

# Making Sense

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Monthly Market Update

Recorded on August 27, 2025



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# What are we going to cover?

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- 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

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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

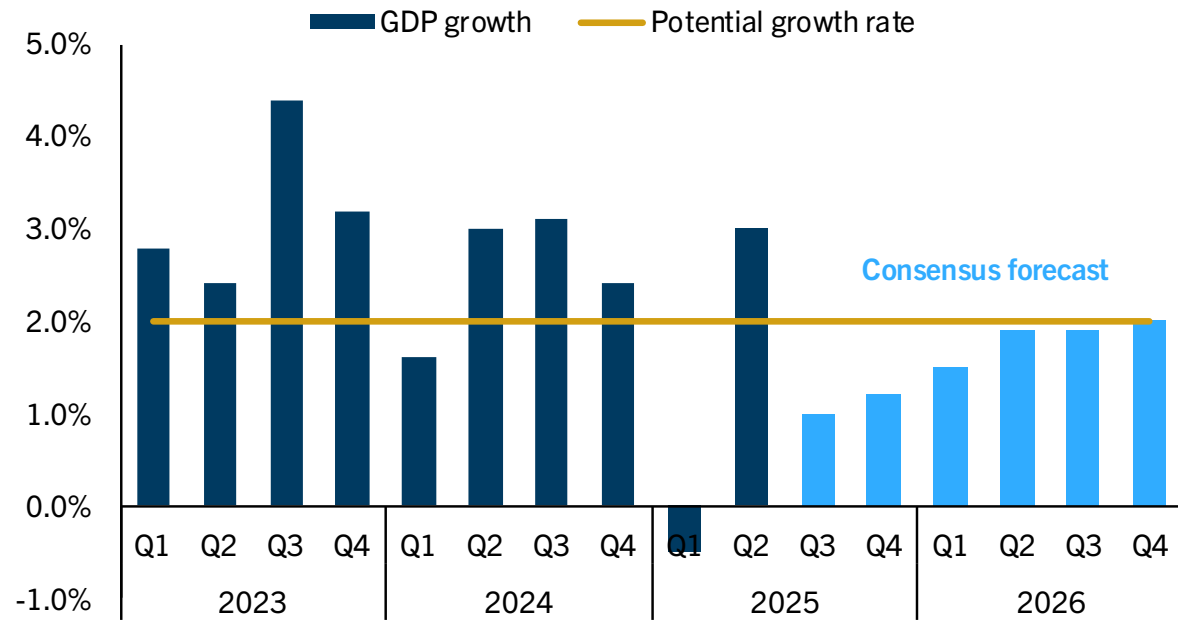
+15.0%   ↓   +10.3%

Expectation for 2025,  
start of year

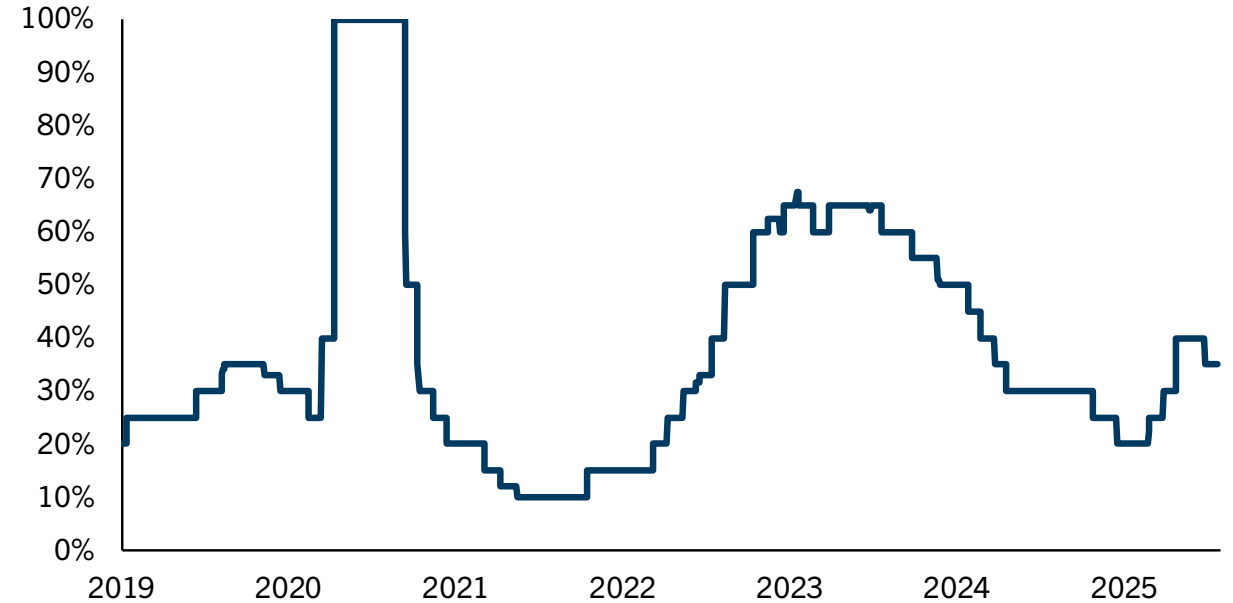
Today's  
