First Citizens Wealth™

Making **Sense**

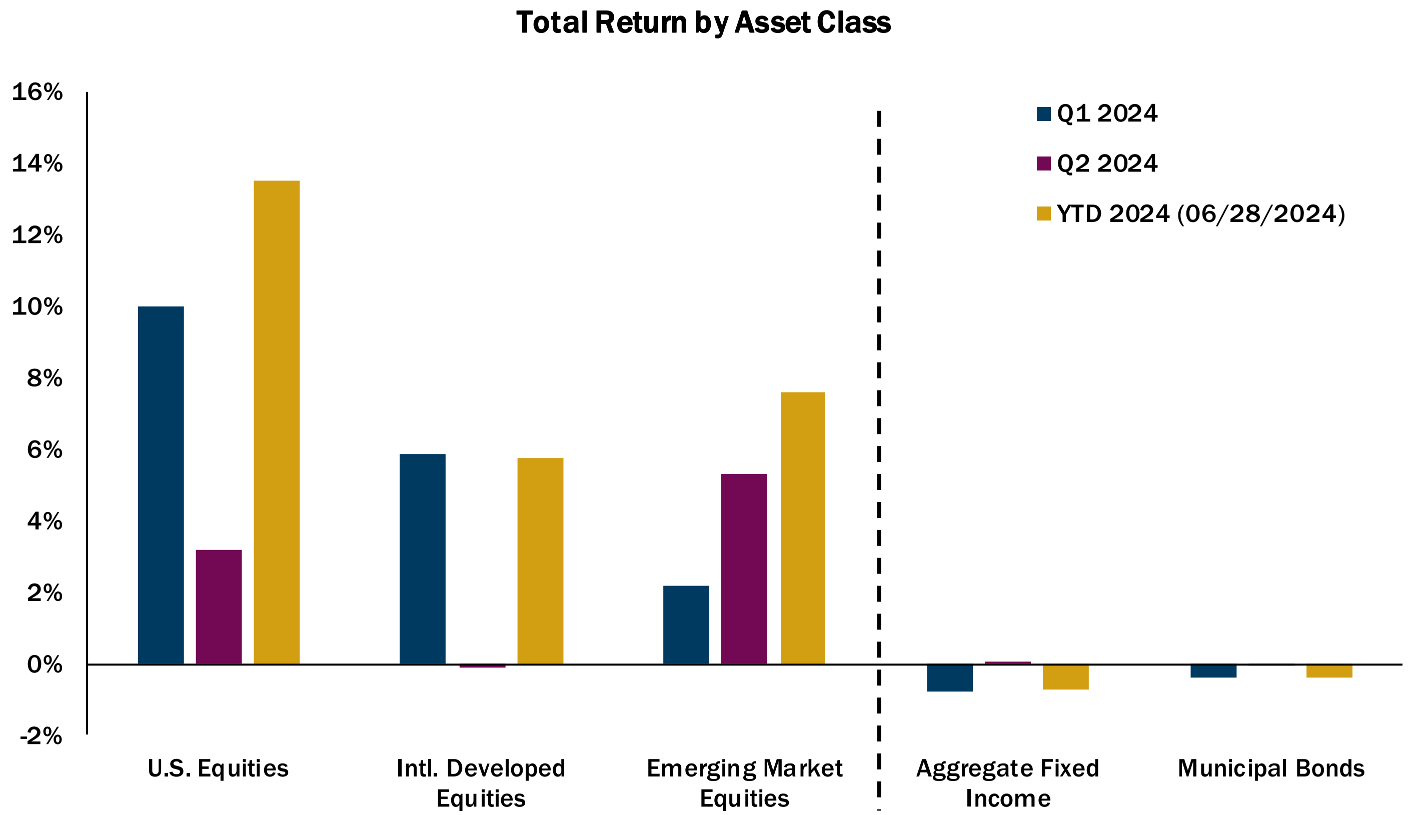
Quarterly Market Review — Q2 2024

Global Markets

The second quarter saw increased volatility in both equity and fixed income markets. In April, Treasury yields spiked on the heels of elevated inflation data, and equity markets sold off in response. However, in May and June yields fell and stocks rose as inflation data improved on the margin. The Federal Reserve lowered its median projection for the federal funds rate at year-end to one interest-rate cut from three.

