First Citizens Wealth™

Making **Sense**

2025 Market Outlook

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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% — Expectation for 2024, 1 year ago

+2.7% — Actual 2024 outcome

Labor Market
New Jobs per Month

+74,000 — Expectation for 2024, 1 year ago

+190,000 — Actual 2024 outcome

Inflation
Consumer Price Index

2.6% — Expectation for 2024, 1 year ago

2.9% — Actual 2024 outcome

Interest Rates
Federal Funds Rate

3.8% — Expectation for end-2024, as of 1 year ago

4.5% — Expectation for end-2024, as of today

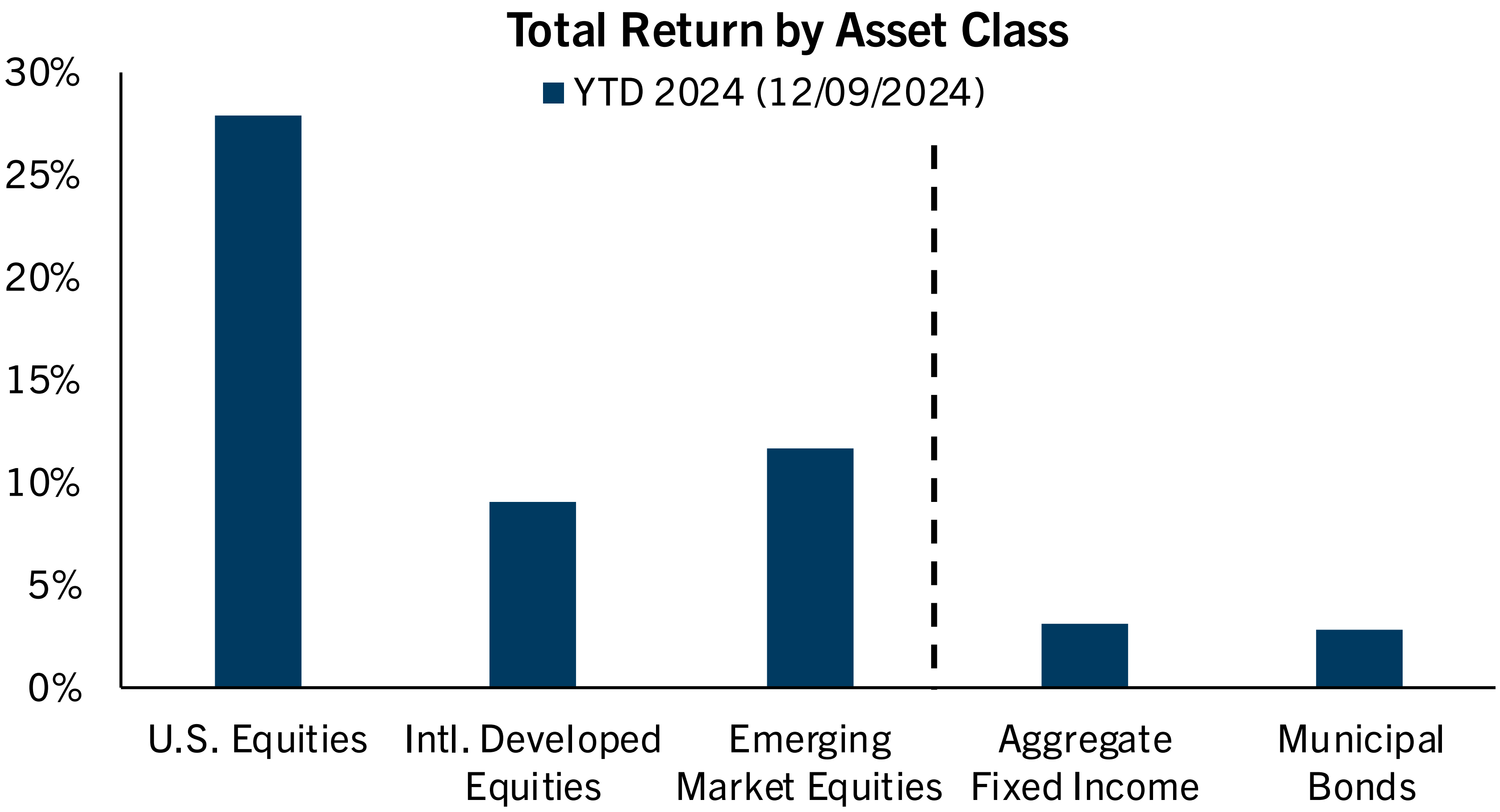
Recession
Probability, Next 12 Months

50% — Expectation for 2024, 1 year ago

25% — Expectation today, next 12 months

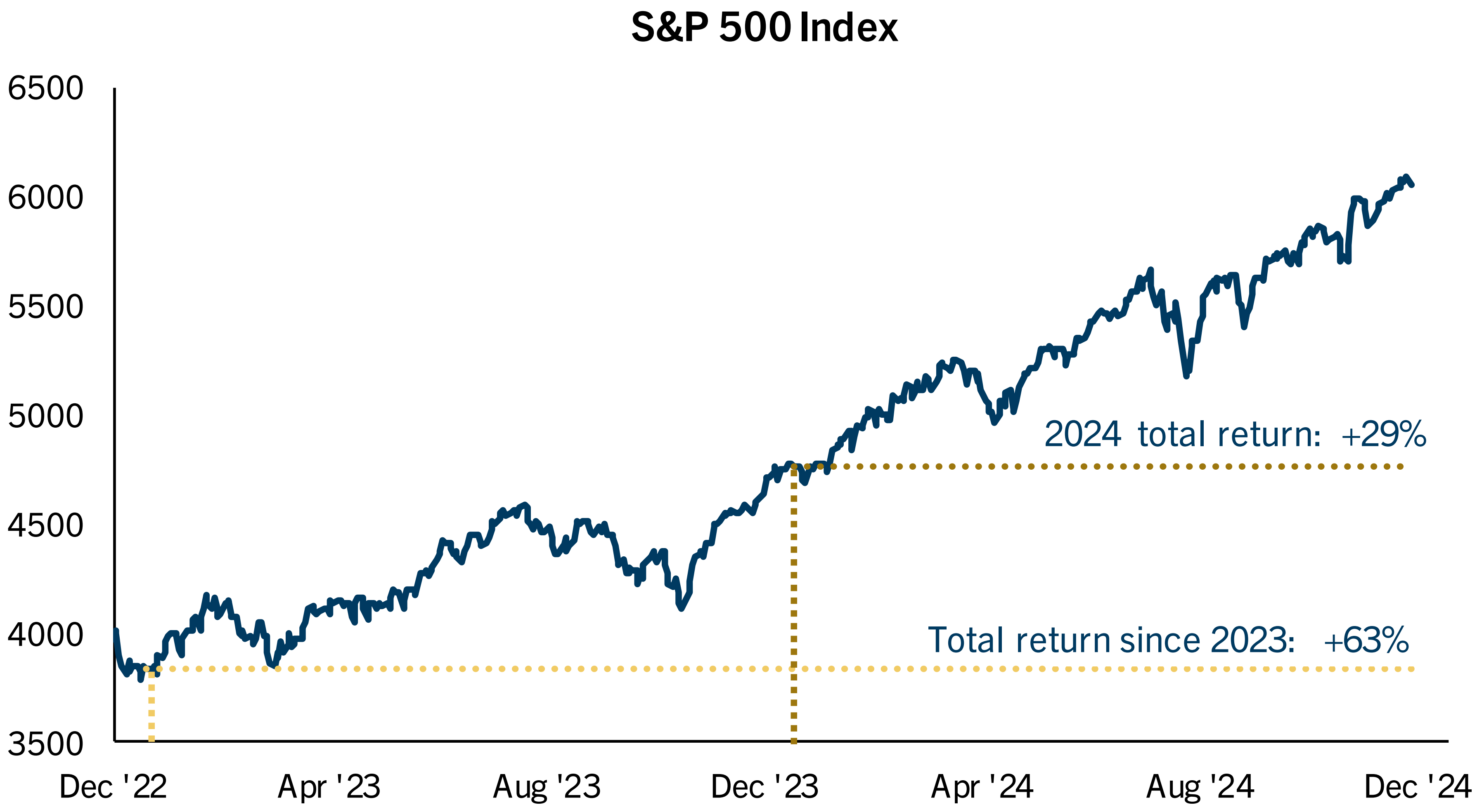
Source: Bloomberg, First Citizens Wealth

