

Making Sense

Monthly Market Update



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What are we going to cover?

1. Economic update:
Federal Reserve policy | Inflation & labor market | Consumer spending
2. Market update:
Equity markets | Valuations | Fixed income

Economic & policy update

Labor market & inflation | Fed policy | Household spending



The economic narrative differs depending where you look

Tailwinds

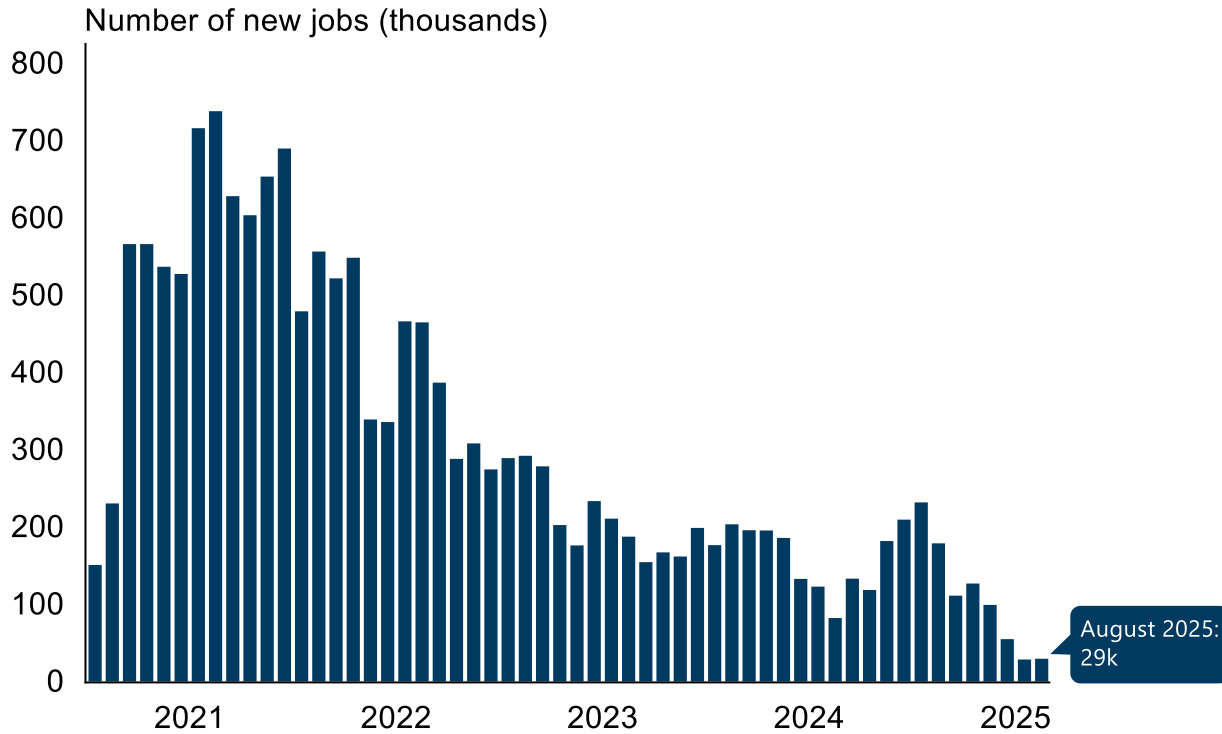
- GDP growth: +3%
- Stock markets at all-time highs
- Resilient household demand and spending
- Bond yields are lower; spreads very tight
- Financial conditions extremely easy
- Federal Reserve is lowering interest rates
- Corporate capex surging on AI investment
- Corporate fundamentals appear strong

Headwinds

- Labor market has softened; hiring is weaker
- Inflation is running closer to 3% than 2%; tariffs may push prices higher still
- Trade and geopolitical uncertainties linger
- Household credit conditions are no longer pristine
- Government debt and deficits are elevated

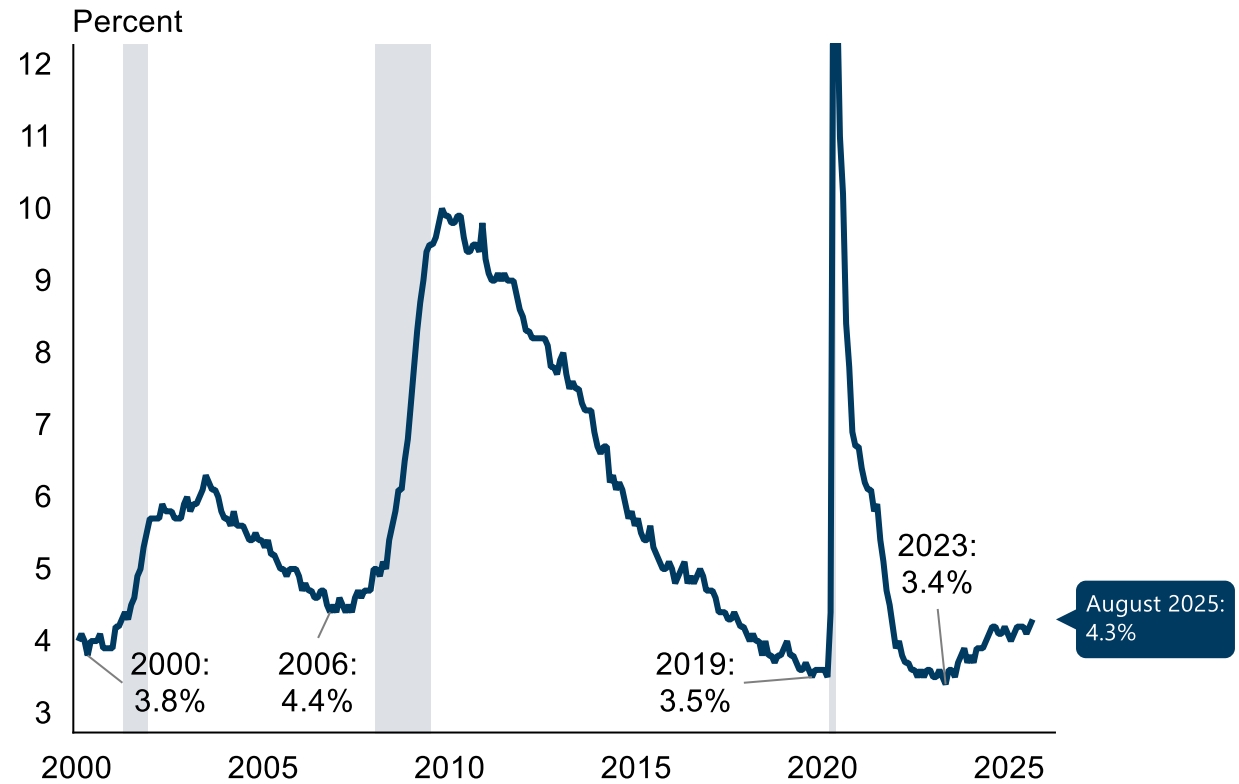
Official labor data shed light on an economy from at least two months ago

Monthly Change in US Payroll Employment (3-month average)



