

Making Sense

Monthly Market Update

Recorded on August 27, 2025



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What are we going to cover?


1. **Economic Update:**
Growth Outlook | Tariff Update | Inflation & Labor Market | Fed Policy | Consumer Spending
2. **Market Update:**
Equity Markets | Valuations | Fixed Income | Investing for the Long Term

Economic & Policy Update


Growth Outlook | Tariff Update | Inflation & Labor Market | Fed Policy | Consumer Spending

Economic Forecasts Have Weakened Across the Board vs. Earlier This Year


Economic Activity GDP Growth

+2.1%  **+1.6%**
Expectation for 2025,
start of year **Today's
forecast**

Labor Market New Jobs per Month

+121,000  **+105,000**
Expectation for 2025,
start of year **Today's
forecast**

Inflation Consumer Price Index

2.5%  **2.9%**
Expectation for 2025,
start of year **Today's
forecast**


Interest Rates Federal Funds Rate

3.9%  **3.9%**
Market-implied rate,
start of year Market-implied rate,
today

Recession Probability, Next 12 Months

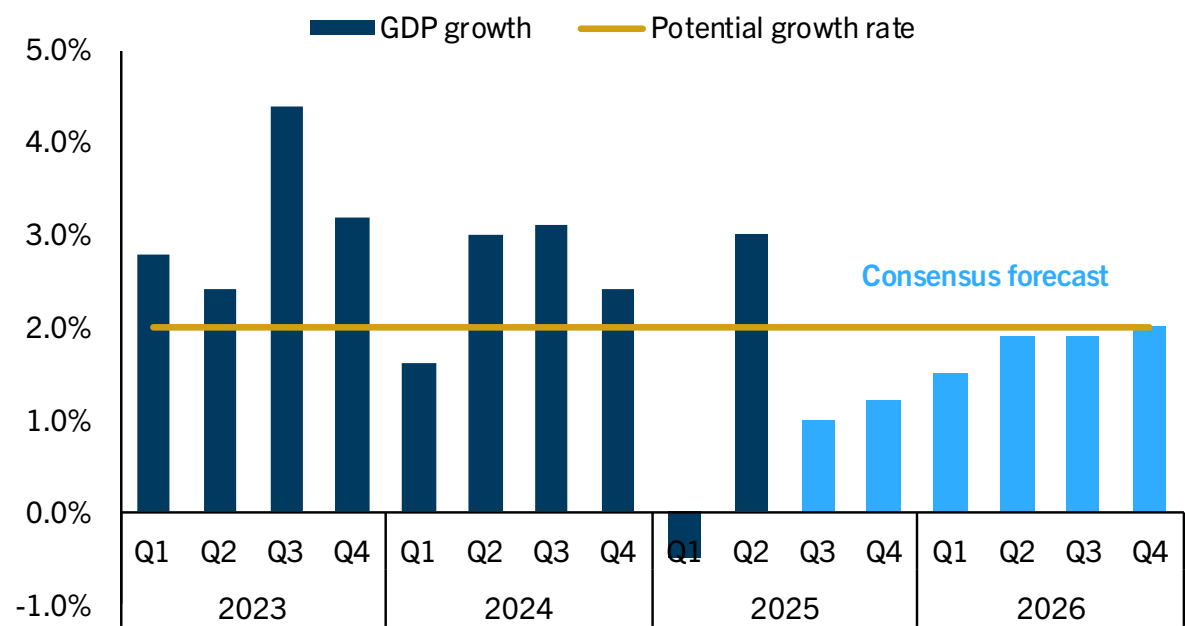
20%  **35%**
Expectation for 2025,
start of year **Today's
forecast**

S&P 500 Earnings Growth, year/year

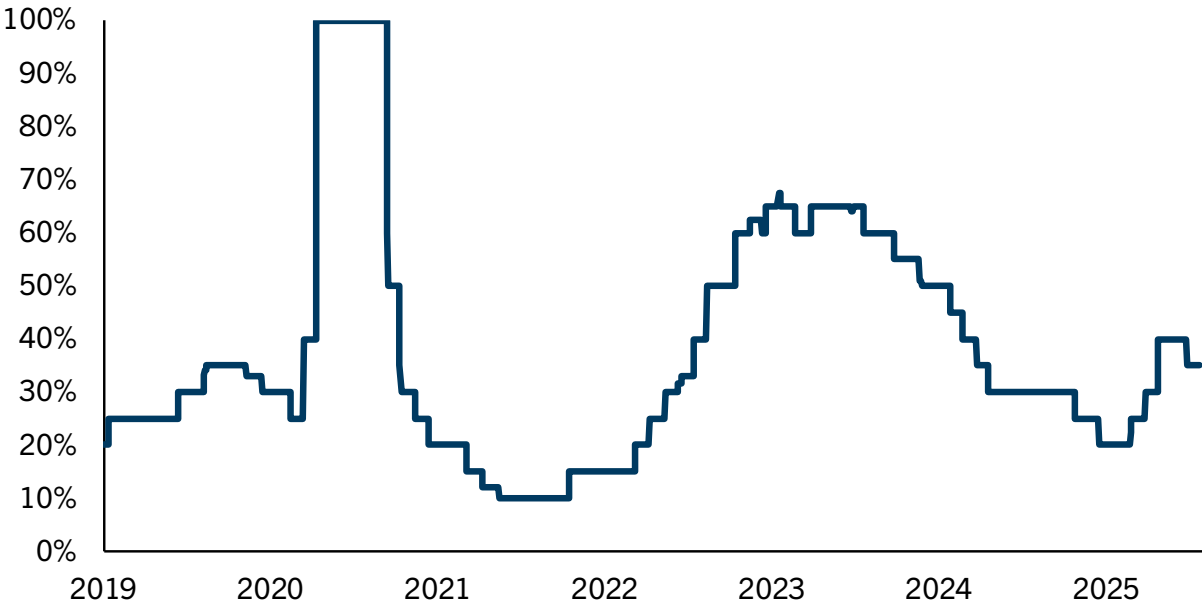
+15.0%  **+10.3%**
Expectation for 2025,
start of year **Today's
forecast**

