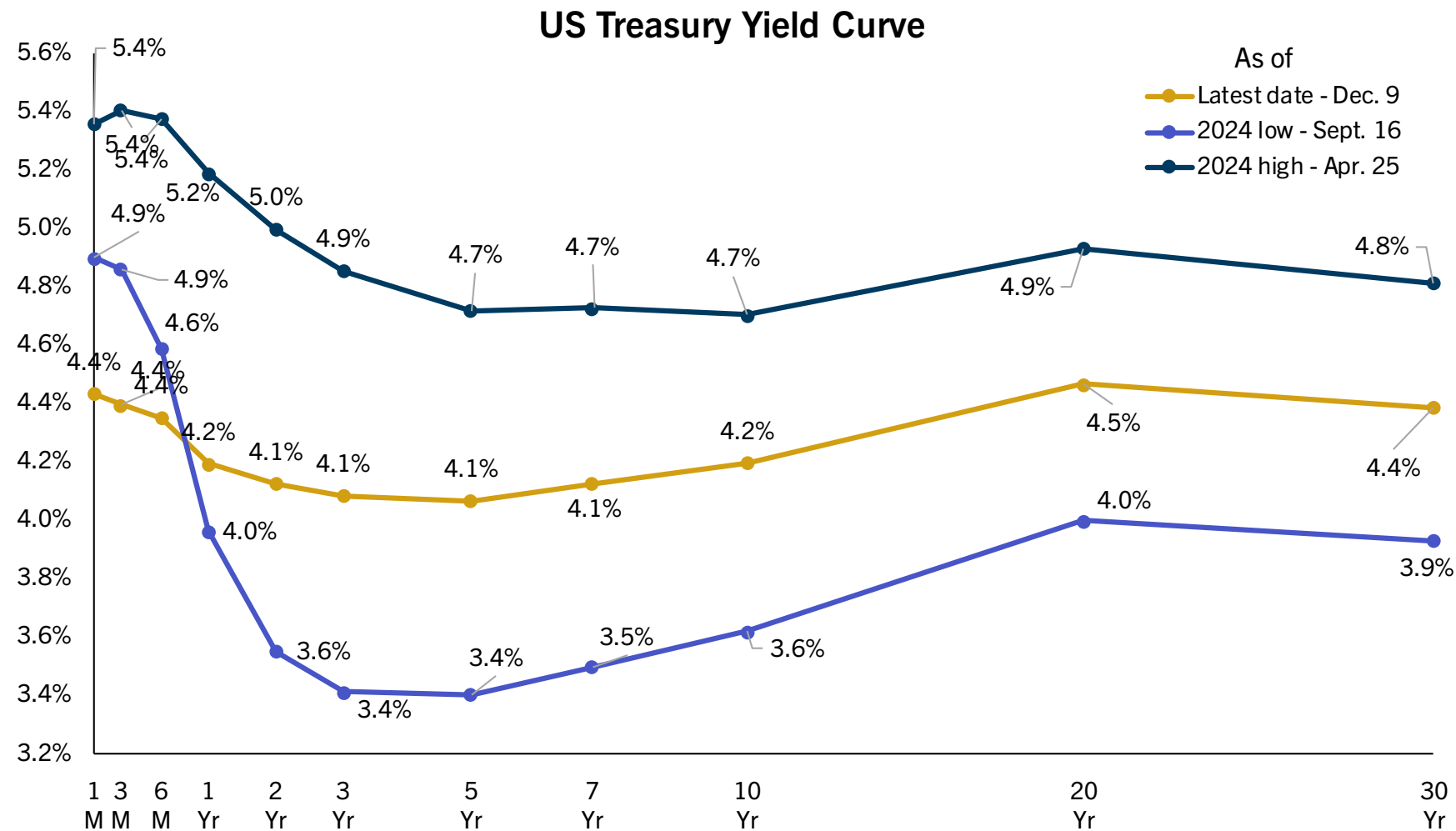
2024 Lookback: US Equities Led Other Asset Classes by a Mile



2024 Lookback: The S&P 500 Has Hit 60 All-Time Highs, Returned 29%



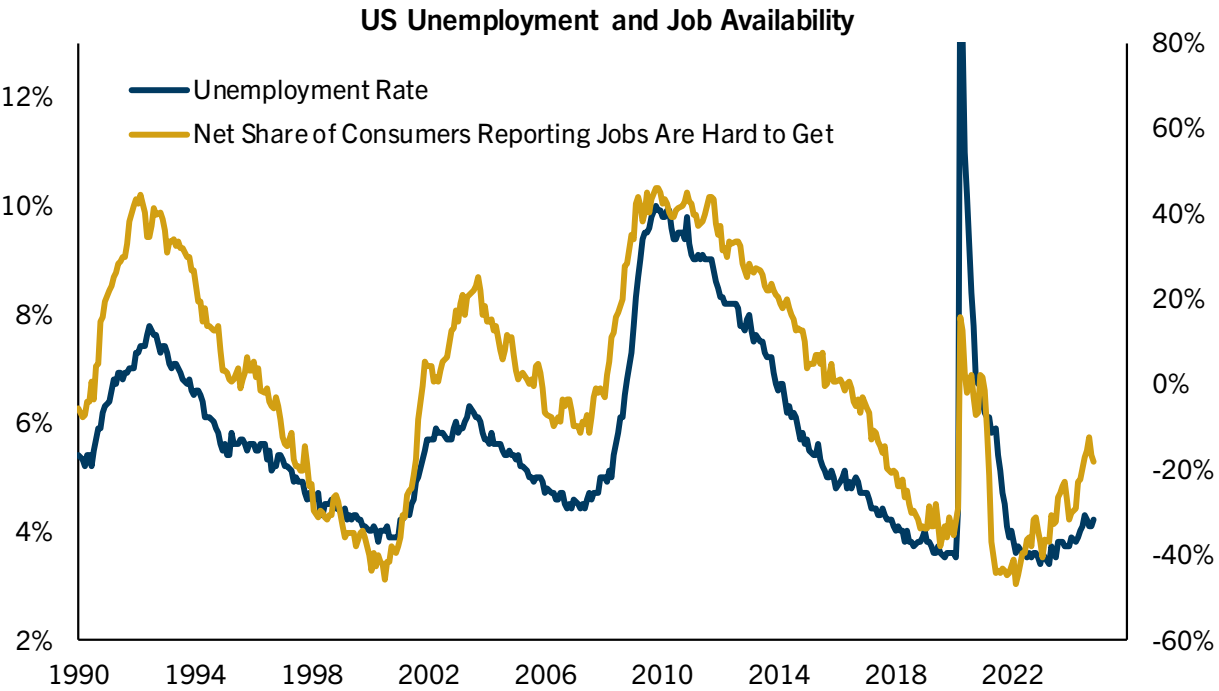
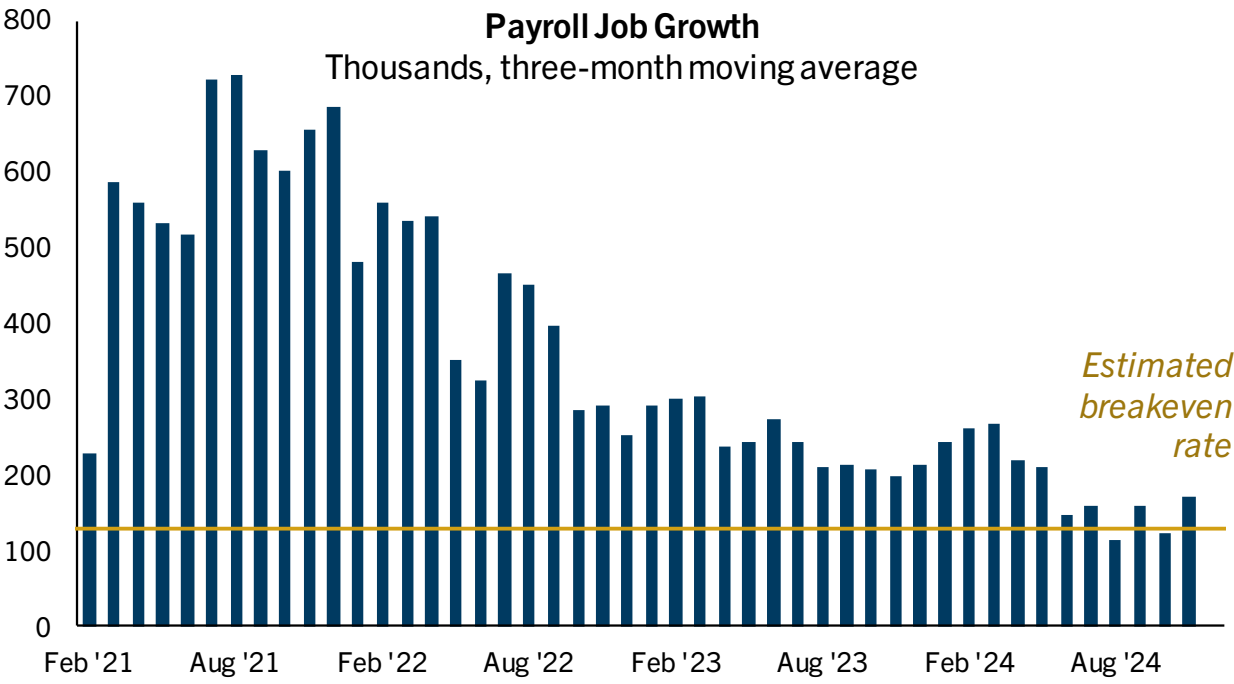
2024 Lookback: Treasury Yields Swung Significantly in 2024



Source: Bloomberg, First Citizens Wealth. Data as of 12/9/2024.