forecast

# Forecasters See the Economy Rebounding After a Tumultuous First Half

## US Real GDP Growth and Median Professional Forecast

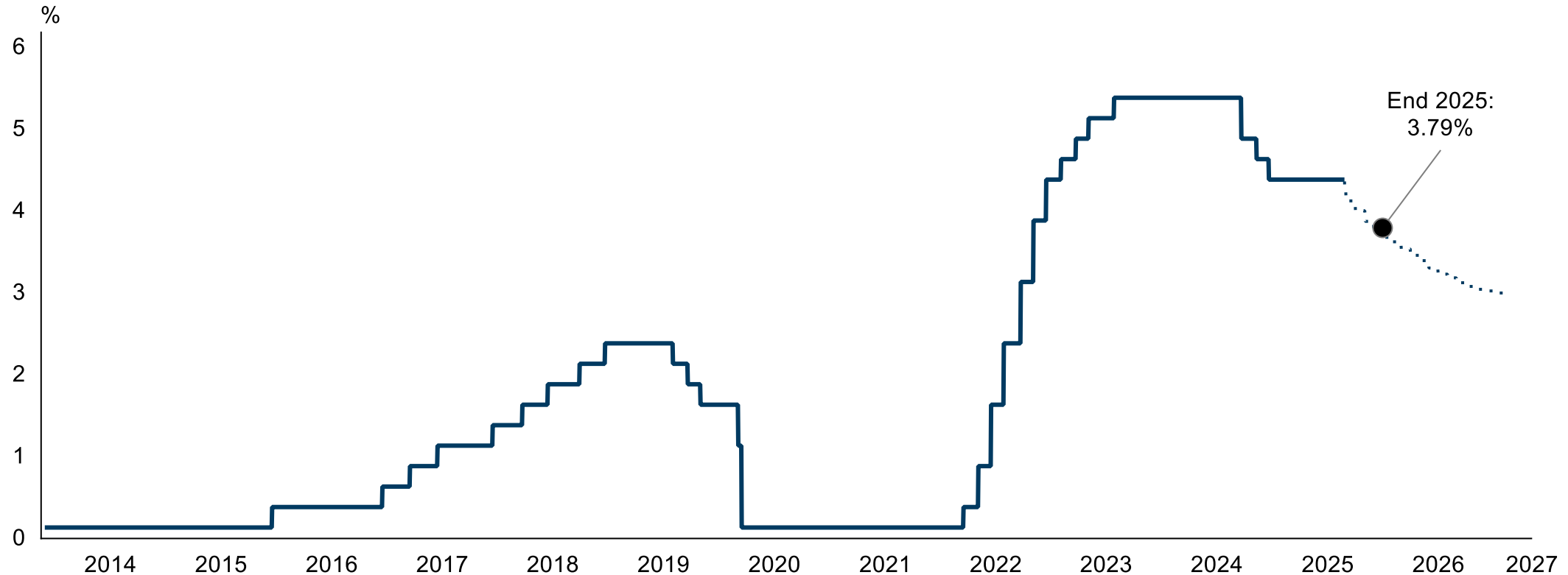


## Probability of Recession, Next Twelve Months Median Professional Forecast



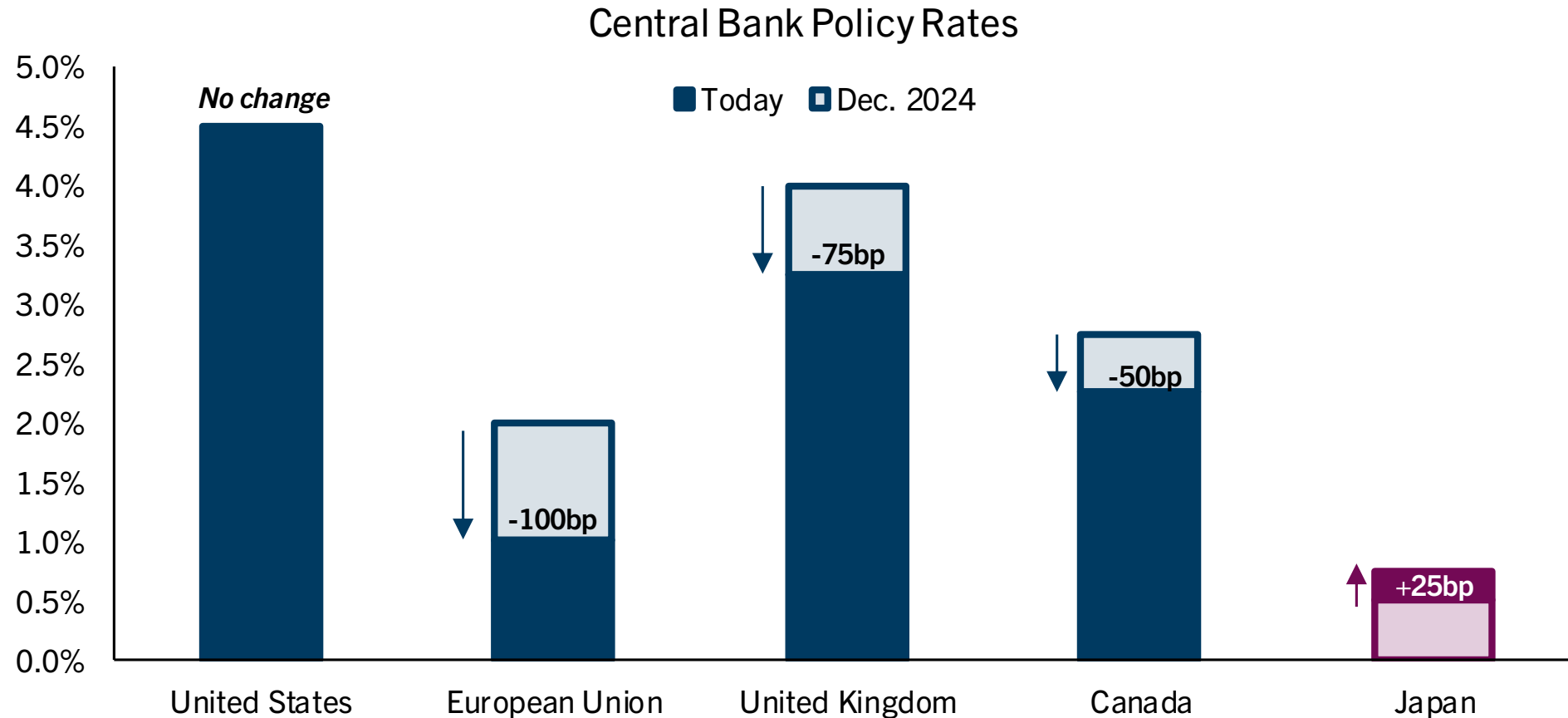
# Markets Expect the Federal Reserve to Start Lowering Rates Soon

Federal Funds Rate and Market-Implied Path



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

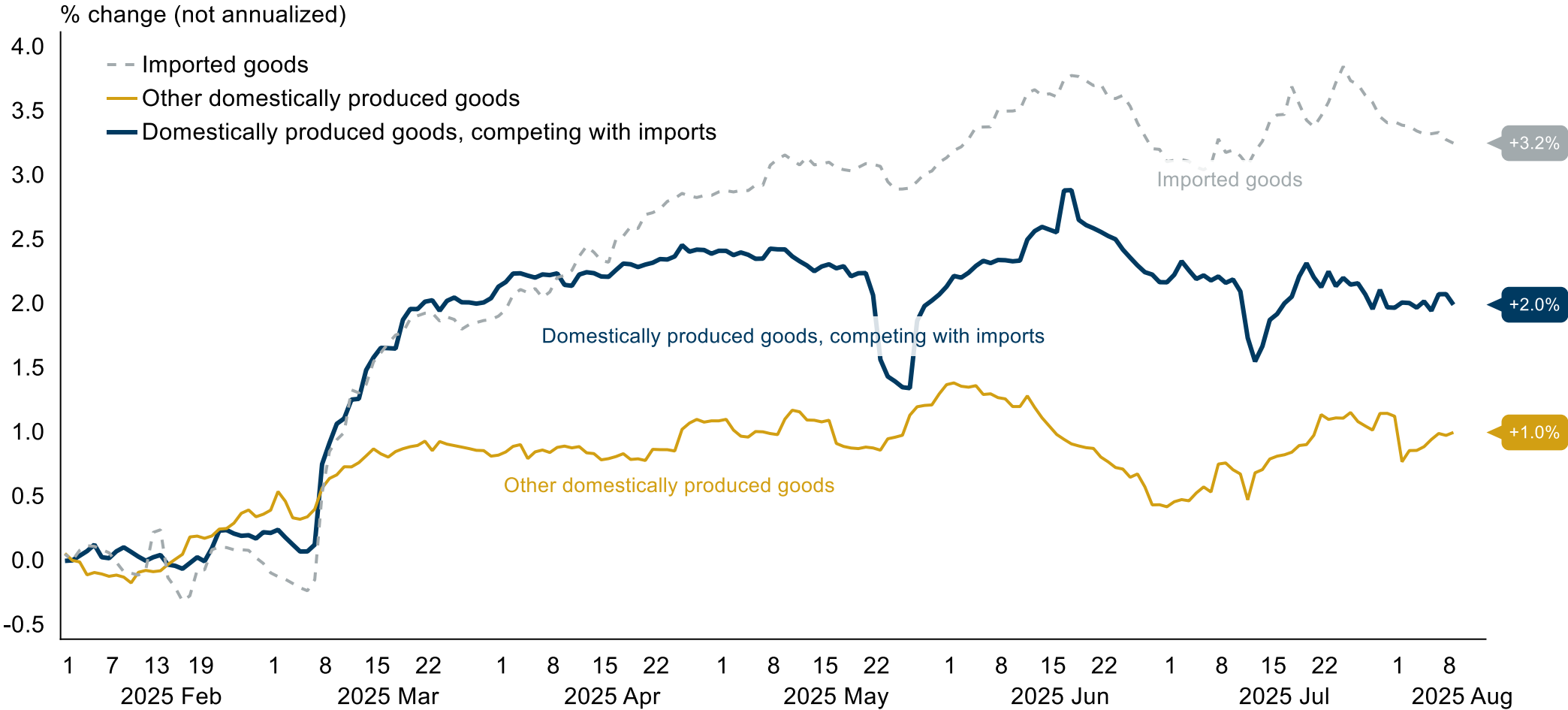
# Markets Expect Inflation to Run North of 3% Over the Next Year



