



First Citizens Wealth™

Making Sense

2026 Market Outlook | Constructive, but cautious



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Recorded on December 17, 2025

What are we going to cover?

1. 2025 Lookback
2. Economic Outlook
3. Market Outlook
4. Investing for the long term

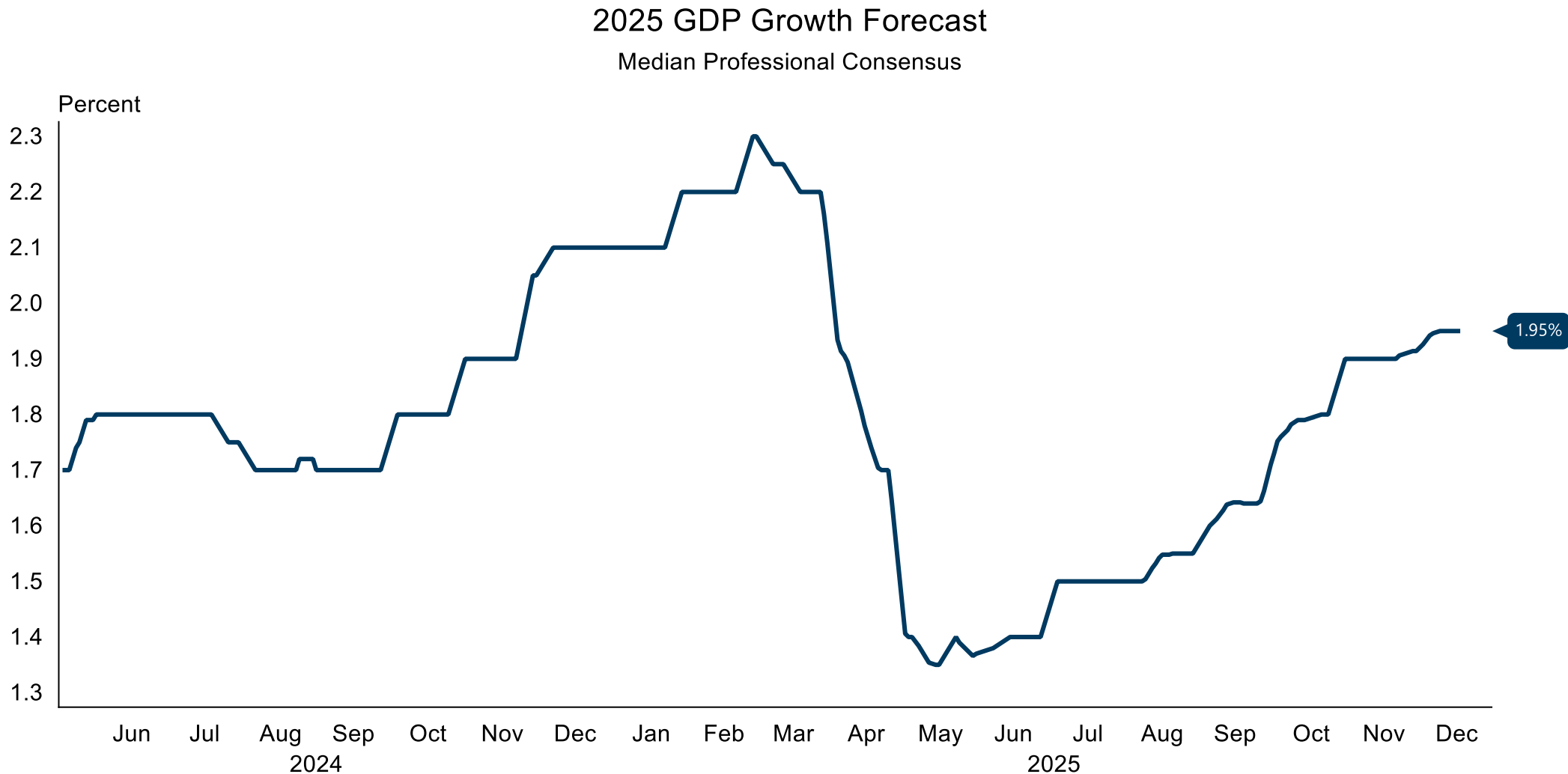
2025 Lookback



Economic data missed the mark slightly in 2025, but stocks outperformed

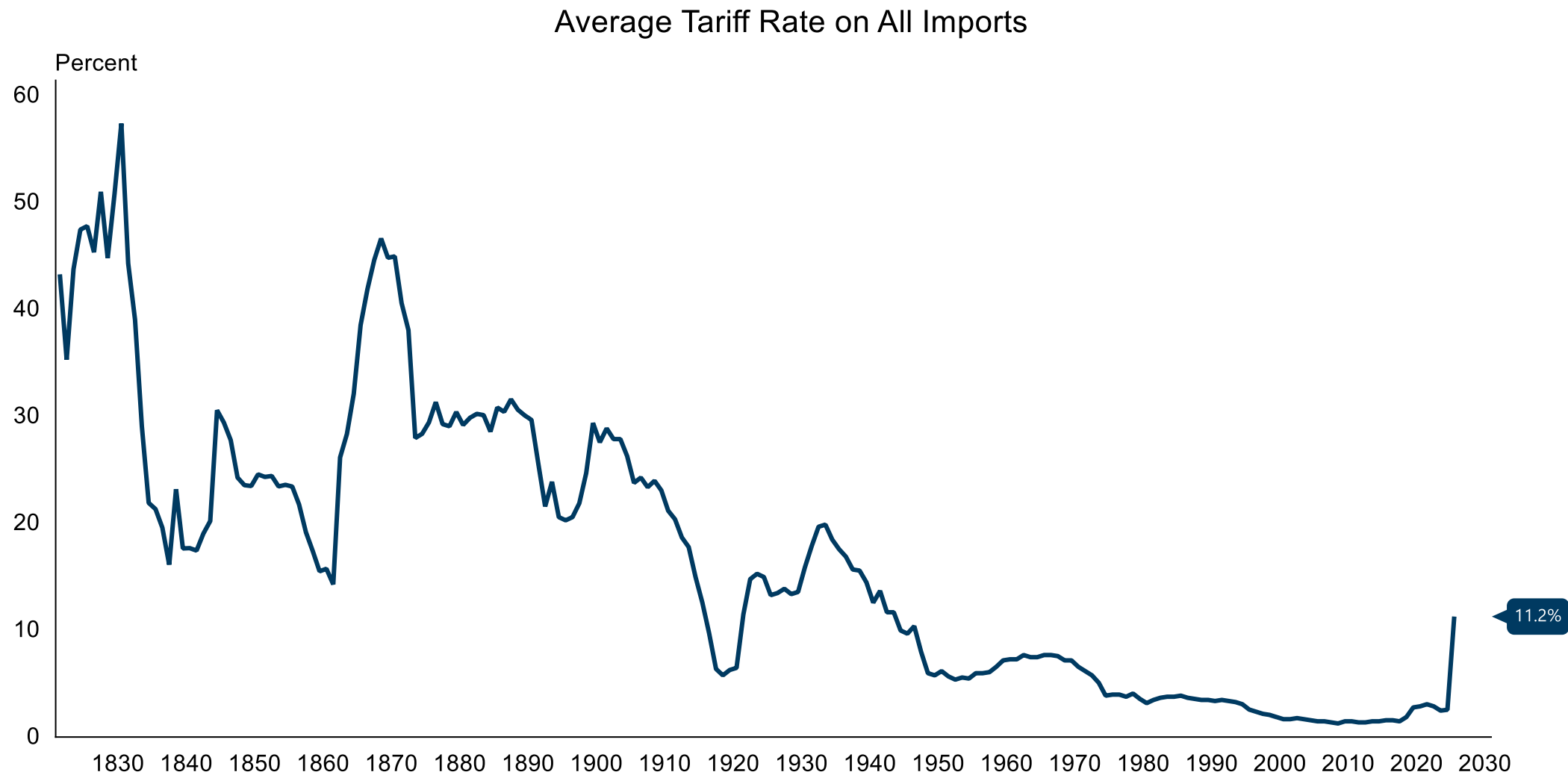
	Forecast on Jan. 1	Latest	Direction	Notes/Drivers
GDP growth	2.10%	1.95%	➡	Tariff tantrum + policy uncertainty and deceleration of consumer spending growth
Unemployment rate	4.3%	4.6%	⬆	Policy & economic uncertainty + cooling labor demand
Monthly job growth	122k	22k	⬇	Policy & economic uncertainty + cooling labor demand
CPI Inflation	2.5%	3.0%	⬆	Trade policy + persistent services inflation
	Forecast on Jan. 1	Latest	Direction	Notes/Drivers
S&P 500 Index	6,600	6,816	⬆	AI euphoria + strong earnings results across the board
Federal funds rate	3.9%	3.6%	⬇	Increased downside risk to labor market + slower overall economic growth
10-Year Treasury	4.12%	4.18%	➡	Persistent inflation + growing concerns over U.S. fiscal deficits

Expectations for GDP growth fell sharply this year but then recovered



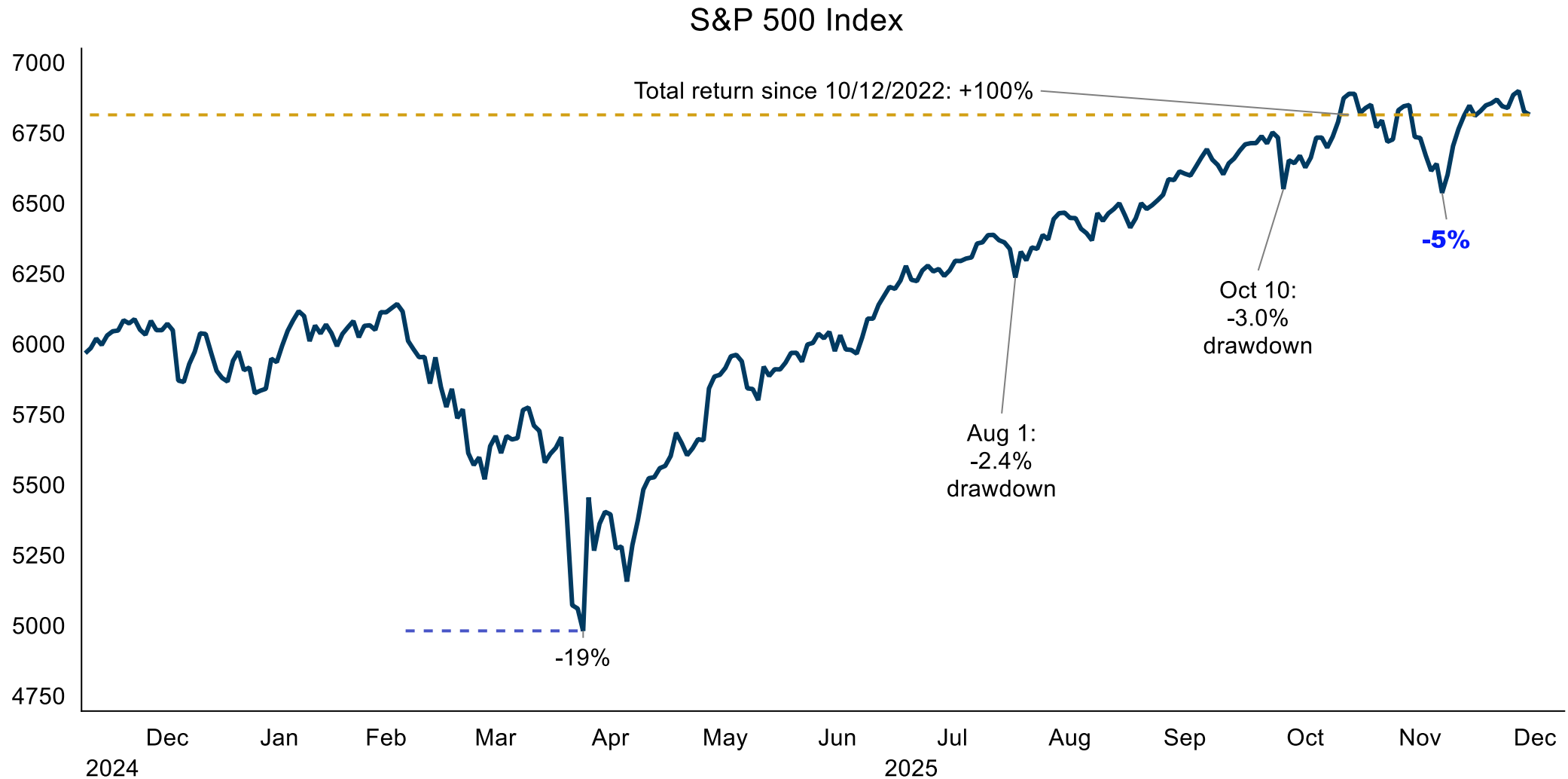
Source: Bloomberg
Data as of: 12/17/2025