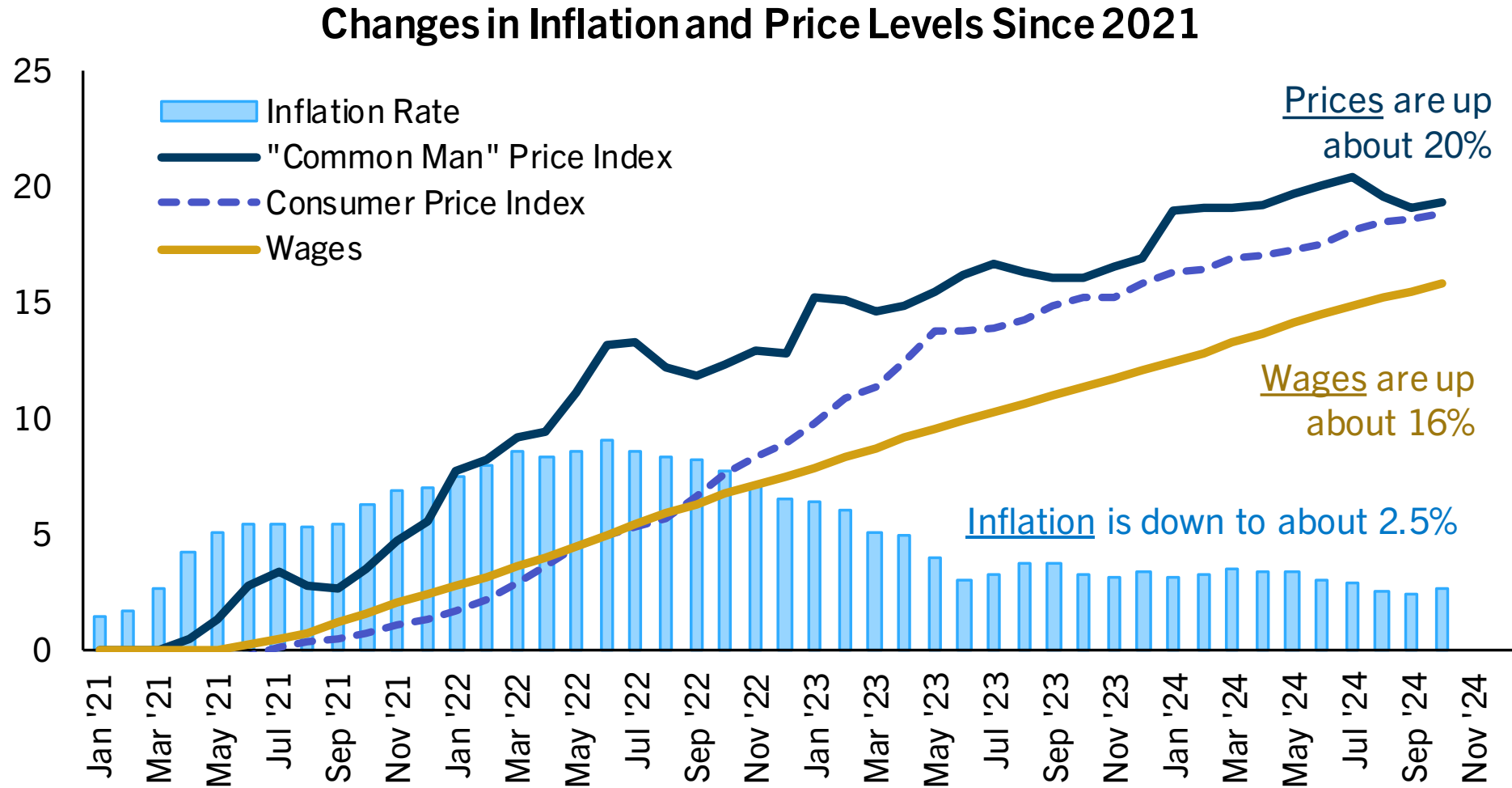
1. Fundamentals: Still in Place?

The Labor Market Is a Wild Card for 2025



Source: Conference Board, Department of Labor, Bloomberg. Data through November 2024.

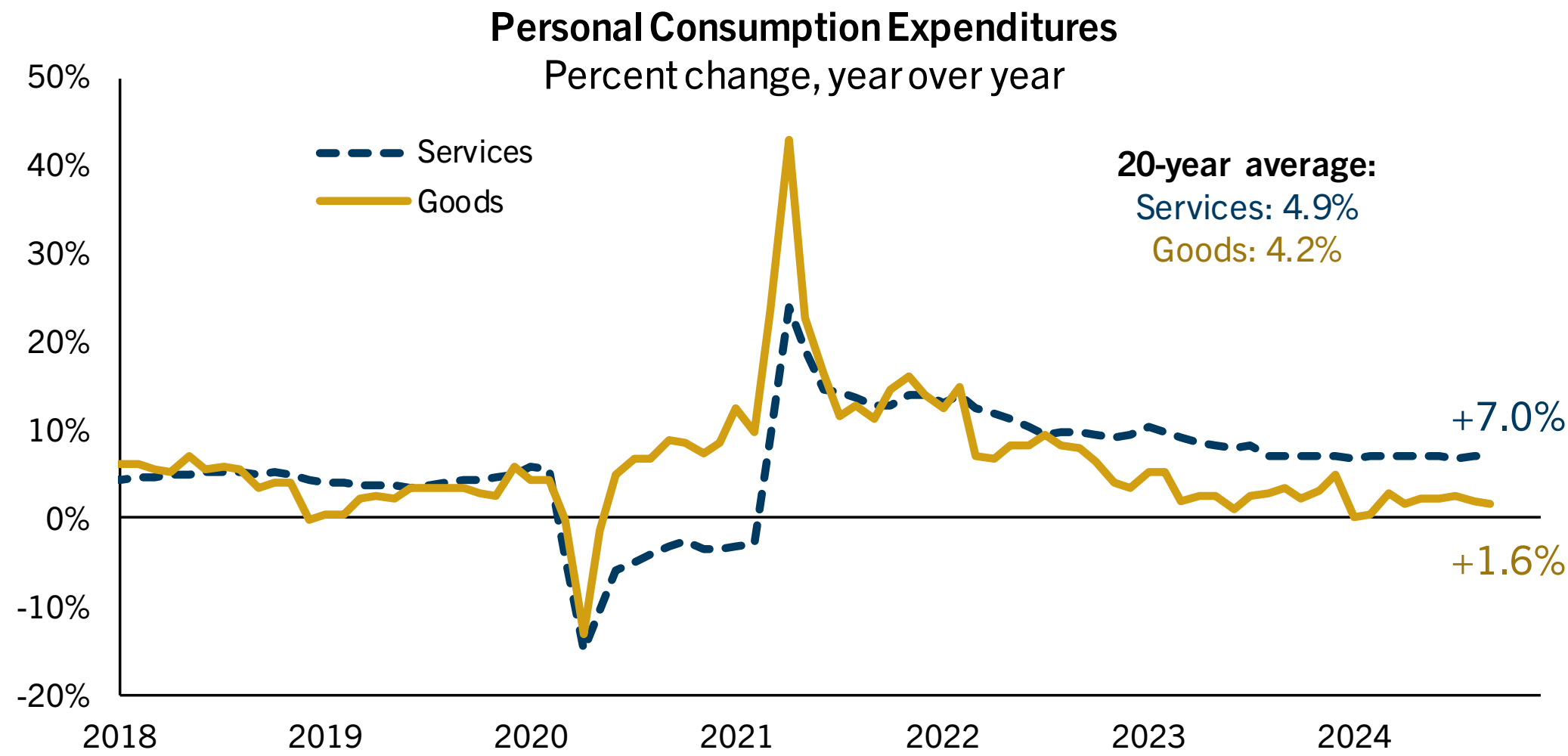
Wages Are Up, But So Are Prices, Especially for Essential Spending



Source: Strategas, Bloomberg, First Citizens Wealth. Data through October 2024.