For the quarter, global stocks rallied 3.1% (total return), bringing the year-to-date gain to 11.6%. The US outperformed international developed stocks (3.2% gain versus 0.1% loss), amplifying the year-to-date performance spread (+13.6% versus +5.8%; see chart). Emerging markets had a solid quarter, gaining 5.3%, and are up 7.6% year-to-date. Aggregate fixed income and municipal bond performance was nearly flat on the quarter and remained slightly negative year-to-date.

Global Markets: US Equity Market Rallied in Q2



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

US Equity Performance

Large-cap growth stocks were the bright spot and driving force behind US equity market returns in Q2. Value stocks moved down across the market cap spectrum in the second quarter, as did small- and mid-cap growth stocks.

Breadth narrowed in Q2 after a brief broadening earlier this year. The equal-weighted S&P 500 lagged the market capitalization-weighted index substantially last quarter.

Large-Cap Growth Stocks Outperformed in Q2

QTD US Equity Returns As of 06/28/2024

	Value	Blend	Growth
Large	-1.4%	5.7%	10.0%
Mid	-3.4%	-3.3%	-3.2%
Small	-3.6%	-3.3%	-2.9%

YTD US Equity Returns As of 06/28/2024

	Value	Blend	Growth
Large	7.9%	17.2%	22.9%
Mid	4.5%	5.0%	6.0%
Small	-0.9%	1.7%	4.4%

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

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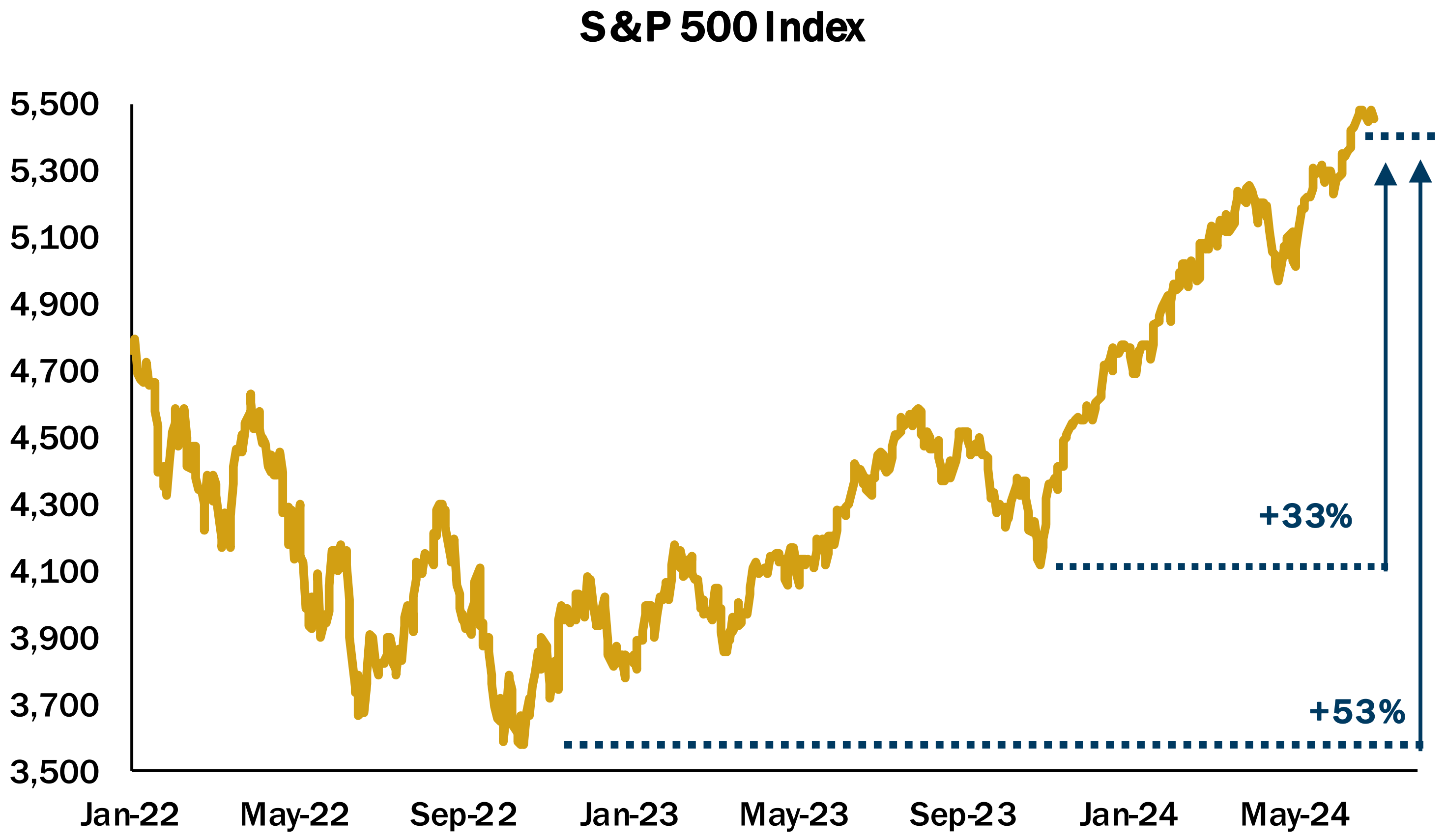
US Equity Performance