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of September 5, 2025

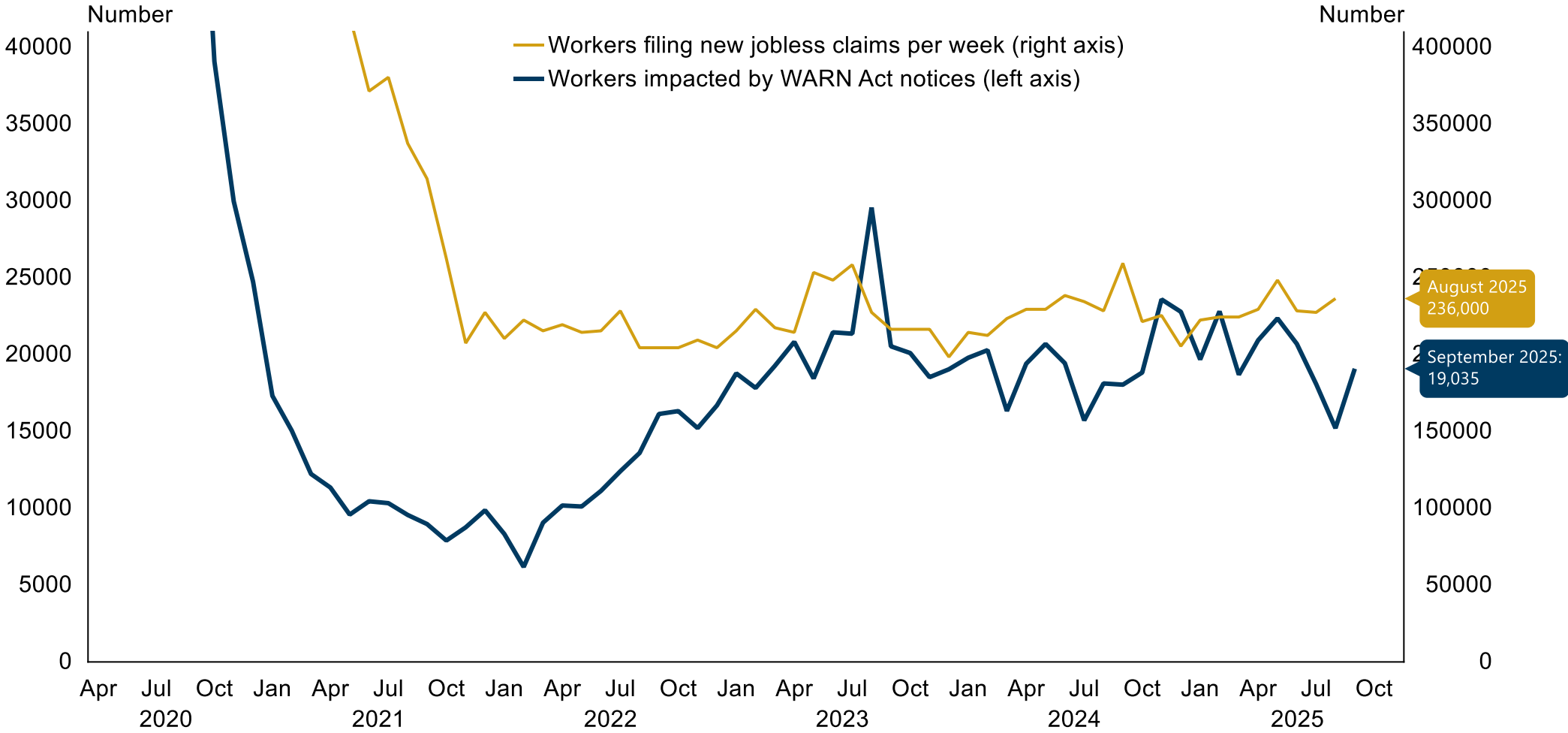
Unemployment Rate



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of September 5, 2025

Layoffs may be increasing, but available data is not telling that story

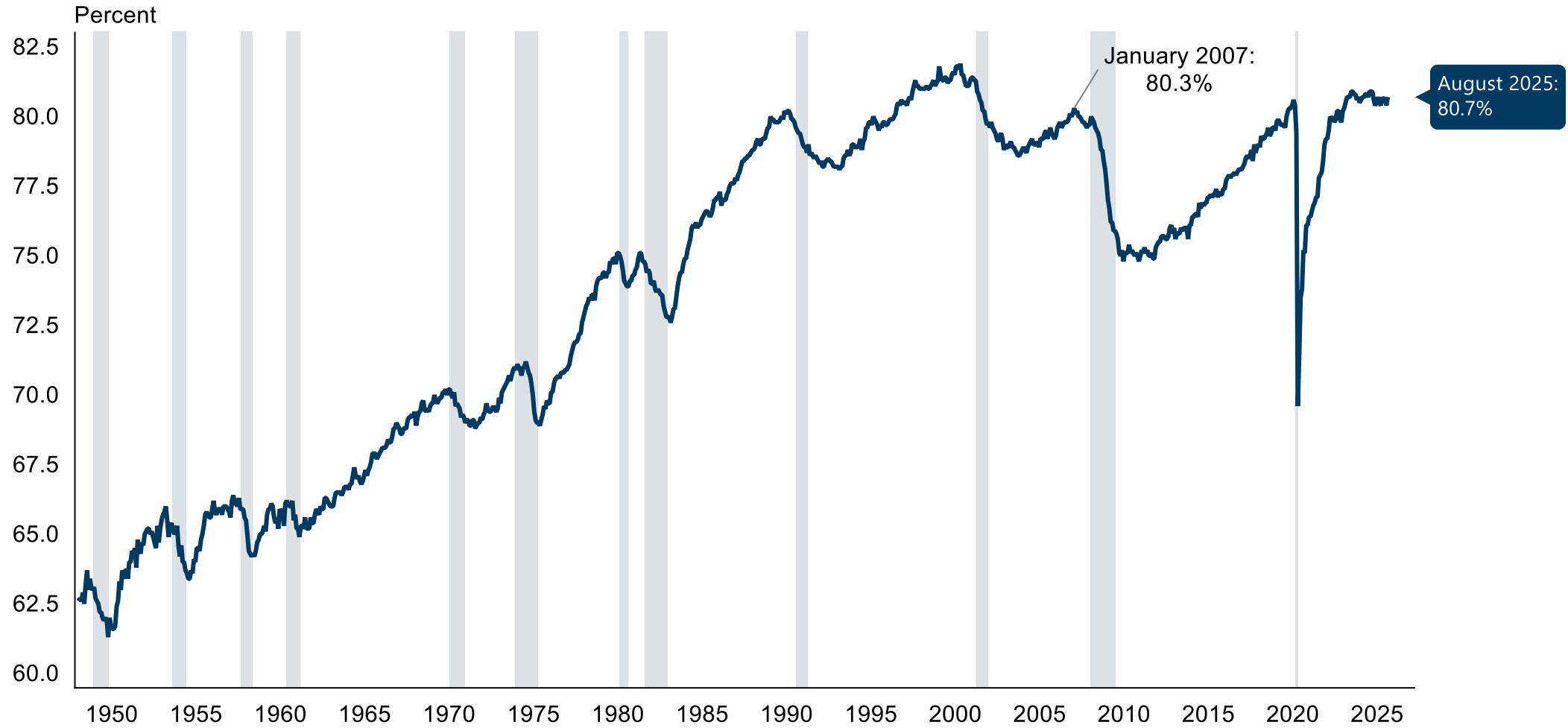
Worker Adjustment and Retraining Notification (WARN) Act Notices and Initial Jobless Claims



Source: openICPSR, U.S. Department of Labor, University of Michigan, First Citizens Bank
Data as of October 17, 2025

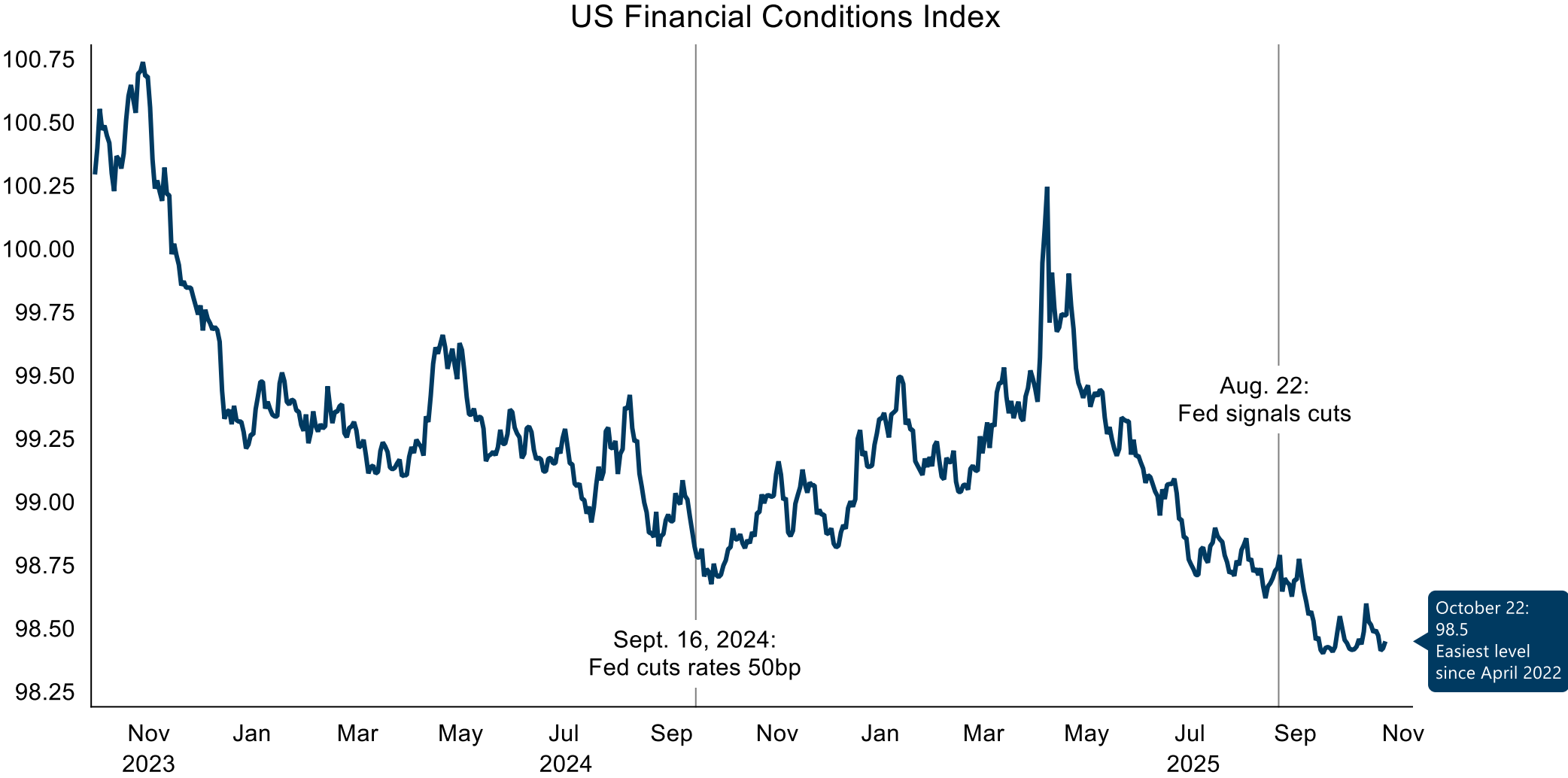
As the Fed moved to cut rates, few core-age adults were not working