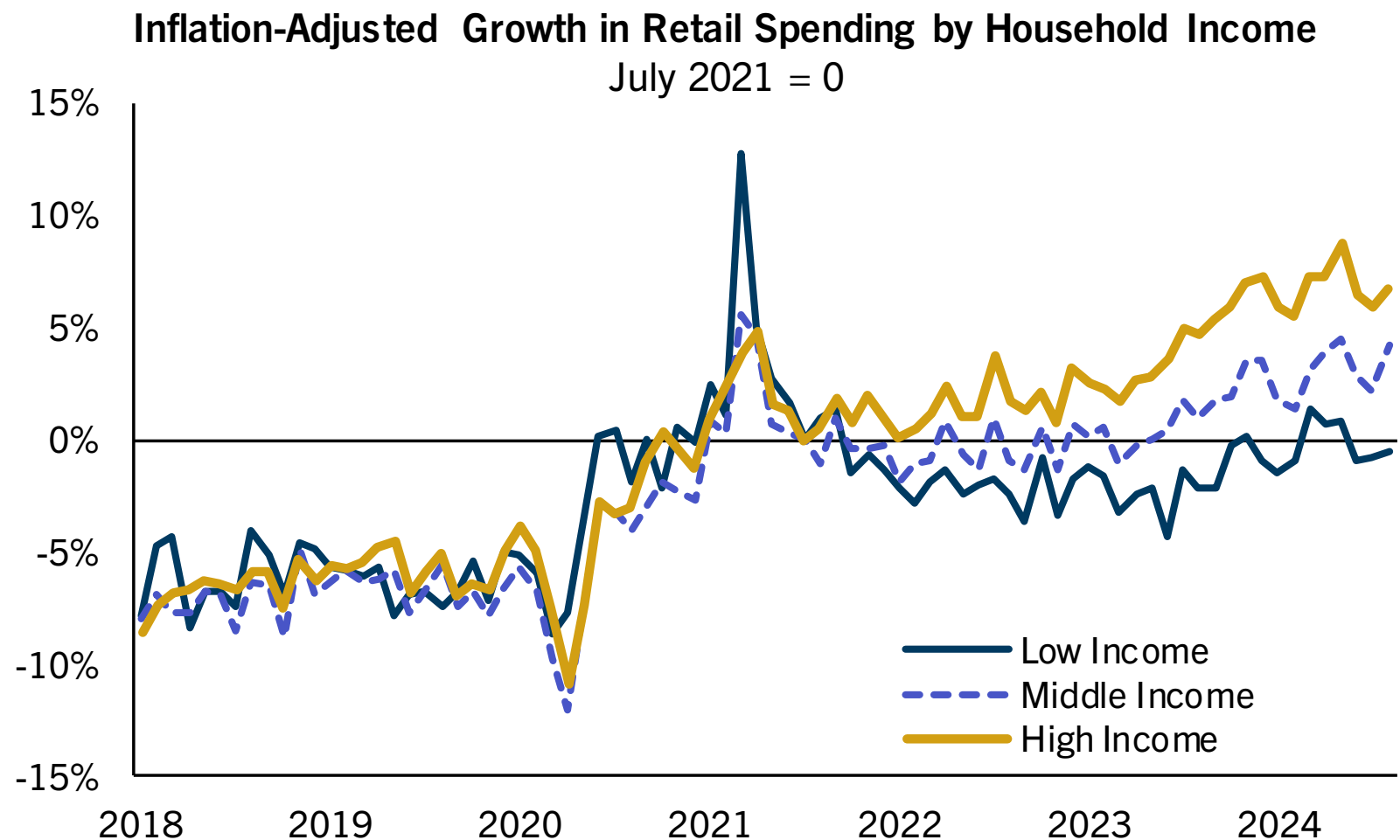
Note: The Strategas "Common Man" price index includes essential purchases such as food, energy, shelter, clothing, utilities, insurance, and so forth.

Consumer Expenditures Are Holding Up



Source: Bloomberg, First Citizens Wealth. Data through October 2024.

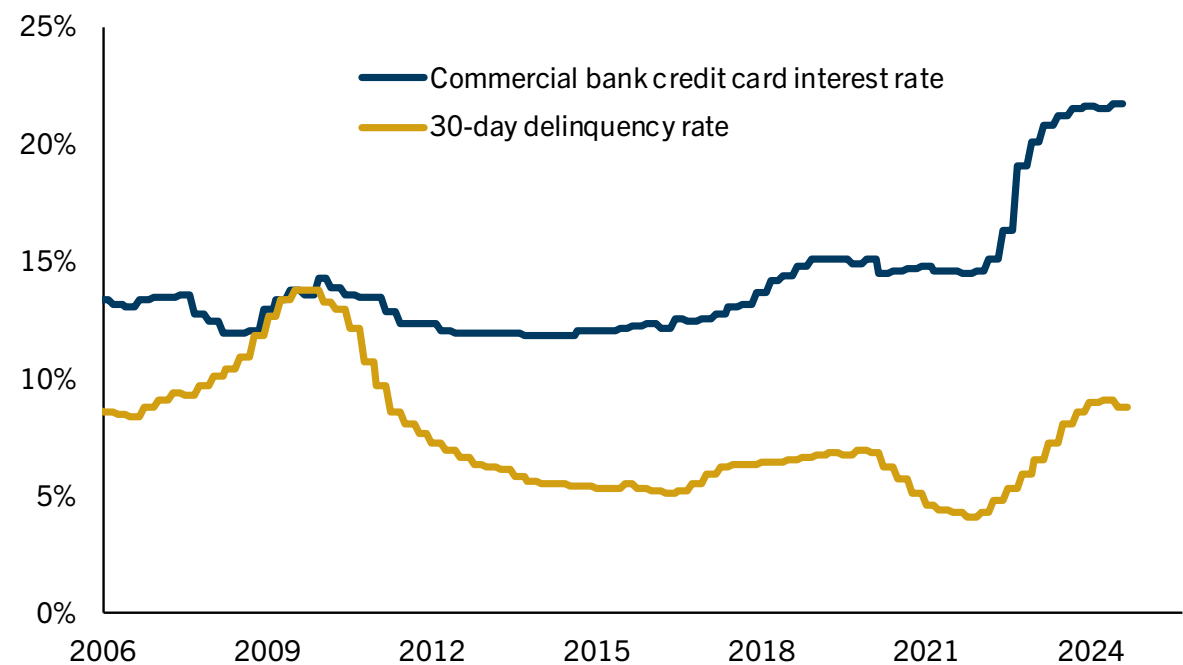
Low-Income Household Spending Has Not Grown for Over Three Years



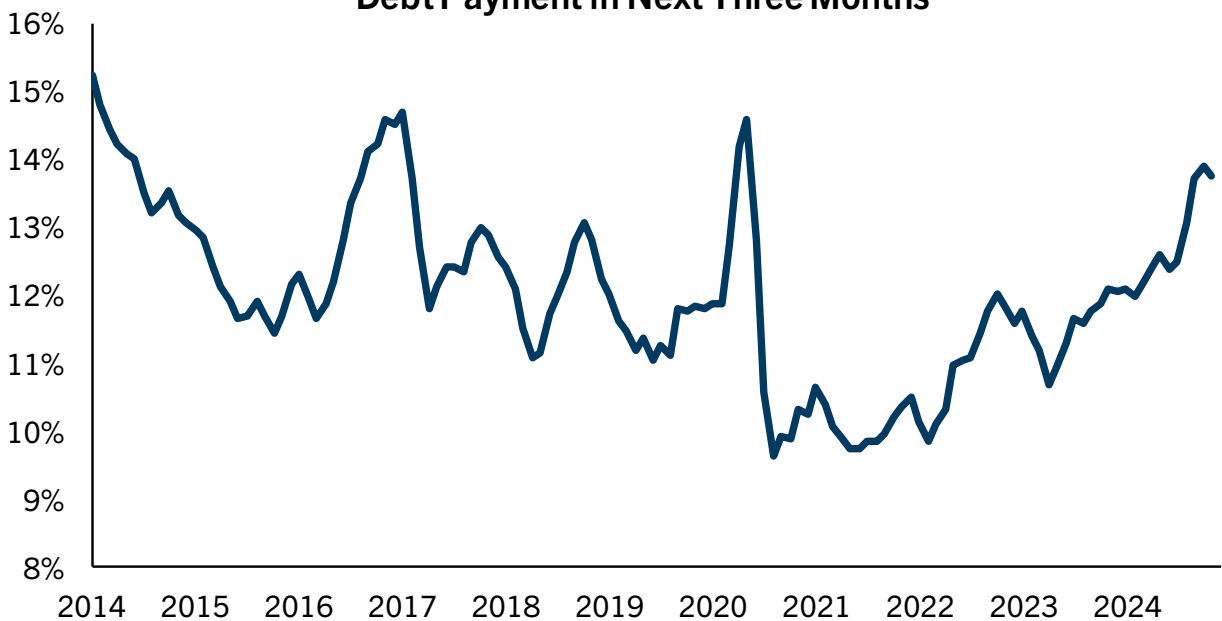
Note: Data are adjusted for inflation and seasonality. Low-income is \$0-60K in annual household income, middle-income is \$60K-100K, and high-income is \$100K+.
Source: Hoke, Feler, and Chylak (2024): “A Better Way of Understanding the US Consumer: Decomposing Retail Spending by Household Income” Board of Governors of the Federal Reserve System; First Citizens Wealth.

Consumers Are Missing Loan Payments

US Credit Card Delinquency and Interest Rates

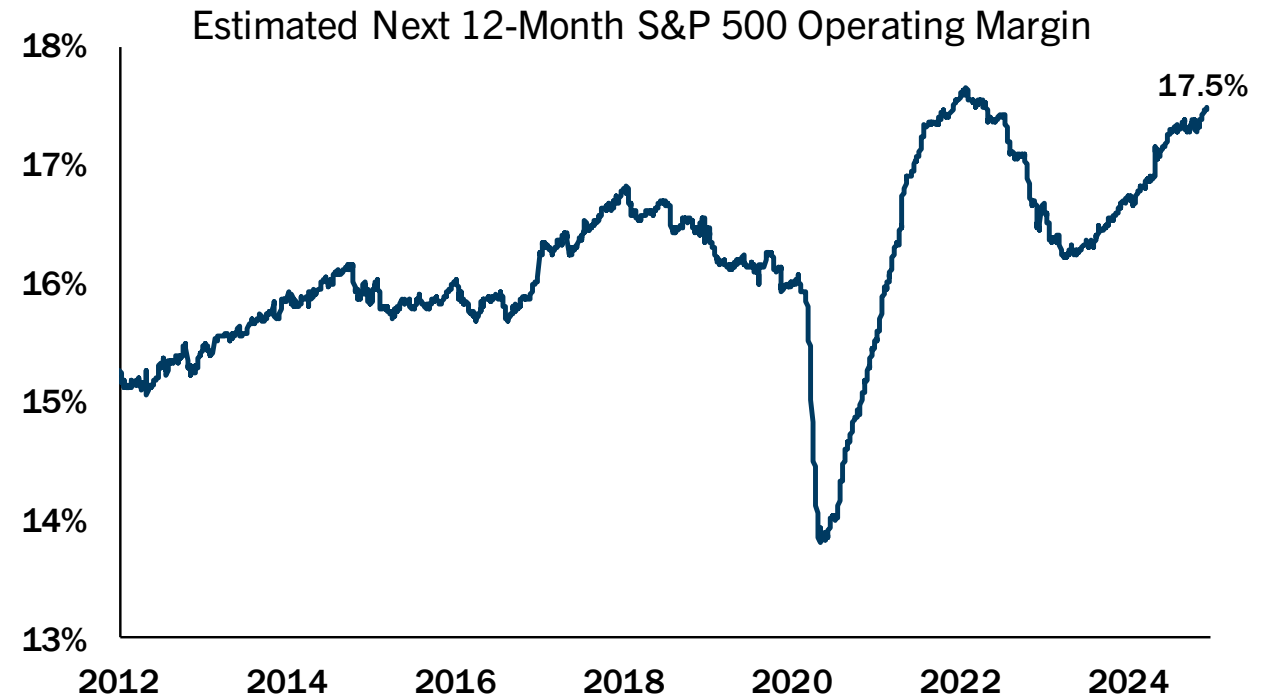


Consumers Reporting Likely to Miss a Debt Payment in Next Three Months



Corporate Earnings

- 2024 estimated growth is **9.6%**
- 2025 estimated growth is **15.0%**
- Average growth since 1950 is **7.6%**