Forecasters See the Economy Rebounding After a Tumultuous First Half

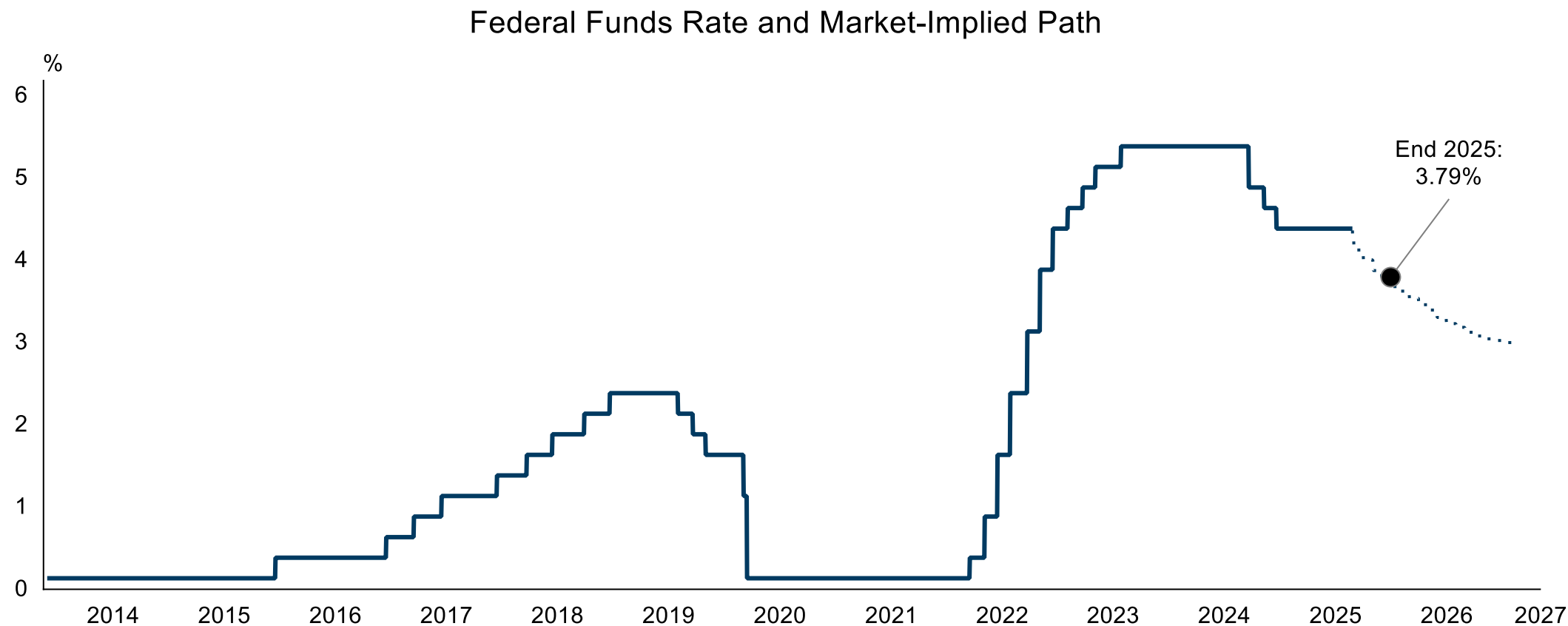
US Real GDP Growth and Median Professional Forecast