Tariffs were much steeper than expected in 2025, but the impact was milder



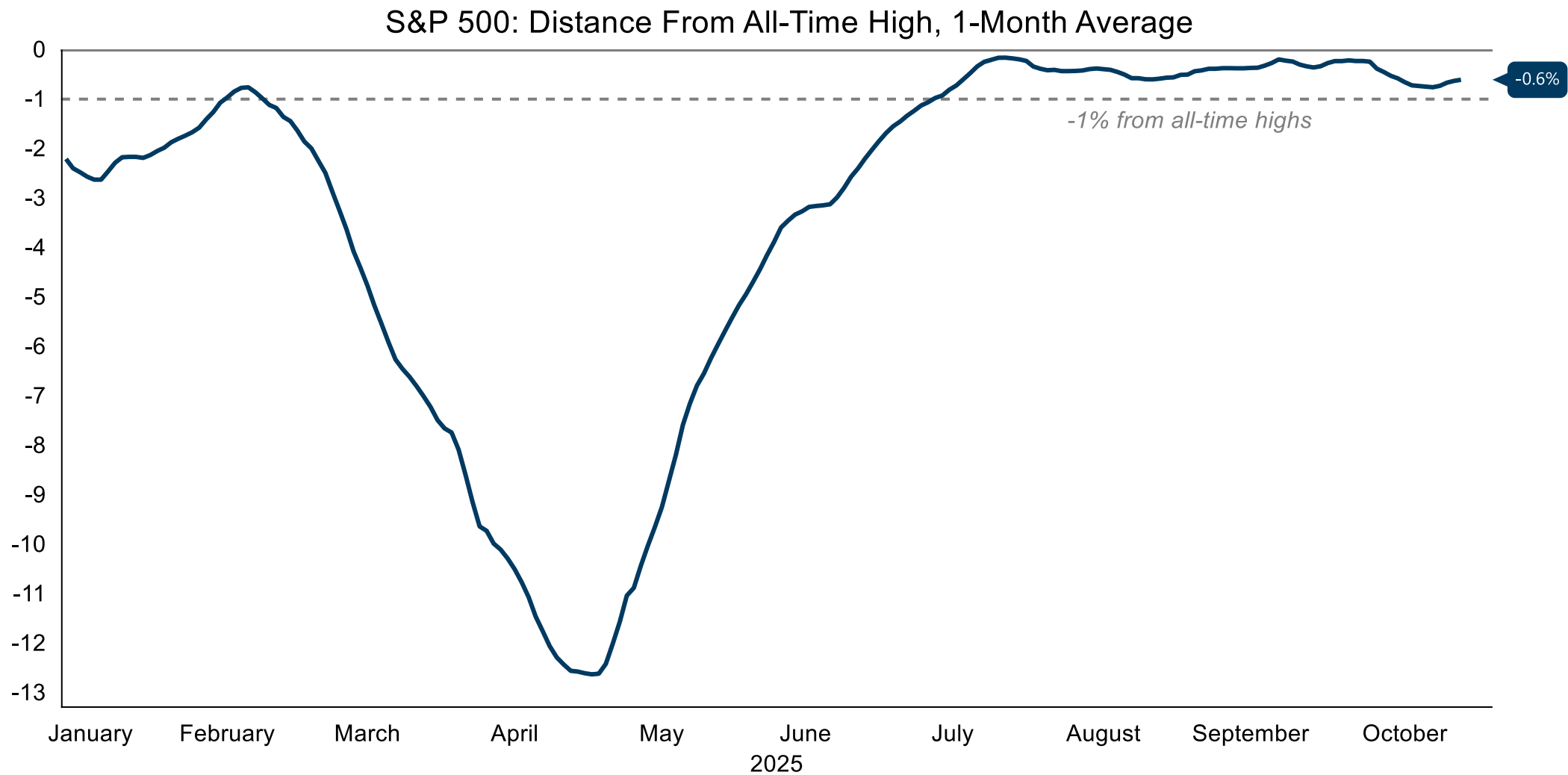
Source: Tax Foundation, First Citizens Bank
Data as of December 1, 2025

Stock-market gains have been unrelenting in the second half of 2025



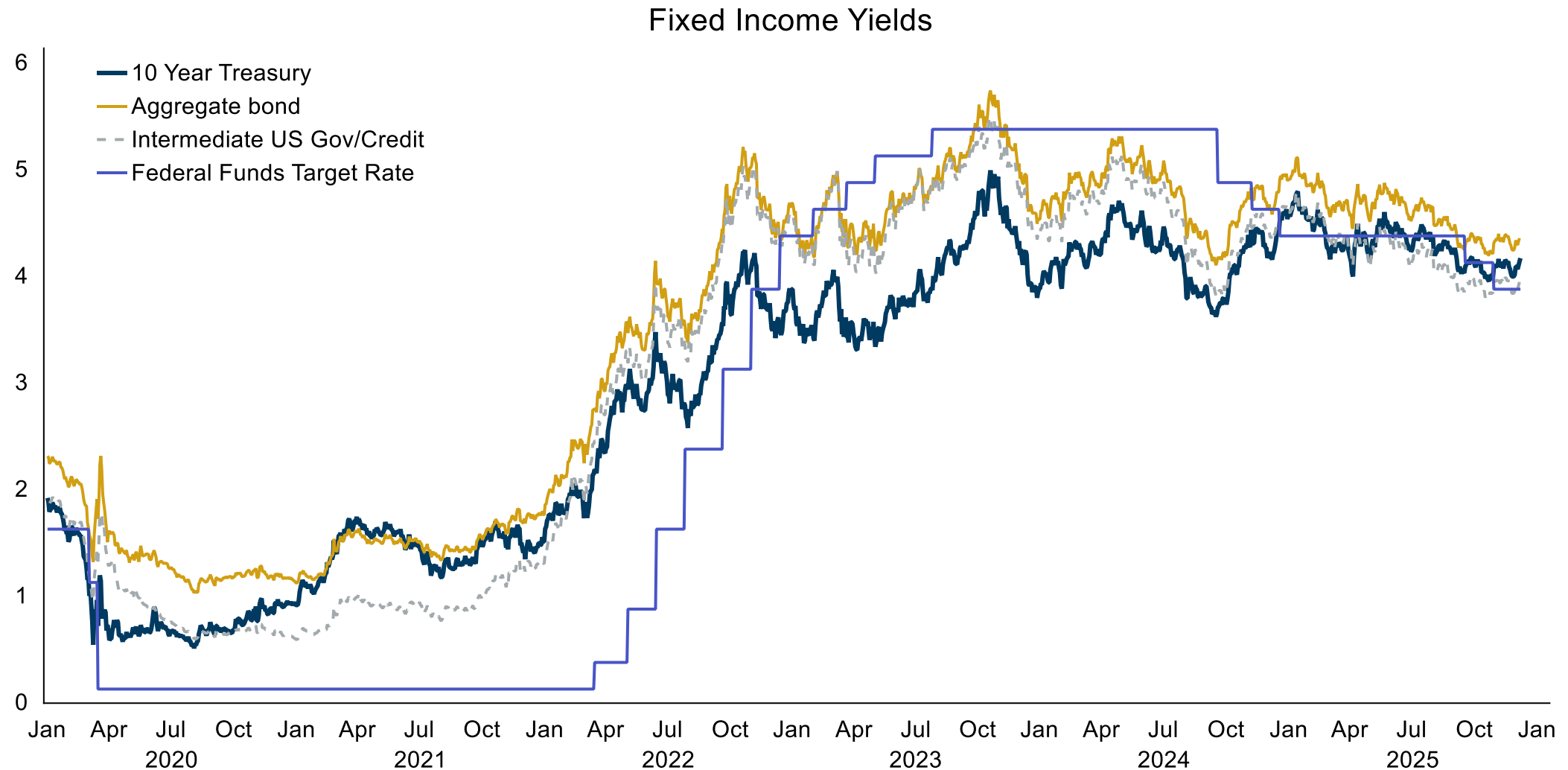
Source: Bloomberg
Data as of: 12/15/2025

After a sharp selloff, the S&P 500 stayed near all time highs all throughout H2



Source: S&P Global, First Citizens Bank
Data as of December 8, 2025

Fixed income yields moved lower but stayed generally close to 4%



Source: Bloomberg
Data as of: 12/8/2025

Economic outlook



The economy faces various headwinds and tailwinds heading into 2026

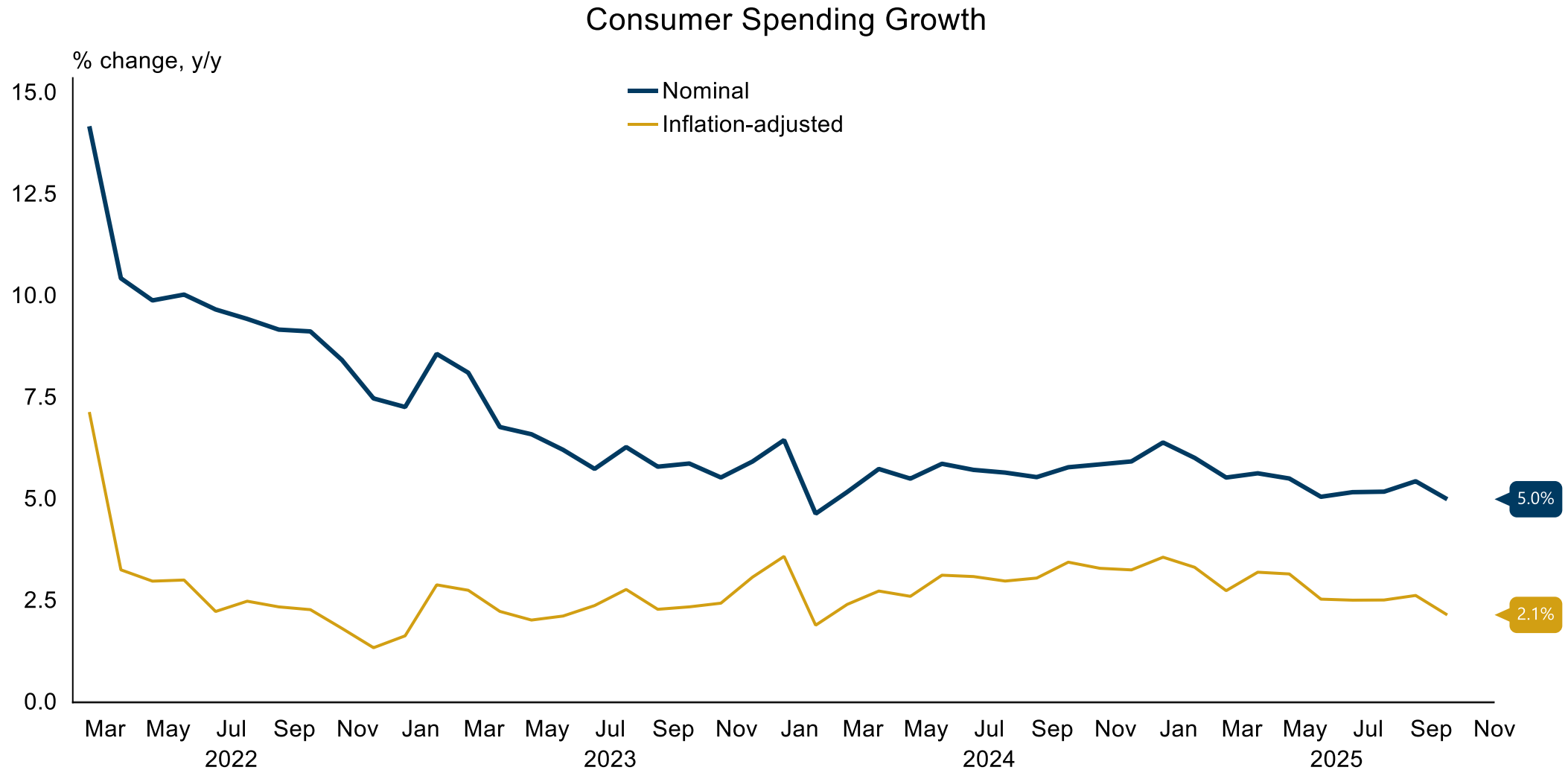
Tailwinds

- GDP at or above 2% (trend)
- **Real spending / demand**
- Level of employment
- Low jobless claims
- **Positive wealth effect**
- **Financial conditions are easy with the Fed cutting**
- Corporate earnings & profitability
- Rising productivity growth