2. The Fed May Slow the Pace of Rate Cuts

The Economy Is Giving Mixed Signals

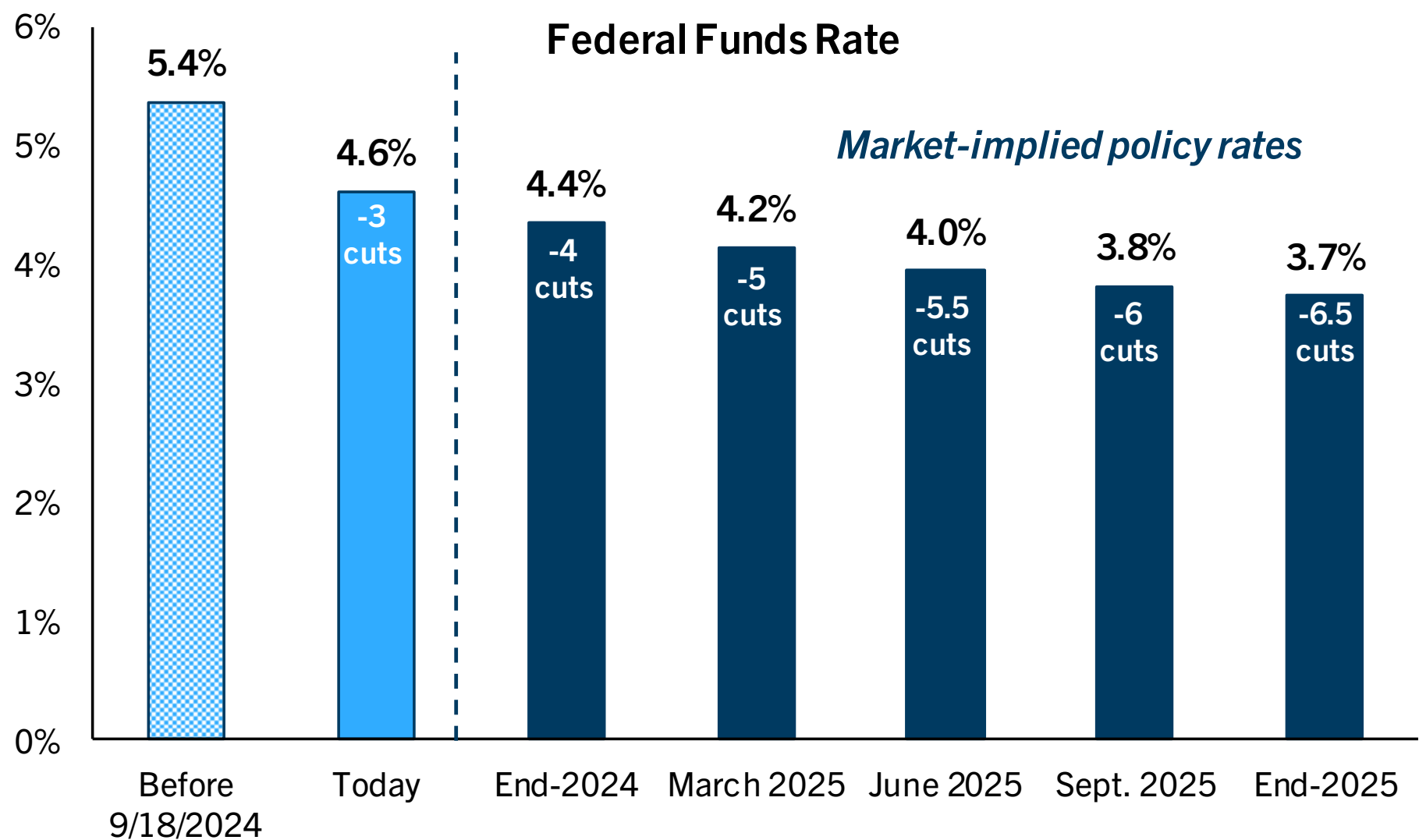
Rationale for fewer rate cuts

- US economy has been resilient
- Level of interest rates vs. L/T history
- Financial conditions are easy
- Spreads are very tight
- Inflation, while moderating, is sticky

Rationale for more rate cuts

- Fed funds rate looks elevated vs. 2.5% inflation
- Unemployment rate is up
- Delinquency rates are up
- Growth potentially moderating
- “Long and variable lags”

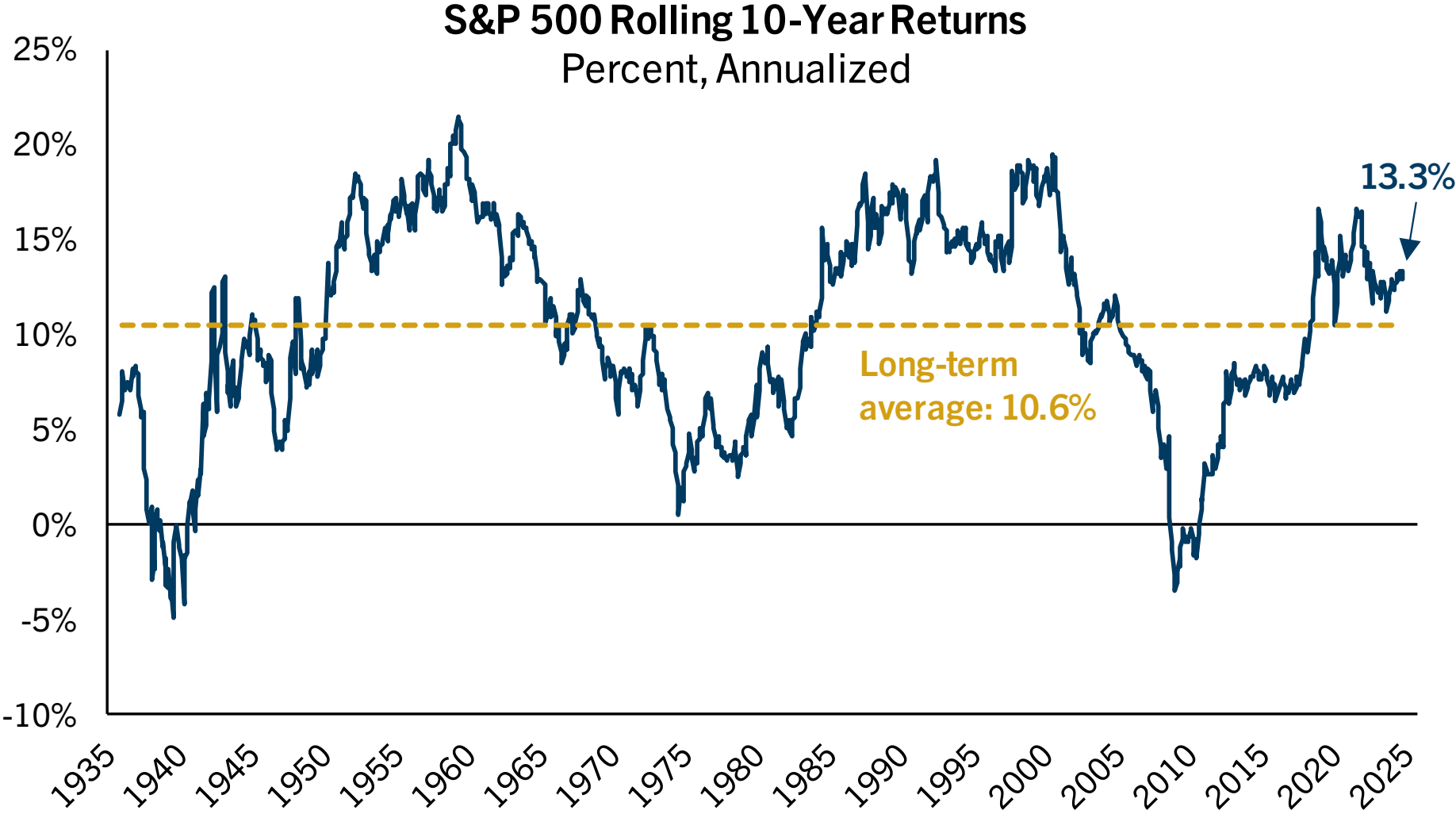
Markets Expect the Fed Will Cut Rates 2-3 Times Next Year



Source: Bloomberg, First Citizens Wealth. Data as of 12/10/2024.