Probability of Recession, Next Twelve Months
Median Professional Forecast

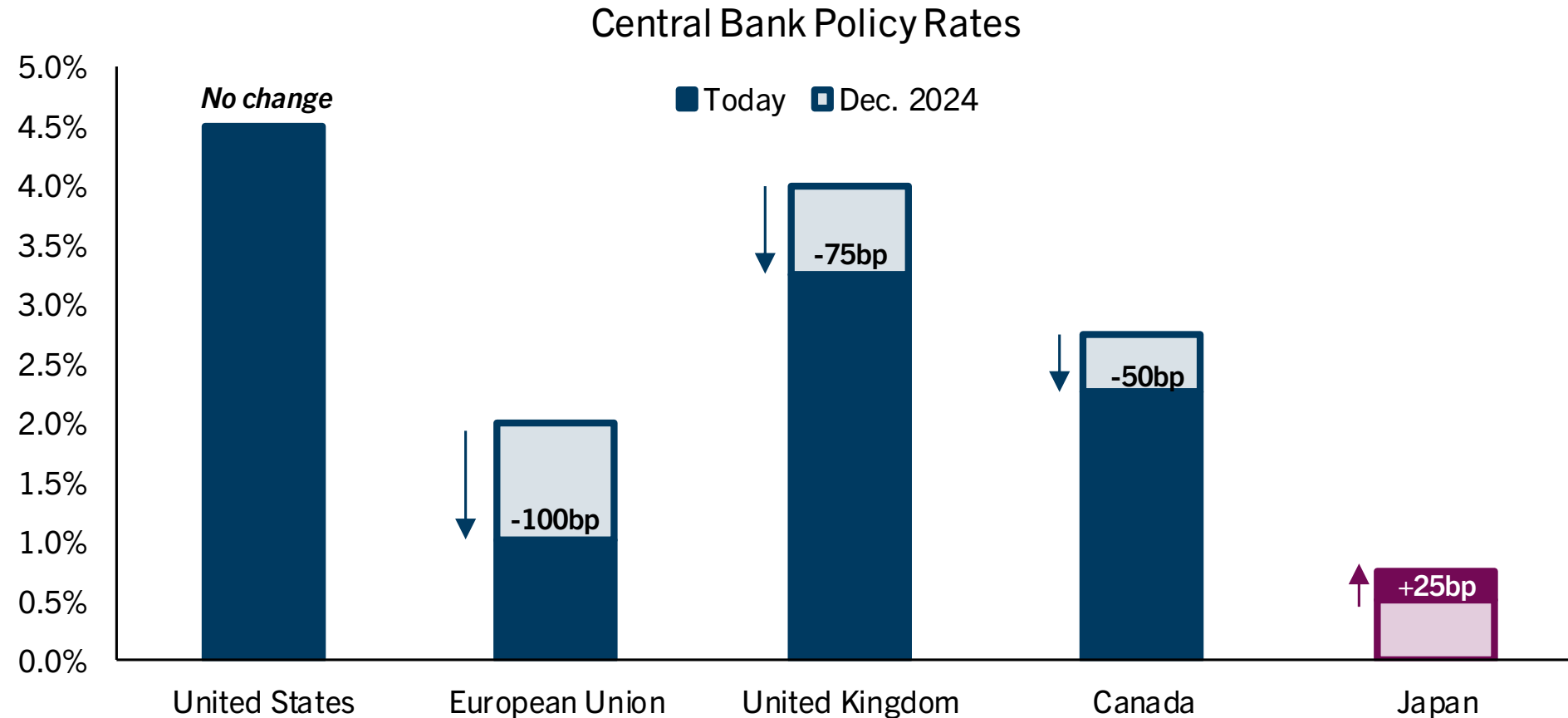


Markets Expect the Federal Reserve to Start Lowering Rates Soon



Source: Federal Reserve, First Citizens Bank
Data as of August 25, 2025

Foreign Central Banks Have Eased Monetary Policy This Year



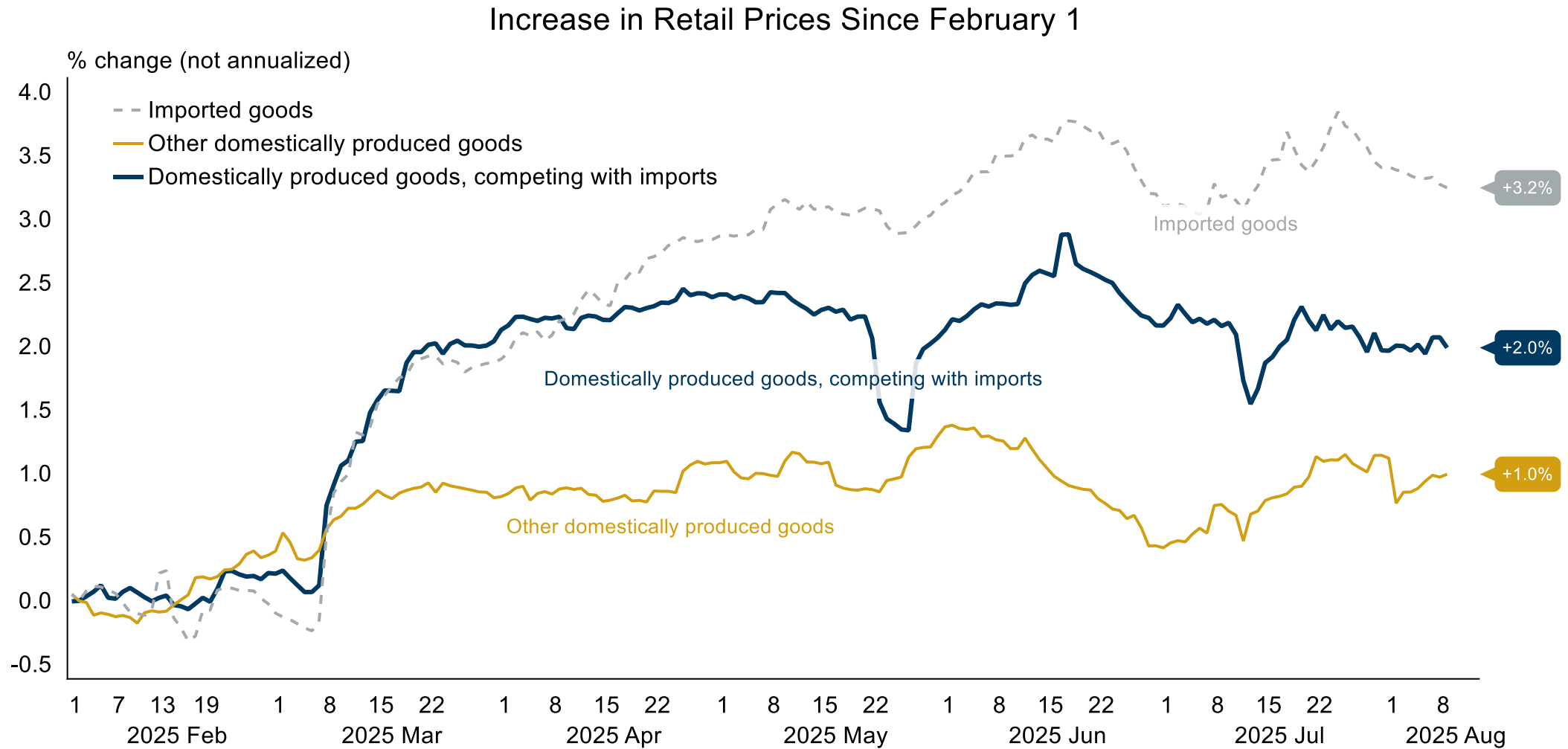
Source: Bloomberg
Data as of August 20, 2025

Markets Expect Inflation to Run North of 3% Over the Next Year



Source: Bloomberg
Data as of 8/26/2025

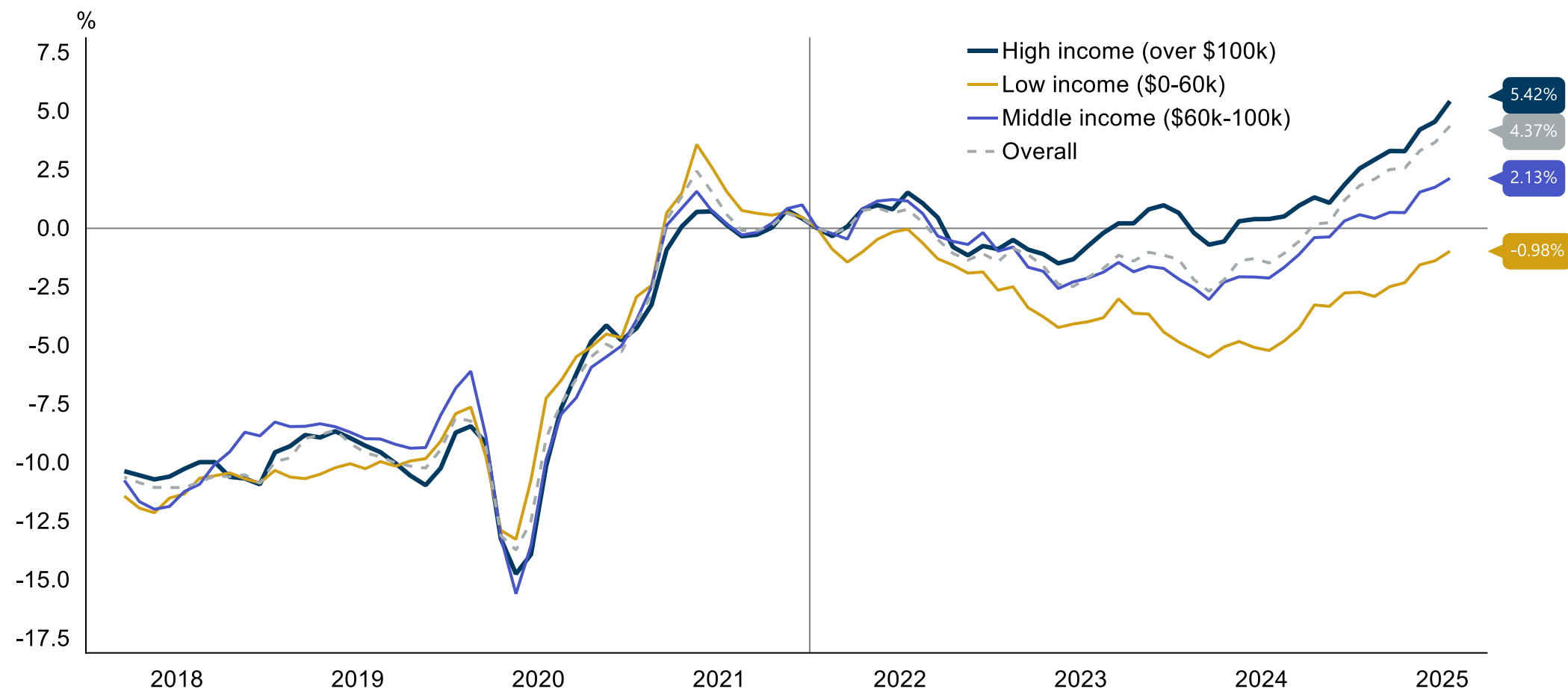
Retail Prices for Tariffed Goods Rose Sharply but Have Since Flattened