Source: Bloomberg  
Data as of 8/26/2025

# Retail Prices for Tariffed Goods Rose Sharply but Have Since Flattened

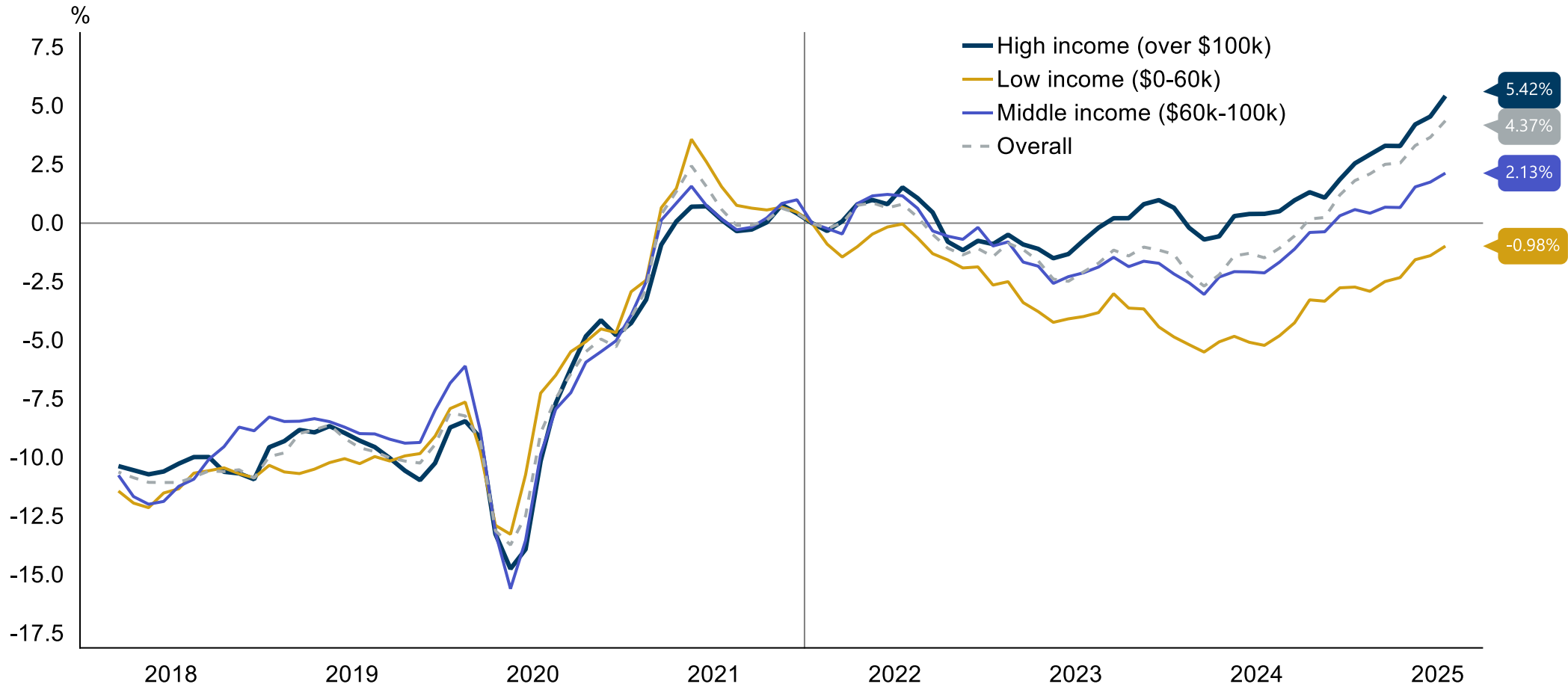
## Increase in Retail Prices Since February 1