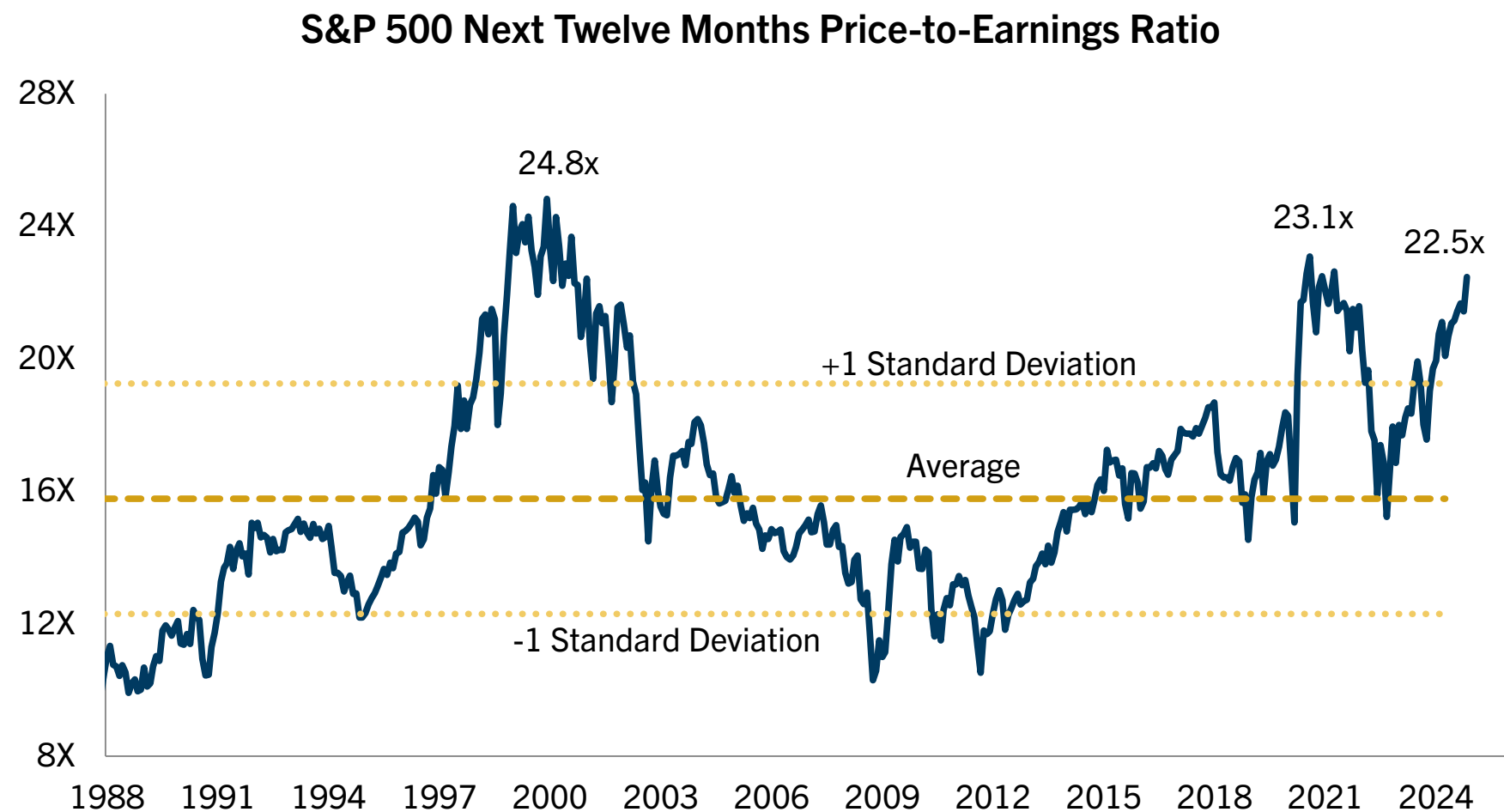
3. We Expect Lower Future Returns From Here

US Equity 10-year Rolling Returns Have Been Above Average



Source: Source: Strategas, S&P Dow Jones Indices. Data as of 11/30/2024.

Market Valuation Is Looking Increasingly Stretched

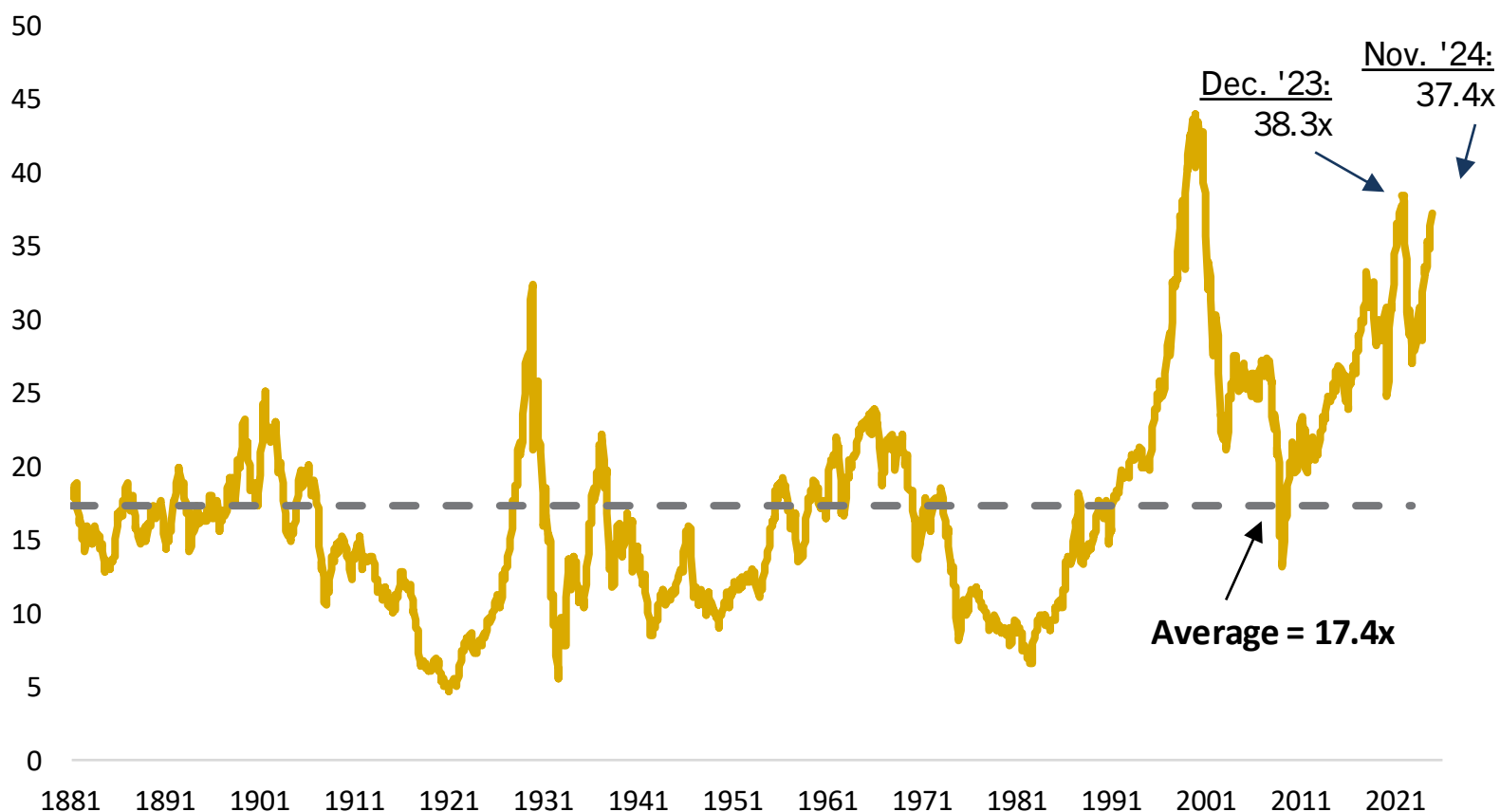


Source: Bloomberg, Strategas. Data as of 11/30/2024.

Valuations Below Peak, Above Average

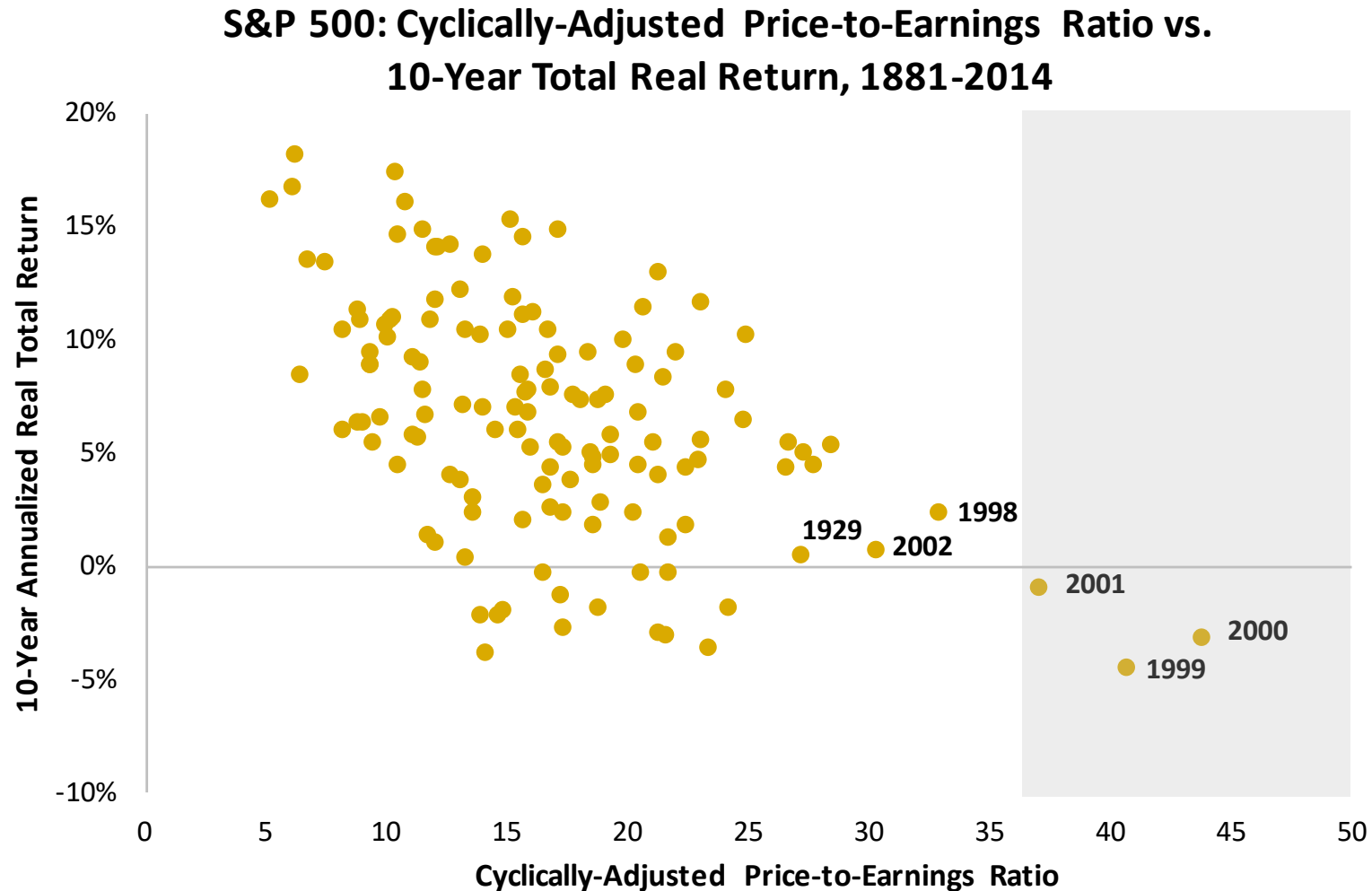
- While the Cyclically-Adjusted P/E ratio (CAPE) has been a **bad predictor of shorter-term performance...**