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



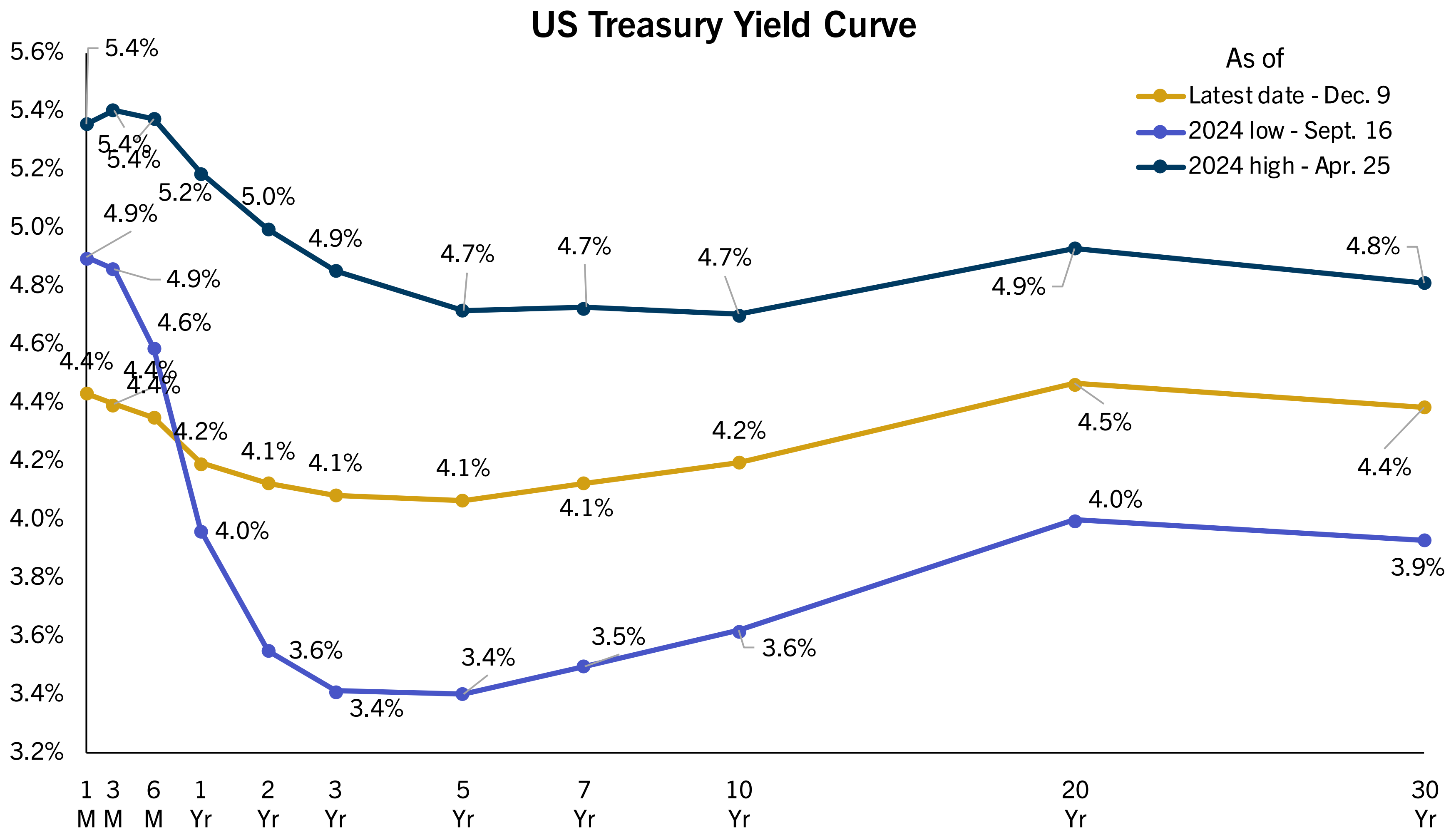
Source: Bloomberg, First Citizens Wealth. Data as of 12/9/2024.

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



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

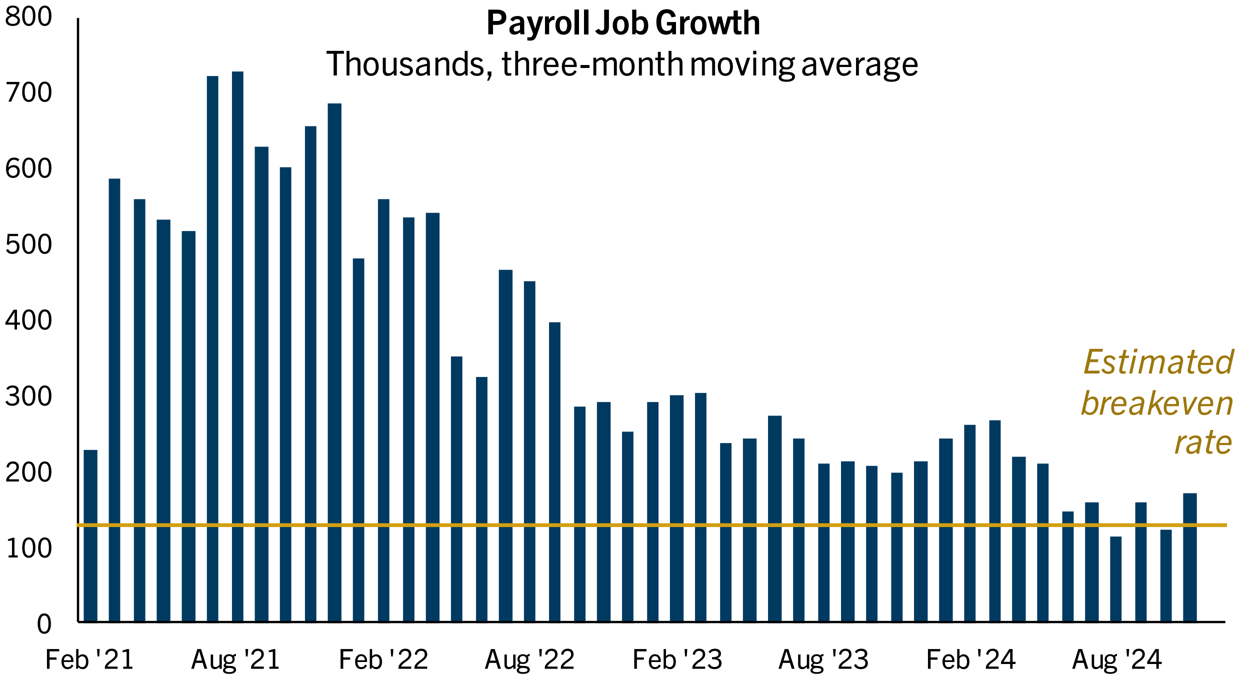
2024 Lookback: Treasury Yields Swung Significantly in 2024

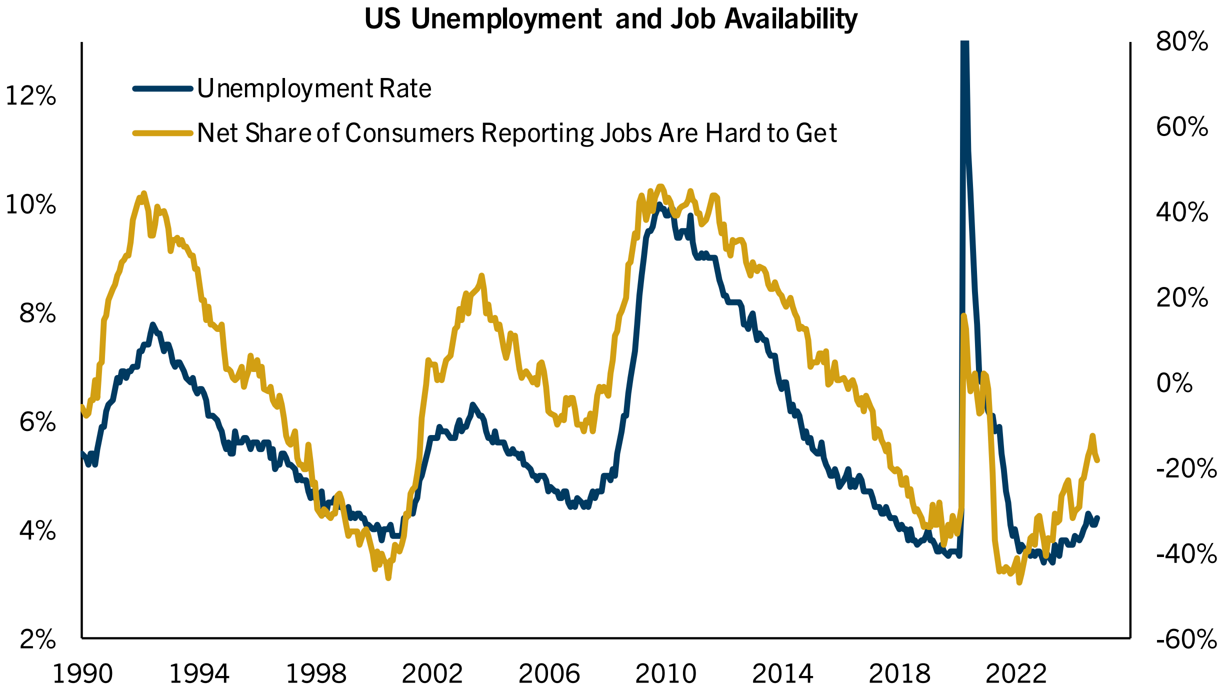


Source: Bloomberg, First Citizens Wealth. Data as of 12/9/2024.