Headwinds

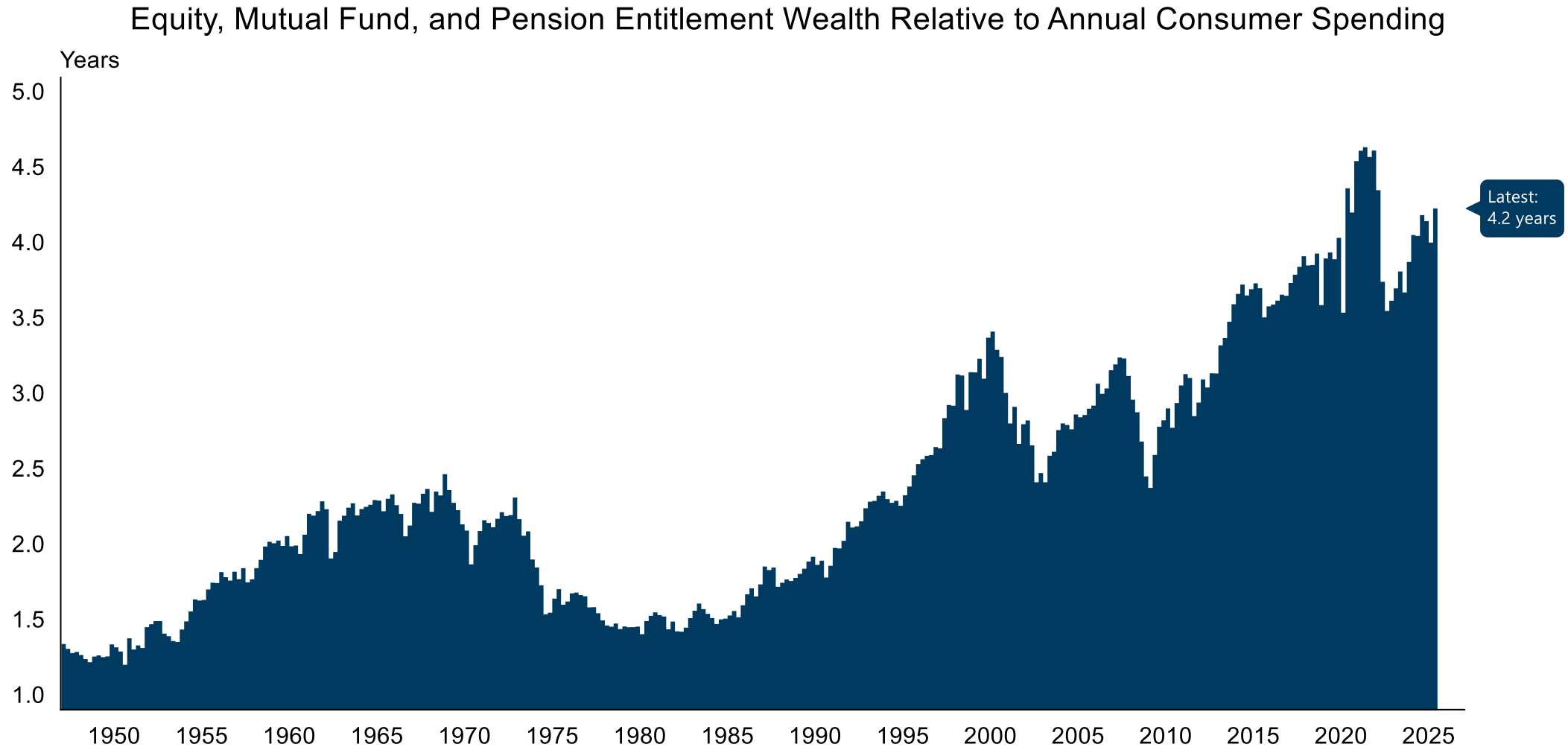
- **Lower hiring demand**
- **Layoffs have moved higher**
- Consumer sentiment
- Fed cutting – why?
- **Top heavy consumer profile**
- **Inflation at 3%**
- Tariff-related uncertainty
- High price levels

Even after adjusting for inflation, households spending growth is firm



Source: U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data through September 2025

Market gains have propelled household net worth to new highs

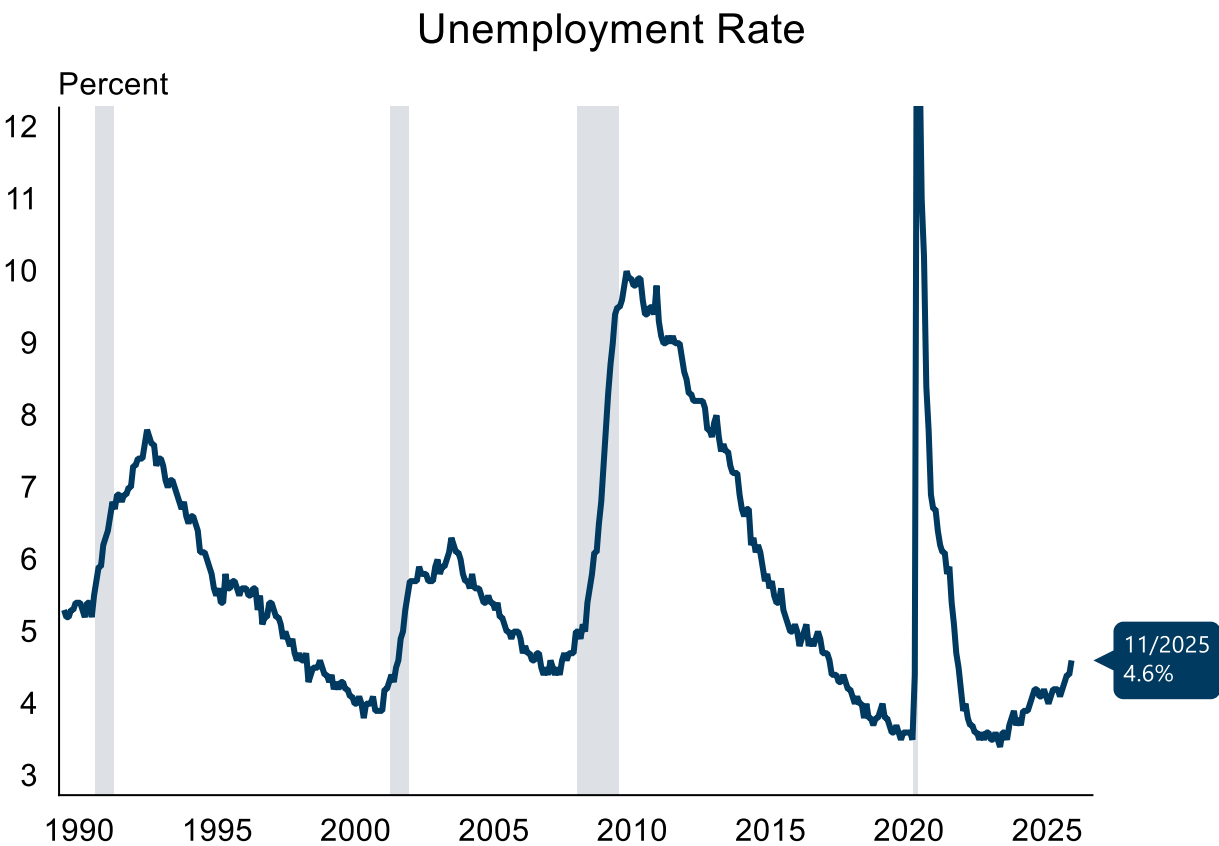


Source: Federal Reserve, U.S. Bureau of Economic Analysis (BEA), First Citizens Bank

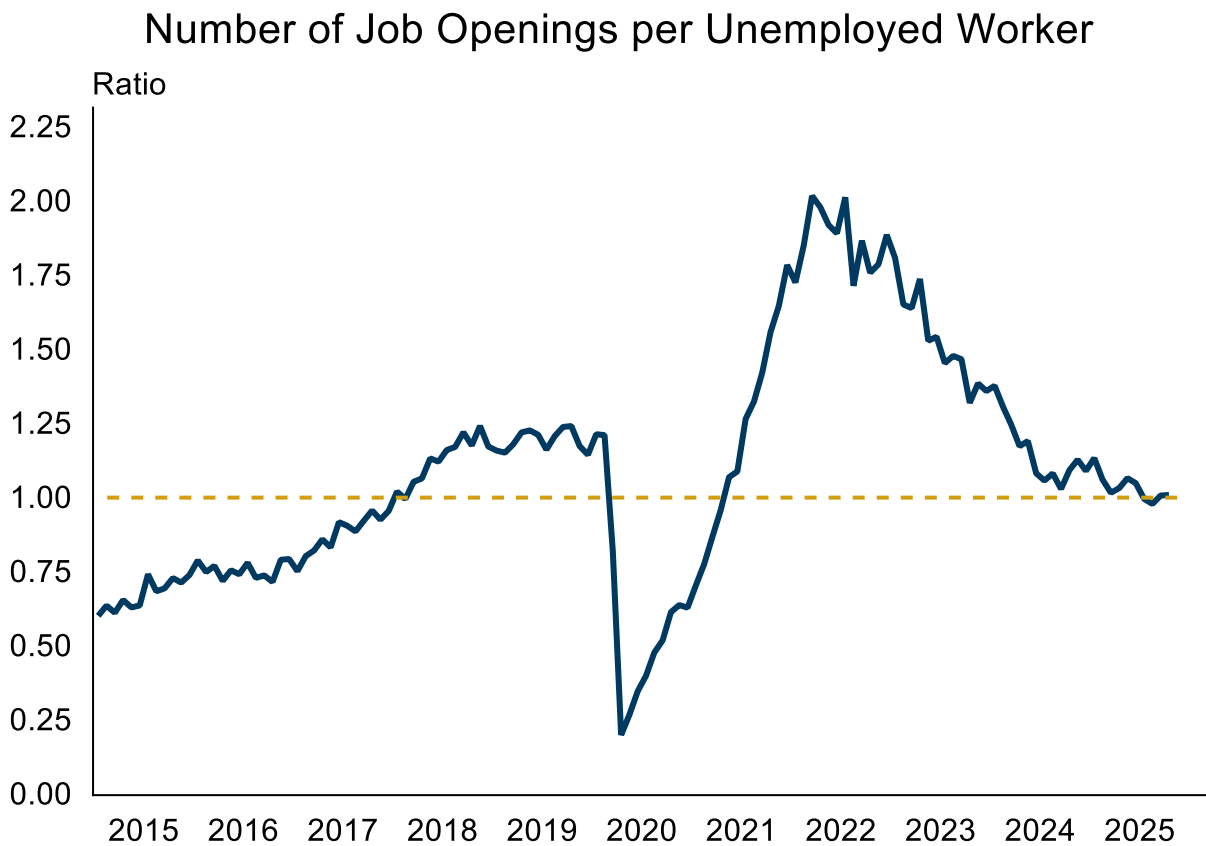
Data as of December 5, 2025

Note: "Stock market wealth" is an aggregation including corporate equities, mutual funds, and pension entitlements.