S&P 500: Cyclically-Adjusted Price-to-Earnings Ratio



Valuations Significantly Elevated

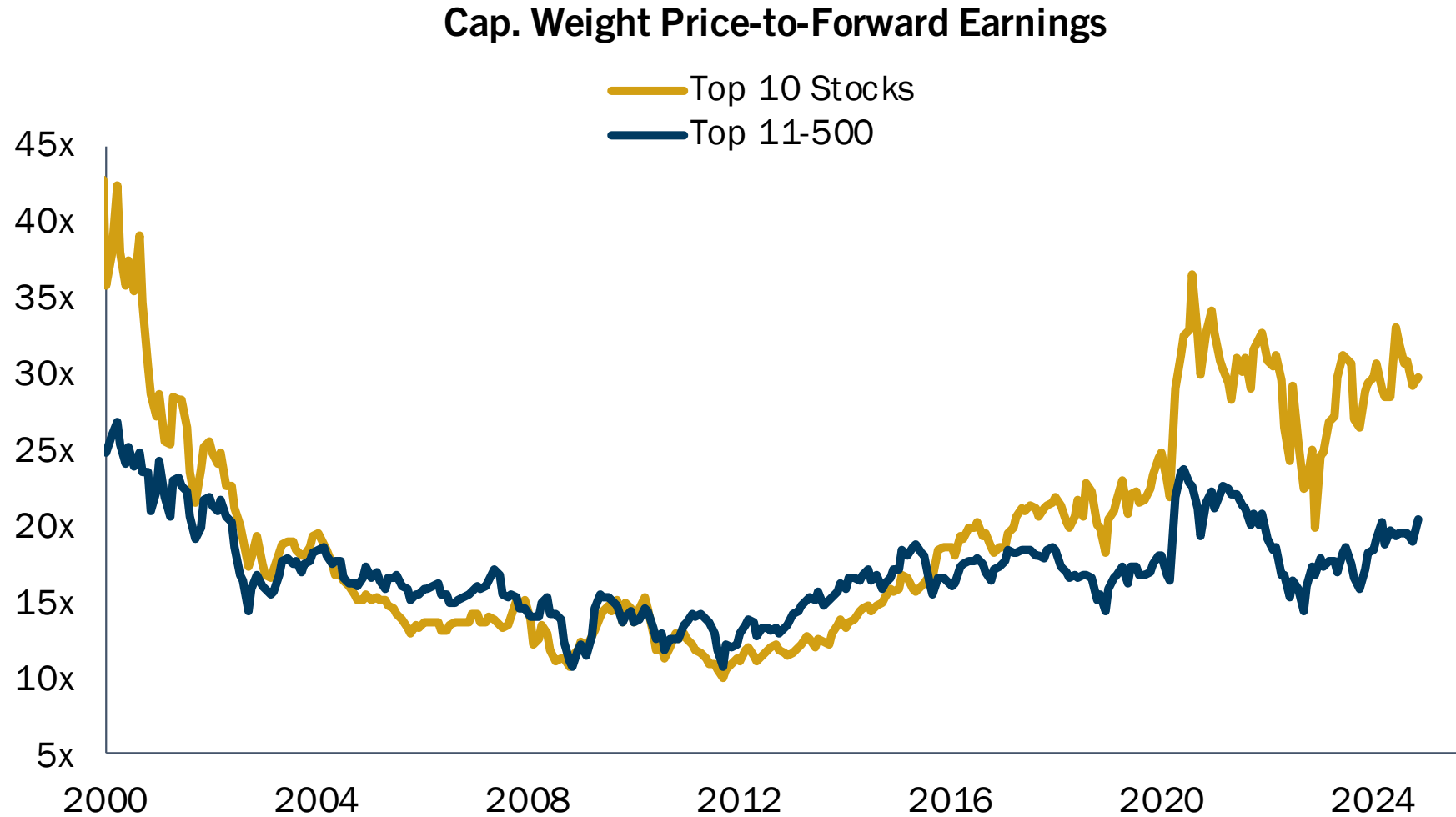
- ...it has been a **very accurate predictor of longer-term (decade) performance.**



Get Out of Stocks? No, Diversify

"The Lost Decade" (12/31/1999 through 12/31/2009)		
Index	Cumulative Return	Annualized Return
S&P 500 Large Cap	-9.1%	-1.0%
S&P 400 Mid Cap	85.2%	6.4%
S&P 400 Mid Cap Value	134.4%	8.9%
S&P 600 Small Cap	85.0%	6.3%
S&P 600 Small Cap Value	109.3%	7.7%
Global Equity (non-US)	37.2%	3.2%
U.S. Aggregate Bond	84.8%	6.3%
Consumer Price Index	28.8%	2.6%

P/E Ratios Suggest There is Room For Broadening



S&P 500 Price Target

Next Twelve-Month S&P 500 Price Target

	NTM Price Level	Percent Change from 12/9/24
Bear	4,600	-24.0%
Base	6,400	5.7%
Bull	6,900	14.0%

4. Portfolio Balance Remains Essential

The Next 10 Years Could Be in Stark Contrast to the Last 10 Years

US Asset Class Returns				
	10 years ended Nov. 2024	Next 10 years*	Annualized difference	Percent differential
US Large Cap Stocks	13.3%	6.5%	-6.8%	-51%
US Core Taxable Bonds	1.5%	4.9%	3.4%	227%
Annualized Spread	11.8%	1.6%		

What Might That Mean for Portfolios?

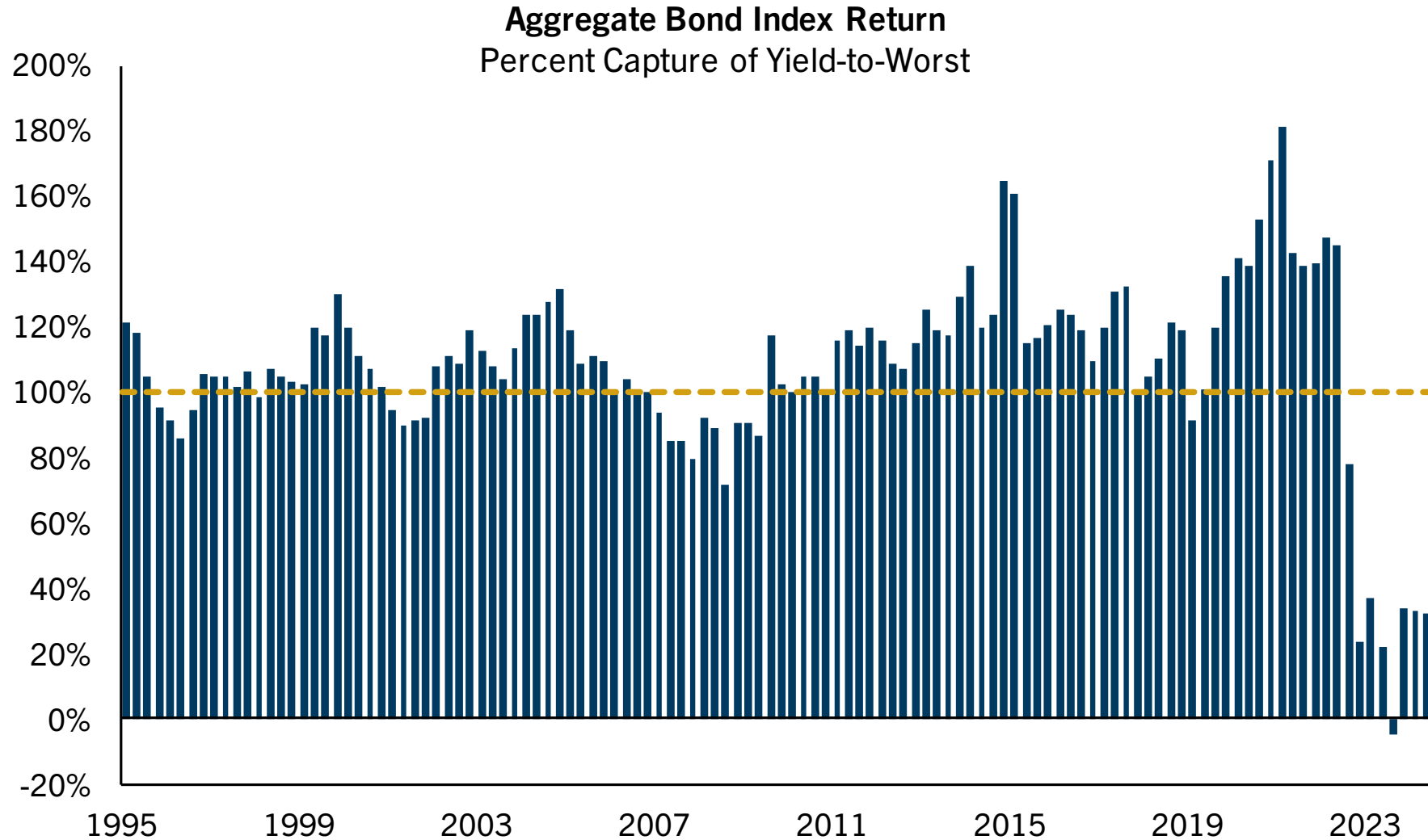
Hypothetical Two-Security Portfolios		
	10 years ended Nov. 2024	Next 10 years*
80:20% US Portfolio	11.0%	6.2%
50:50% US Portfolio	7.4%	5.7%
Annualized Spread	3.6%	0.5%