1. Fundamentals: Still in Place?

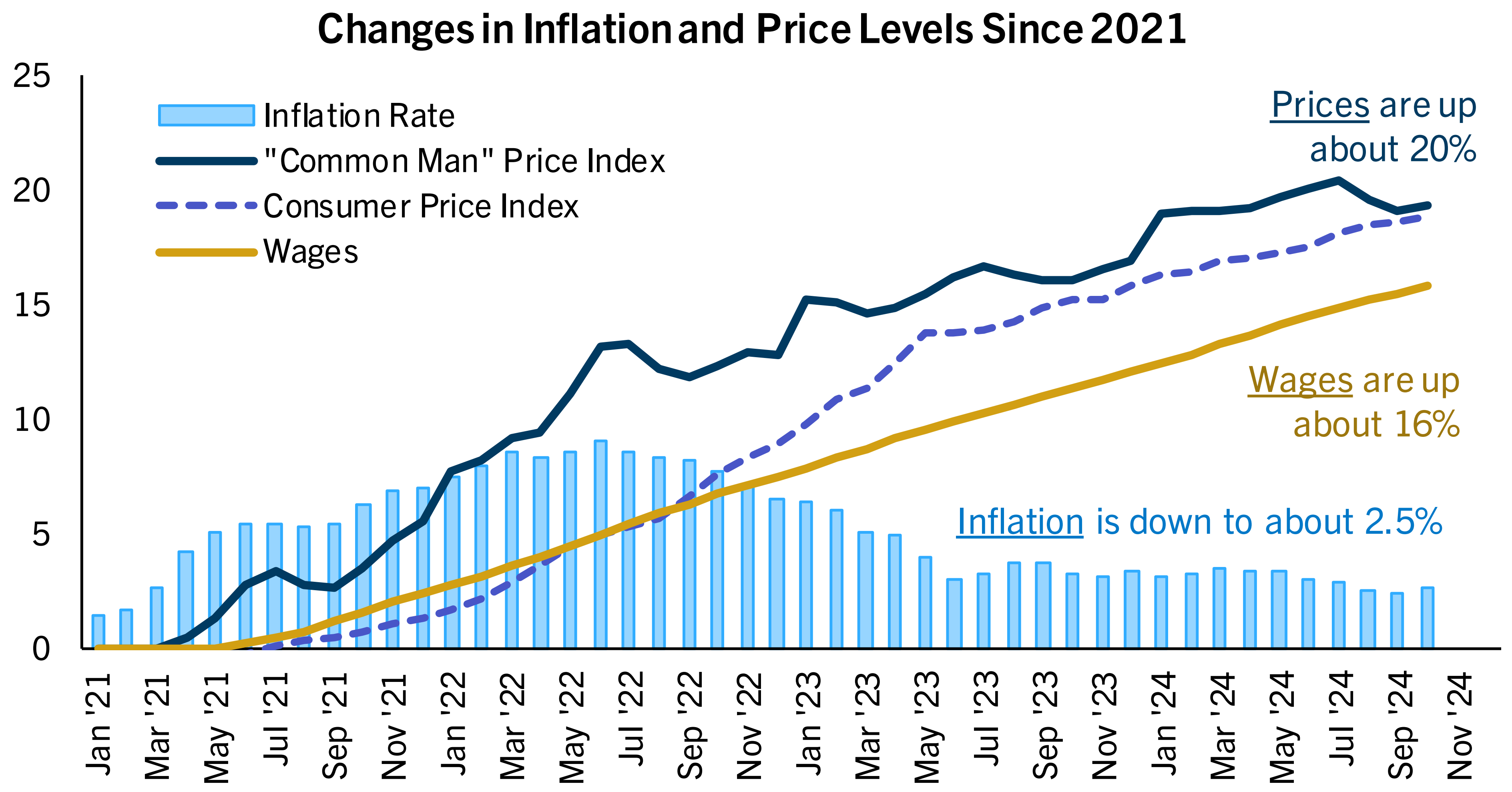
The Labor Market Is a Wild Card for 2025





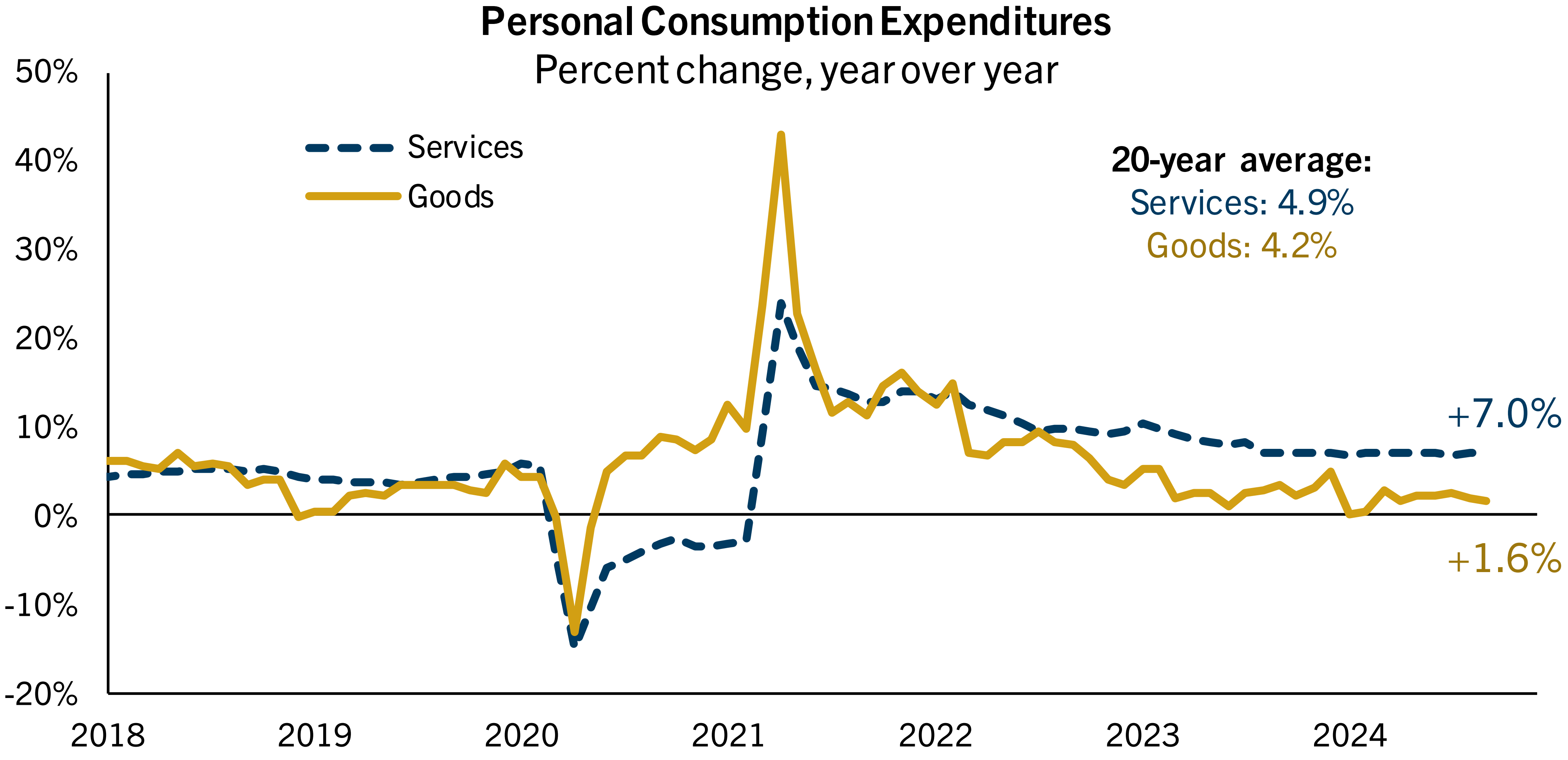
Source: Conference Board, Department of Labor, Bloomberg. Data through November 2024.

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



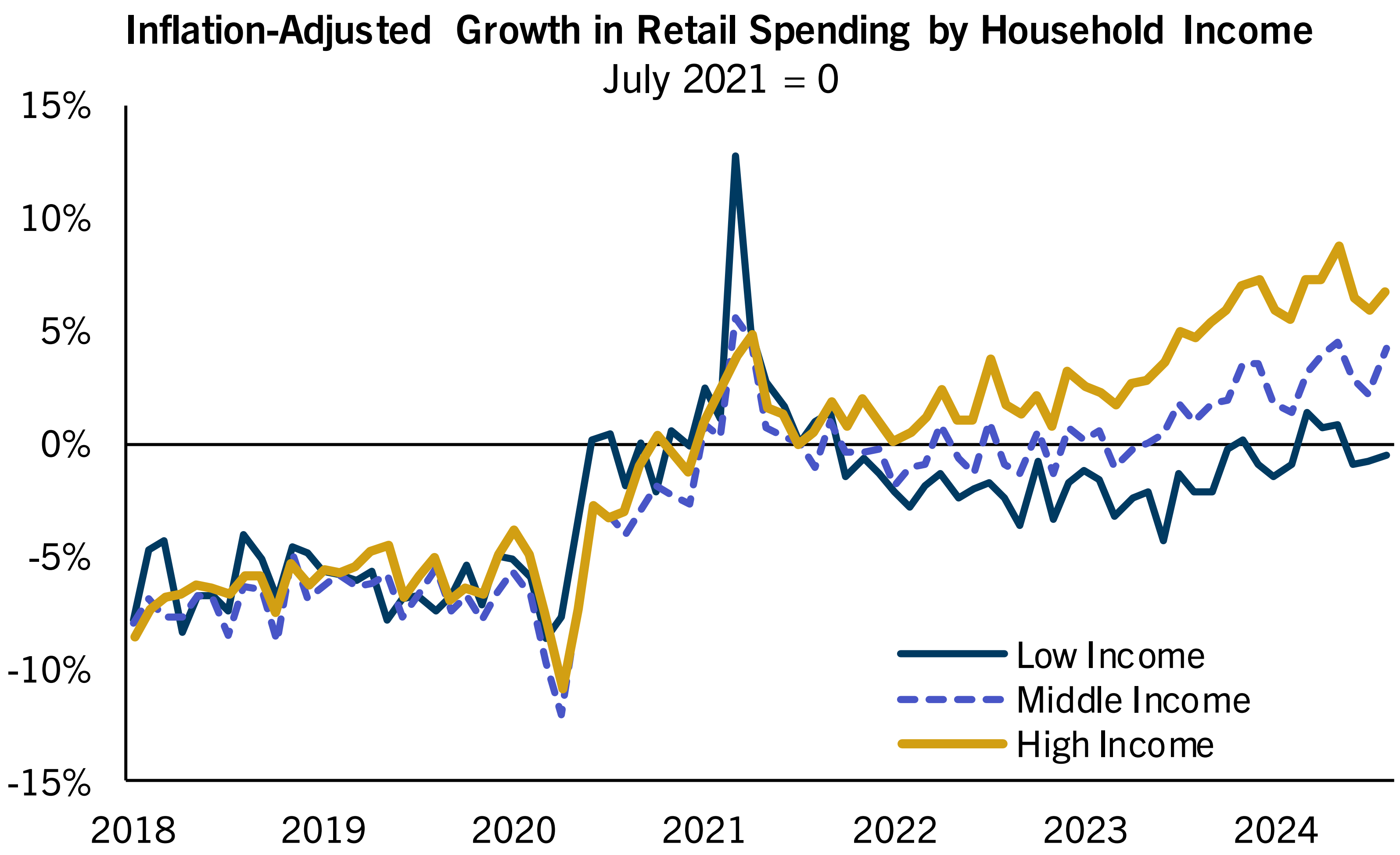
Source: Strategas, Bloomberg, First Citizens Wealth. Data through October 2024.
Note: The Strategas "Common Man" price index includes essential purchases such as food, energy, shelter, clothing, utilities, insurance, and so forth.