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

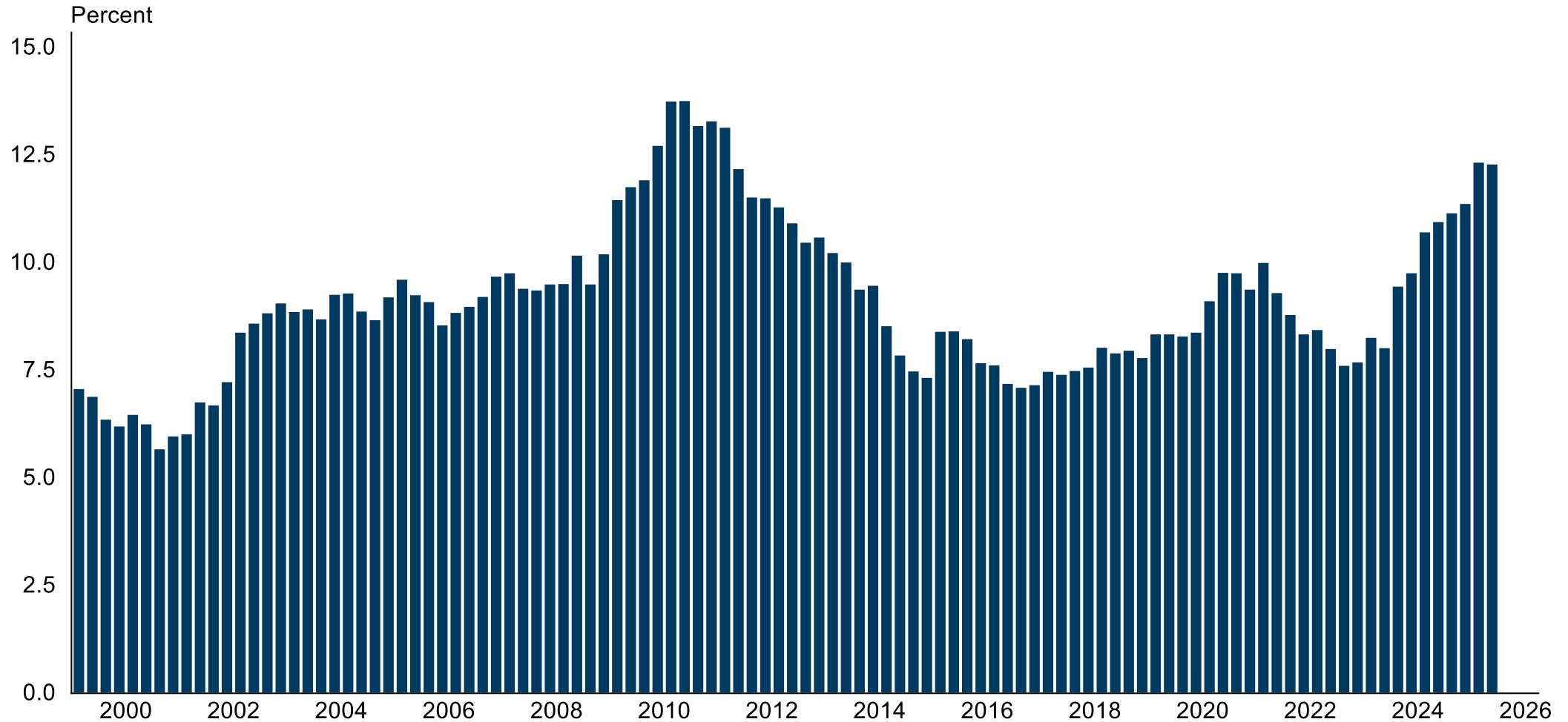


Source: Hoke et al. (2024)\*, Numerator, First Citizens Bank  
Data as of July 2025

\*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

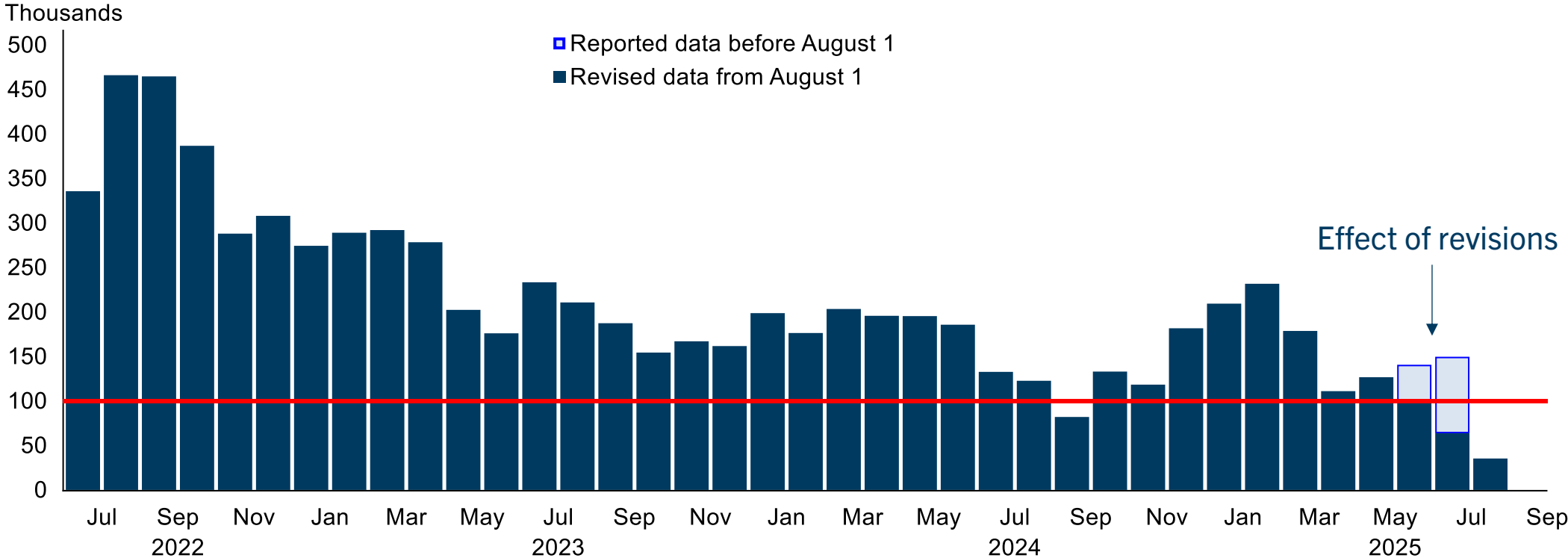
## 90-Day Credit Card Delinquency Rate



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

# Recent Data Revisions Flipped the Narrative on Job Growth

Monthly Job Growth, Three Month Average



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

# Market Update

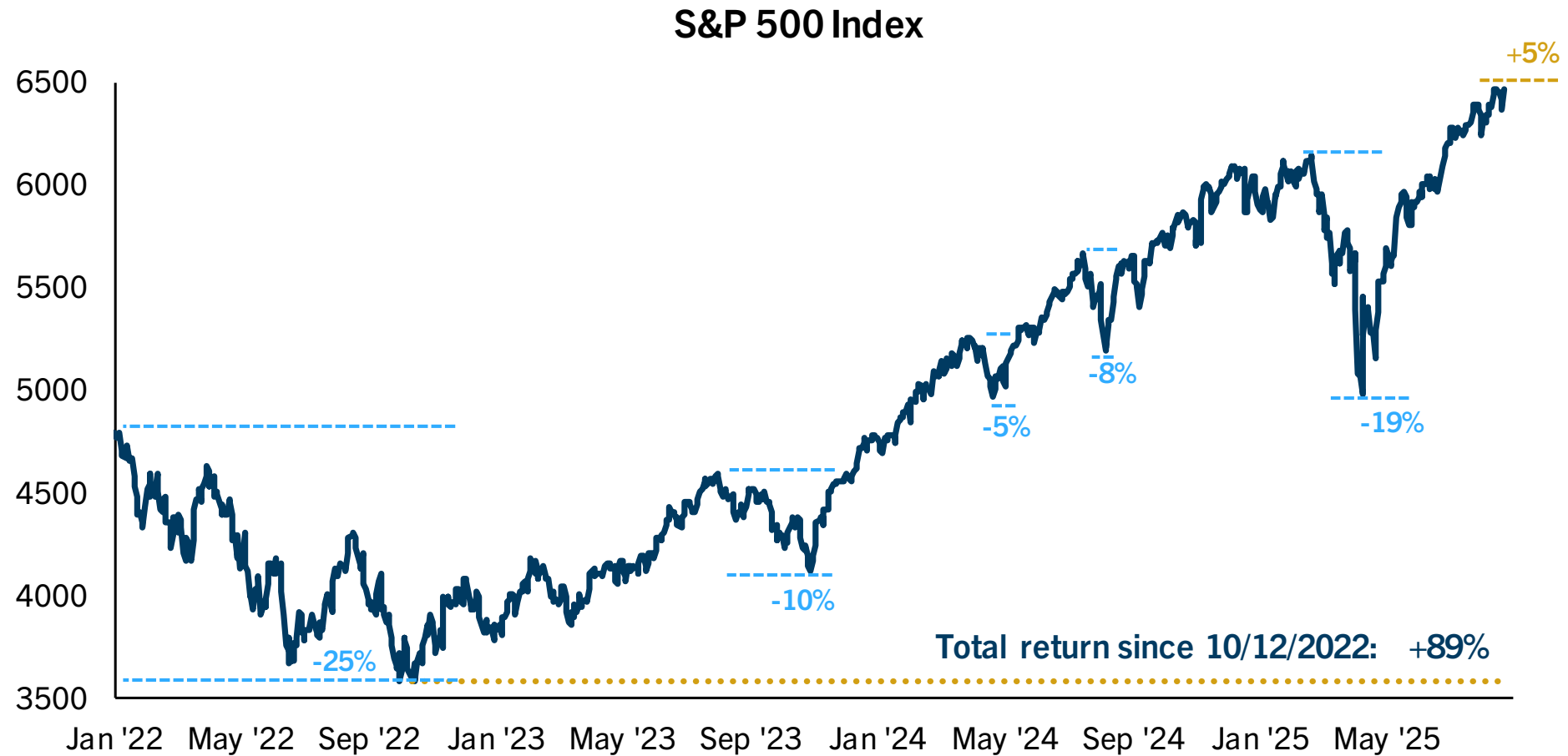
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Equity Markets | Valuations | Fixed Income