Employment to Population Ratio, Age 25-54



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of September 5, 2025

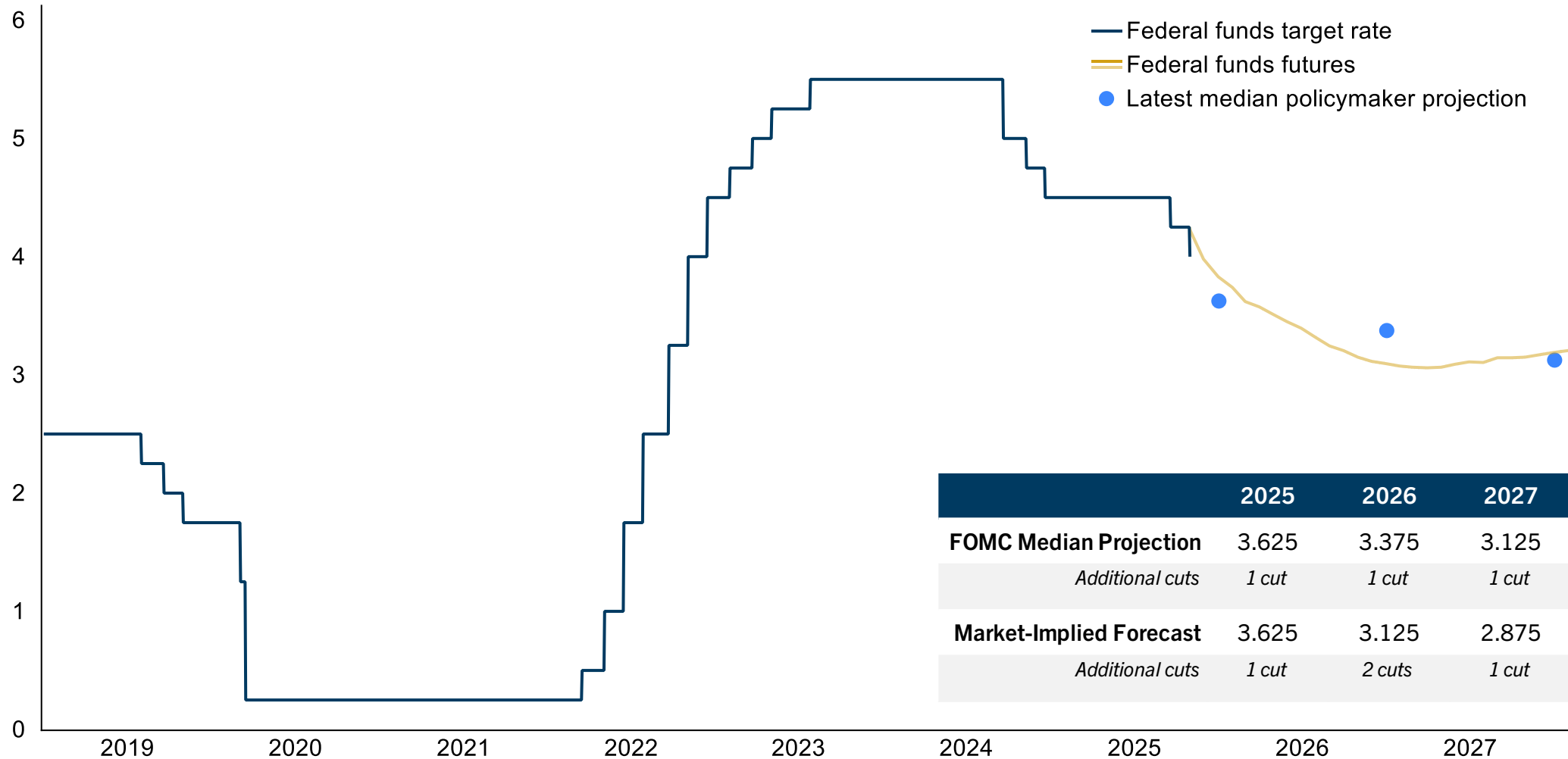
Easy financial conditions are likely delivering a positive growth impulse