The US labor market is no longer tight



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of December 16, 2025

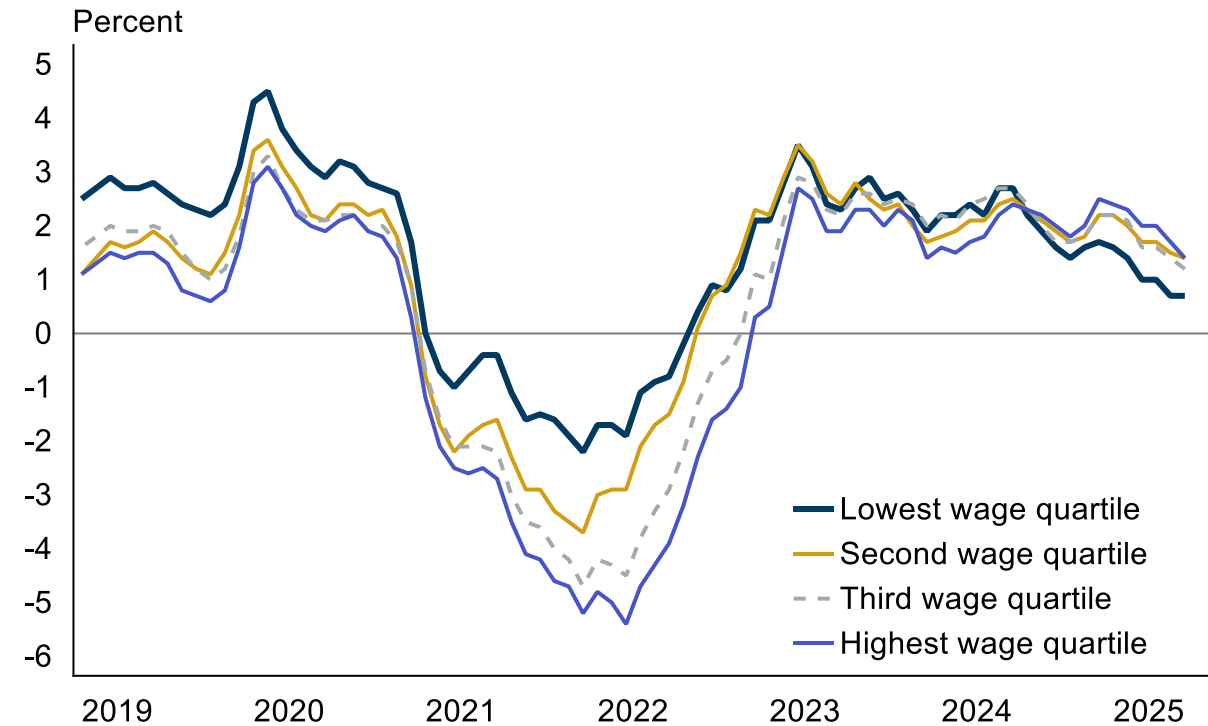


Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data through October 2025

The strength of the labor market now varies by income and occupation

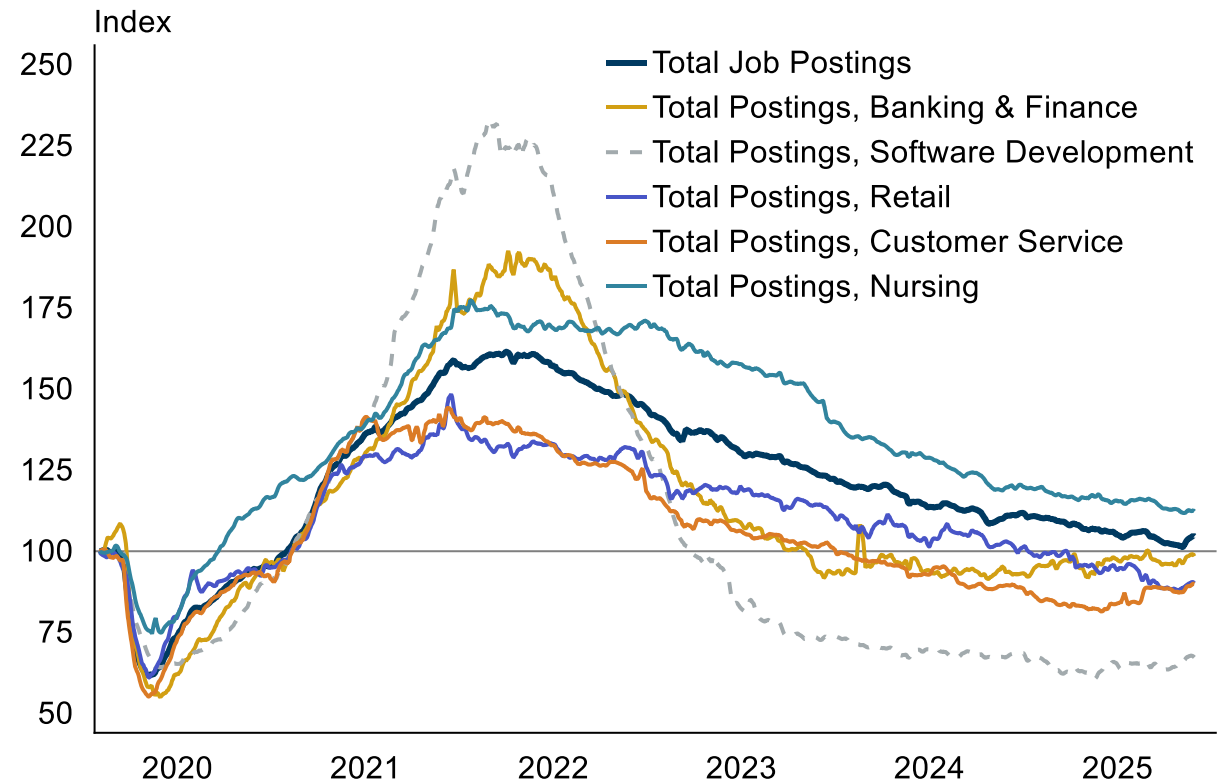
Real Wage Growth by Income Quartile

(Atlanta Fed Wage Tracker) - (CPI Inflation)



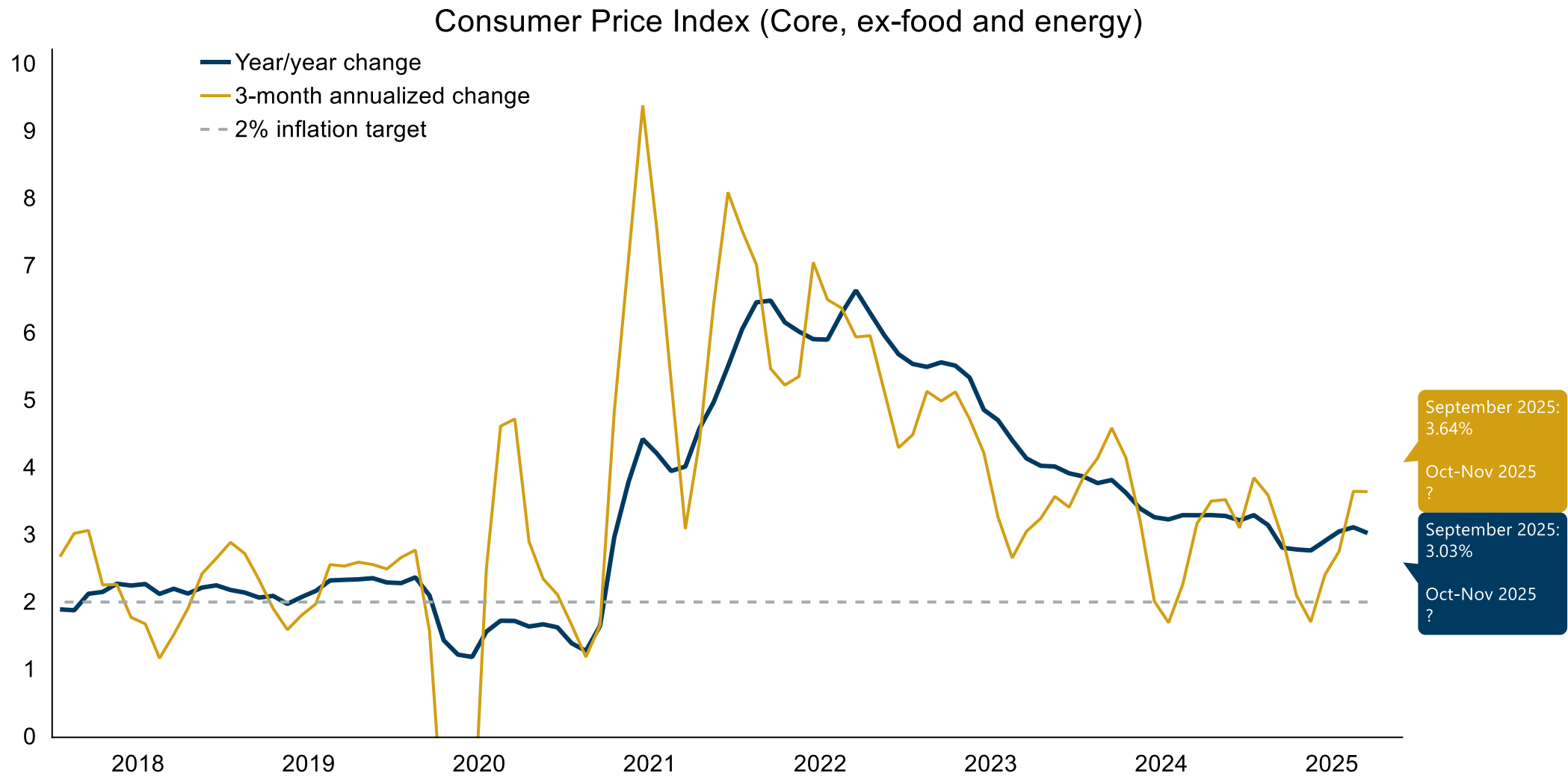
Source: Federal Reserve Bank of Atlanta, U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of December 2, 2025

Change in Job Postings Relative to Feb. 2020



Source: Indeed Hiring Lab, First Citizens Bank
Data as of December 3, 2025

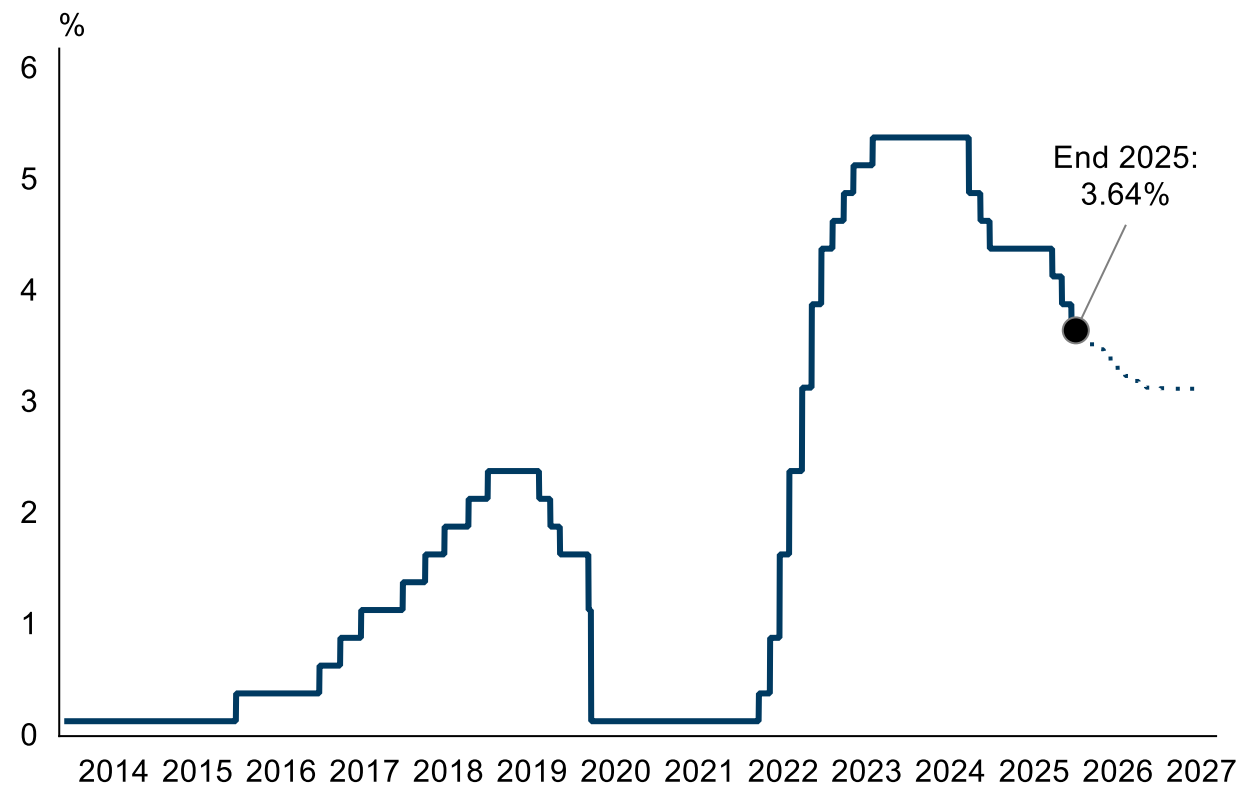
Markets and the economy are learning to live with 3% inflation