# Global Asset Prices Have Recovered After the April Selloff

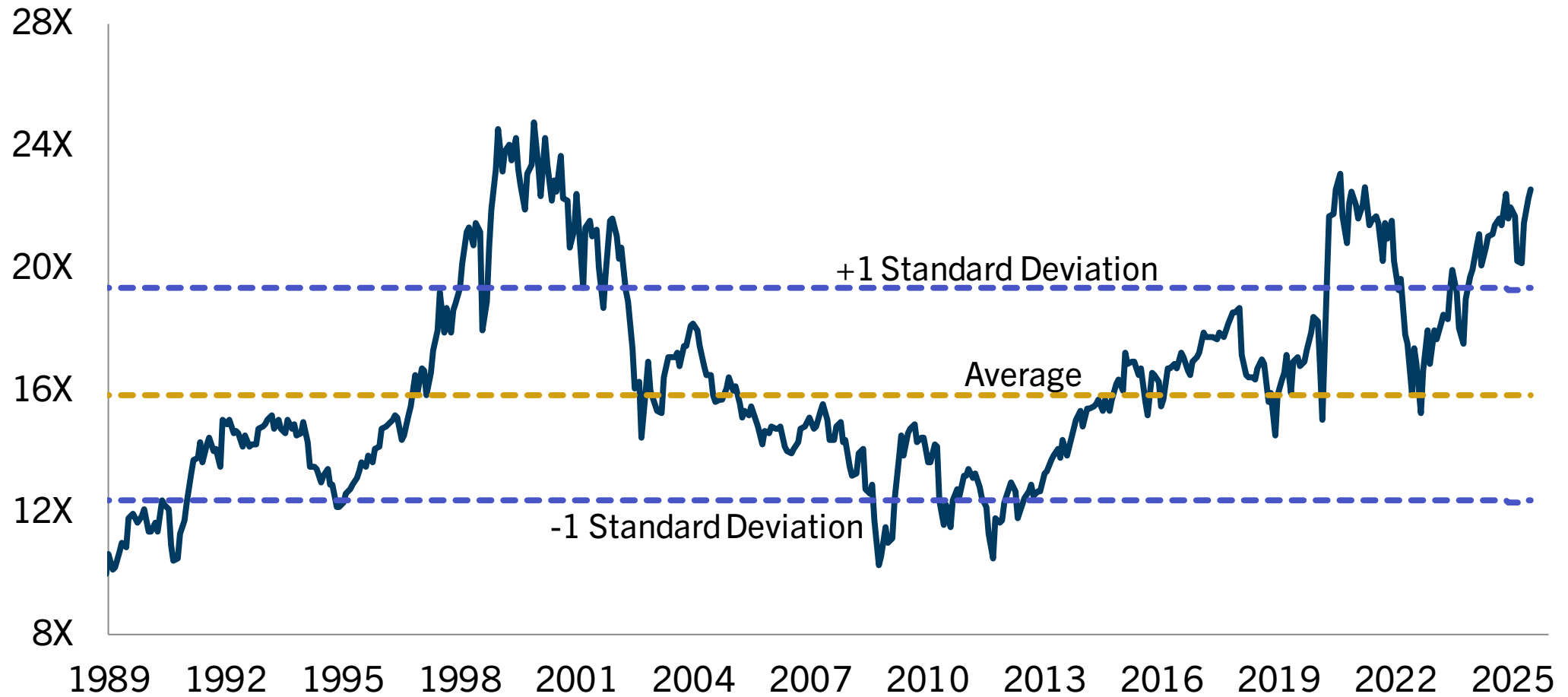
<b>Total Market Returns</b>			
<b>As of 8/22/2025</b>			
	<b>Feb. 19 US peak to Apr. 8 trough</b>	<b>Since Feb. 19 peak</b>	<b>YTD 2025</b>
<b>US Equities</b>	<b>-19.3%</b>	<b>+5.6%</b>	<b>+10.6%</b>
<b>Intl. Developed Equities</b>	<b>-8.5%</b>	<b>+16.0%</b>	<b>+25.2%</b>
<b>Emerging Market Equities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