Source: HBS Pricing Lab, First Citizens Bank
Data as of August 8, 2025

Households Spending Is Picking Up, Even on an Inflation-Adjusted Basis

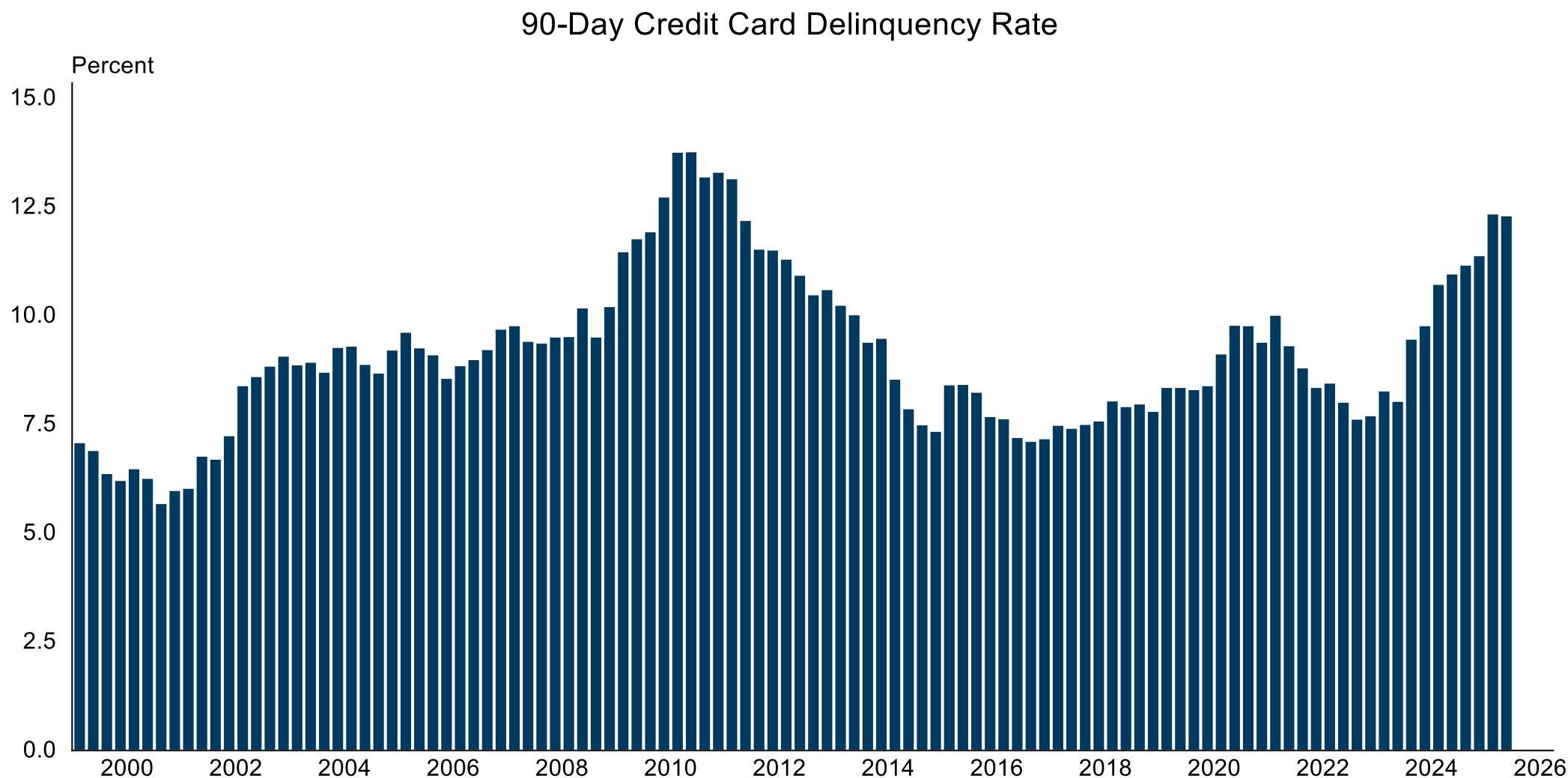
Growth of US Retail Spending by Income Cohort, Relative to January 2022
Inflation Adjusted and Seasonally Adjusted, 3-month Average



Source: Hoke et al. (2024)*, Numerator, First Citizens Bank
Data as of July 2025

*Hacıoğlu Hoke, Sinem, Leo Feler, and Jack Chylak (2024). "A Better Way of Understanding the US Consumer: Decomposing Retail Sales by Household Income," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, October 11, 2024, <https://doi.org/10.17016/2380-7172.3611>.