Source: Goldman Sachs, First Citizens Bank
Data as of October 23, 2025

Markets expect the Fed to cut rates by another 1%

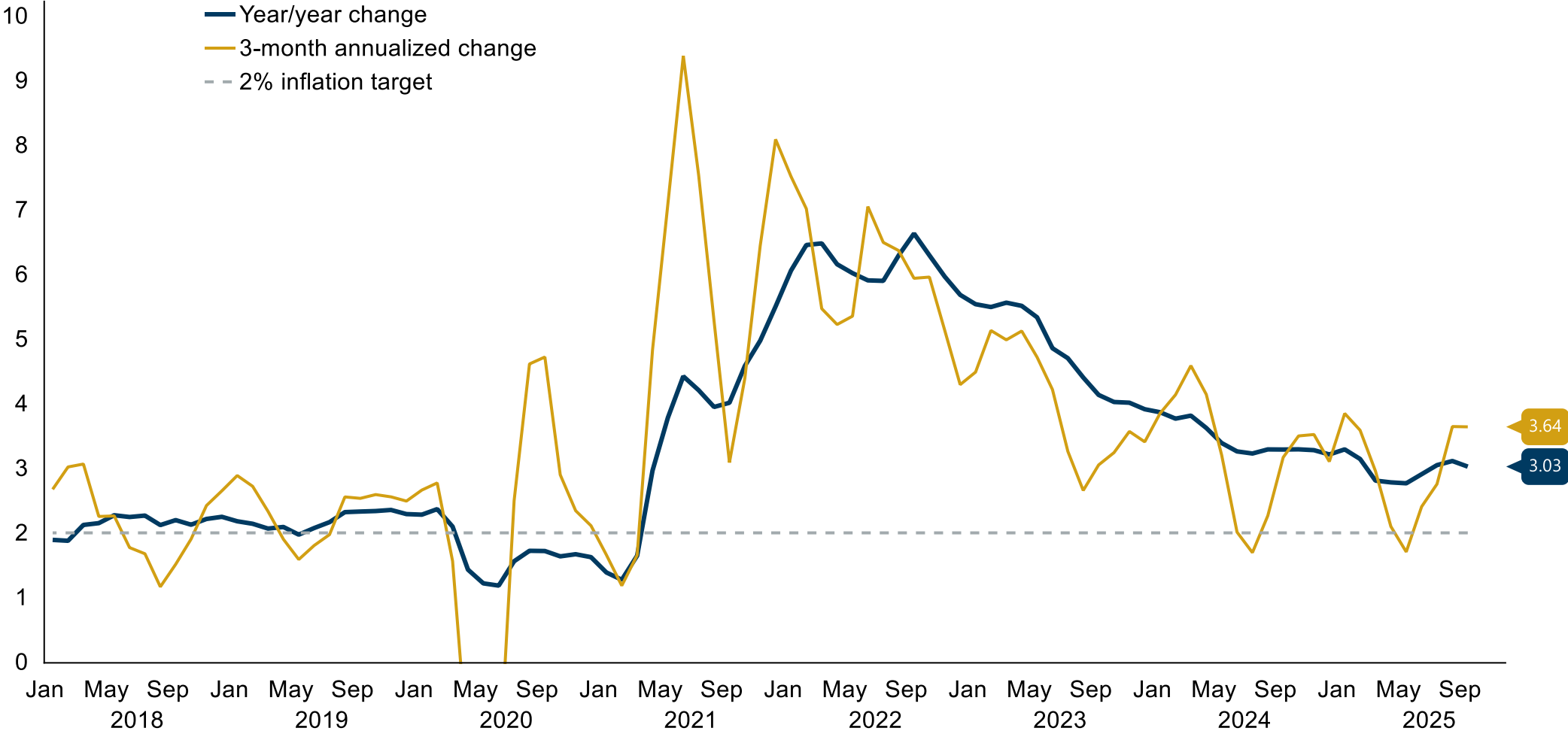
Federal Funds Target Rate



Source: Federal Reserve, Macrobond, First Citizens Bank

Inflation is running at a 3% pace

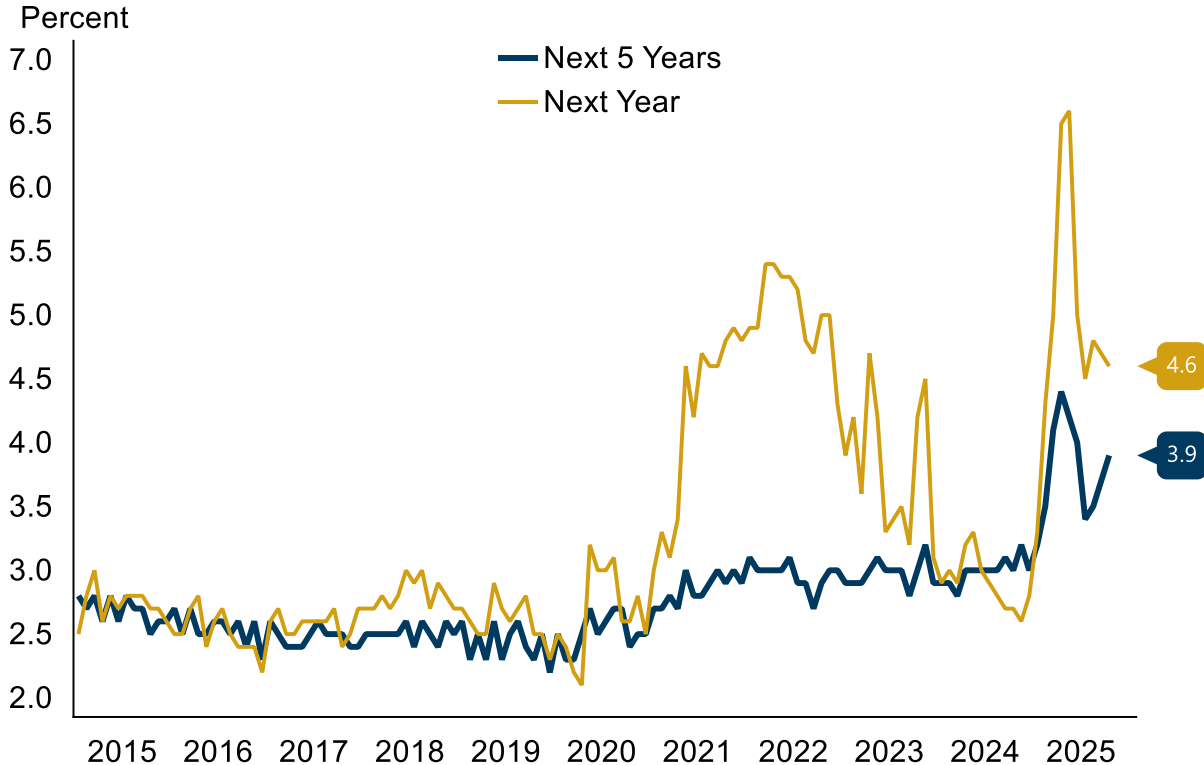
Consumer Price Index (Core, ex-food and energy)



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

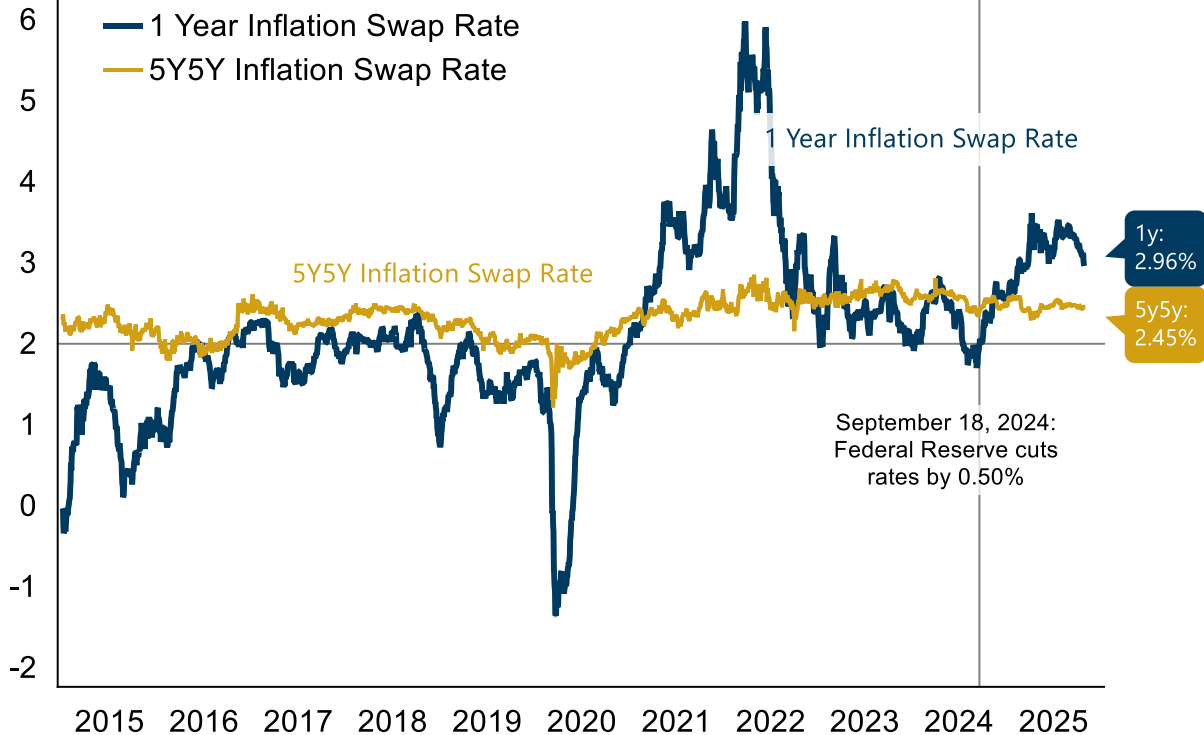
Households and markets both see inflation staying elevated this year

Household Inflation Expectations



Source: University of Michigan, First Citizens Bank
Data as of October 24, 2025

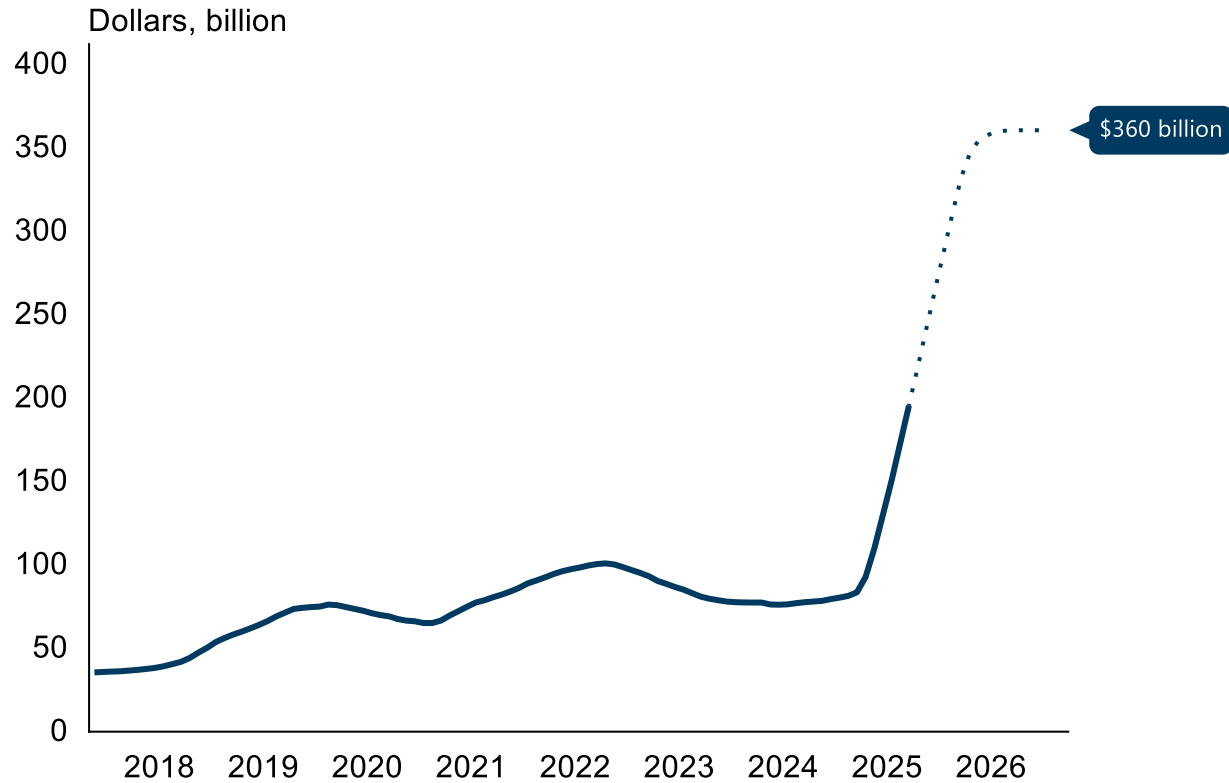
Market Inflation Expectations



Source: Bloomberg
Note: The 5Y5Y swap rate is the implied inflation rate in years 6-10 from today.
Data as of 10/28/2025