Consumer Expenditures Are Holding Up



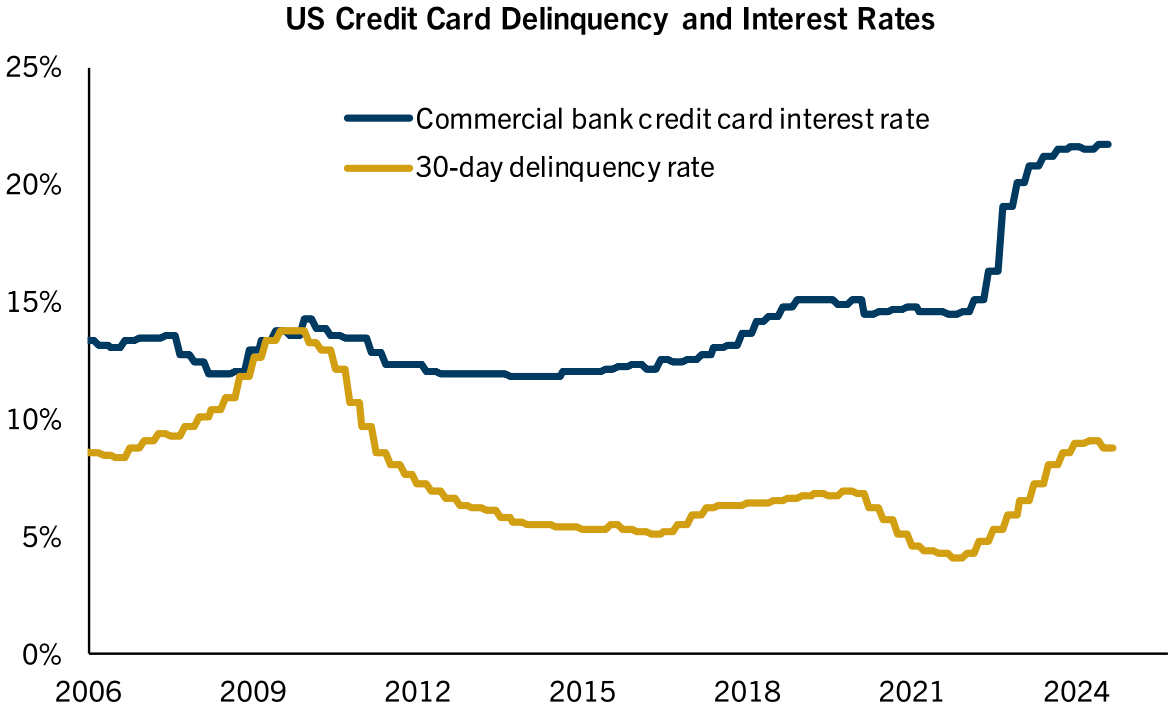
Source: Bloomberg, First Citizens Wealth. Data through October 2024.

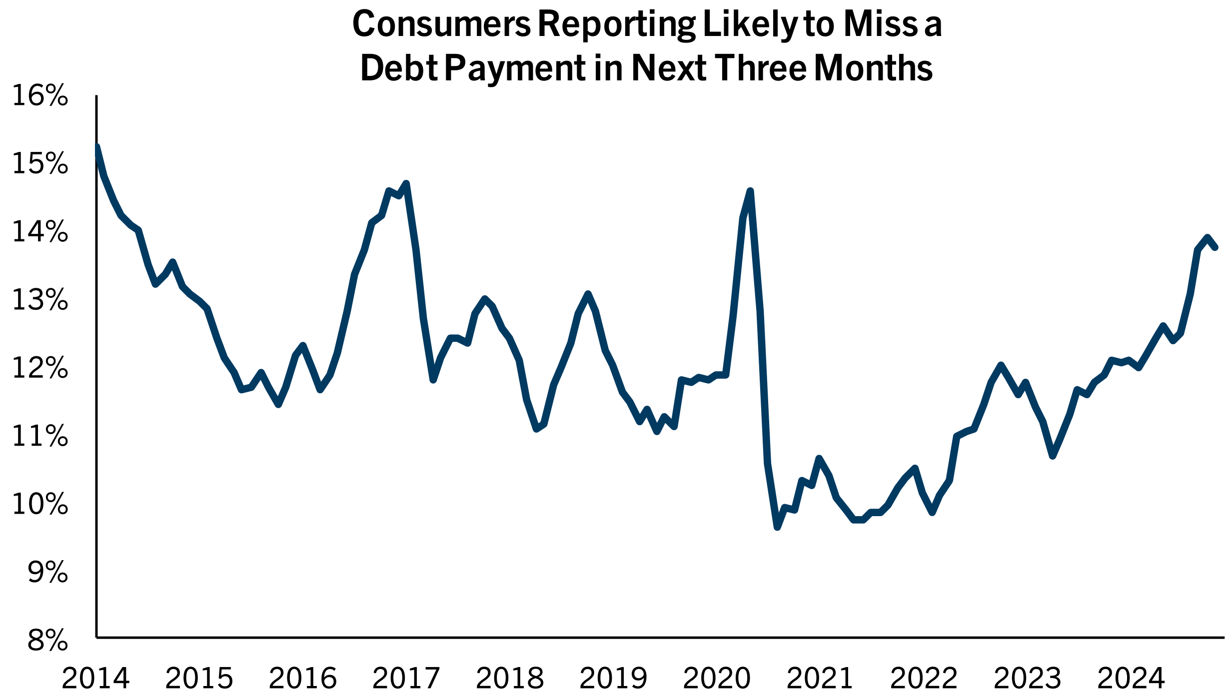
Low-Income Household Spending Has Not Grown for Over Three Years



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

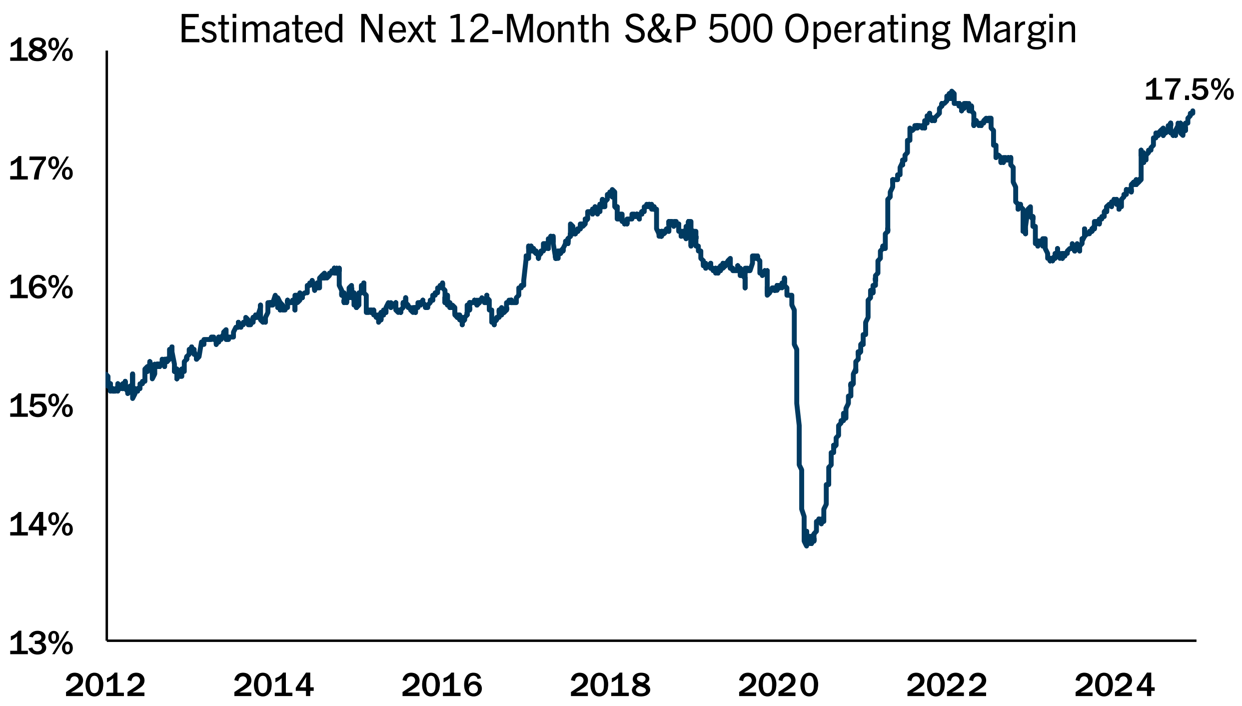




Source: Federal Reserve Bank of New York, Bloomberg. Data through 2024:Q3.

Corporate Earnings

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



Source: FactSet, Bloomberg, Strategas. Data as of 12/6/2024.