Credit Card Delinquency Rates Are Climbing



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

Recent Data Revisions Flipped the Narrative on Job Growth



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of August 1, 2025

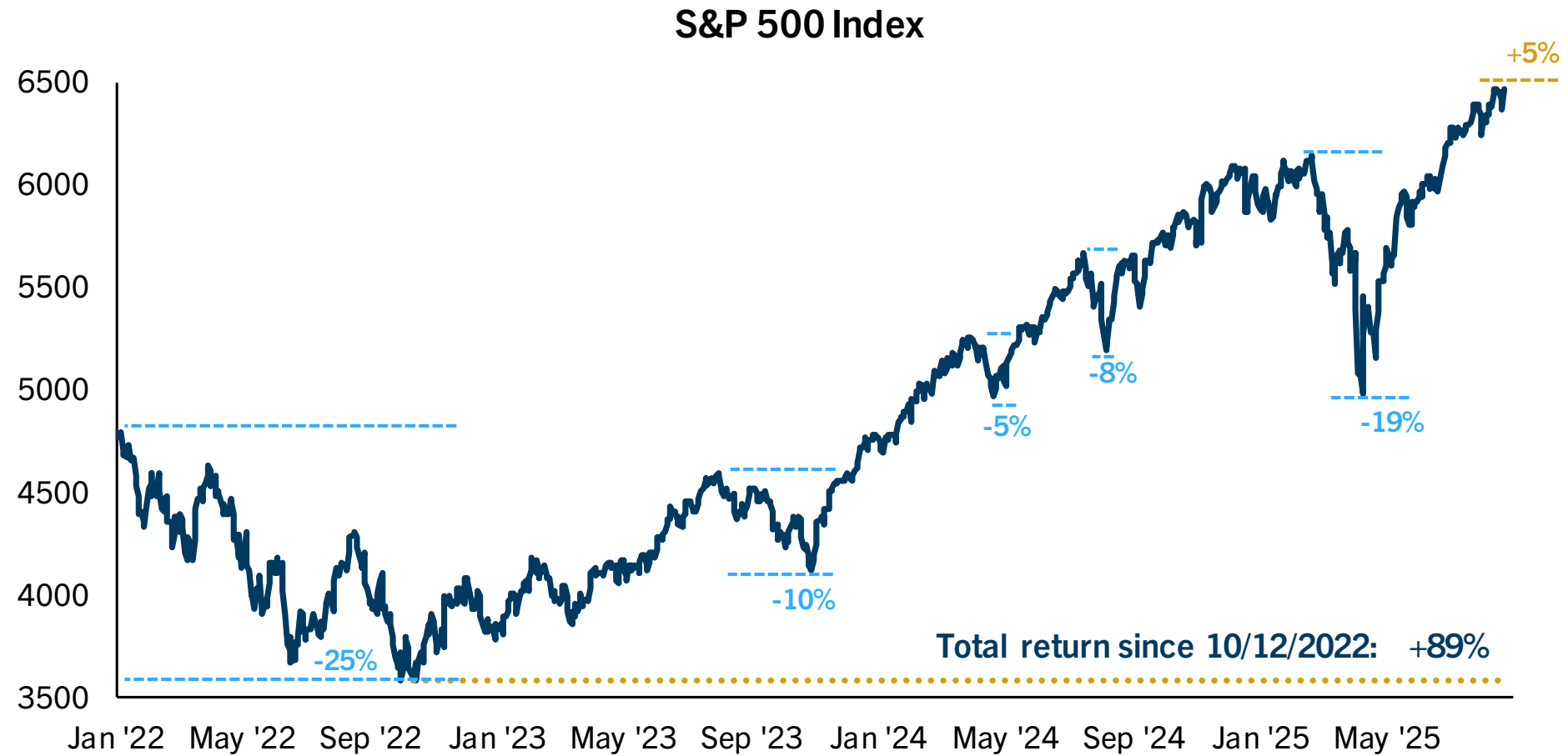
Market Update

Equity Markets | Valuations | Fixed Income

Global Asset Prices Have Recovered After the April Selloff

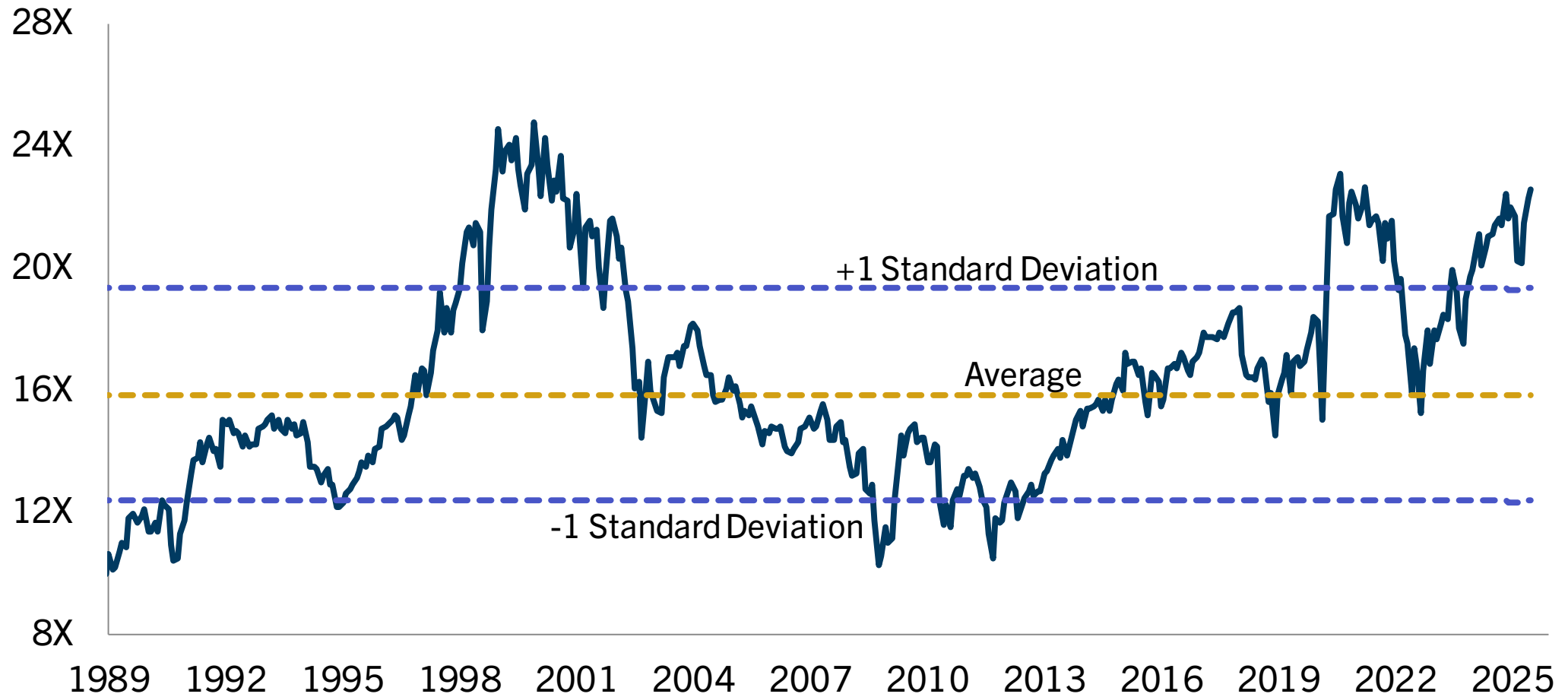
Total Market Returns As of 8/22/2025			
	Feb. 19 US peak to Apr. 8 trough	Since Feb. 19 peak	YTD 2025
US Equities	-19.3%	+5.6%	+10.6%
Intl. Developed Equities	-8.5%	+16.0%	+25.2%
Emerging Market Equities	-11.4%	+13.6%	+20.3%
Aggregate Fixed Income	+1.0%	+3.9%	+4.8%
Municipal Bonds	-2.7%	-0.6%	+0.1%