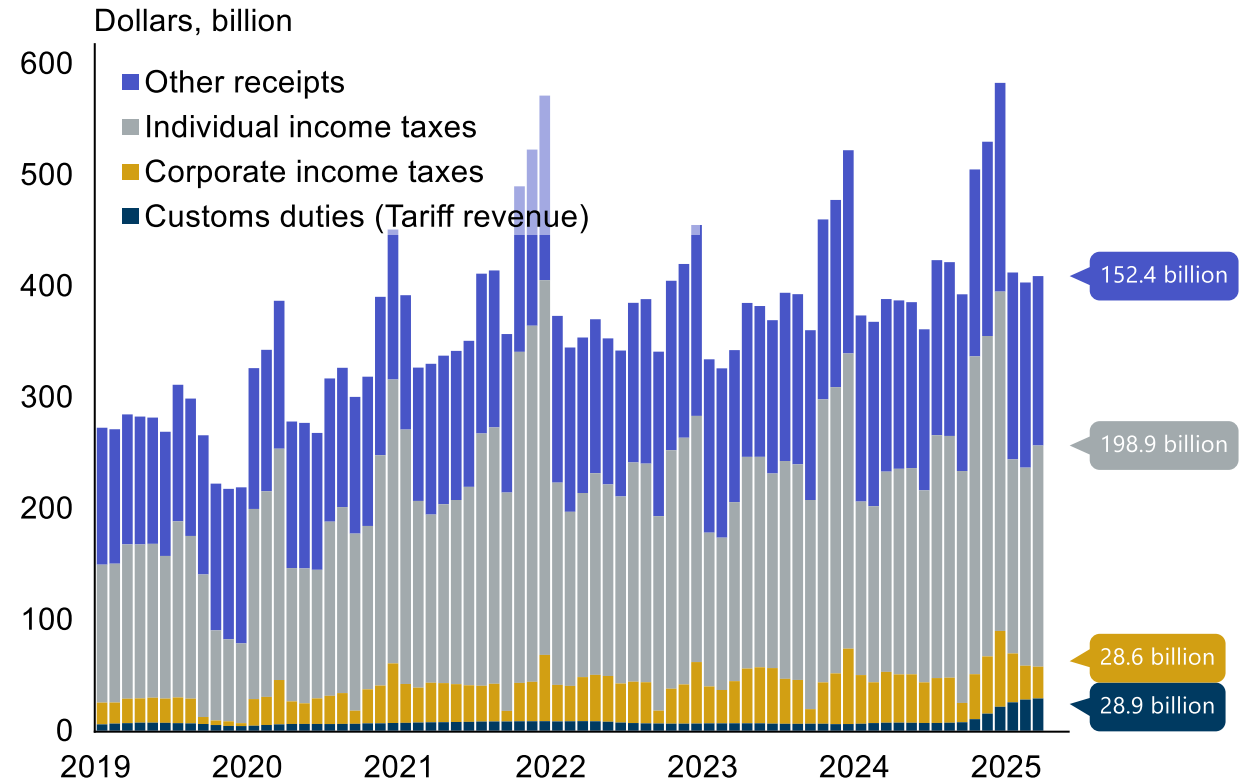
The US now collects as much in tariff revenue as in corporate income taxes

US Customs Receipts: Tariff Revenue, 12-Month Rolling Sum



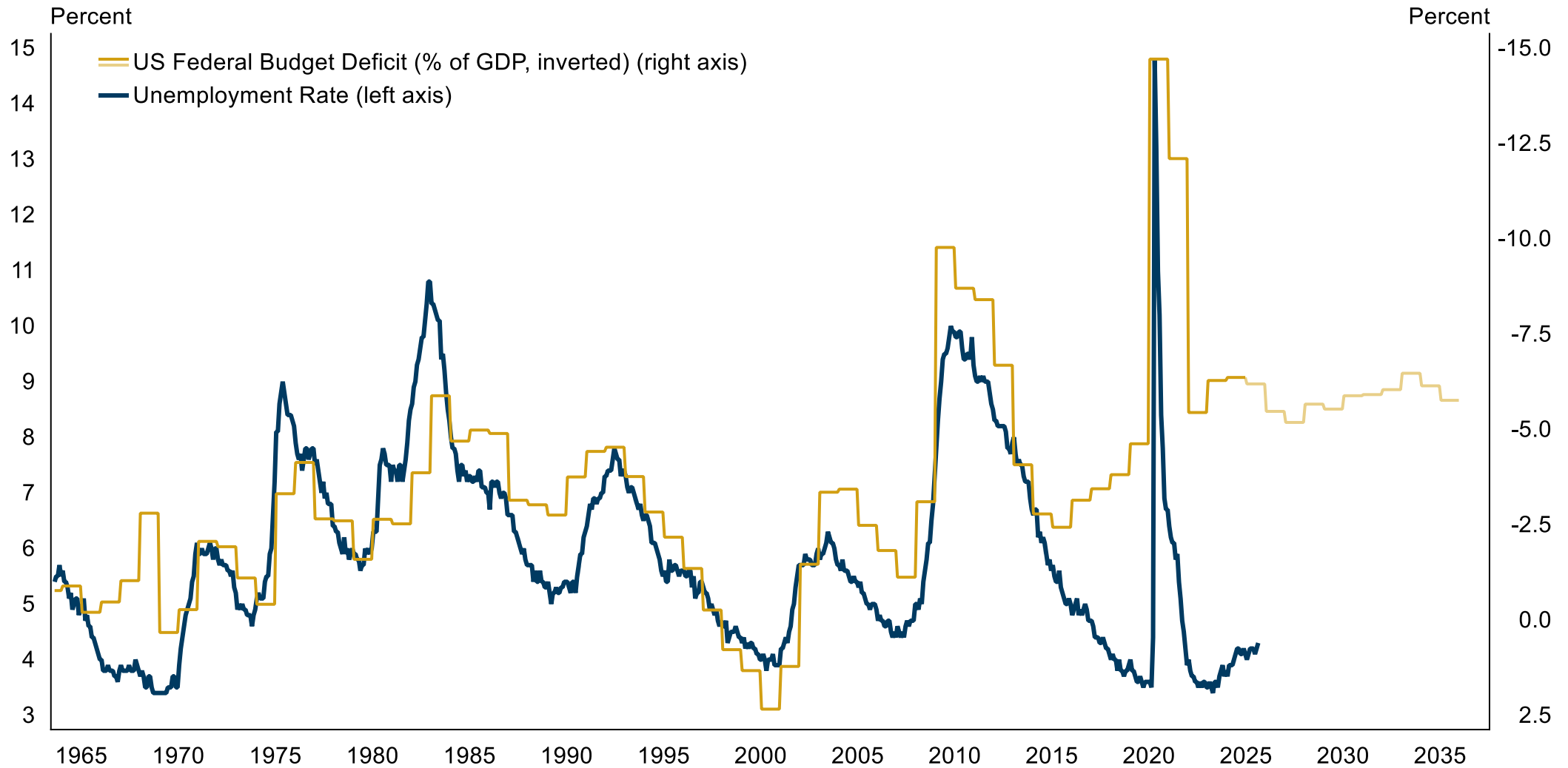
Source: U.S. Department of Treasury, First Citizens Bank
Data as of October 16, 2025

Monthly US Treasury Receipts (3-month average)



Source: U.S. Department of Treasury, First Citizens Bank
Data as of October 16, 2025