2. The Fed May Slow the Pace of Rate Cuts

The Economy Is Giving Mixed Signals

Rationale for ***fewer*** rate cuts

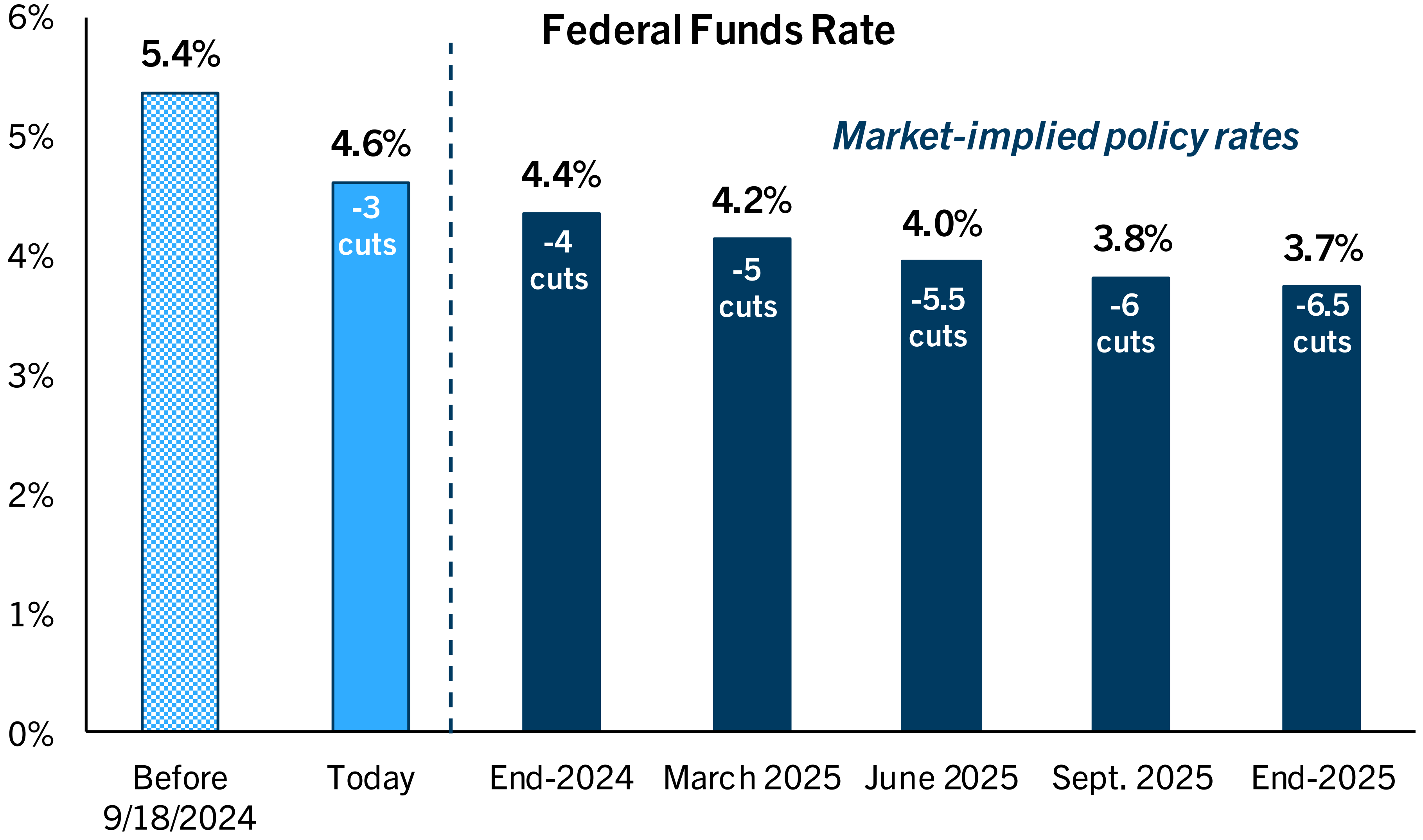
- US economy has been resilient
- Level of interest rates vs. L/T history
- Financial conditions are easy
- Spreads are very tight
- Inflation, while moderating, is sticky

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”

Source: First Citizens Wealth

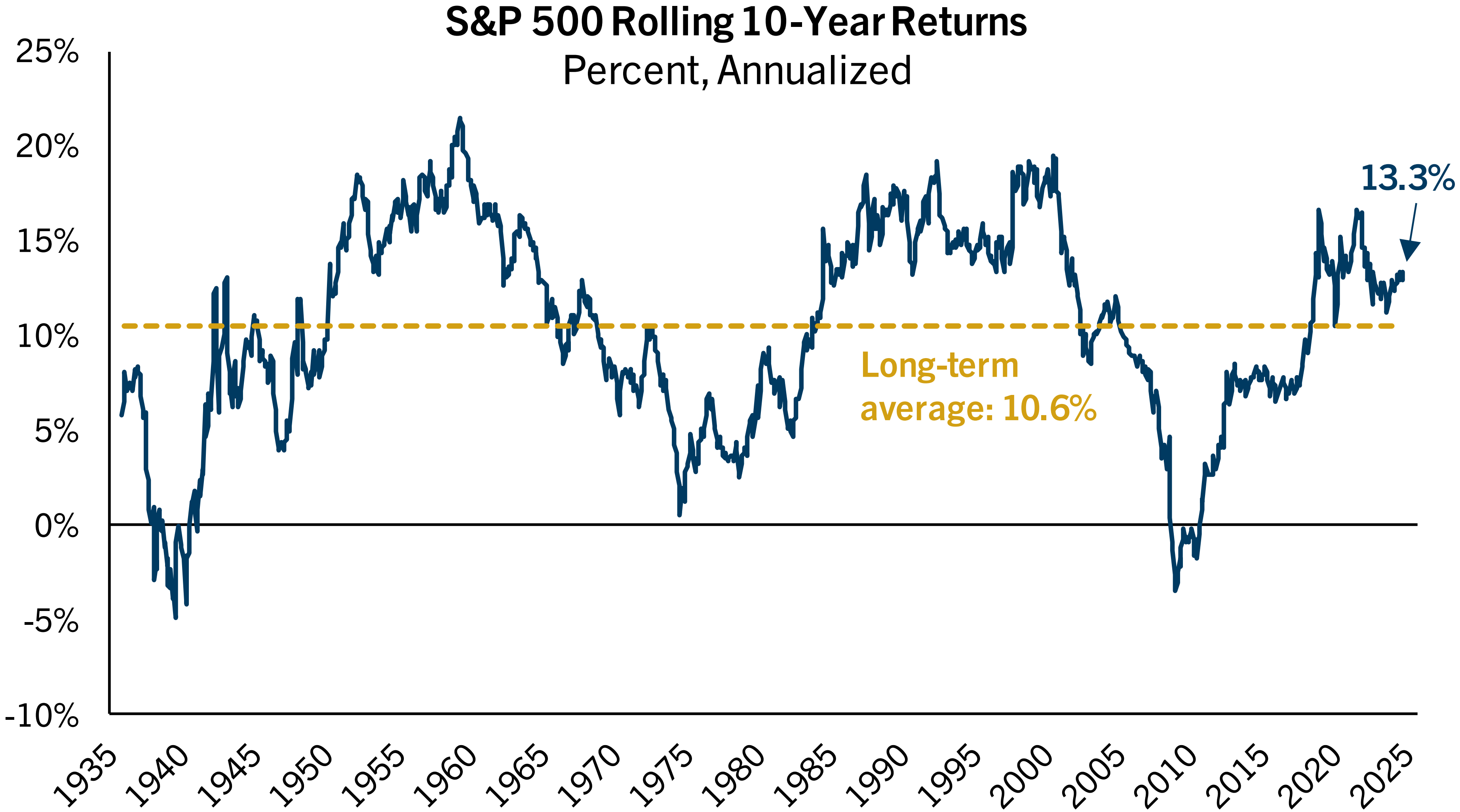
Markets Expect the Fed Will Cut Rates 2-3 Times Next Year



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

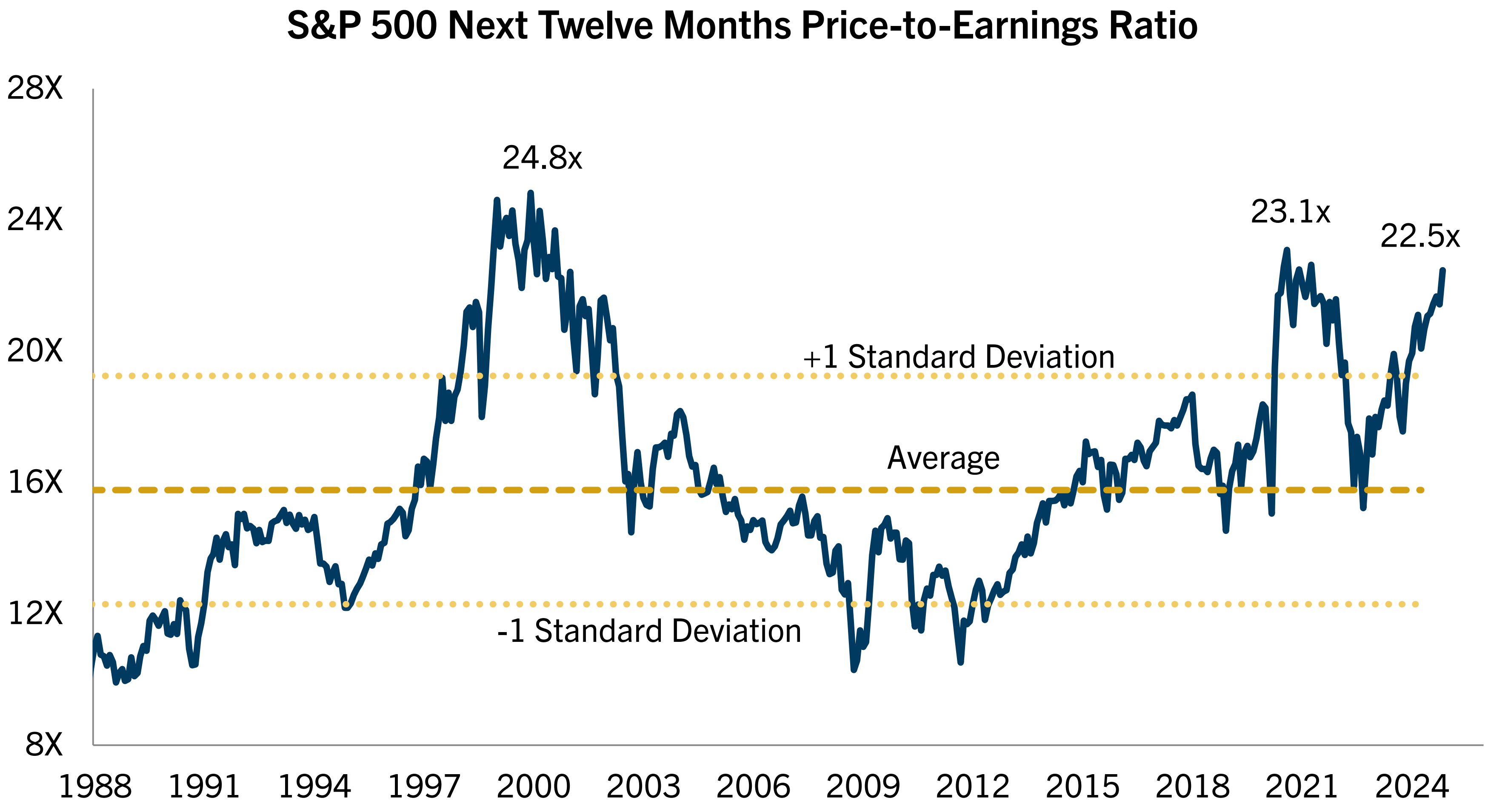
3. We Expect Lower Future Returns From Here