The S&P 500 Has Staged a Terrific Rebound



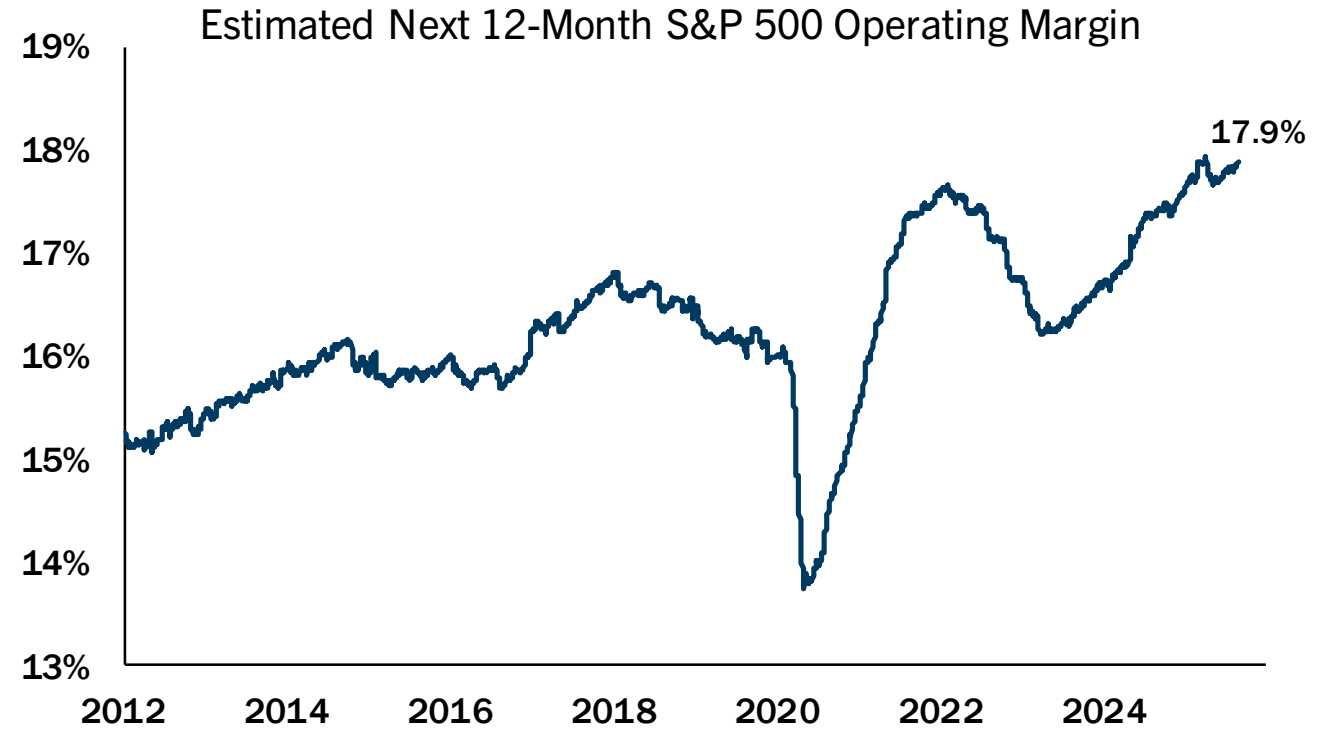
S&P 500 Valuations Are Robust

S&P 500 Next Twelve Months Price-to-Earnings Ratio

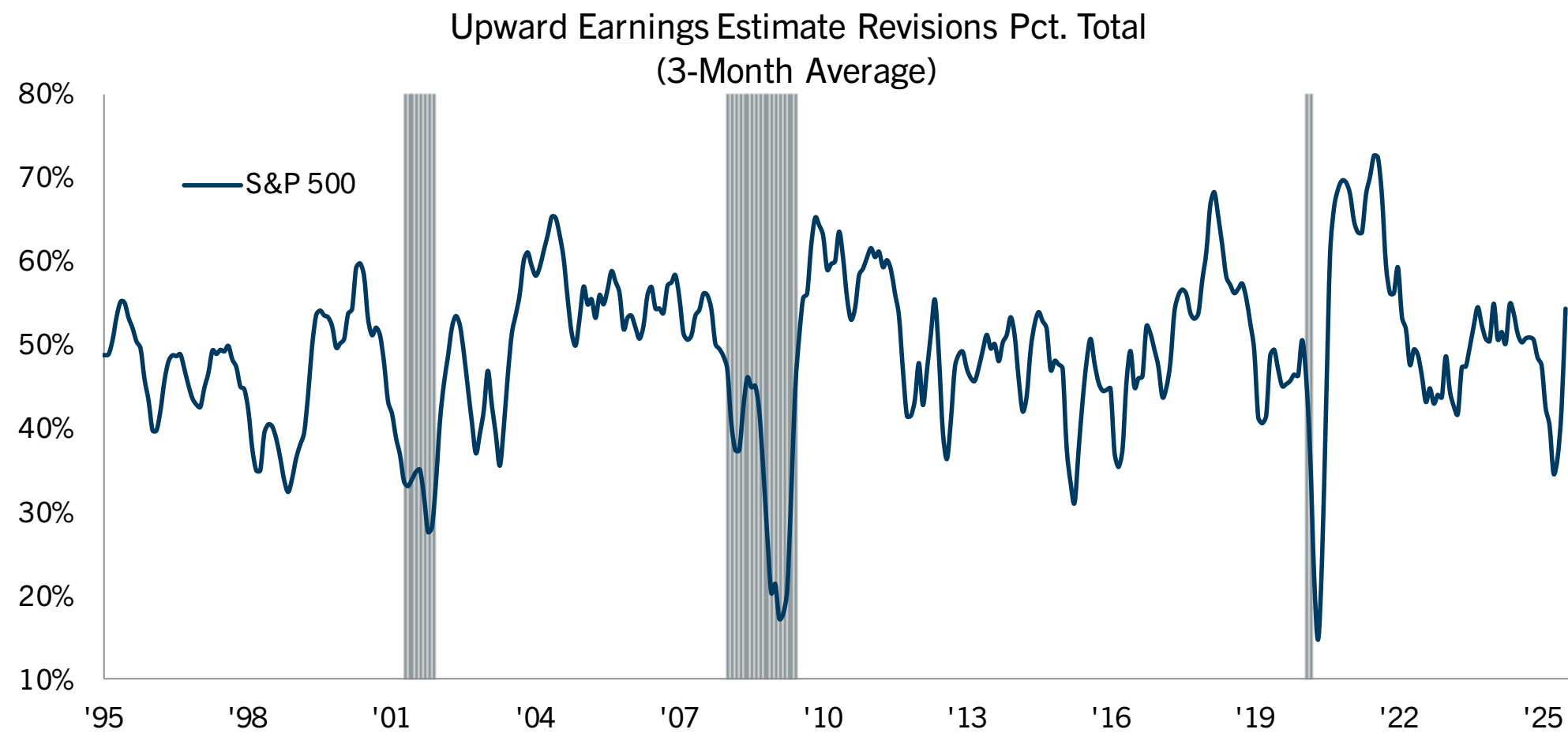


Corporate Earnings

- 2025 estimated growth is **10.3%**
- 2026 estimated growth is **13.3%**
- Average growth since 1950 is **7.6%**