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of October 24, 2025

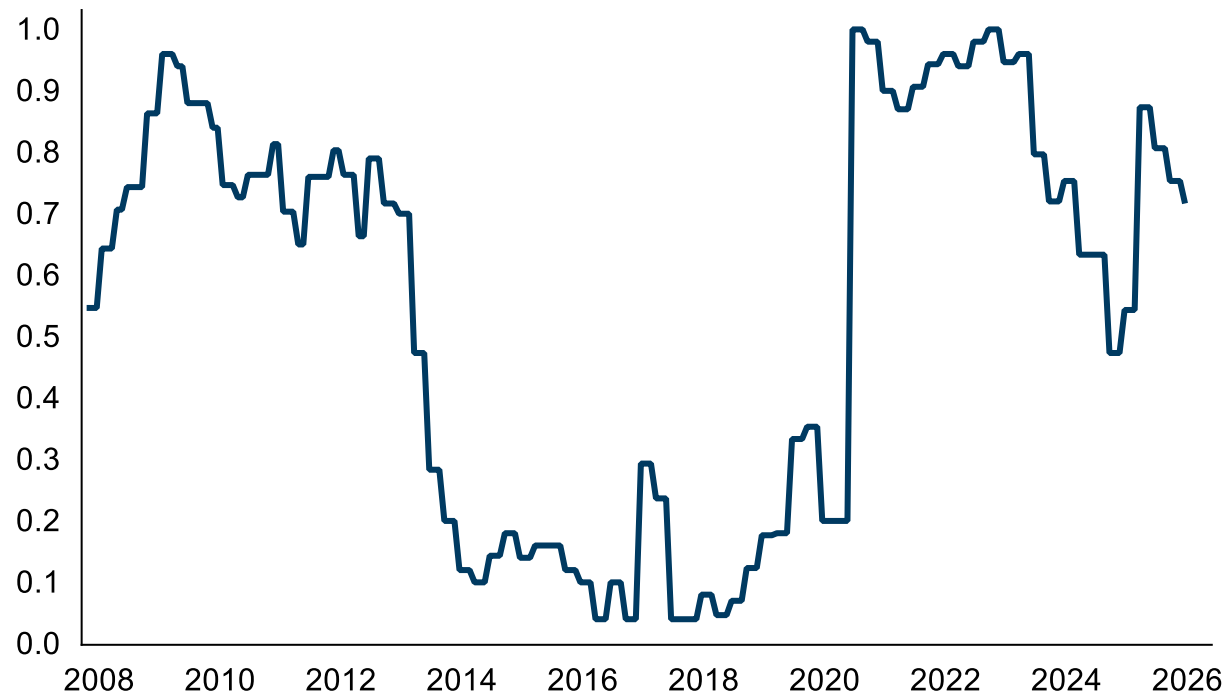
Federal Reserve policy may face significant uncertainty in 2026

Federal Funds Rate and Market-Implied Path



Source: Federal Reserve, First Citizens Bank
Data as of December 10, 2025

Federal Reserve Policymaker Uncertainty Index
Average of Uncertainty Diffusion Indices for GDP Growth, PCE Inflation, and the Unemployment Rate



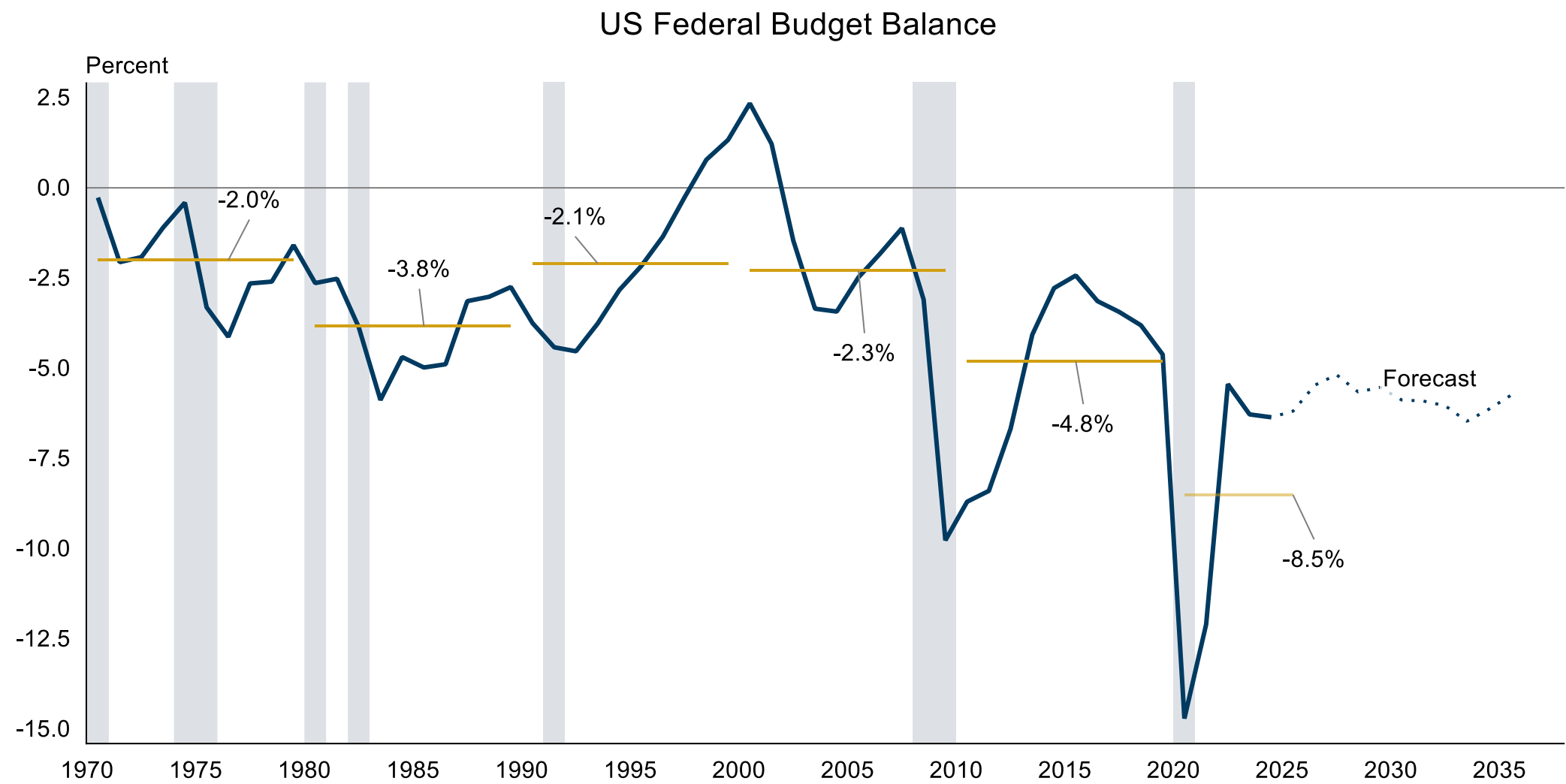
Source: Federal Reserve, First Citizens Bank
Data as of December 10, 2025

Financial conditions are supporting growth



Source: Goldman Sachs, First Citizens Bank
Data as of December 9, 2025

The US federal position is on an unsustainable trajectory



Source: U.S. Congressional Budget Office (CBO), First Citizens Bank
Latest data as of January 2025

Market outlook



The background features a faint, stylized sun in the upper left quadrant. Overlaid on this are several geometric lines: a blue line that rises and then drops vertically, and two yellow lines that rise and then curve upwards at different points. A light gray line also rises and curves upwards on the right side of the image.

Navigating markets in 2026 may be a balancing act

Tailwinds

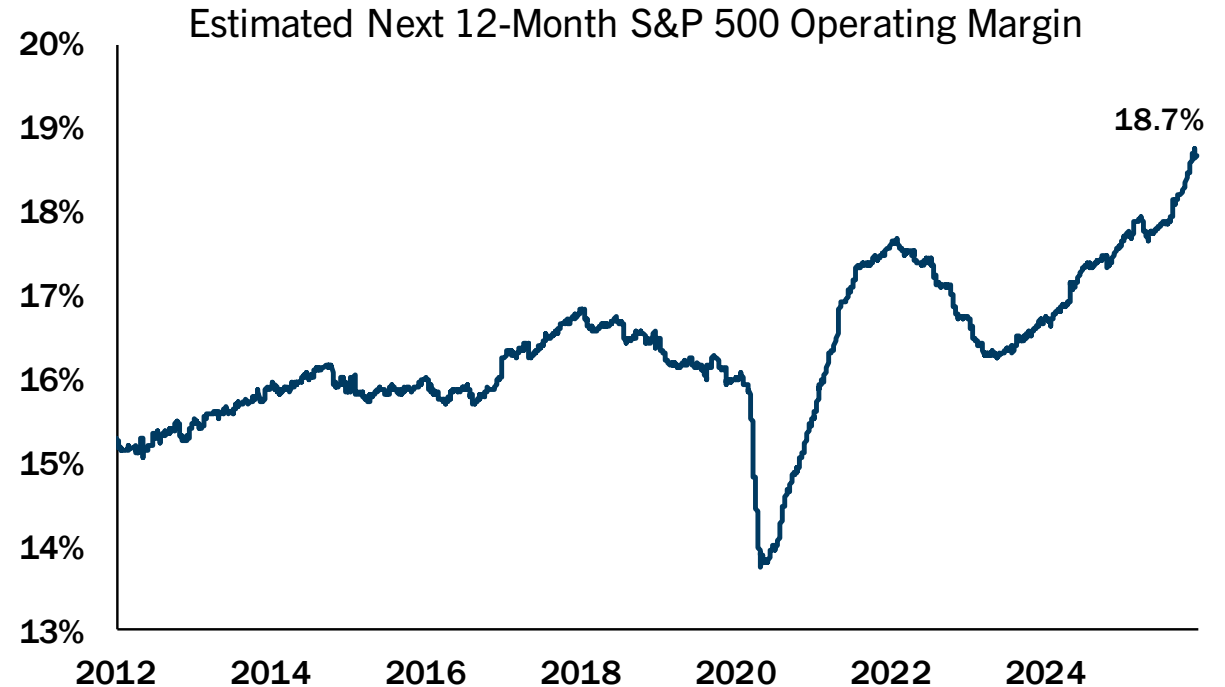
- **Earnings growth and Margin expansion**
- Balance sheets
- Easing monetary policy and financial conditions
- **AI spending (investment, revenue)**

Headwinds

- **Extended valuations**
- **Concentration (earnings, cap, margins)**
- AI spending (quality; real or circular?)
- Good news priced in / to perfection

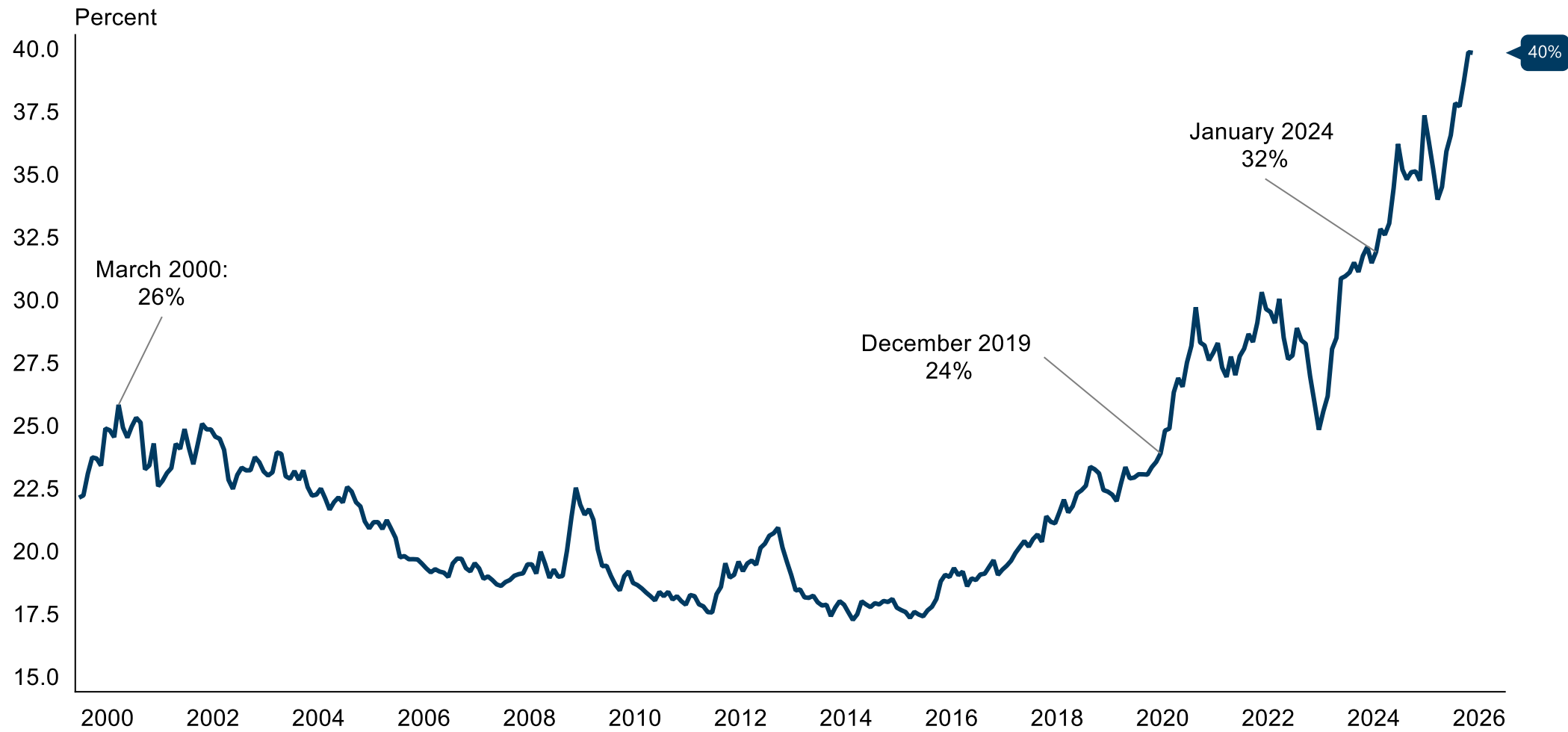
Analysts expect corporate earnings and margin growth will be robust in 2026