US Equity 10-year Rolling Returns Have Been Above Average



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

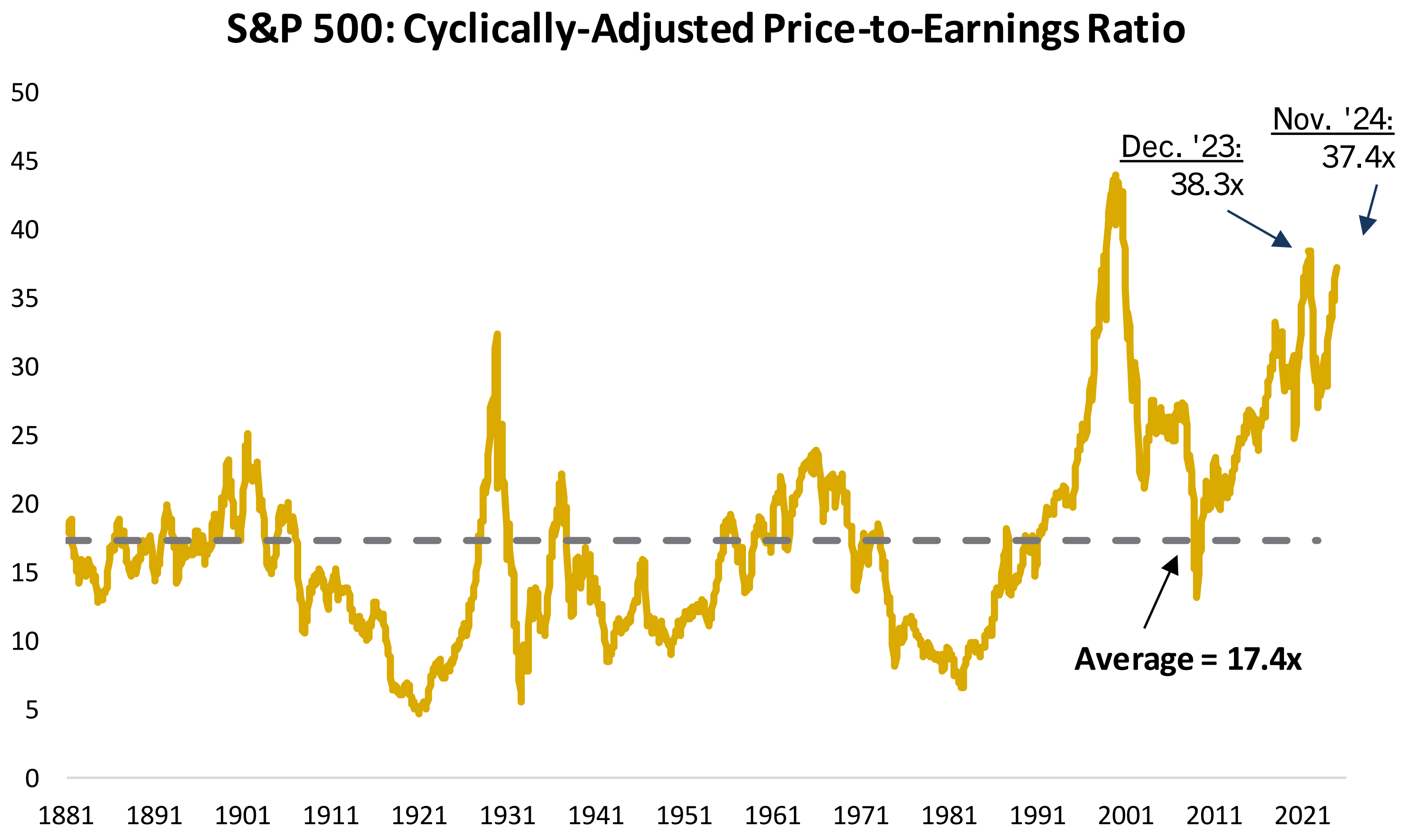
Market Valuation Is Looking Increasingly Stretched



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

Valuations Below Peak, Above Average

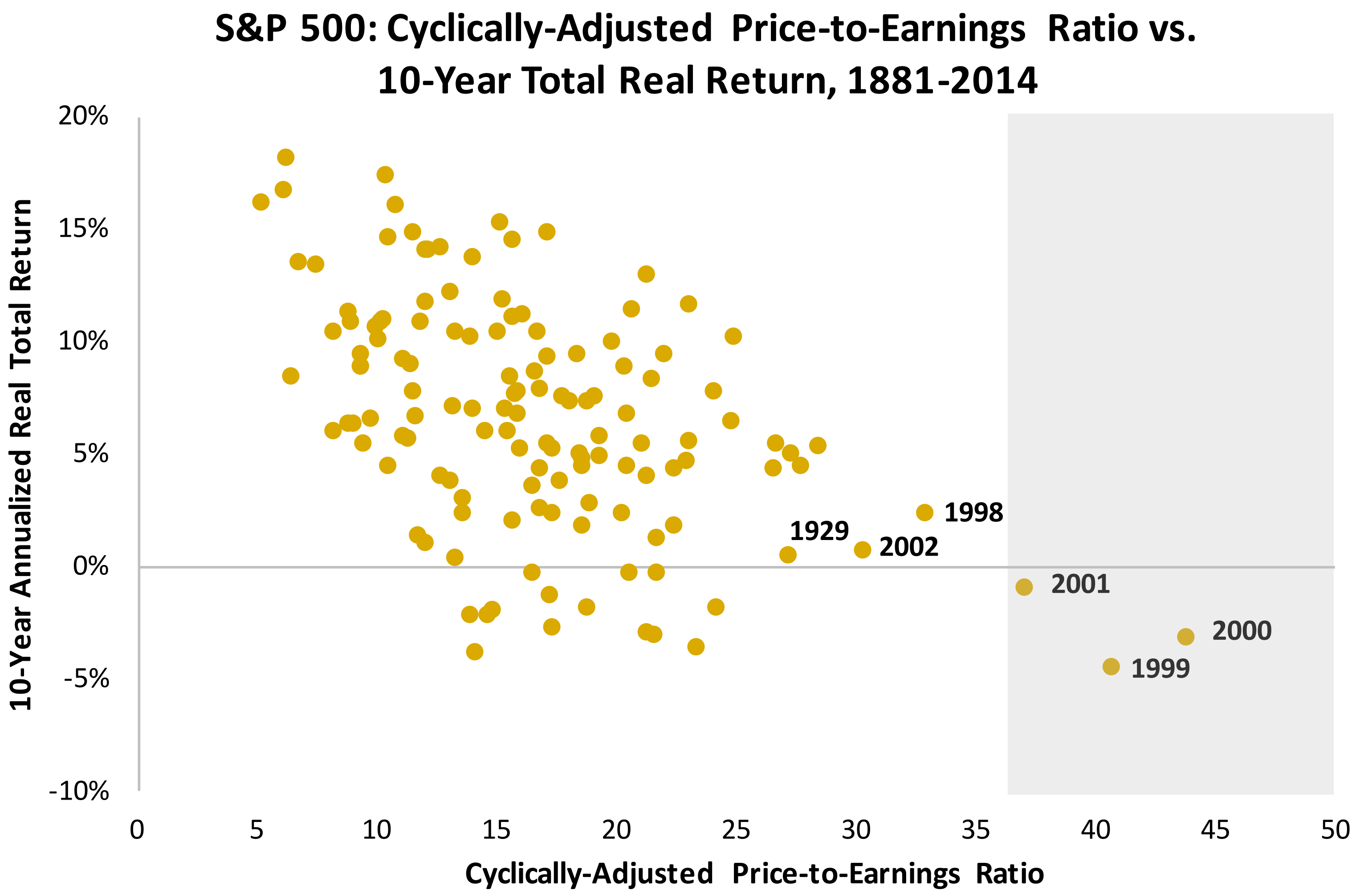
- While the Cyclically-Adjusted P/E ratio (CAPE) has been a **bad predictor of shorter-term performance…**



Source: Robert Shiller, Yale University. Data through November 2024.