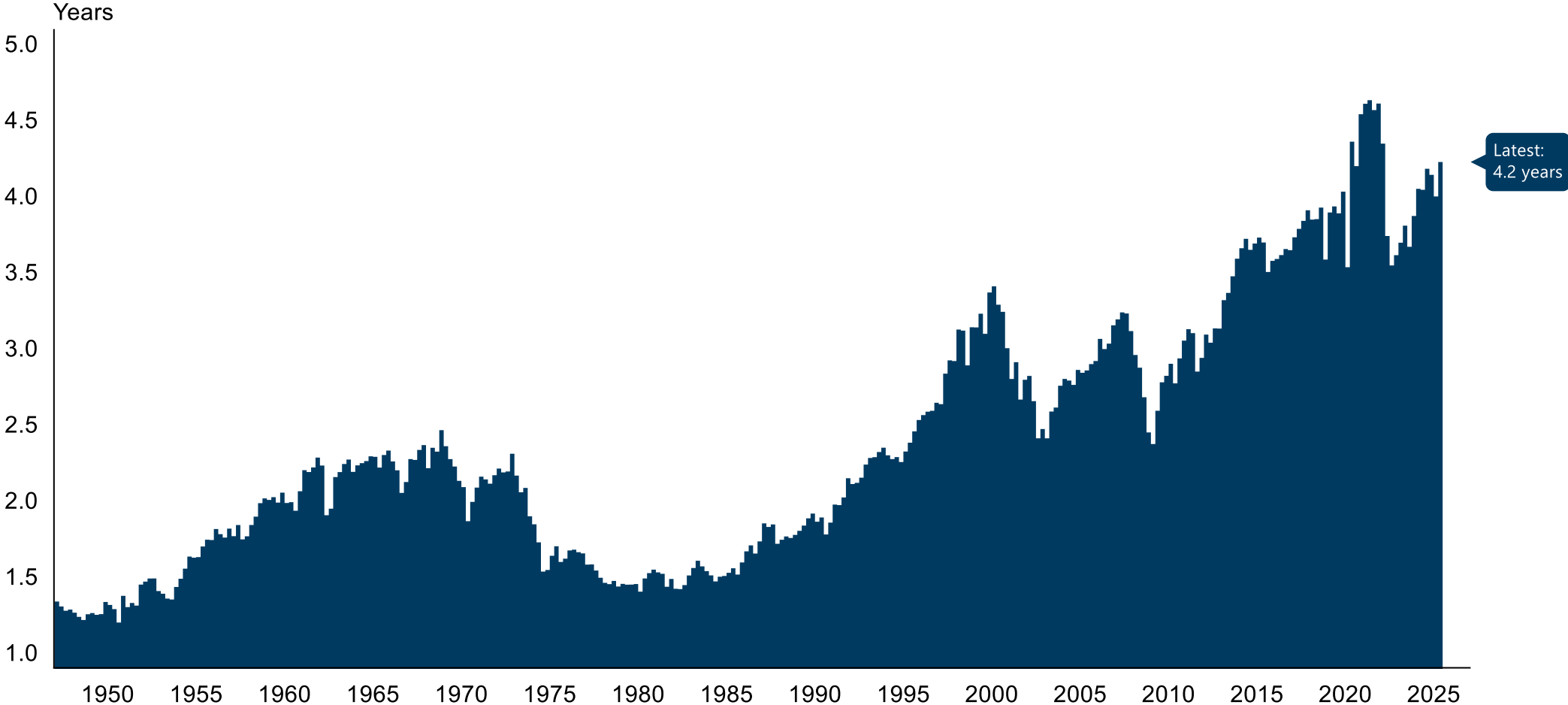
The government has run persistent deficits with the economy strong



Source: U.S. Bureau of Labor Statistics (BLS), U.S. Congressional Budget Office (CBO), Federal Reserve, First Citizens Bank
Data as of October 28, 2025

Households invested in stocks have never been wealthier

Equity, Mutual Fund, and Pension Entitlement Wealth Relative to Annual Consumer Spending

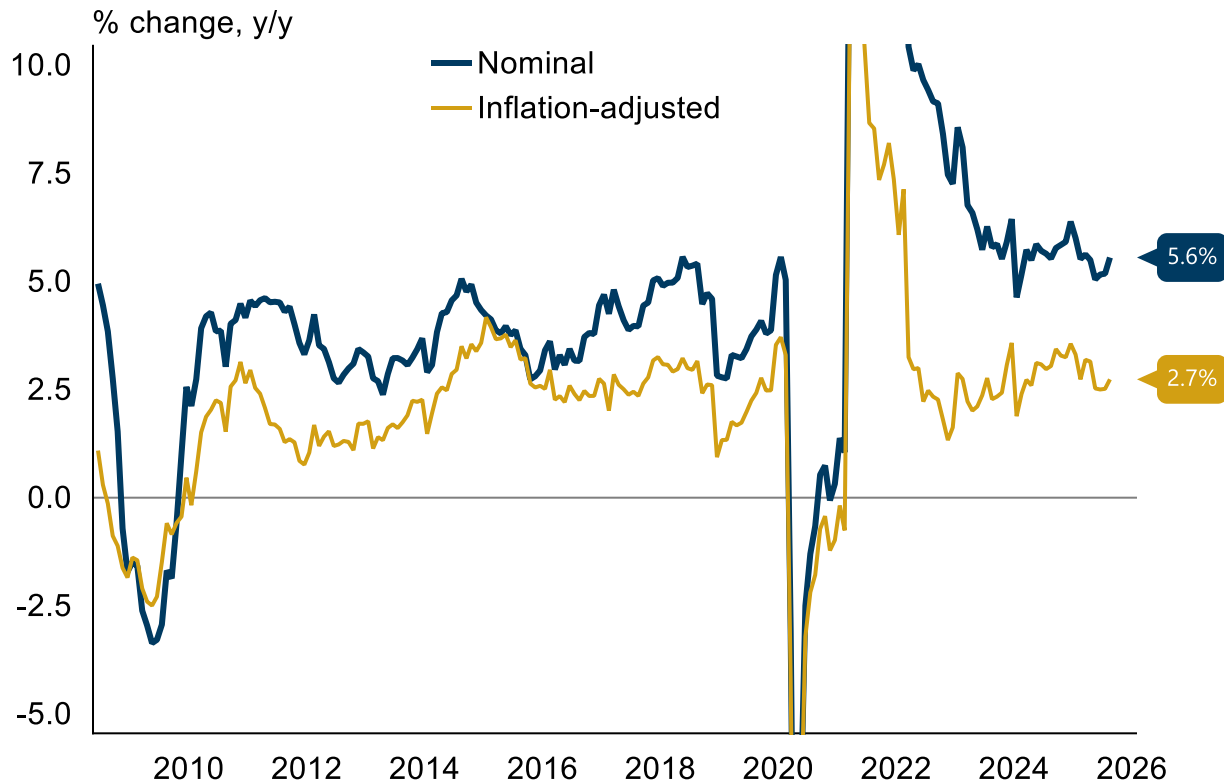


Source: Federal Reserve, U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data as of September 26, 2025

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

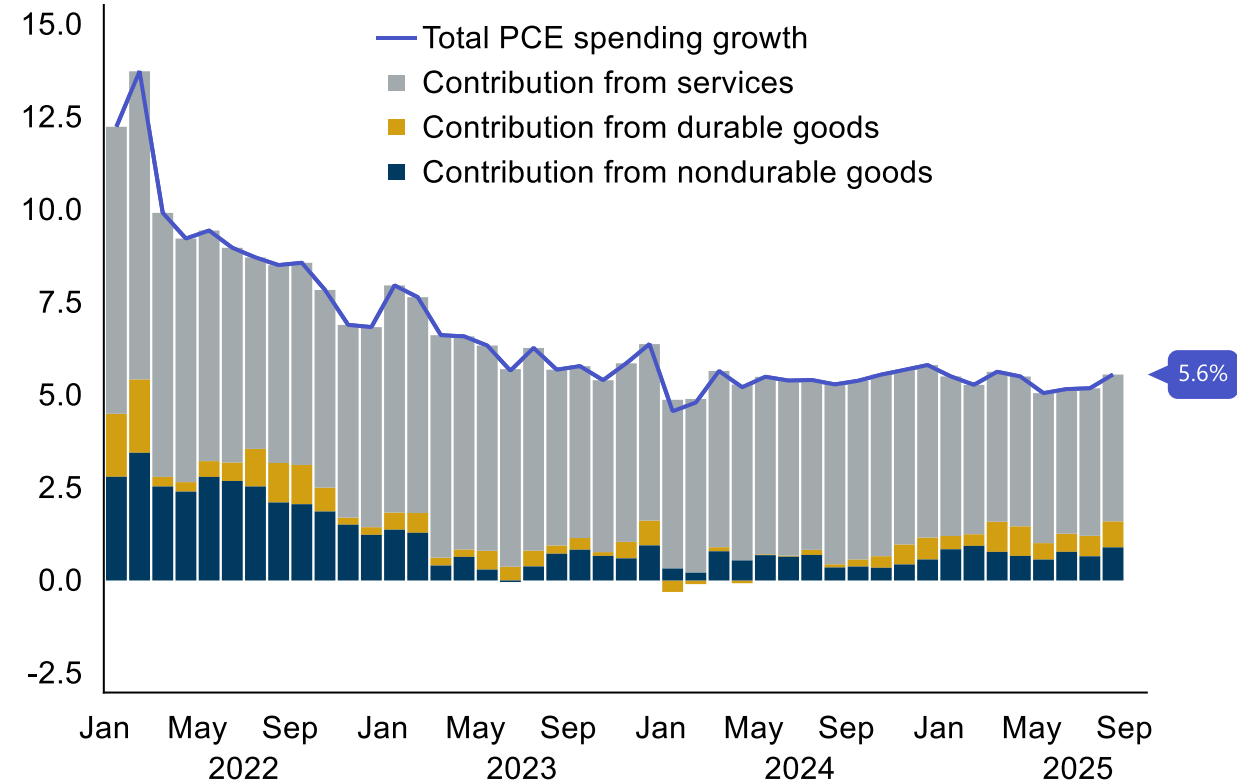
Consumer spending growth continues to moderate but remains healthy