- CY 2025 estimated growth is **12.1%**
Q4 2025 estimated growth is **8.1%**
- CY 2026 estimated growth is **14.5%**
- Average growth since 1950 is **7.6%**



S&P 500 market cap is heavily concentrated in the largest stocks

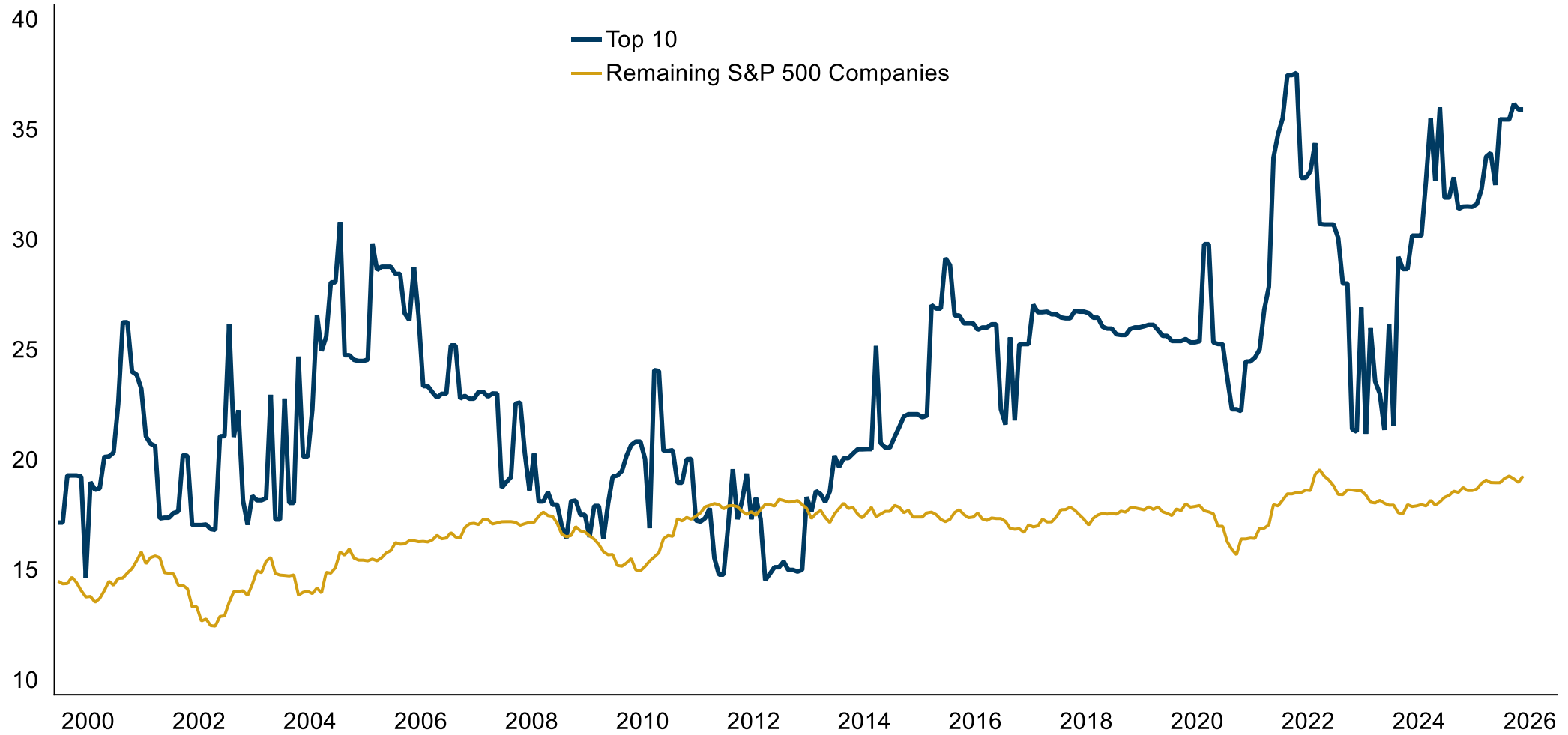
Market Cap of Top 10 Equities in S&P 500 as a Percent of Total Market Cap