# The S&P 500 Has Staged a Terrific Rebound



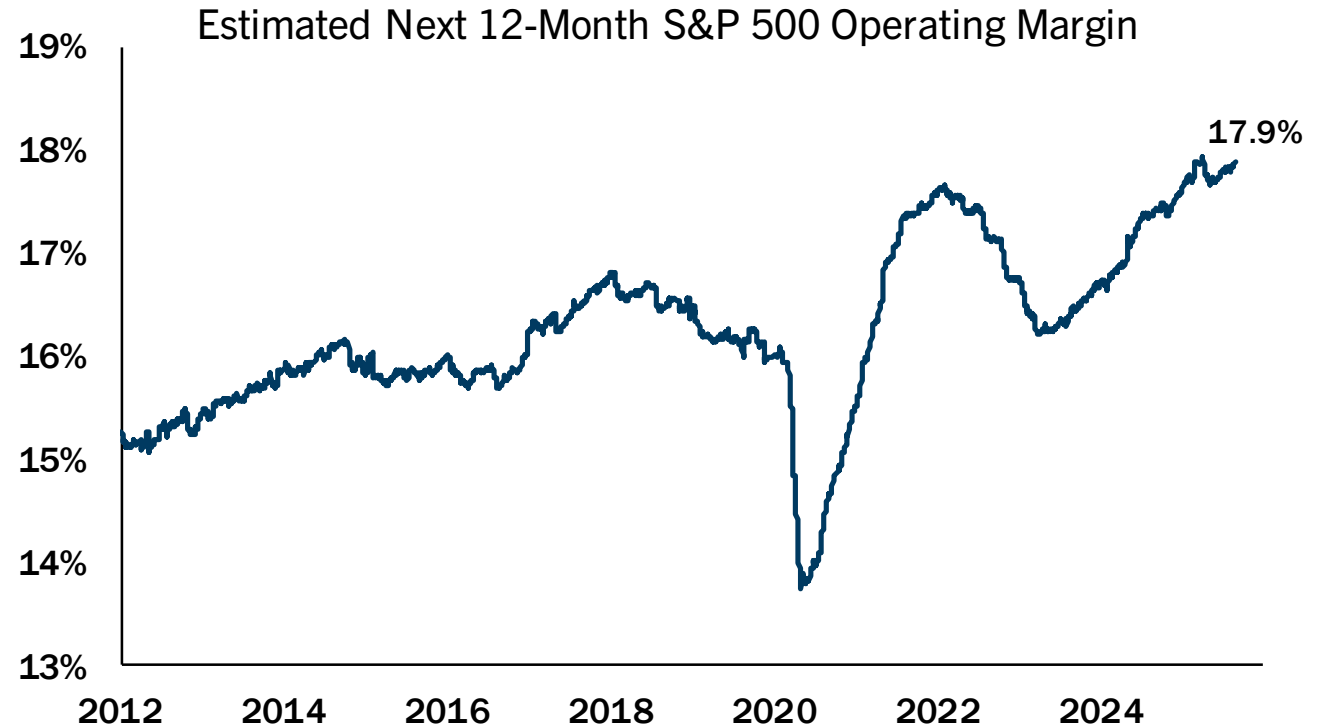
# S&P 500 Valuations Are Robust

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

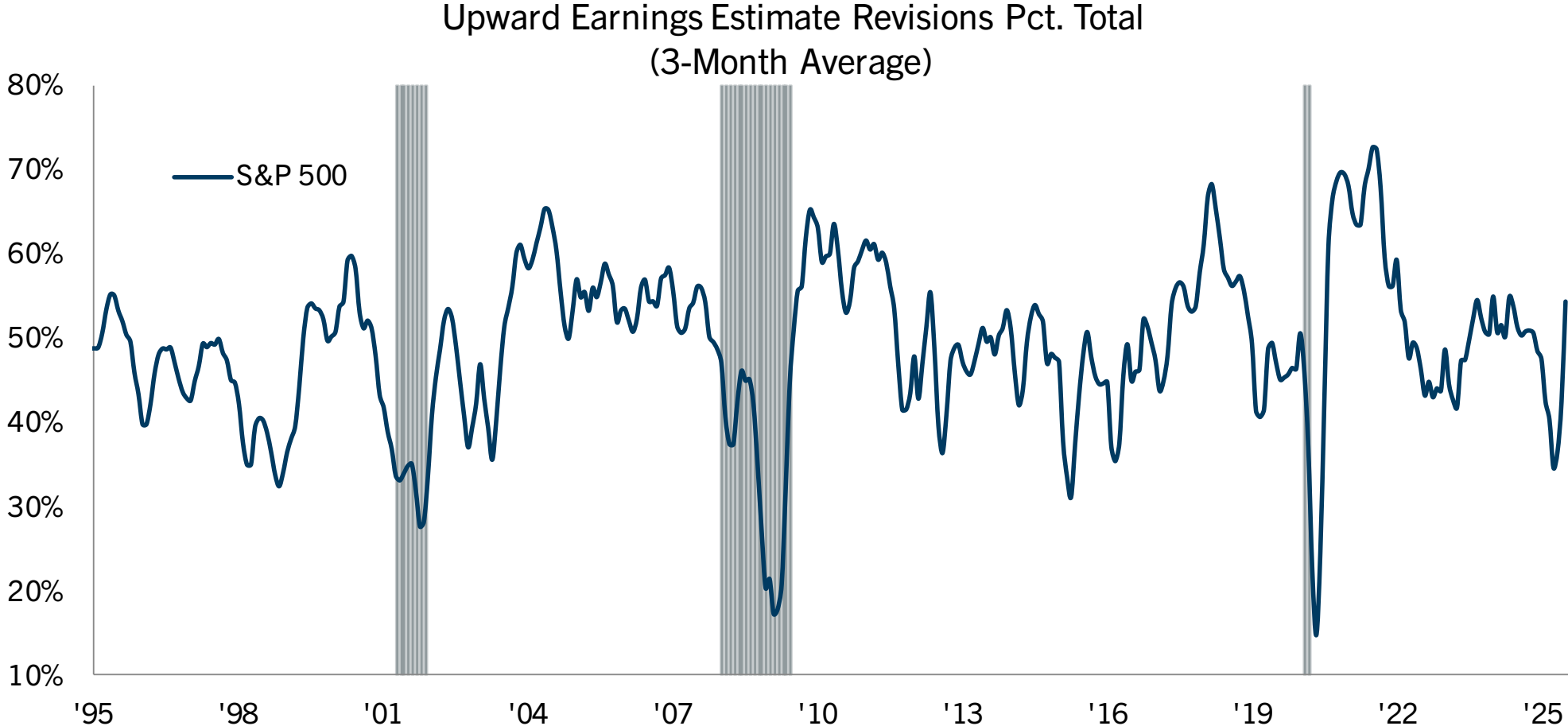


# Corporate Earnings

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



# EPS Revisions Have Rebounded



Source: Strategas. Data through July 2025.