Source: Horizon Actuarial Services Annual Capital Market Assumptions Survey 2024, Bloomberg. Portfolios above are a hypothetical blend of S&P 500 for equities and Bloomberg US Aggregate Bond Index for fixed income

Fixed Income Is Offering a Robust Starting Point

US Fixed Income Indices	
	Yield-to-Worst
Index	As of 12/09/2024
2-Year Treasury	4.1%
10-Year Treasury	4.2%
Aggregate Bond	4.6%
Intermediate Government/Credit	4.4%
Municipal Bond	3.4%
Investment Grade Corporate Bond	5.0%
High Yield Corporate Bond	7.1%

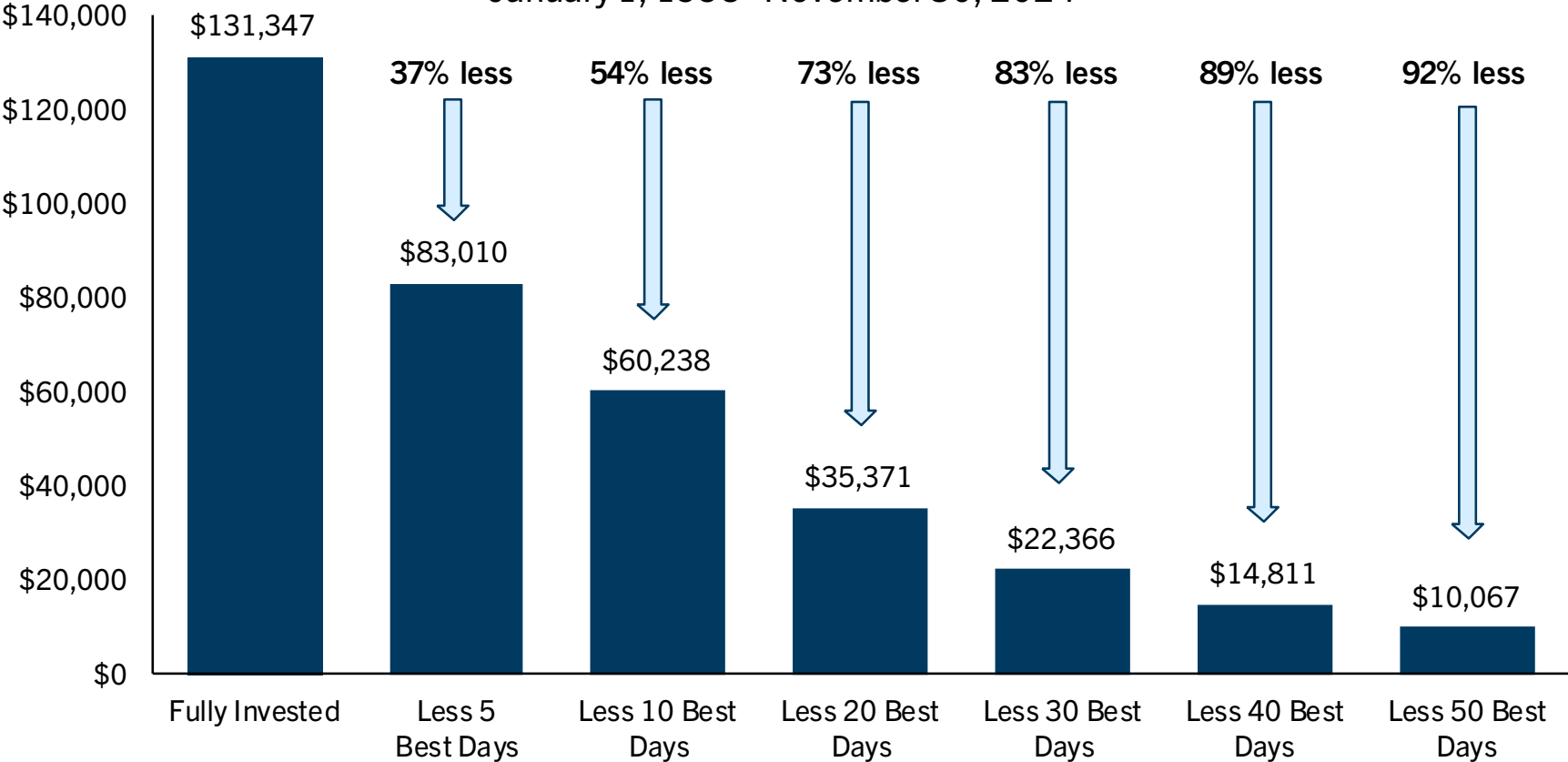
Yield-to-Worst Is a Relatively Good Approximation of Total Return



5. Market Tenets to Remember

Market Timing Is a Dangerous Game

Growth of \$10,000, S&P 500 Compounded Total Returns
January 1, 1995 - November 30, 2024



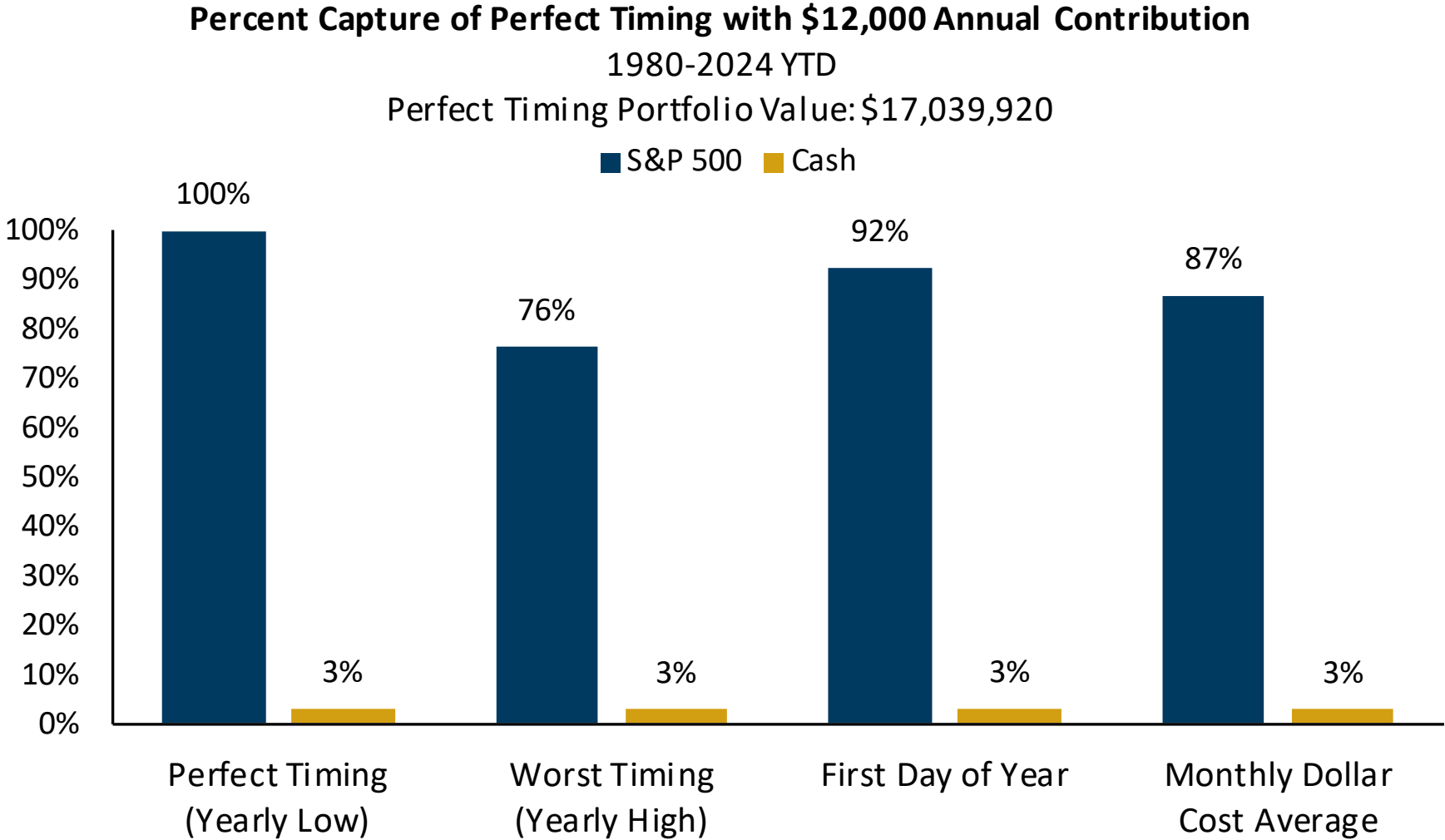
- **Nearly half (48%) of the S&P 500 Index's strongest days occurred during a bear market.***
- **Another 28% of the market's best days took place in the first two months of a bull market—before it was clear a bull market had begun.***

Source: Strategas, First Citizens Wealth, NDR Research.