EPS Revisions Have Rebounded

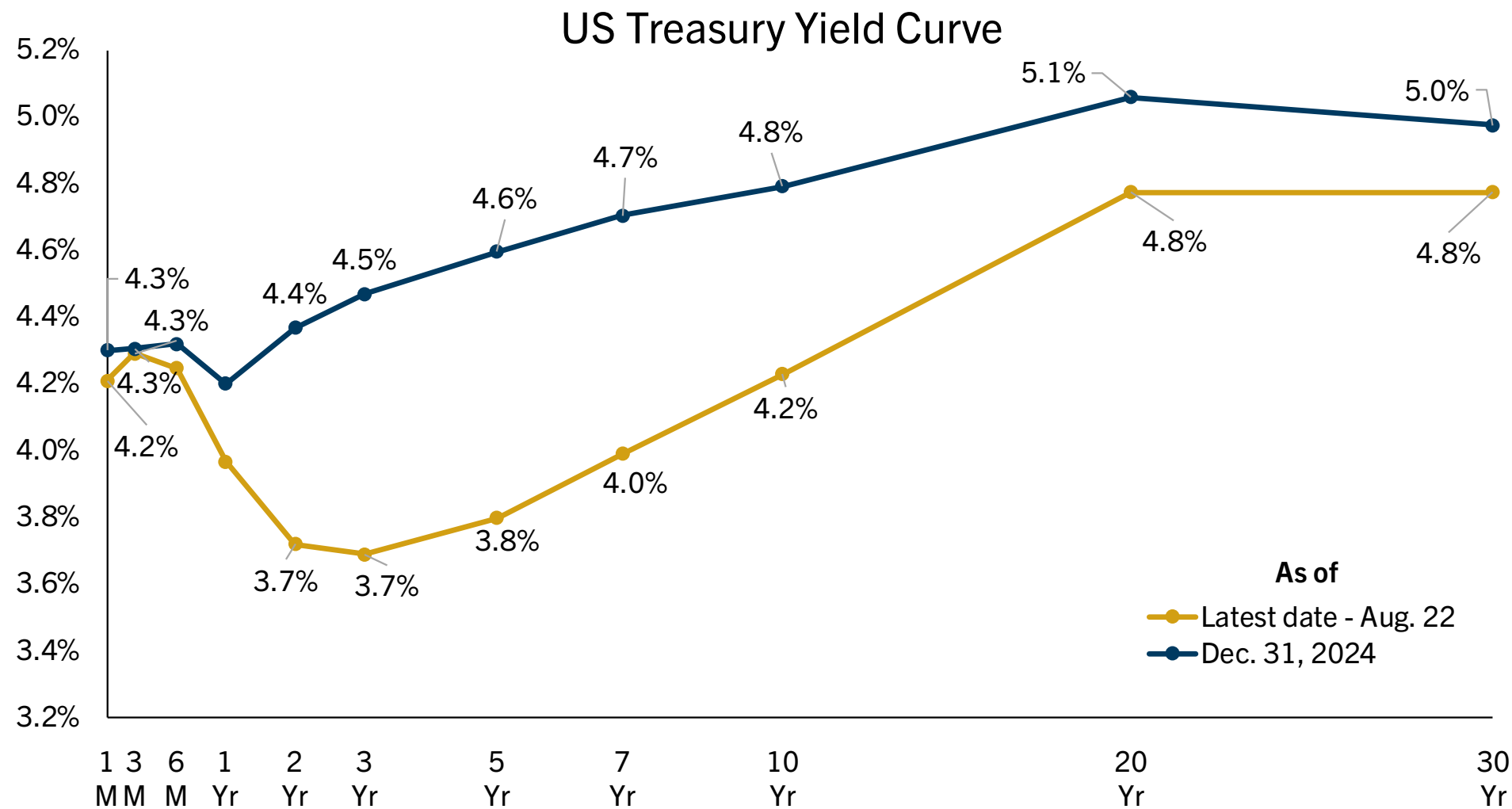


S&P 500 Price Target

Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 8/25/25
Bear	4,900	-23.9%
Base	6,800	5.6%
Bull	7,450	15.7%

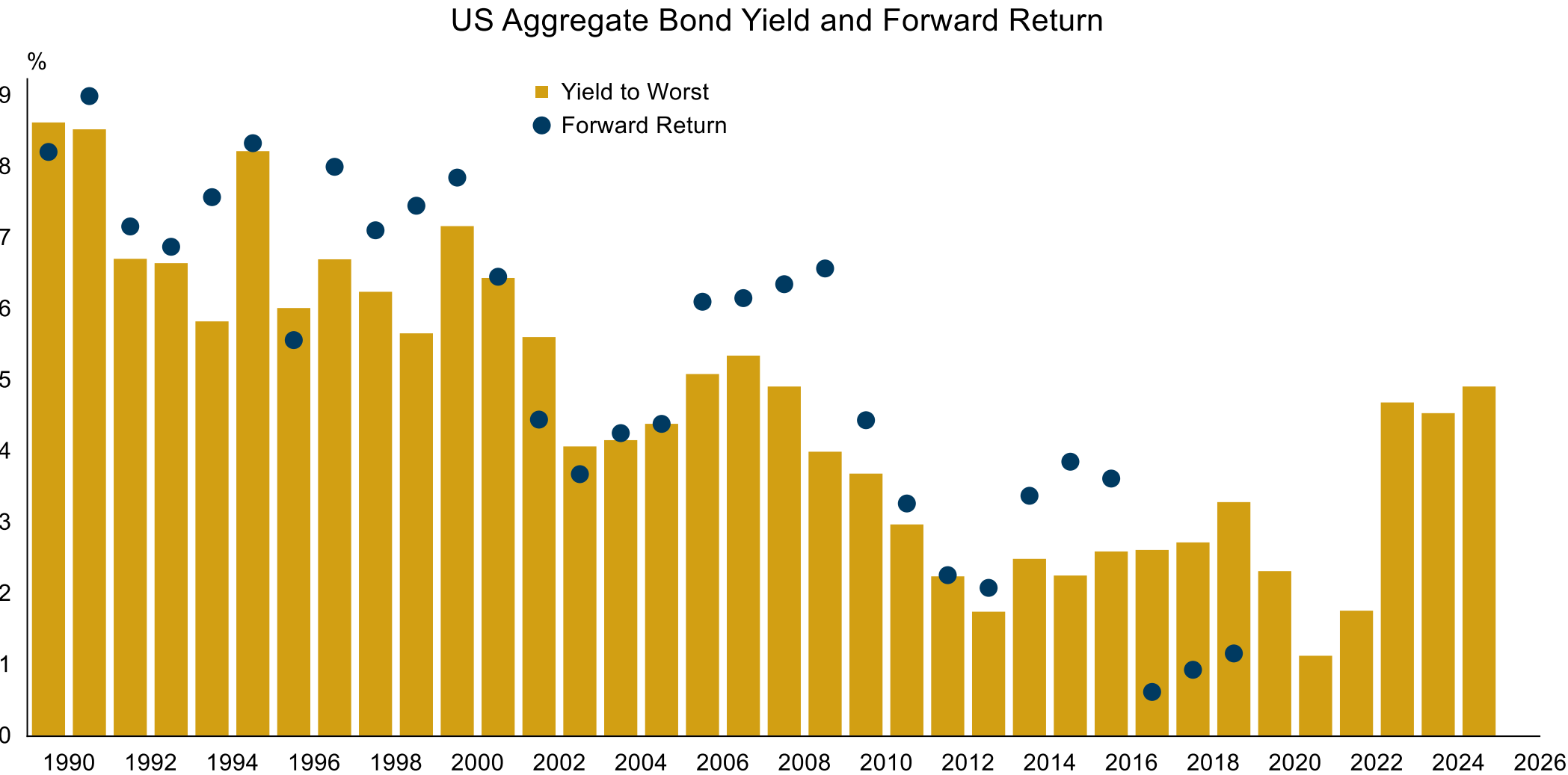
The Treasury Yield Curve Has Steepened This Year