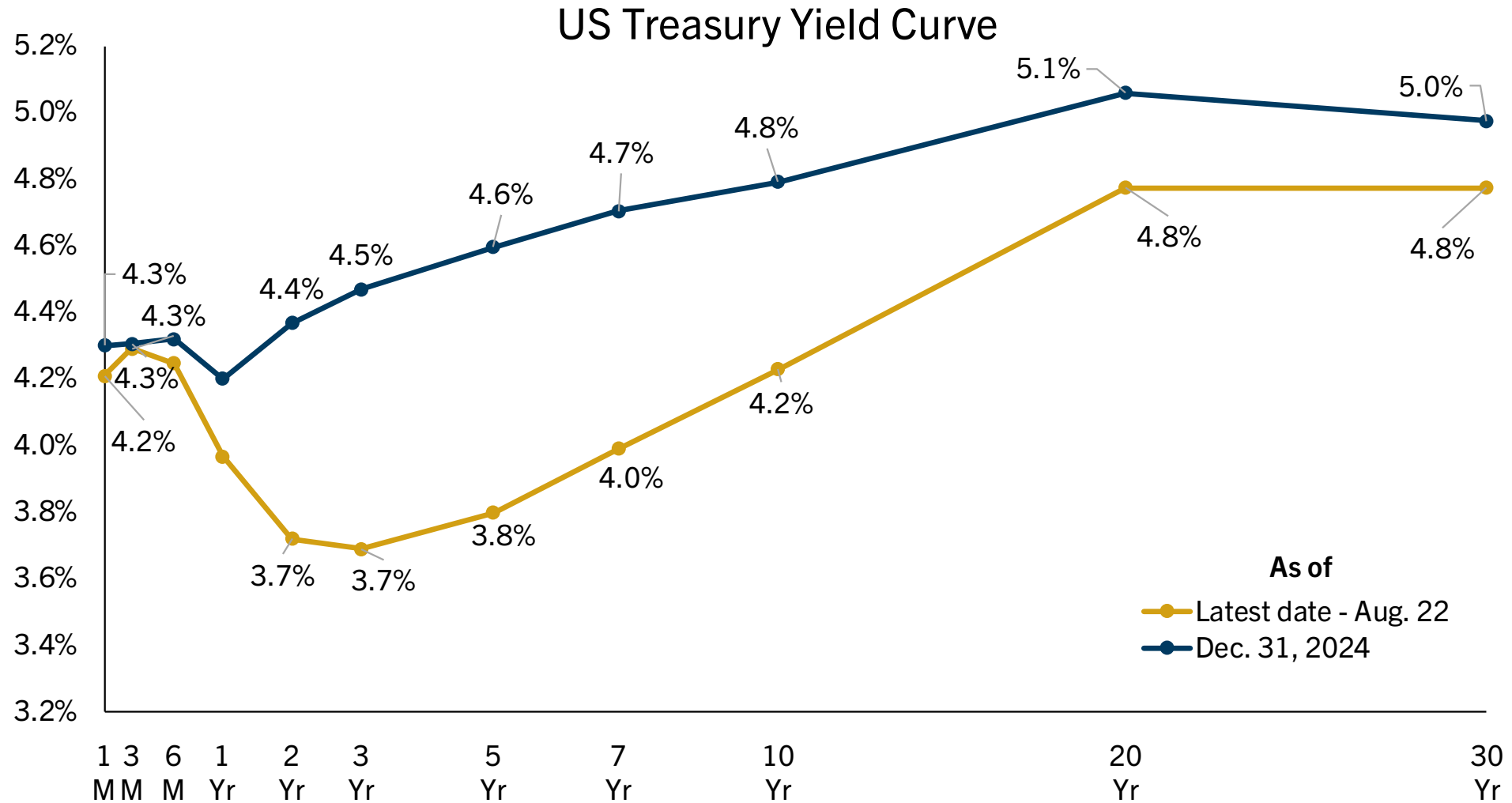
# S&P 500 Price Target

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## 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