Consumer Spending Growth



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

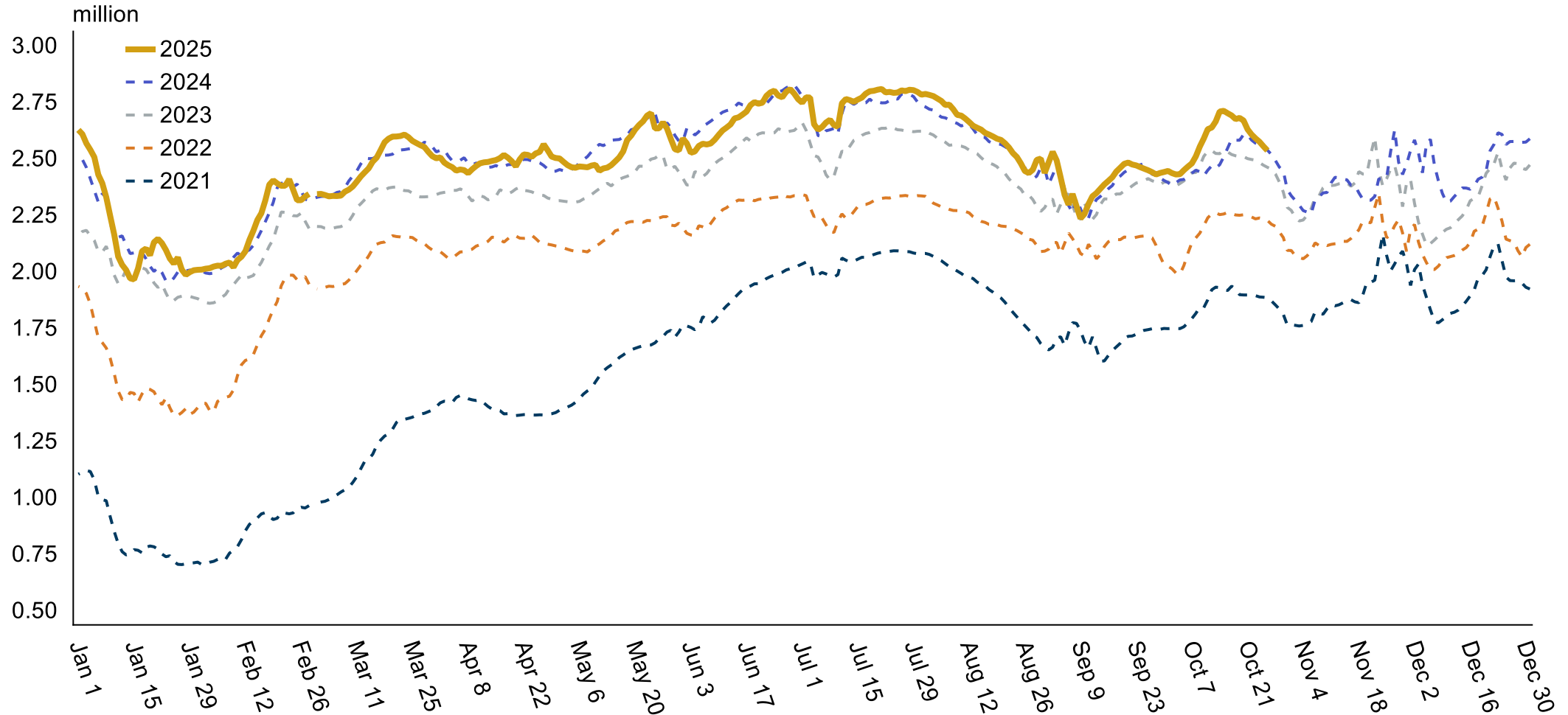
Consumer Spending Growth by Category



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

The number of airline travelers has tracked with last year at record levels

Number of Airport Travelers Passing Through TSA Checkpoints



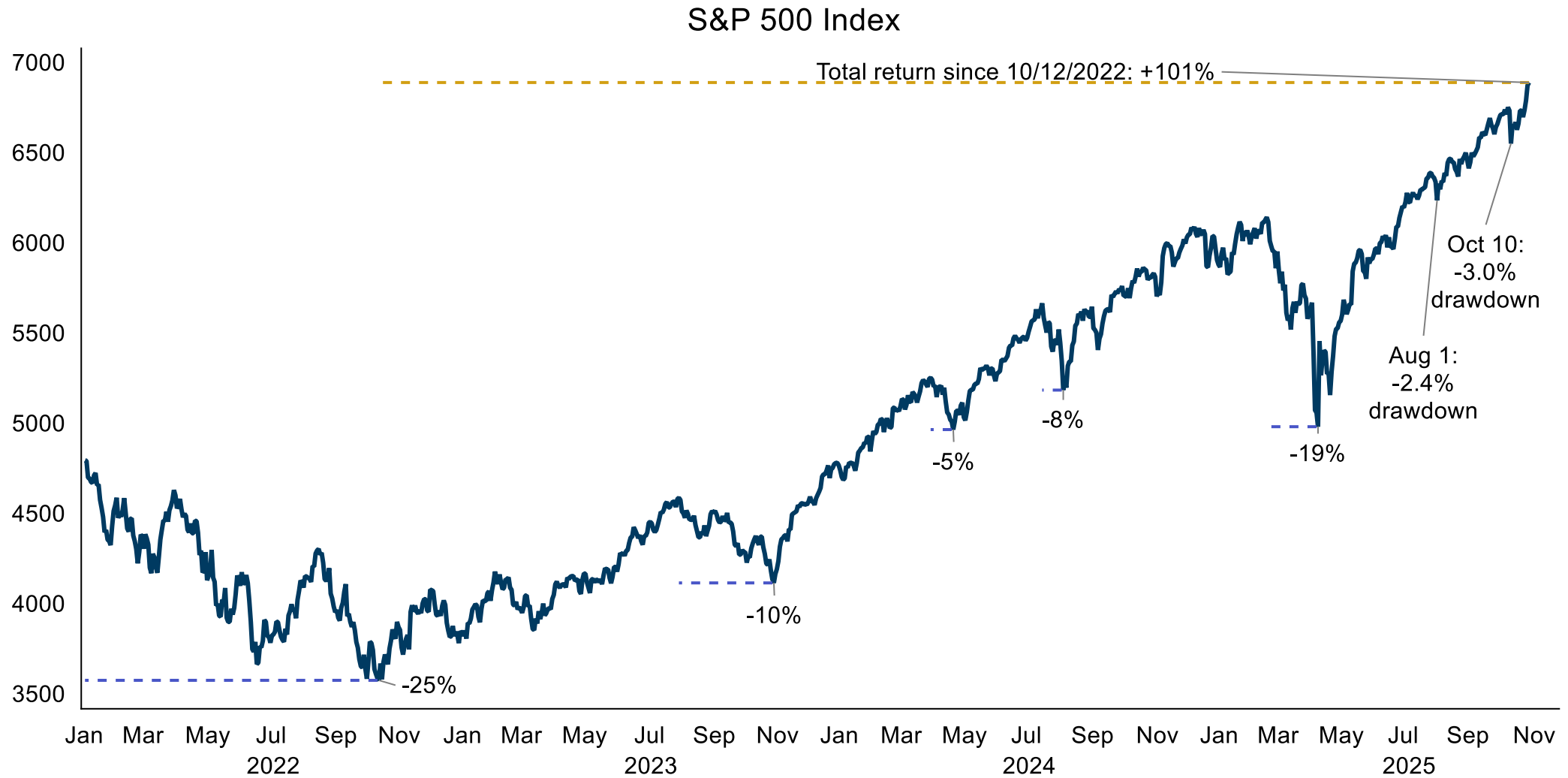
Source: U.S. Department of Homeland Security, First Citizens Bank
Data as of October 27, 2025