Source: Trivariate Research, First Citizens Bank
Data as of November 2025

Exceptional profit margins among the largest stocks may justify high valuation

Median Operating Margin Top 10 vs. Remaining S&P 500 Companies

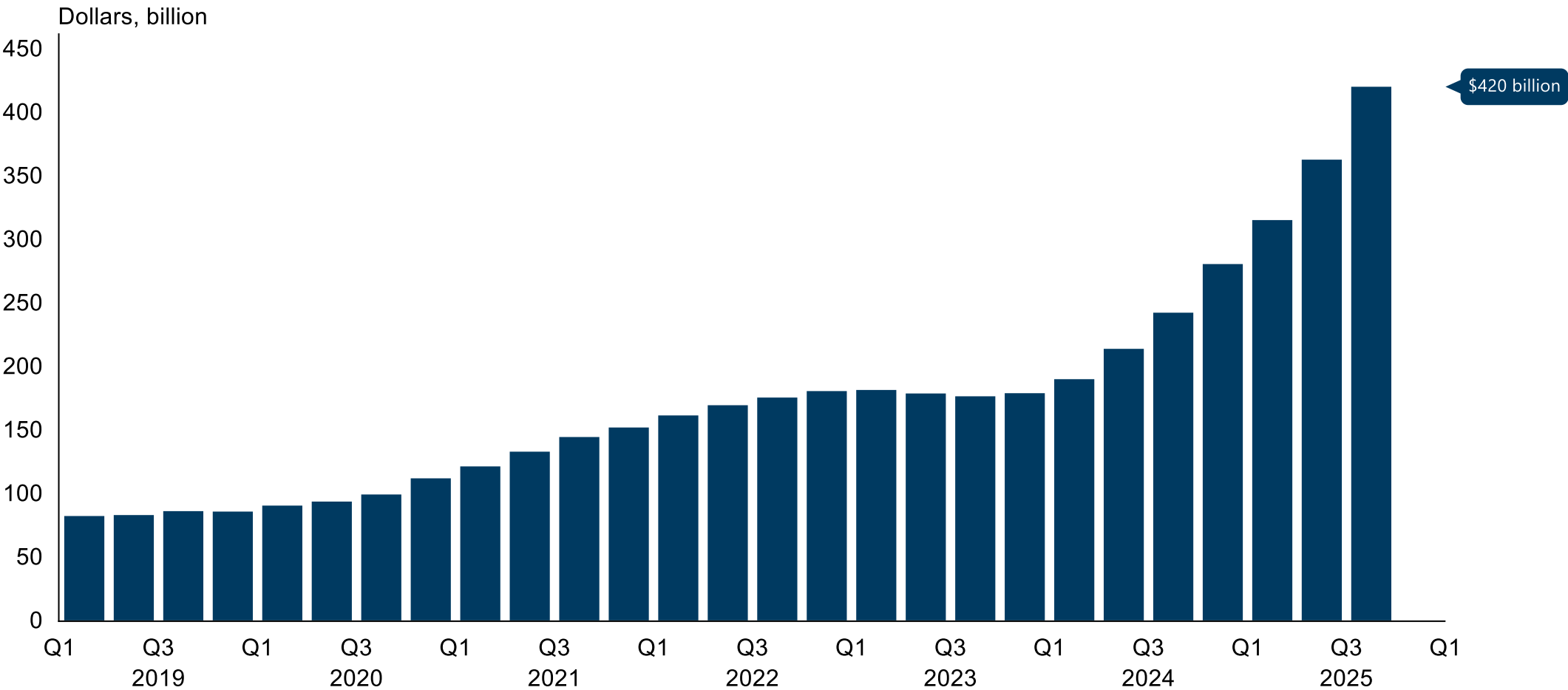


Source: Trivariate Research, First Citizens Bank
Data as of December 9, 2025

Large technology firms are spending enormous sums on capital expenditures

Hyperscaler Capex Spending

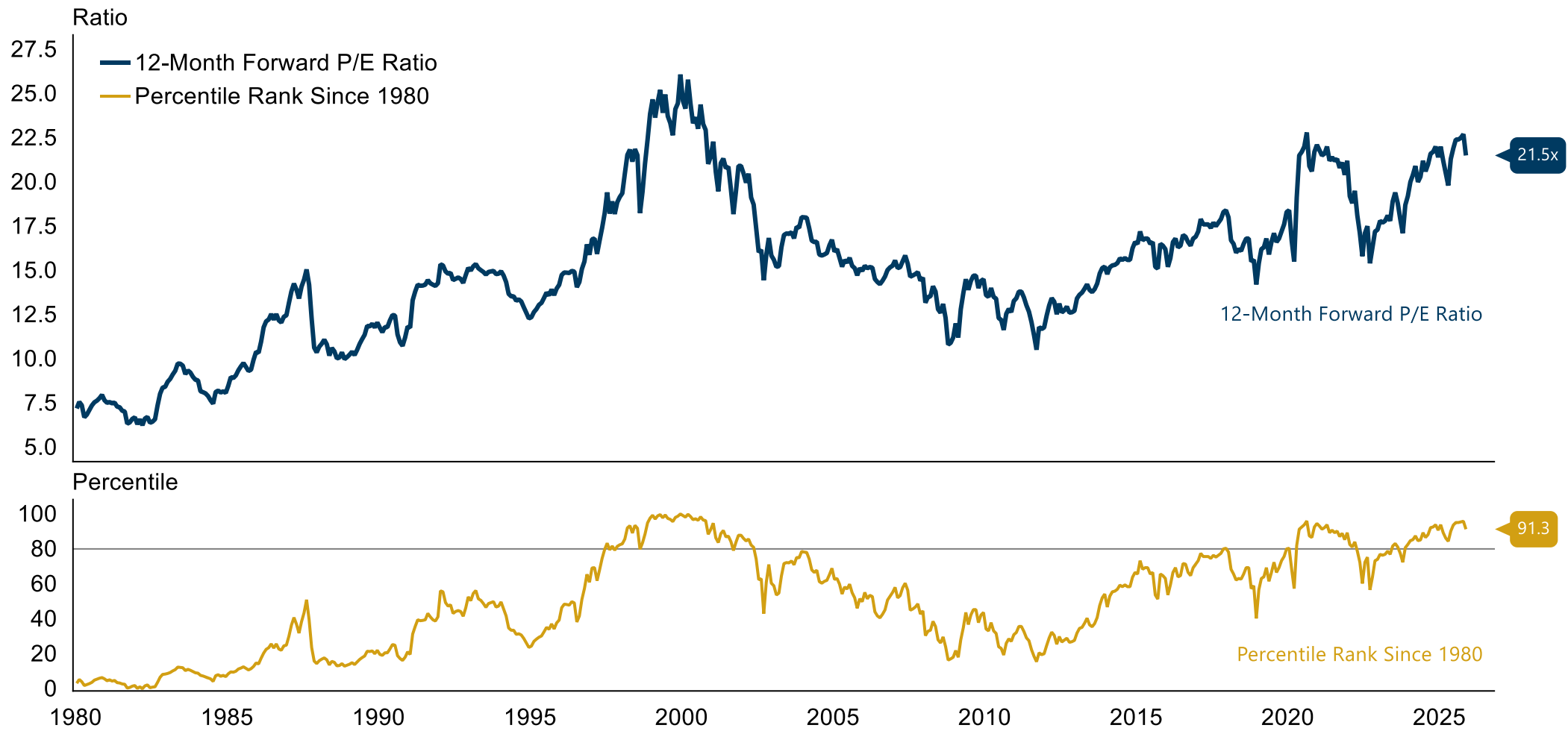
4-quarter rolling sum



Source: Bloomberg
Data as of 2025 Q3

US stocks have rarely been so expensive

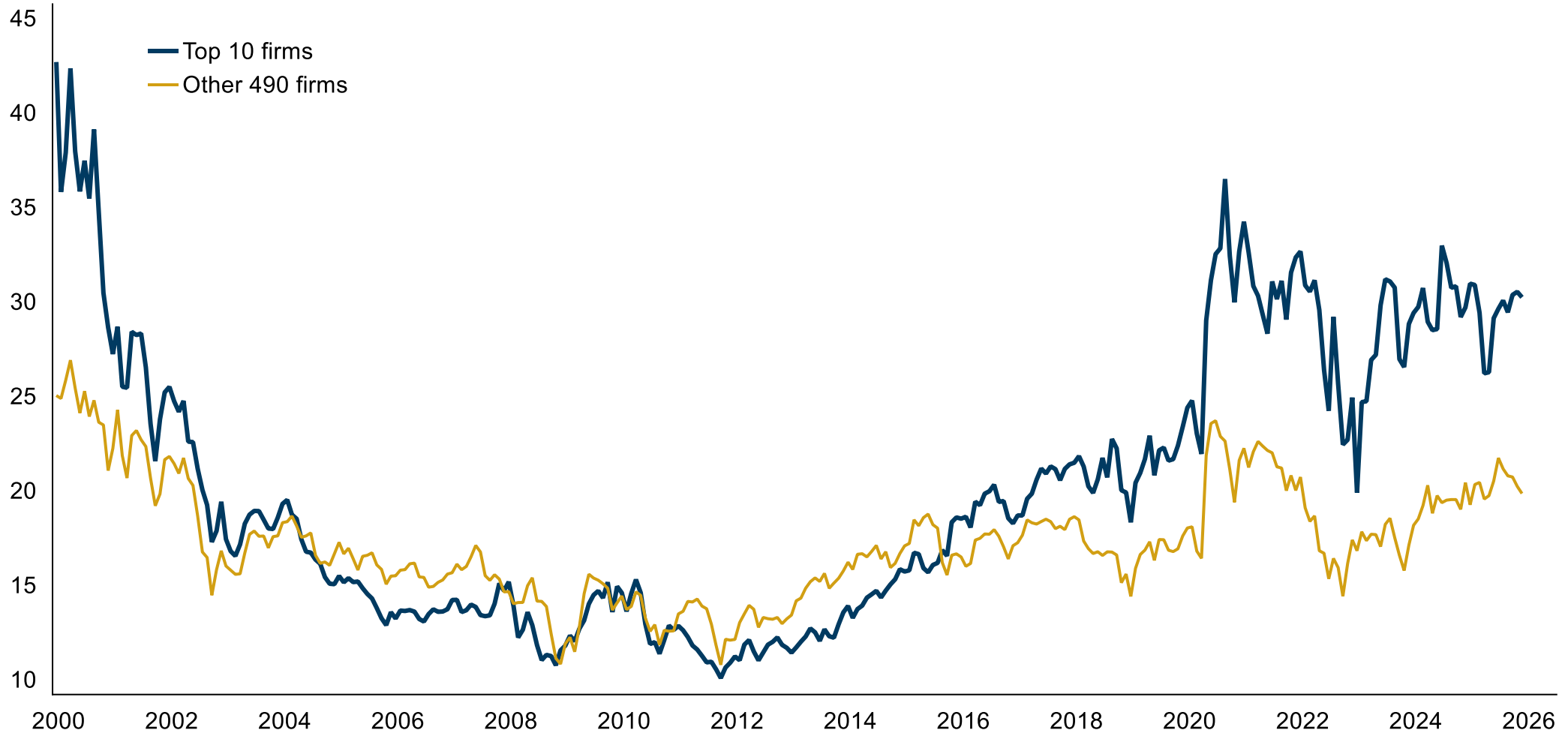
S&P 500, 12-Month Forward P/E Ratio



Source: S&P Global, First Citizens Bank
Data as of December 1, 2025

The top 10 firms are driving market valuation to new highs

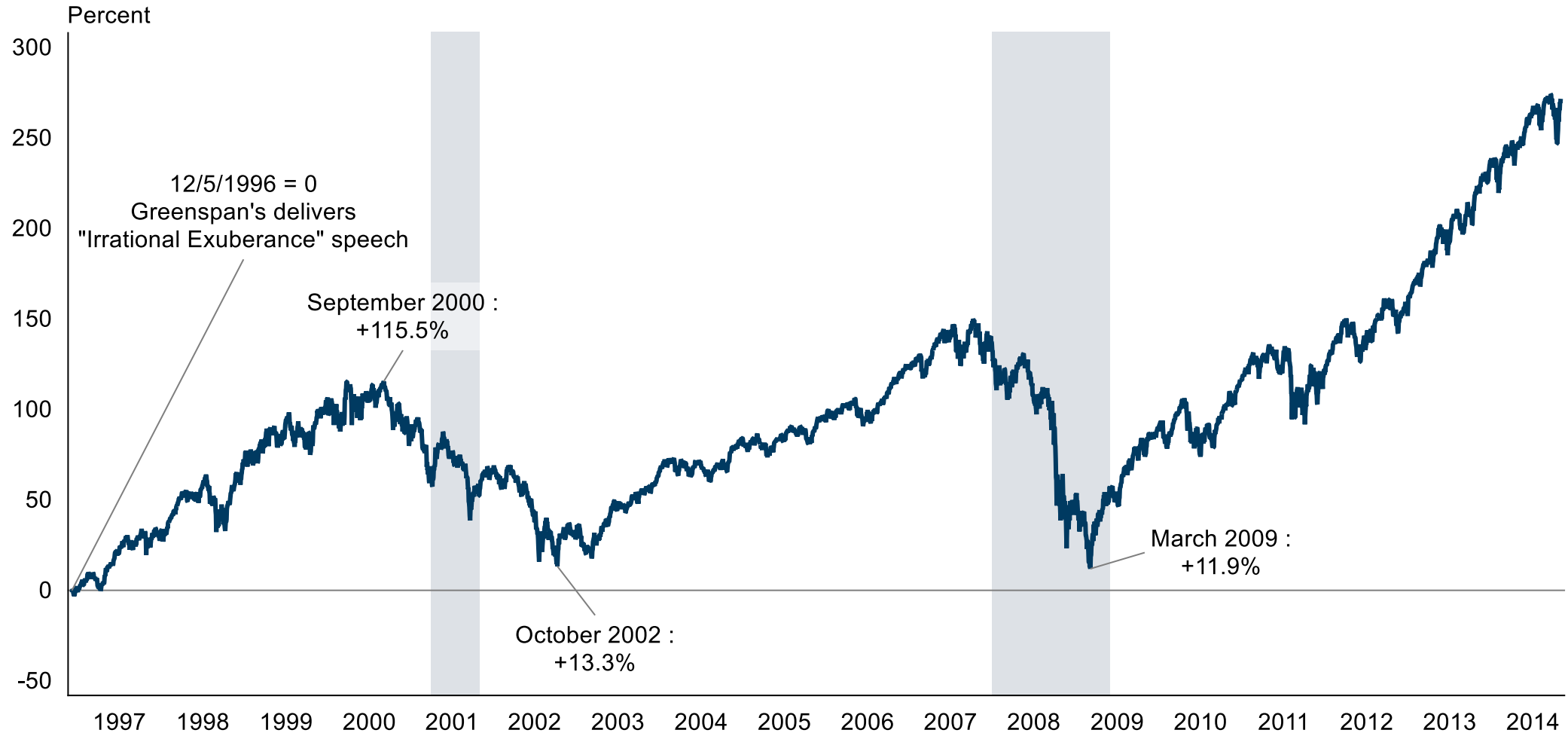
S&P 500 Market Cap-Weighted Price to Forward Earnings (P/E) Ratio



Source: Trivariate Research, First Citizens Bank
Data as of November 17, 2025

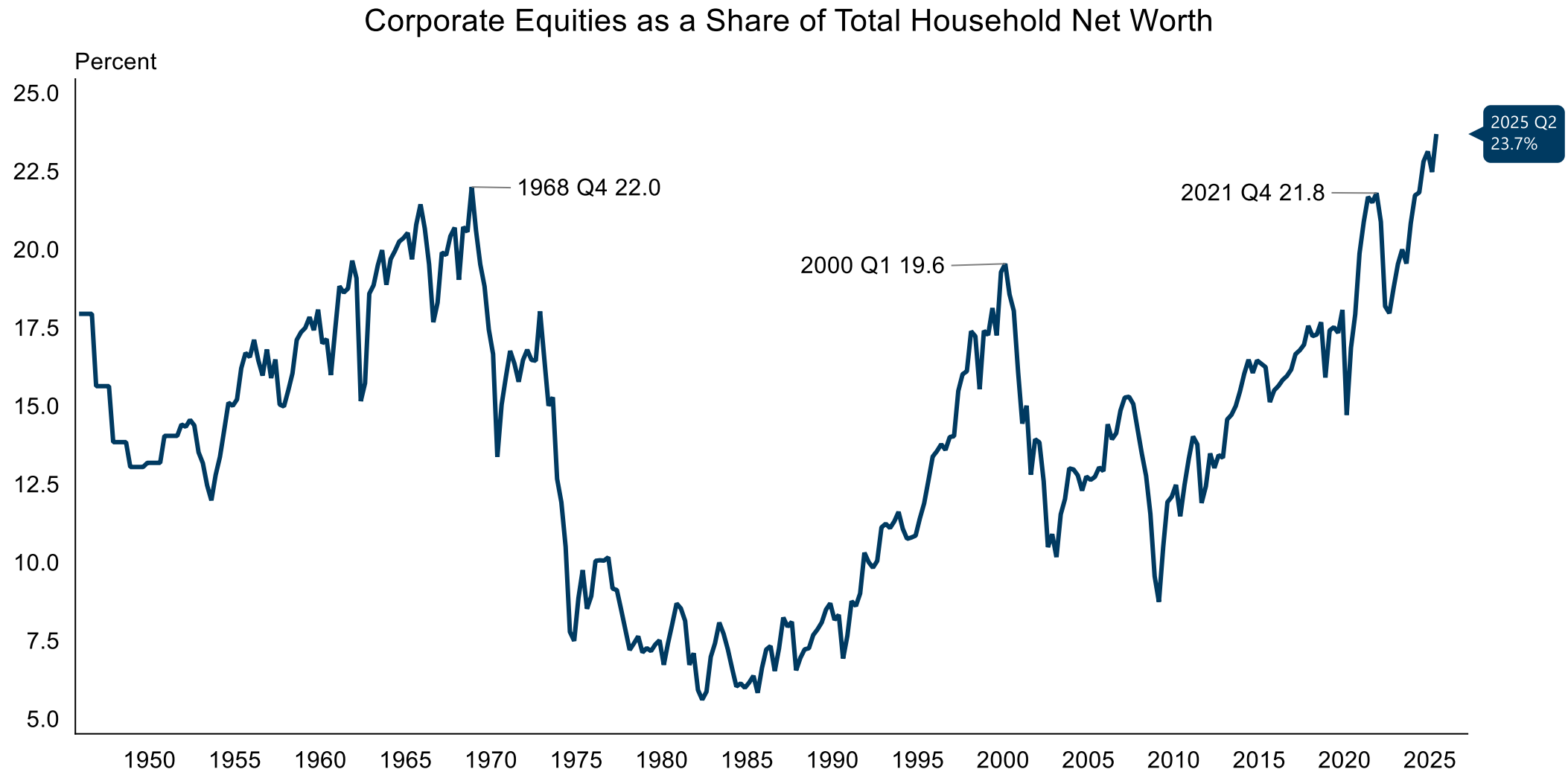
Expensive equity markets can rally further