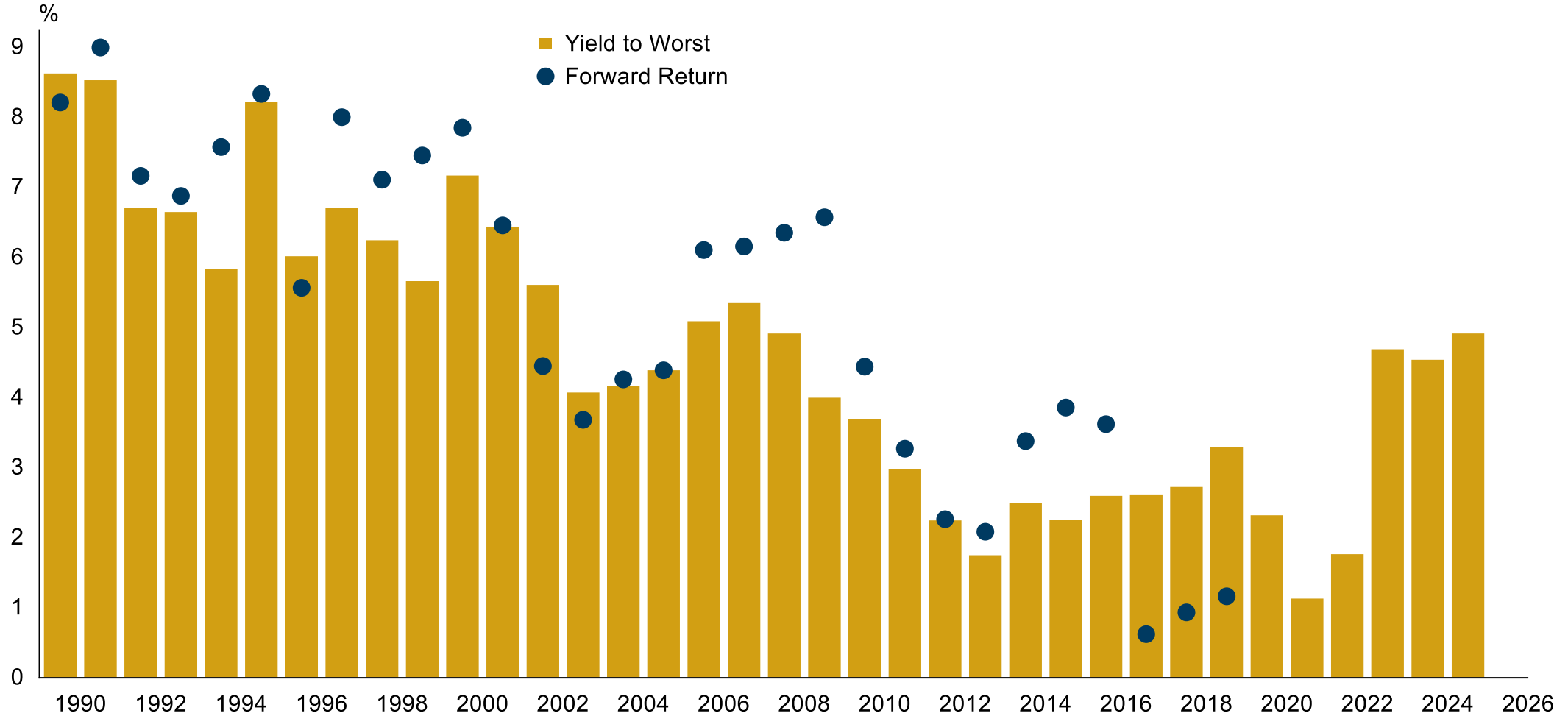


# Fixed Income Is Still Offering Attractive Yield Relative to Post-GFC Cycle

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%

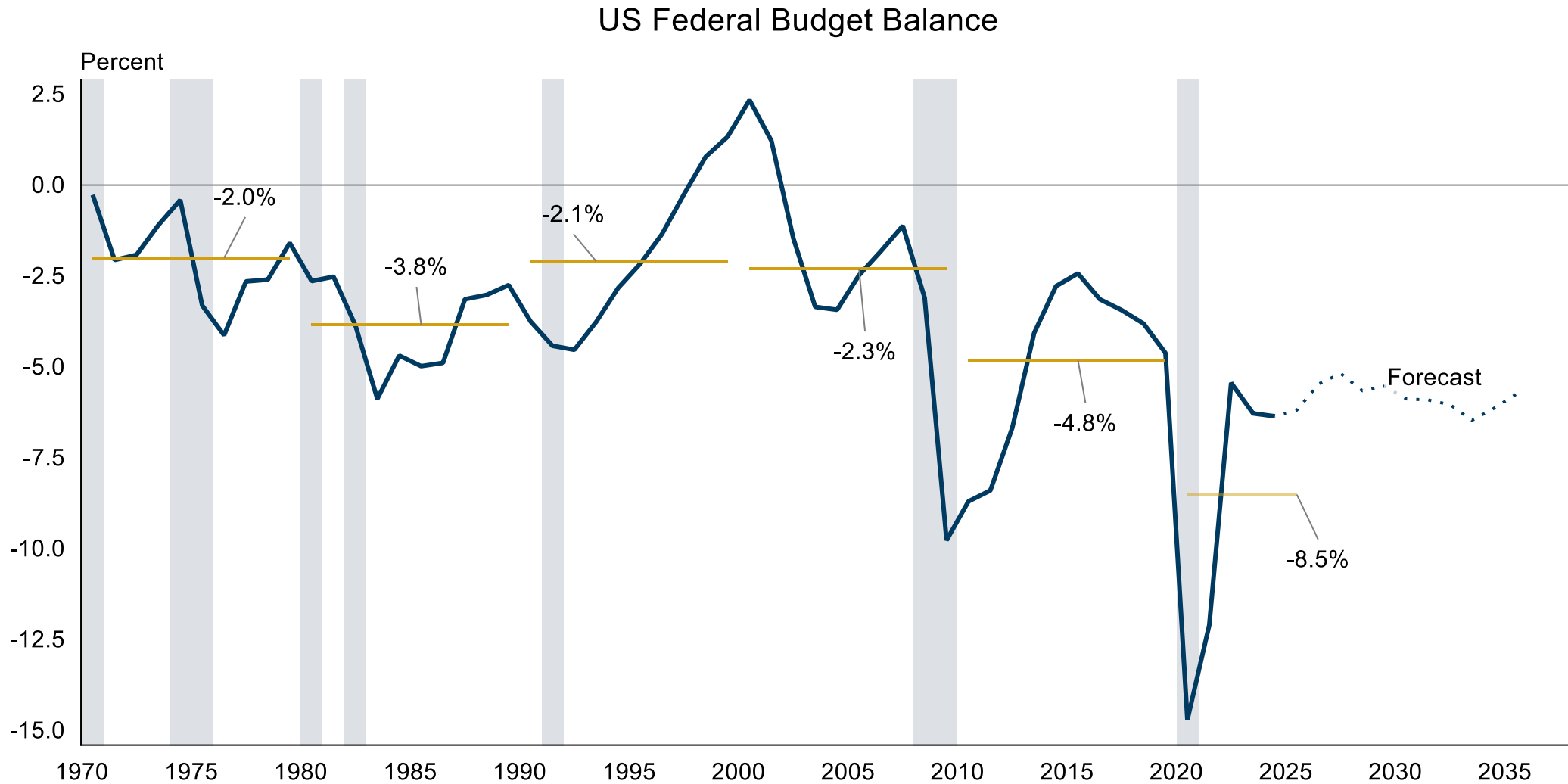
# Fixed Income Forward Return Typically Tracks Aggregate Bond Yields

US Aggregate Bond Yield and Forward Return



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

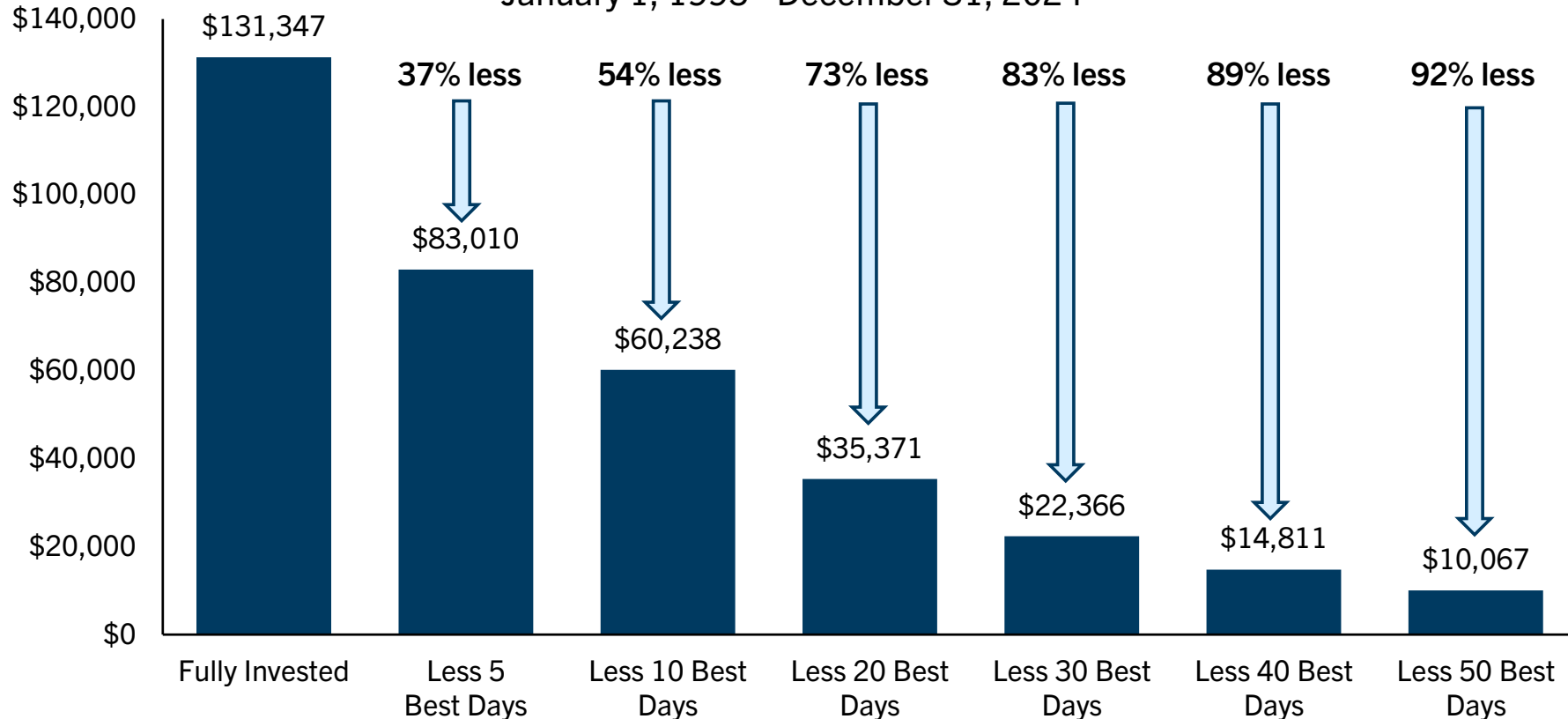
# The US Is Projected to Continue Running Large, Persistent Deficits



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

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