Valuations Significantly Elevated

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



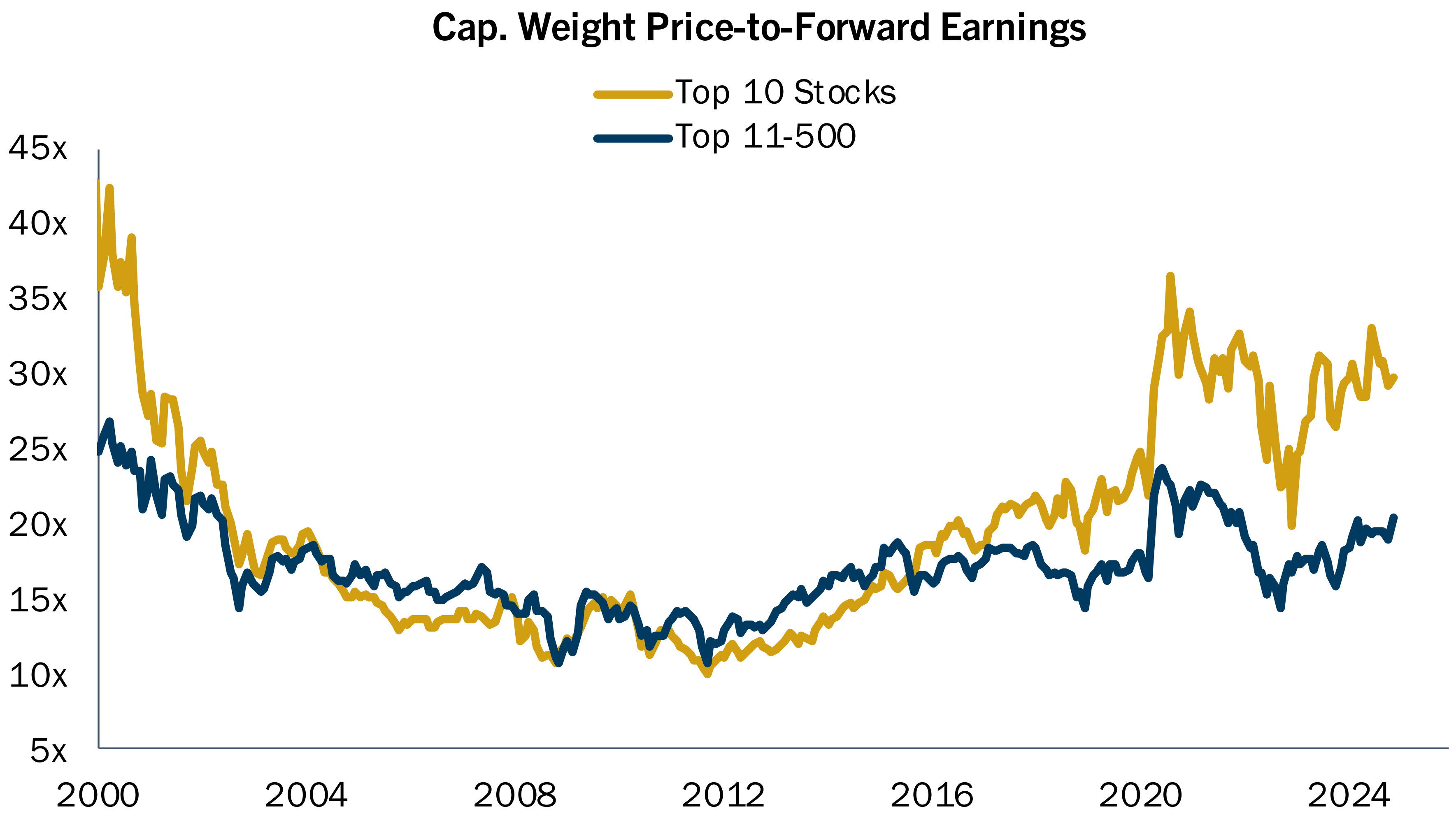
Source: Robert Shiller, Yale University.

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%

Source: Bloomberg, First Citizens Wealth.

P/E Ratios Suggest There is Room For Broadening



Source: Trivariate Research. Data through November 2024.

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%

Source: Bloomberg, FactSet, First Citizens Wealth. Data through December 9, 2024.

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%**		

Source: *Horizon Actuarial Services Annual Capital Market Assumptions Survey 2024, Bloomberg

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%**

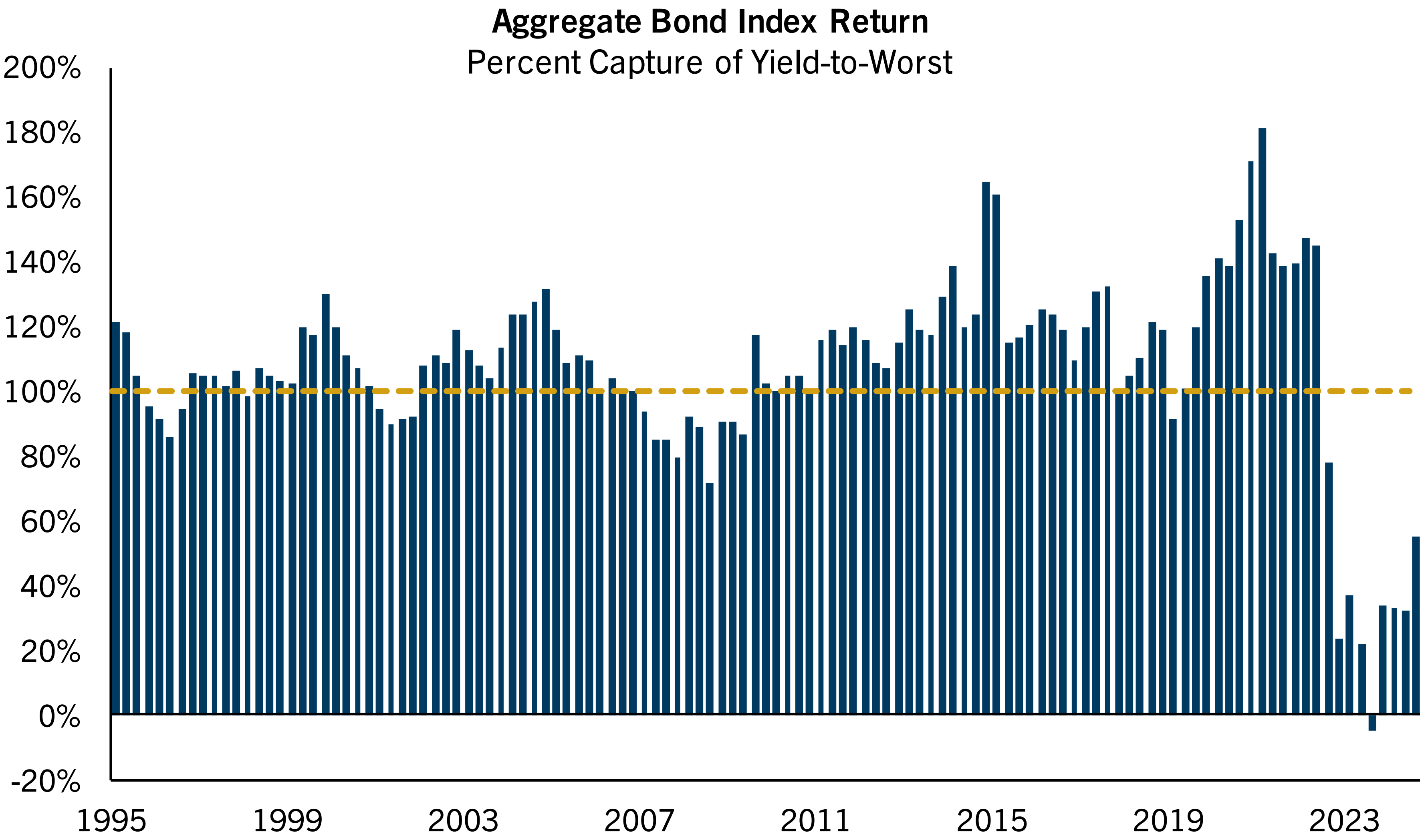
Source: Horizon Actuarial Services Annual Capital Market Assumptions Survey 2024, Bloomberg. Portfolios above are a hypothetical blend of S&P 500 for equities and Bloomberg US Aggregate Bond Index for fixed income

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%

Source: Bloomberg. Data as of December 9, 2024.

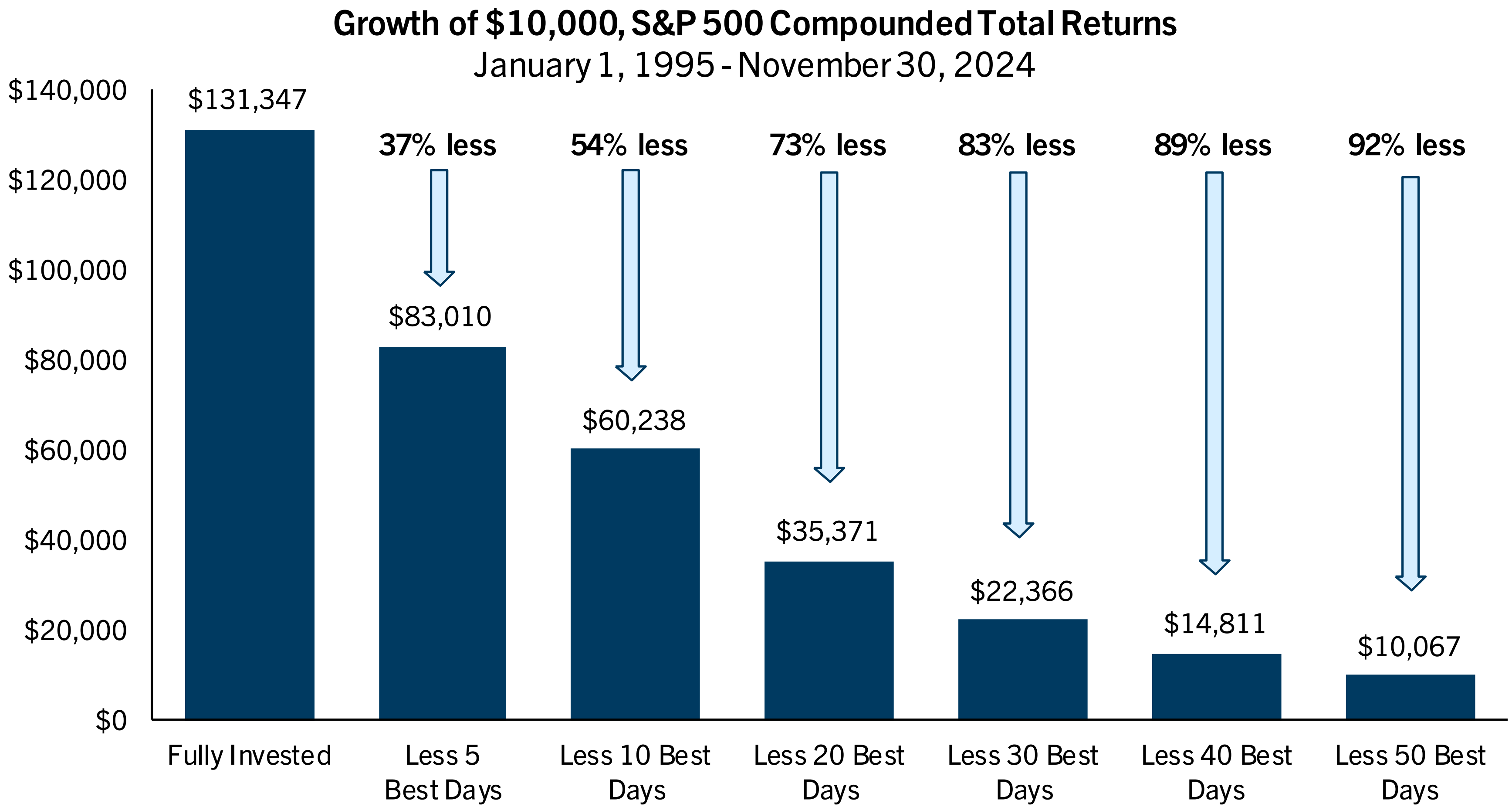
Yield-to-Worst Is a Relatively Good Approximation of Total Return