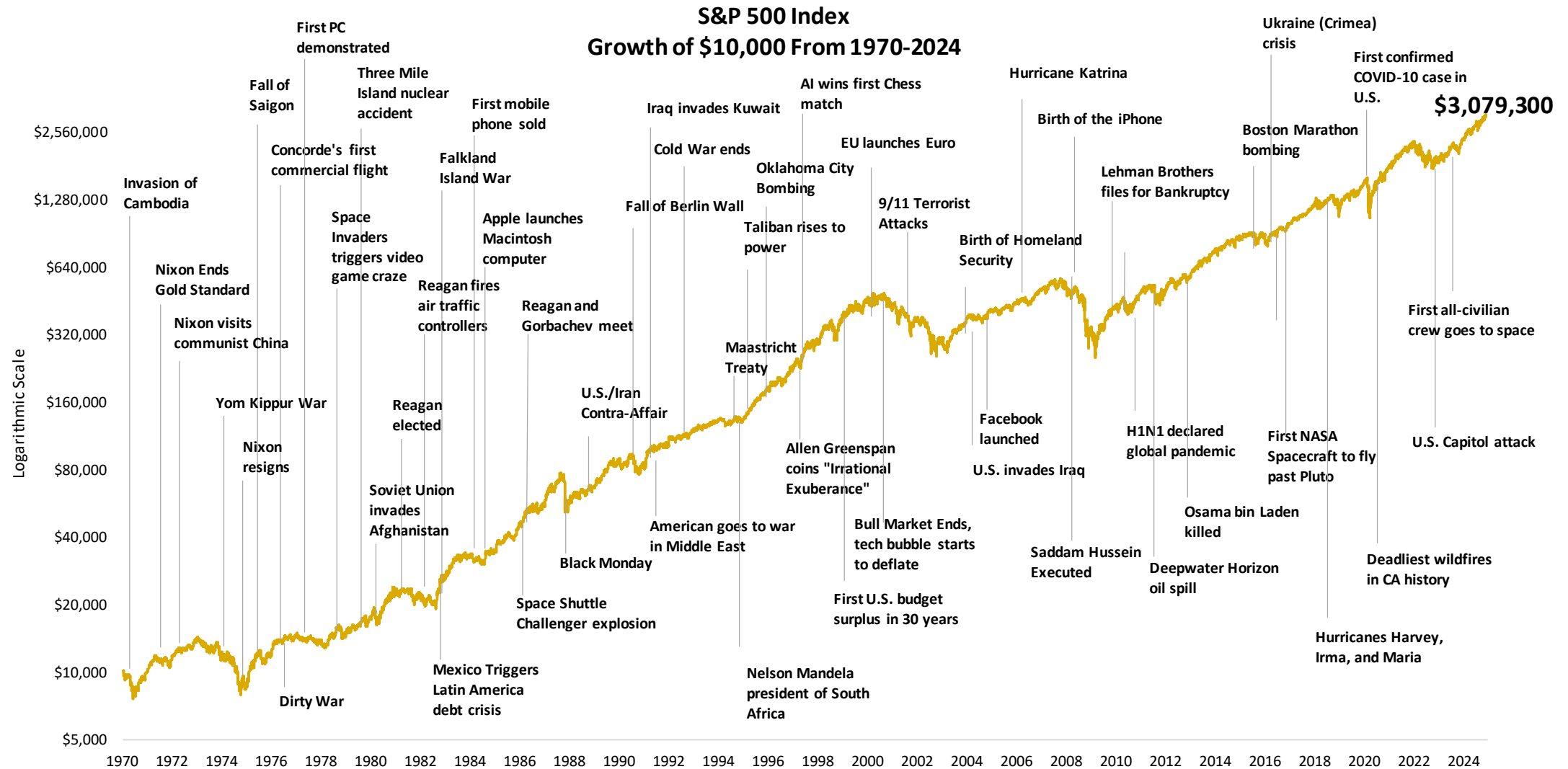
Keeping Drawdowns in Perspective

Major S&P 500 Declines - 1950 to Present						
Start Date	End Date	Months Peak-to-Trough	% Decline	1-year Post Low	1-year % Recovery of Previous High	Months Peak-to-Full Recovery
1/3/2022	10/12/2022	9	-24.5%	23.6%	93.3%	24
2/19/2020	3/23/2020	1	-33.8%	79.1%	118.6%	6
9/20/2018	12/24/2018	3	-19.4%	39.9%	112.8%	7
5/20/2015	2/11/2016	9	-12.6%	28.3%	112.2%	11
5/2/2011	10/4/2011	5	-16.7%	32.0%	110.0%	9
10/9/2007	3/9/2009	17	-55.2%	72.0%	77.0%	54
3/24/2000	10/9/2002	30	-47.4%	35.5%	71.3%	79
7/20/1998	10/8/1998	3	-18.7%	39.1%	113.2%	4
7/16/1990	10/11/1990	3	-19.2%	33.2%	107.6%	7
8/25/1987	10/20/1987	2	-29.4%	21.4%	85.8%	21
11/30/1981	8/12/1982	8	-15.6%	65.5%	139.6%	9
2/13/1980	3/27/1980	1	-16.7%	46.1%	121.7%	4
9/21/1976	3/6/1978	17	-13.5%	19.0%	102.9%	20
7/15/1975	9/16/1975	2	-13.5%	32.1%	114.2%	6
11/7/1974	12/6/1974	1	-13.2%	39.5%	121.1%	3
10/12/1973	10/3/1974	12	-41.8%	40.9%	82.0%	28
11/29/1968	5/26/1970	18	-32.6%	48.8%	100.3%	28
2/9/1966	10/7/1966	8	-15.6%	27.0%	107.3%	13
12/12/1961	6/26/1962	6	-26.9%	38.7%	101.4%	16
8/3/1959	10/25/1960	14	-10.1%	34.1%	120.5%	17
7/15/1957	10/22/1957	3	-19.8%	36.8%	109.7%	13
1/5/1953	9/14/1953	8	-12.4%	44.8%	126.9%	12
Average		8.2	-23.1%	39.9%	106.8%	17.7
Median		7.1	-18.9%	37.8%	105.1%	12.3

Being Invested Is What Matters



Time IN Markets Matters



Stay Informed with Our Latest Releases

Making Sense

In Brief | A look at the week ahead in under two minutes every Monday morning

Q&A Videos | Monthly conversations covering 2-3 of the top questions we're hearing from clients

Market updates | Monthly interactive discussions with in-depth analysis of markets and the economy

Written Commentary | Often coinciding with market or economic events



Or visit firstcitizens.com/market-outlook

Authors

Brent Ciliano, CFA | SVP, Chief Investment Officer
Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Brent.Ciliano@firstcitizens.com | 919.716.2650

Phillip Neuhart | SVP, Director of Market & Economic Research
Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Phillip.Neuhart@firstcitizens.com | 919.716.2403

Blake Taylor | VP, Market & Economic Research Analyst
Capital Management Group | First Citizens Bank
8510 Colonnade Center Drive | Raleigh, NC 27615
Blake.Taylor@firstcitizens.com | 919.716.7964

Important Disclosures

This material is for informational purposes only and is not intended to be an offer, specific investment strategy, recommendation, or solicitation to purchase or sell any security or insurance product, and should not be construed as legal, tax or accounting advice. Please consult with your legal or tax advisor regarding the particular facts and circumstances of your situation prior to making any financial decision. While we believe that the information presented is from reliable sources, we do not represent, warrant, or guarantee that it is accurate or complete.

Your investments in securities and insurance products and services are not insured by the FDIC or any other federal government agency and may lose value. They are not deposits or other obligations of, or guaranteed by any bank or bank affiliate and are subject to investment risks, including possible loss of the principal amounts invested.

About the Entities, Brands and Services Offered

First Citizens Wealth™ (FCW) is a marketing brand of First Citizens BancShares, Inc., a bank holding company. The following affiliates of First Citizens BancShares are the entities through which FCW products are offered. Brokerage products and services are offered through First Citizens Investor Services, Inc. ("FCIS"), a registered broker-dealer, Member **FINRA** and **SIPC**. Advisory services are offered through FCIS, First Citizens Asset Management, Inc. and SVB Wealth LLC, all SEC registered investment advisers. Certain brokerage and advisory products and services may not be available from all Investment Professionals, in all jurisdictions, or to all investors. Insurance products and services are offered through FCIS, a licensed insurance agency. Banking, lending, trust products and services, and certain insurance products and services are offered by First-Citizens Bank & Trust Company, Member **FDIC**, and an Equal Housing Lender and SVB, a division of First-Citizens Bank & Trust Company. 

For more information about FCIS, FCAM or SVBW and its Investment Professionals click here:

<https://www.firstcitizens.com/wealth/disclosures>

<https://www.svb.com/private-bank/disclosures/form-adv/>

©2024 First-Citizens Bank & Trust Company. All rights reserved. Silicon Valley Bank, a division of First-Citizens Bank & Trust Company. Member FDIC., First Citizens Wealth is a trademark of First Citizens BancShares, Inc. .

P00158_060324