Fixed Income Is Still Offering Attractive Yield Relative to Post-GFC Cycle

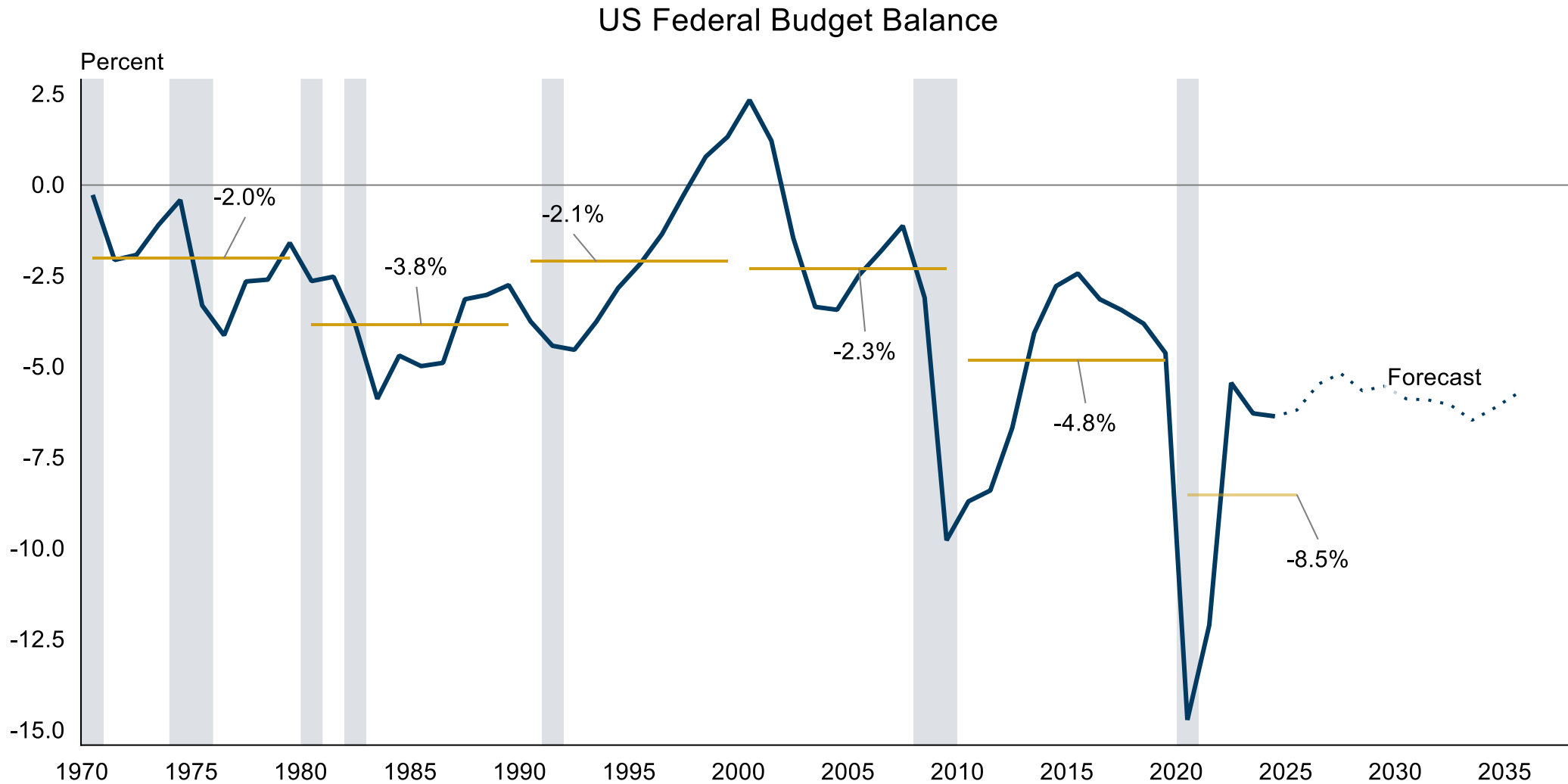
US Fixed Income Indices	
	Yield-to-Worst
Index	As of 8/22/2025
2-Year Treasury	3.7%
10-Year Treasury	4.3%
Aggregate Bond	4.5%
Intermediate Government/Credit	4.0%
Municipal Bond	3.9%
Investment Grade Corporate Bond	4.9%
High Yield Corporate Bond	6.9%

Fixed Income Forward Return Typically Tracks Aggregate Bond Yields



Source: Bloomberg, First Citizens Bank
Data as of: 2025 Q2

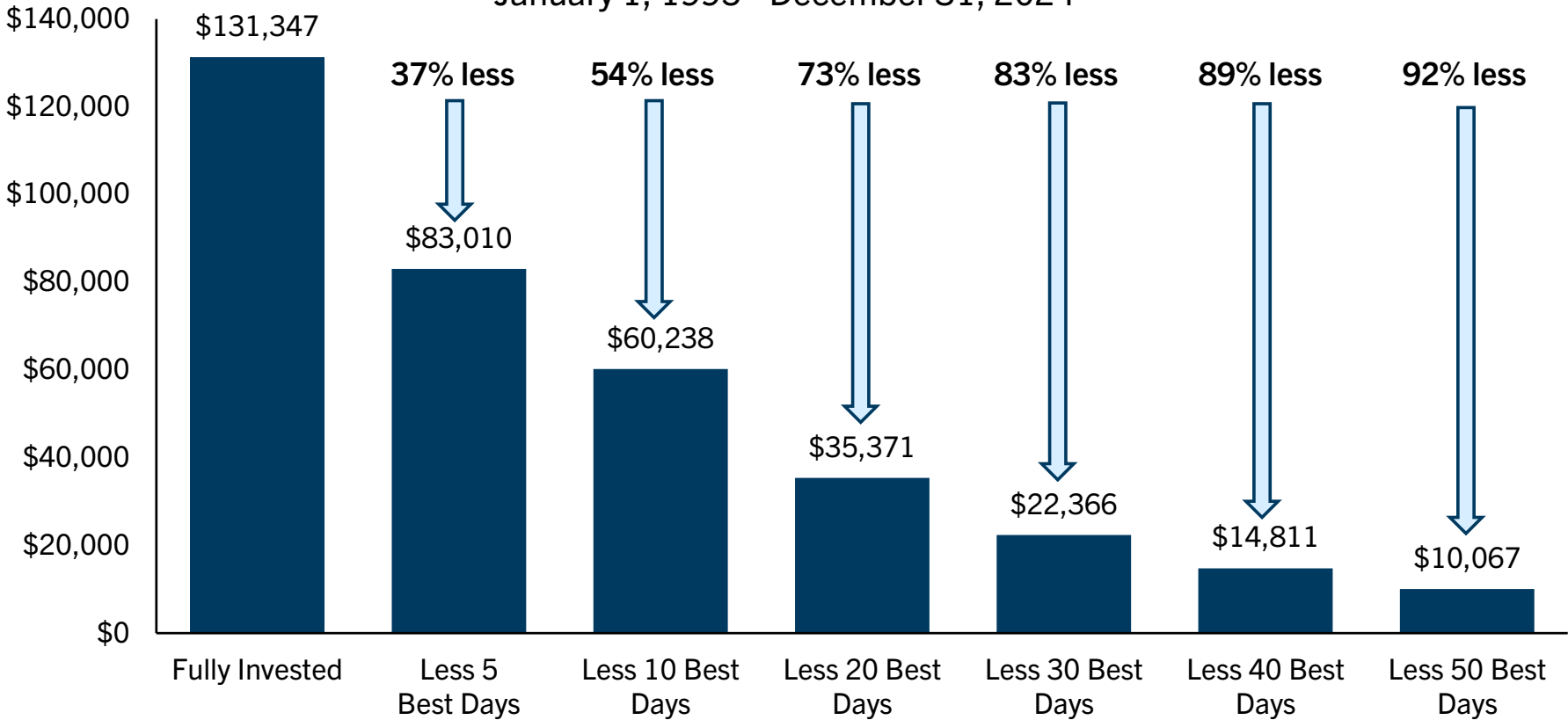
The US Is Projected to Continue Running Large, Persistent Deficits



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

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

Q&As | 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



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