Source: Bloomberg, First Citizens Wealth. Data as of 2024:Q3.

5. Market Tenets to Remember

Market Timing Is a Dangerous Game



- **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.*

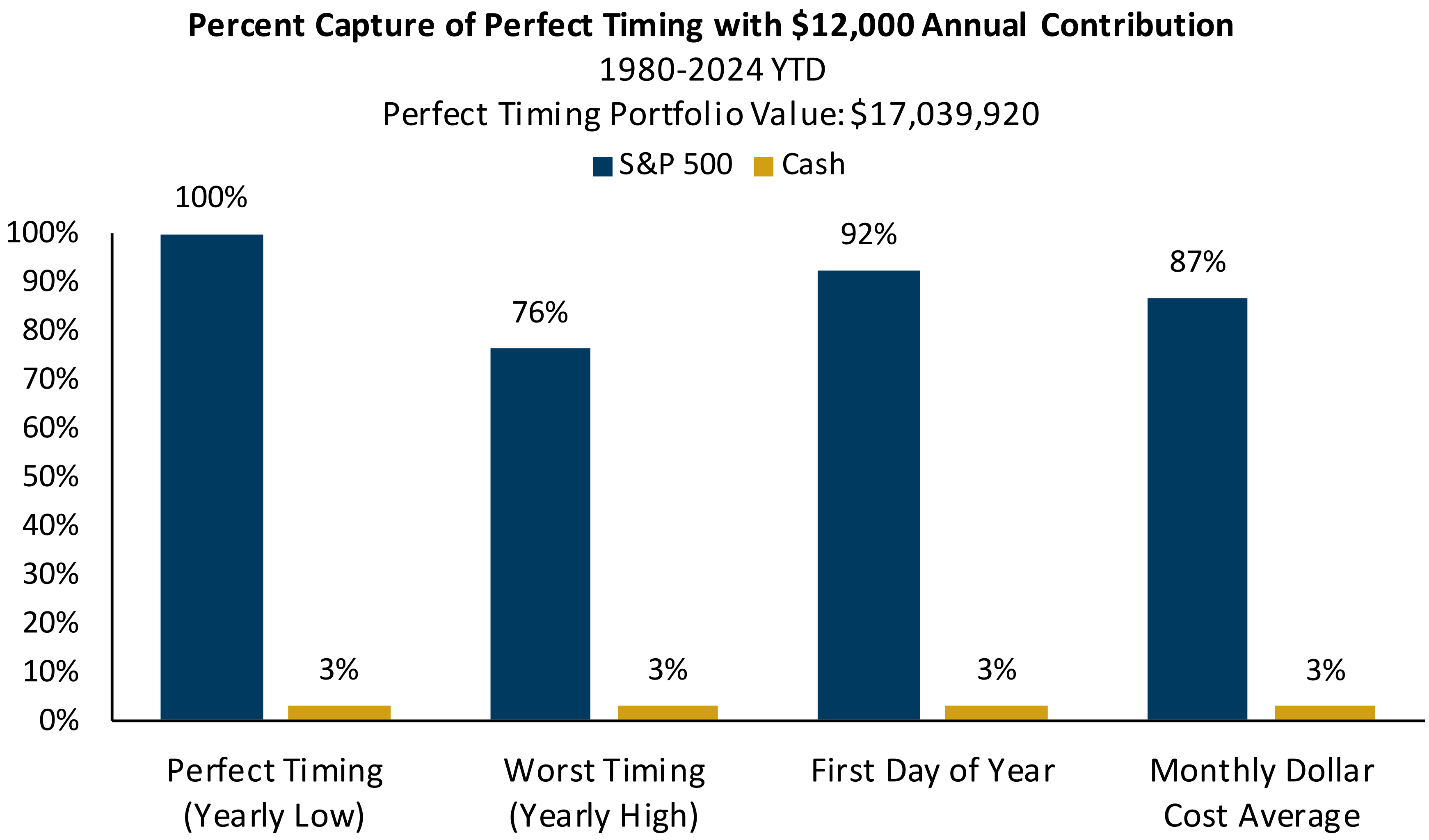
Source: Strategas, First Citizens Wealth, NDR Research.

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***

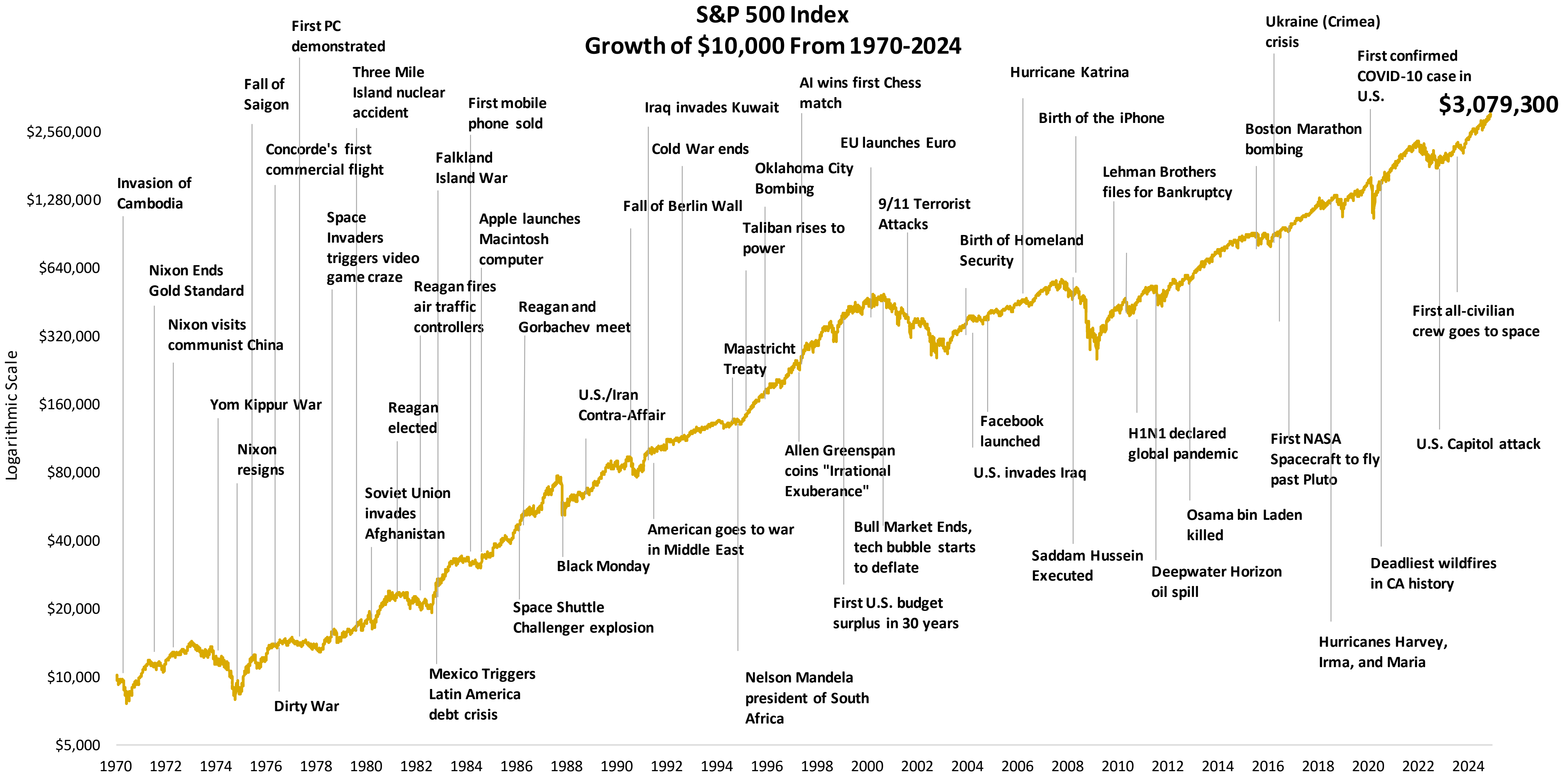
Source: Bloomberg, Strategas. Returns are total return.

Being Invested Is What Matters



Source: First Citizens Wealth, Bloomberg.

Time IN Markets Matters



Source: First Trust, Bloomberg.

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