At the end of Q2, the S&P 500 had rallied 33% (price return) since its October 2023 low and 53% from its October 2022 low. The index finished the quarter at 5,460, barely off its record-high level.

Strong reported and expected earnings growth continued to supersede concerns about inflation and interest rates. That said, the narrowness of the rally, especially later in the quarter, became highly apparent.

The S&P 500 Rally Marched Onward



Source: Bloomberg

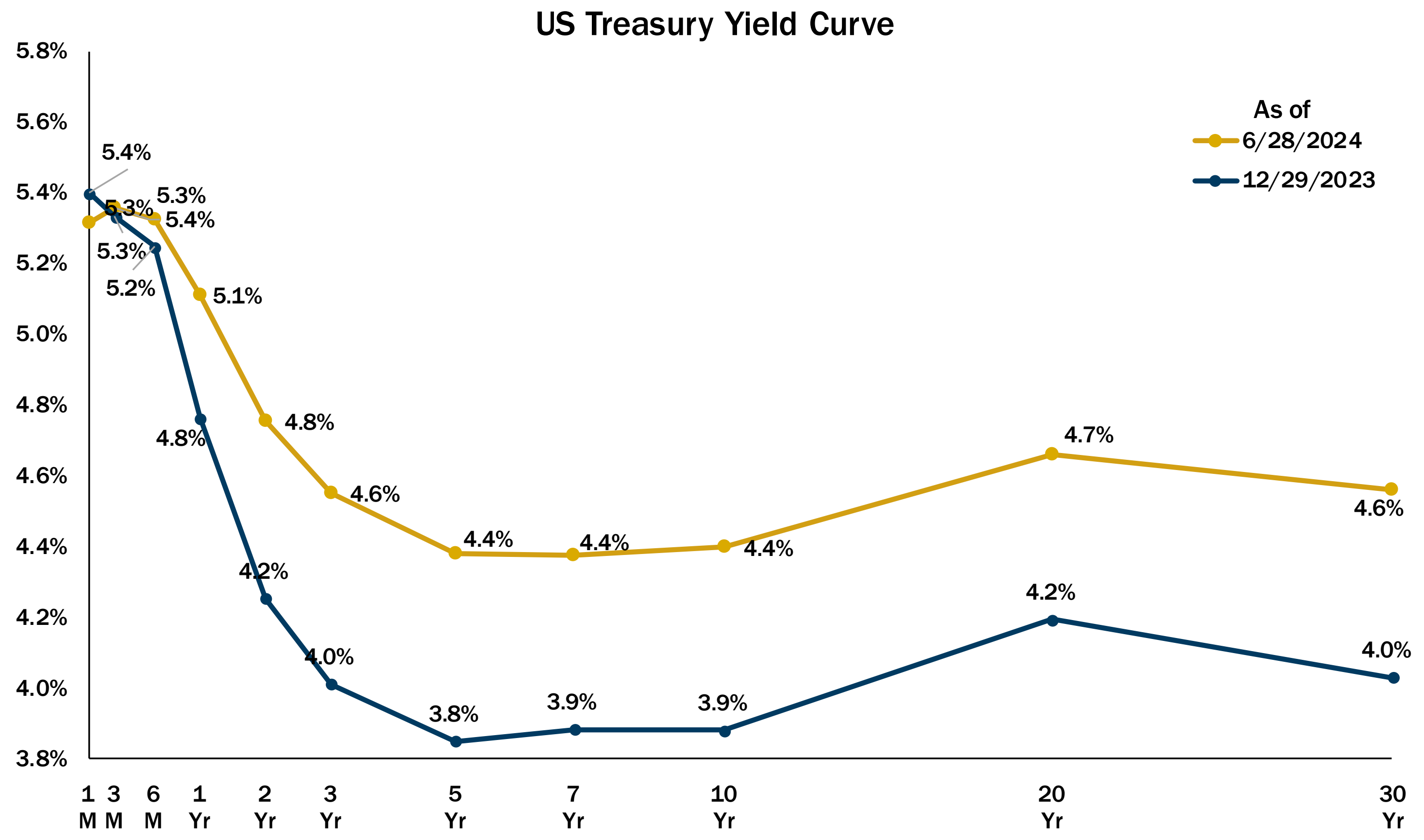
Fixed Income

US Government bond yields finished the quarter modestly higher after extreme swings, particularly in April and May. The 2- and 10-year Treasury yields rose to 4.75% and 4.40% respectively, up 13 and 20 basis points each from the end of Q1.

Markets continued to price in fewer interest-rate cuts this year. Firmer inflation data and resistance from Fed policymakers led markets to expect 1-2 interest-rate cuts this year potentially starting in September.

The Treasury yield curve remains significantly inverted. In the past, investors have viewed an inverted curve as a sign of impending recession. But higher short-end rates have failed to upset an economy that has so far proved remarkably resilient.

US Yield Curve Remains Inverted



Source: Bloomberg

Fixed Income

Bond yields remain 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, yielded 5.00% at quarter-end, 2.9 times higher than its 1.75% yield at the end of 2021. Investors are generating yield from risk-managing assets.

Yield Levels Still Attractive

US Fixed Income Indices

	Yield-to-Worst	
Index	**12/31/2021**	**6/28/2024**
2-Year Treasury	0.73%	4.75%
10-Year Treasury	1.51%	4.40%
Aggregate Bond	1.75%	5.00%
Intermediate Government/Credit	1.30%	4.82%
Municipal Bond	1.11%	3.72%
Investment Grade Corporate Bond	2.33%	5.48%
High Yield Corporate Bond	4.21%	7.91%