S&P 500 Total Return Since Alan Greenspan's 1996 "Irrational Exuberance" Speech



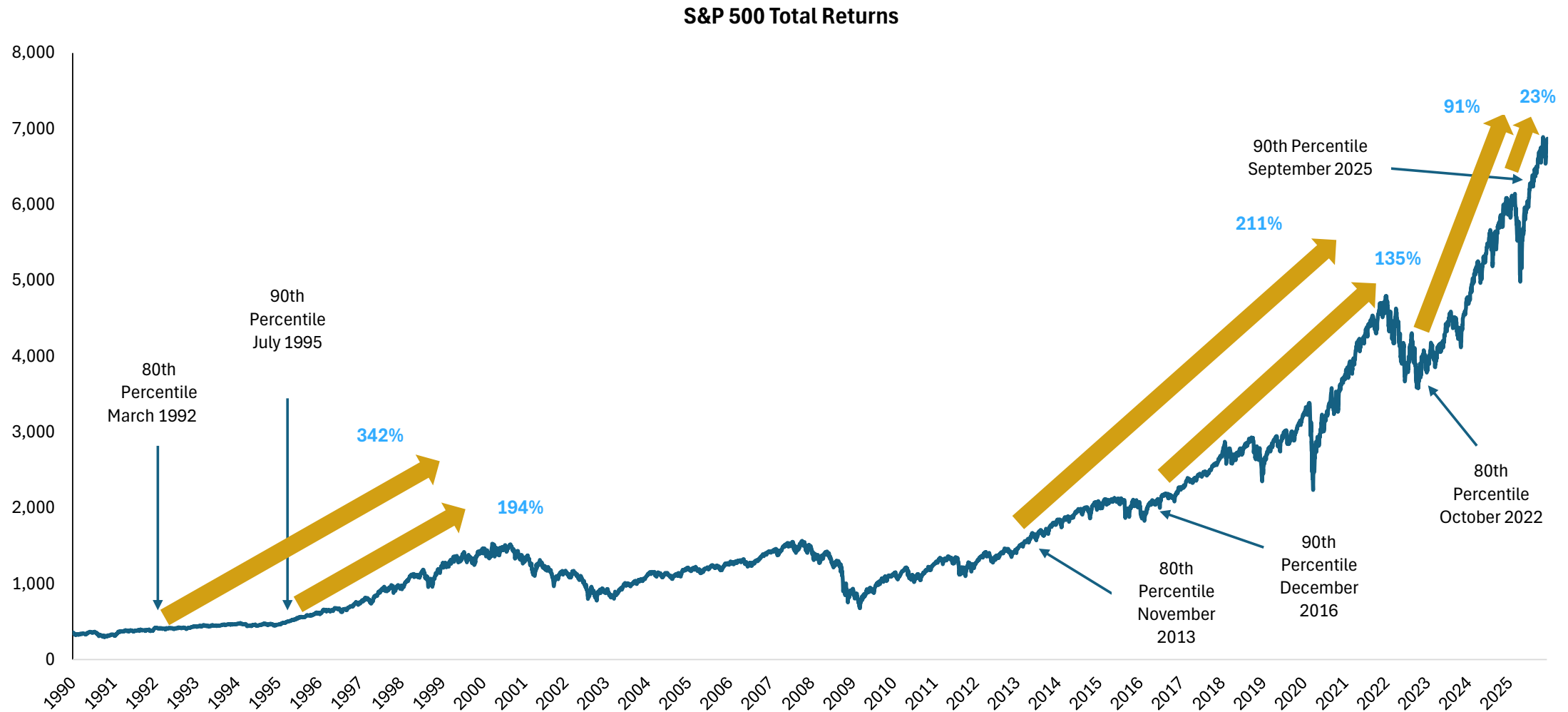
Source: Bloomberg
Data as of: 12/9/2025

Households have never been so exposed to the stock market



Source: Federal Reserve, First Citizens Bank
Data as of 2025 Q2

Expensive equity markets can rally further



S&P 500 price target

Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 12/15/25
Bear	5,200	-23.7%
Base	7,200	5.6%
Bull	7,800	14.4%

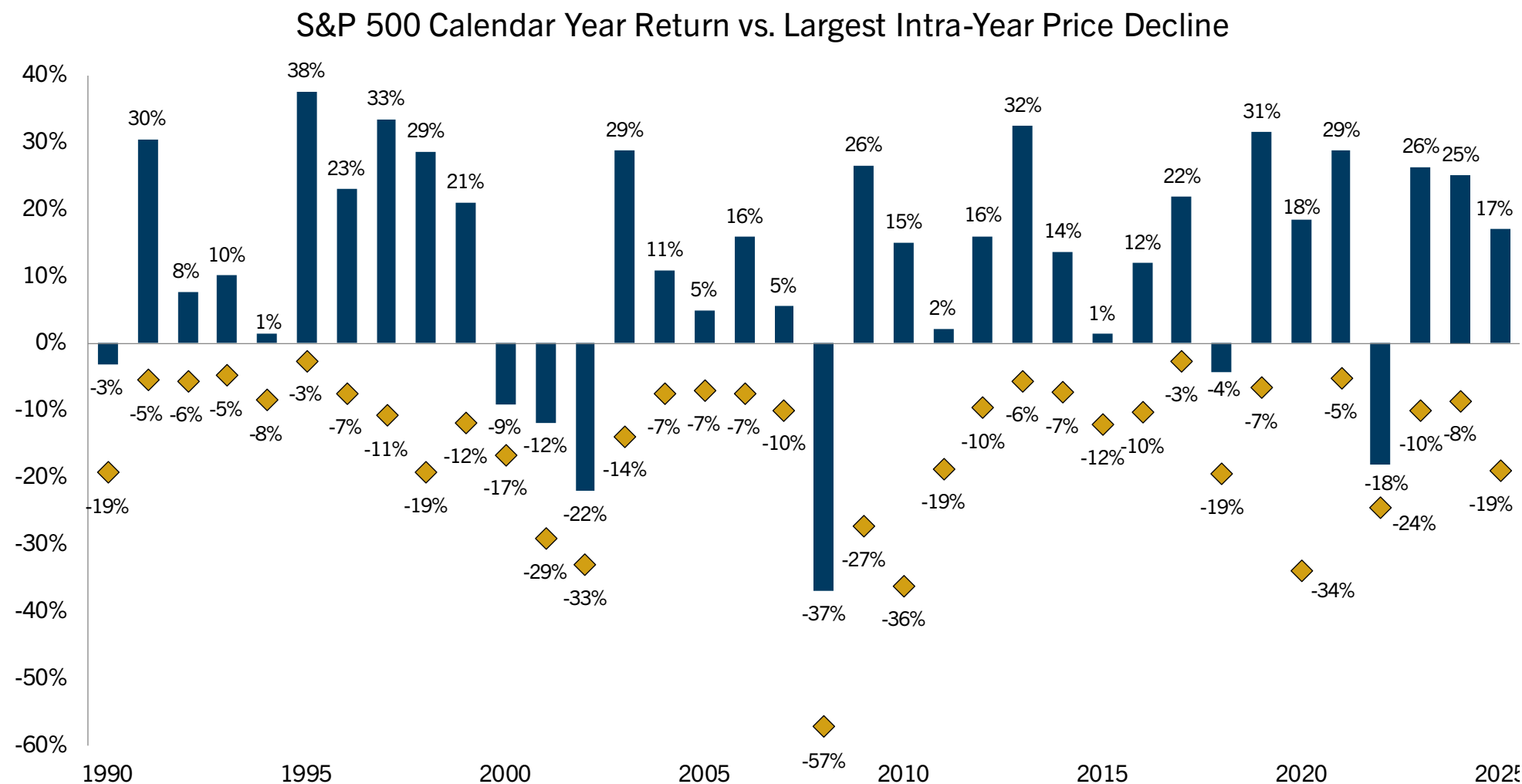
Fixed income yields declined in 2025, driving strong total returns

Fixed Income Indices			
	Yield to Worst		Total Return
	12/31/2024	Latest	Year to date
Aggregate Bond	4.9%	4.4%	+6.8%
Intermediate Government/Credit	4.6%	4.0%	+6.5%
Municipal Bond	3.7%	3.6%	+4.0%
Investment Grade Corporate Bond	5.3%	4.9%	+7.4%
High Yield Corporate Bond	7.5%	6.7%	+8.0%

Investing for the long term

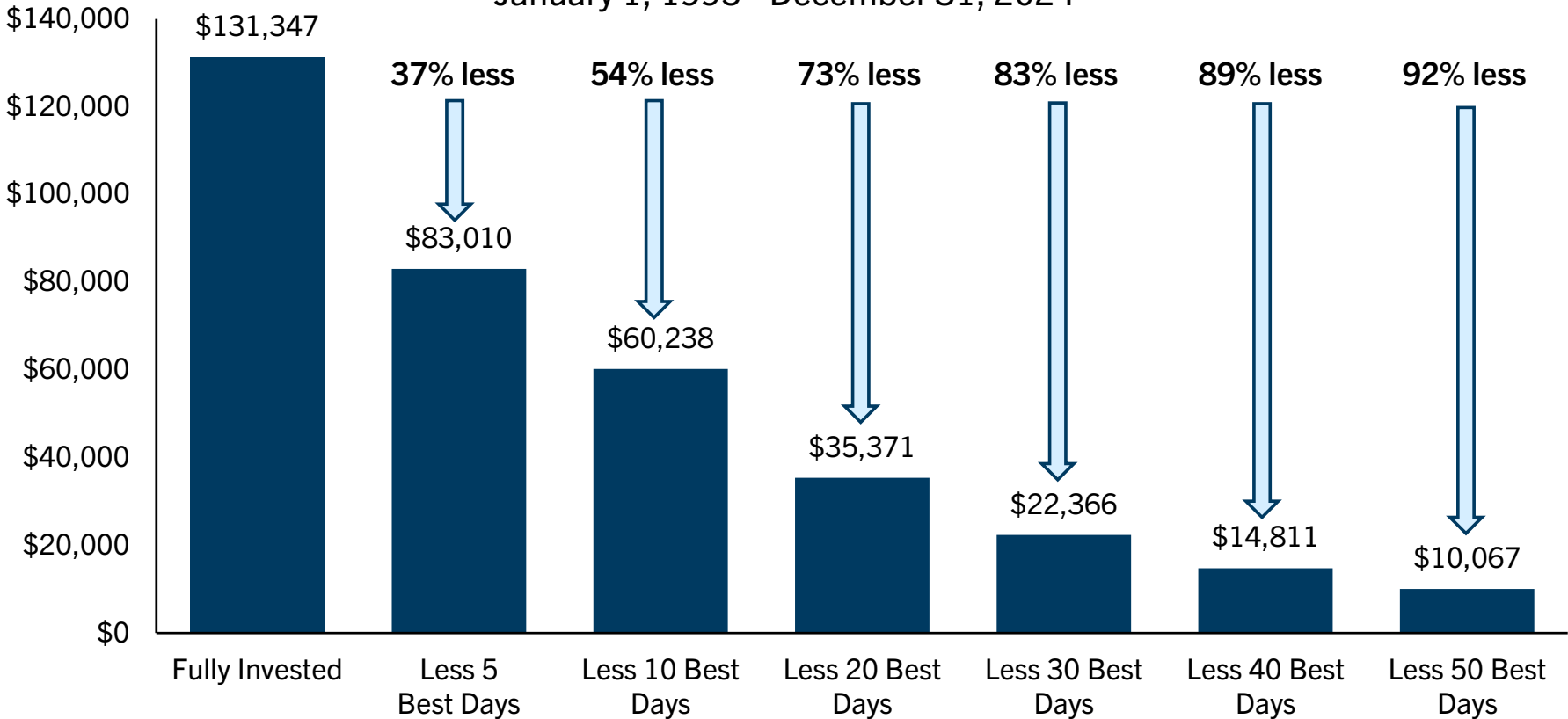
The background features a faint, stylized sun in the upper left quadrant. Several geometric lines are scattered across the page: a blue line forming a triangle in the lower left, a yellow line forming a larger triangle in the lower right, and a grey line forming a right-angled shape on the right side. The overall aesthetic is clean and modern.

Intra-year selloffs average 15%



Market timing is a dangerous game

Growth of \$10,000, S&P 500 Compounded Total Returns
January 1, 1995 - December 31, 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.

Making Sense

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

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

Written commentary | Often coinciding with market or economic events



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