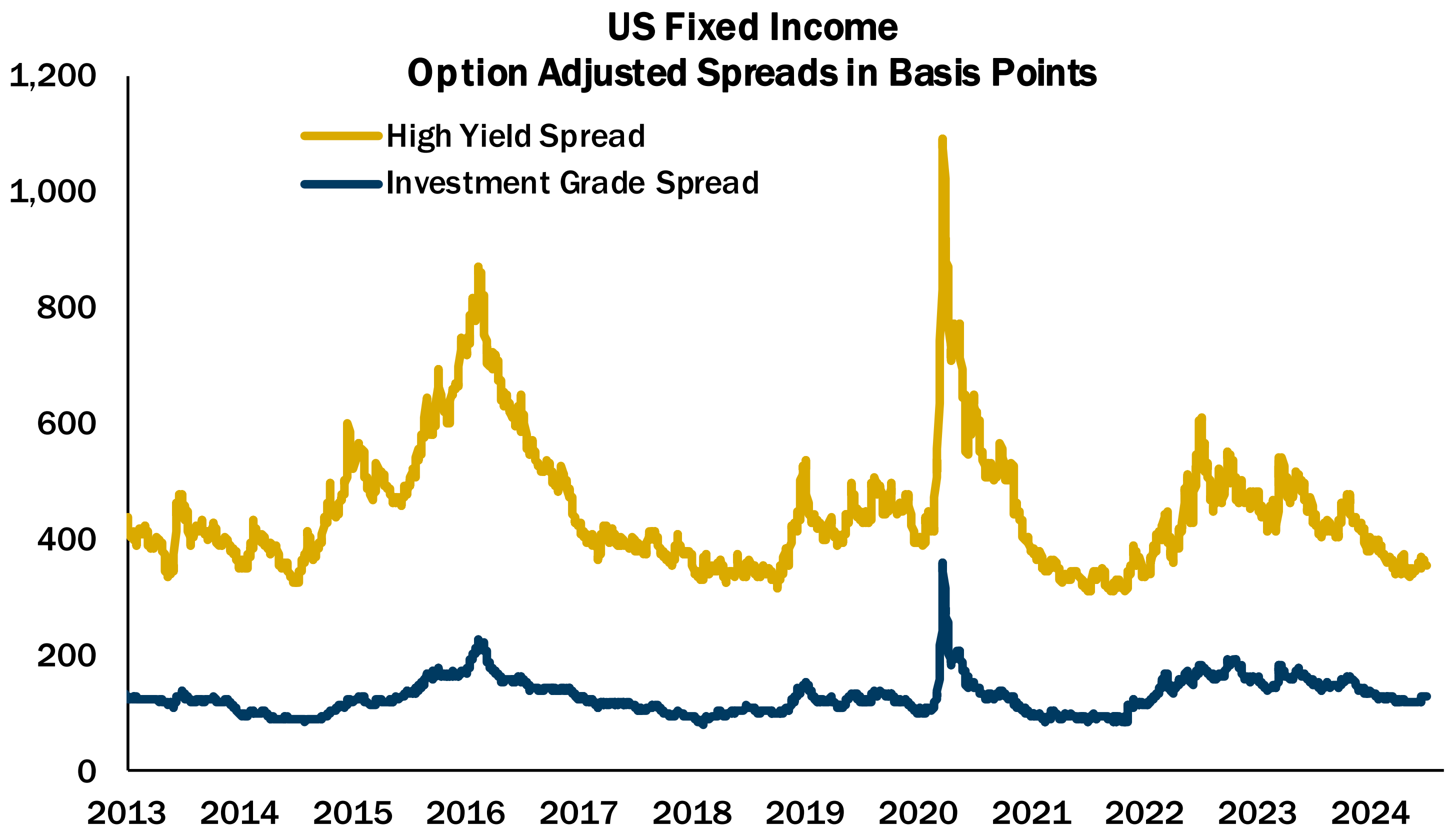
Source: Bloomberg

Fixed Income

Credit spreads for investment grade and high yield corporate bonds widened slightly in Q2 but are still at very narrow levels.

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

Authors

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

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

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

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