Market update

Equity markets | Valuations | Fixed income



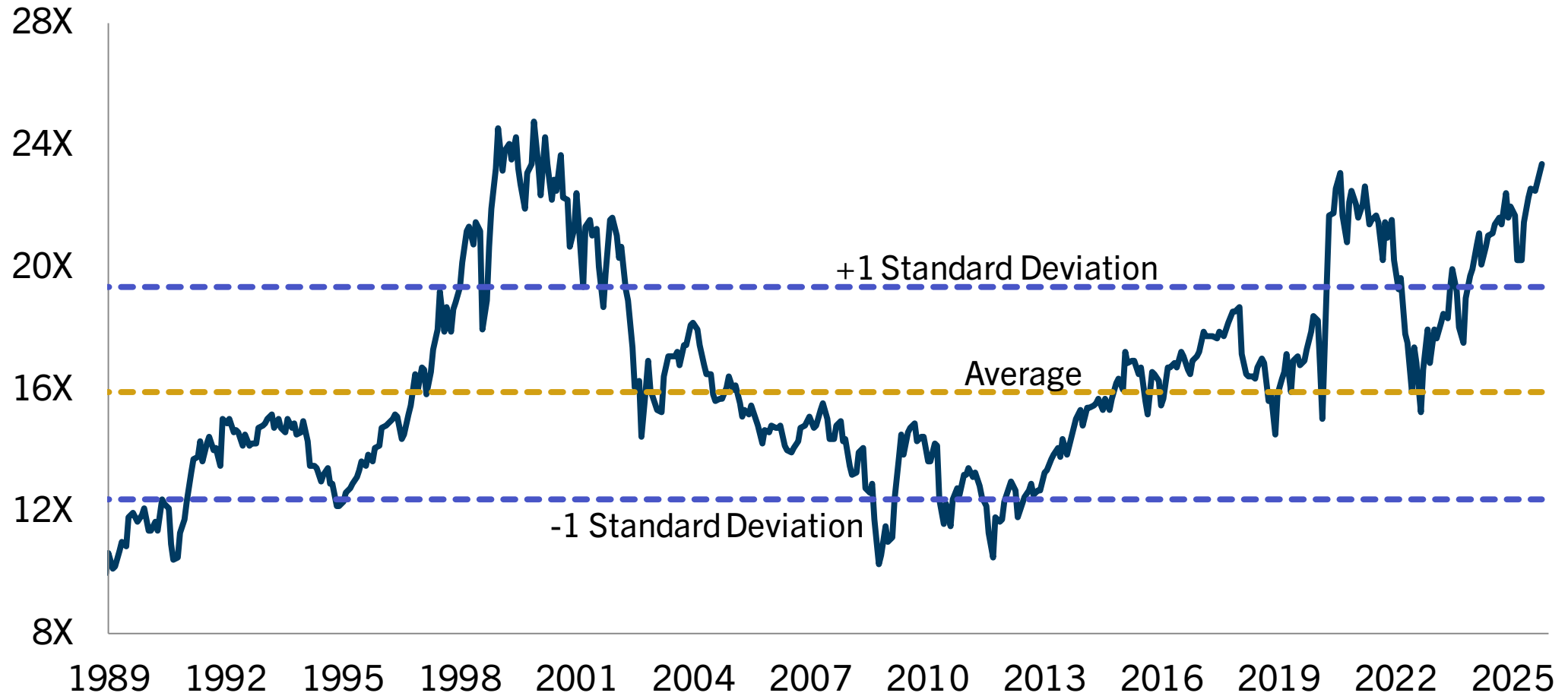
Stock-market gains have been uninterrupted in the second half of 2025



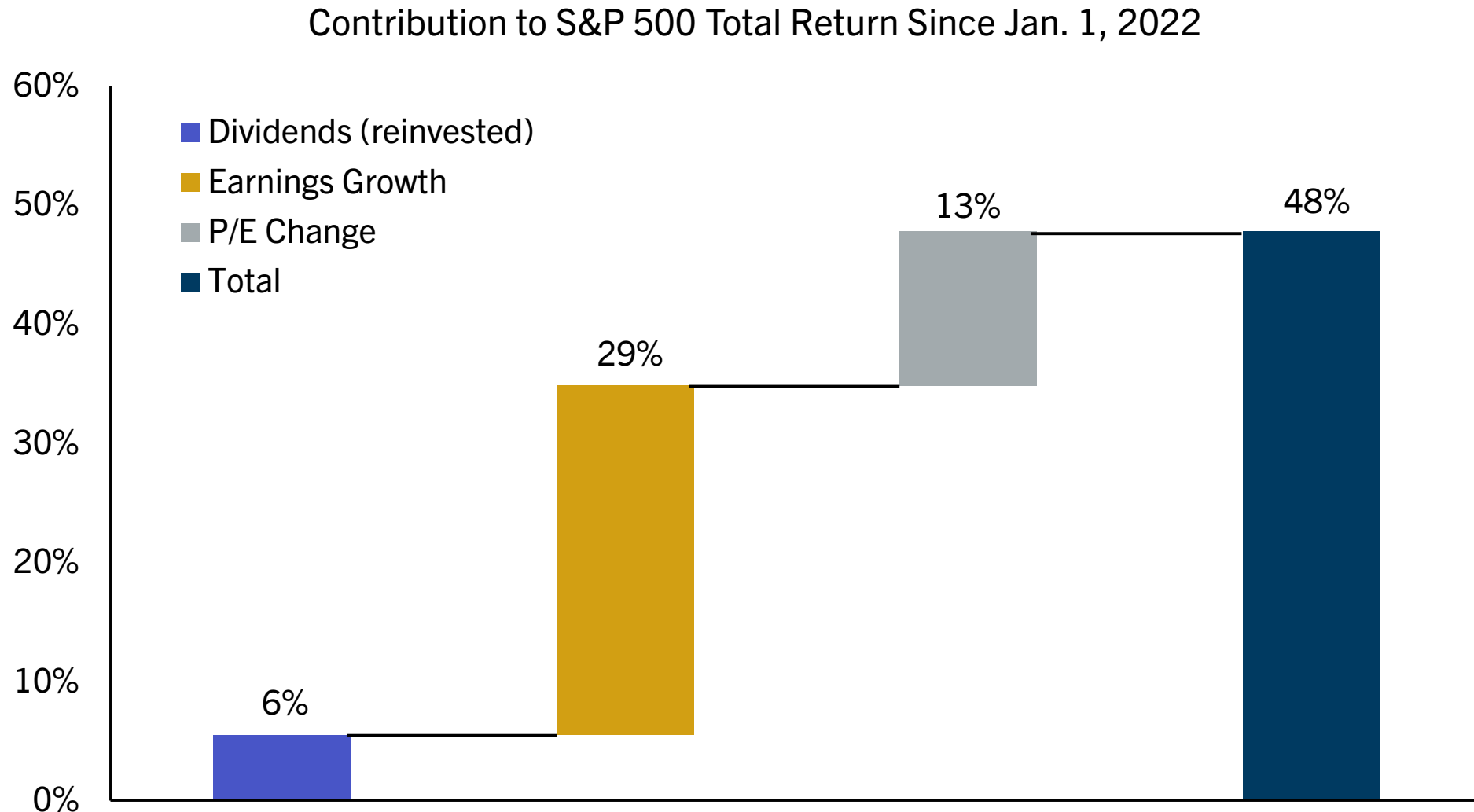
Source: Bloomberg
Data as of: 10/28/2025

S&P 500 valuations are robust

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

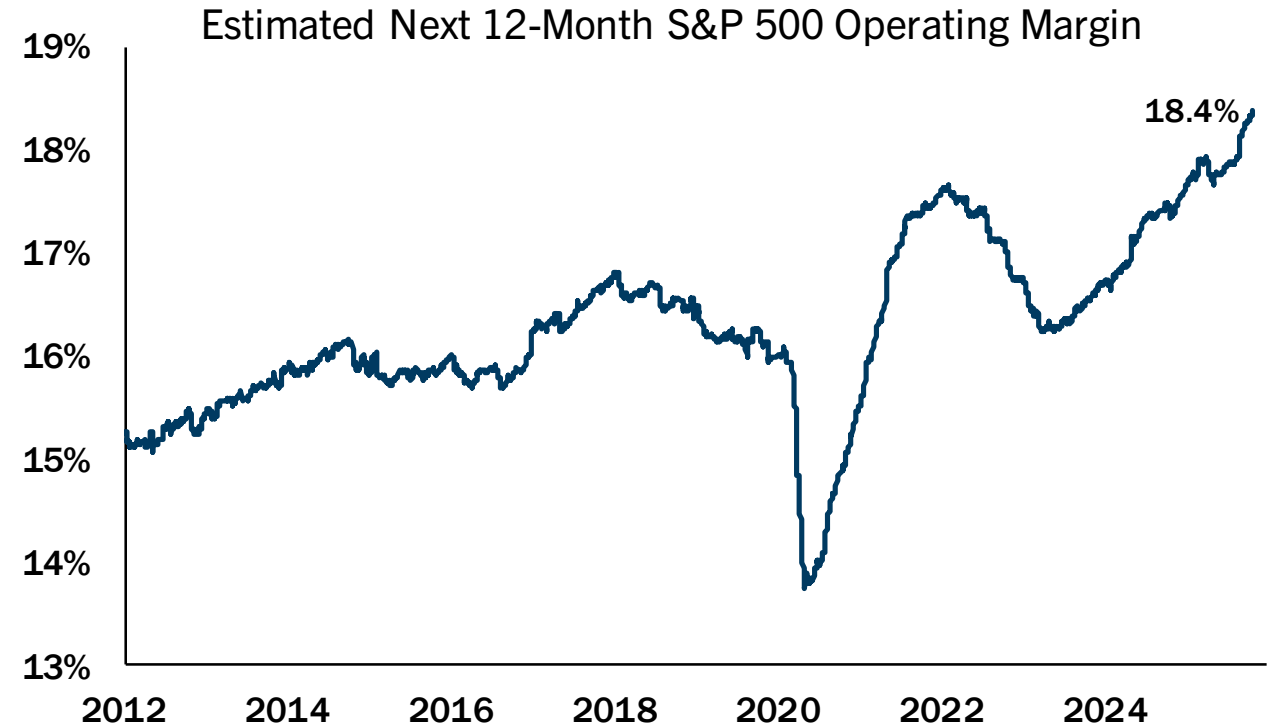


Earnings – not valuation – have been the main driver of total return



Corporate earnings

- CY 2025 estimated growth is **11.0%**
Q3 2025 estimated growth is **9.2%**
- CY 2026 estimated growth is **13.9%**
- Average growth since 1950 is **7.6%**



Recent dollar weakness garners investor attention



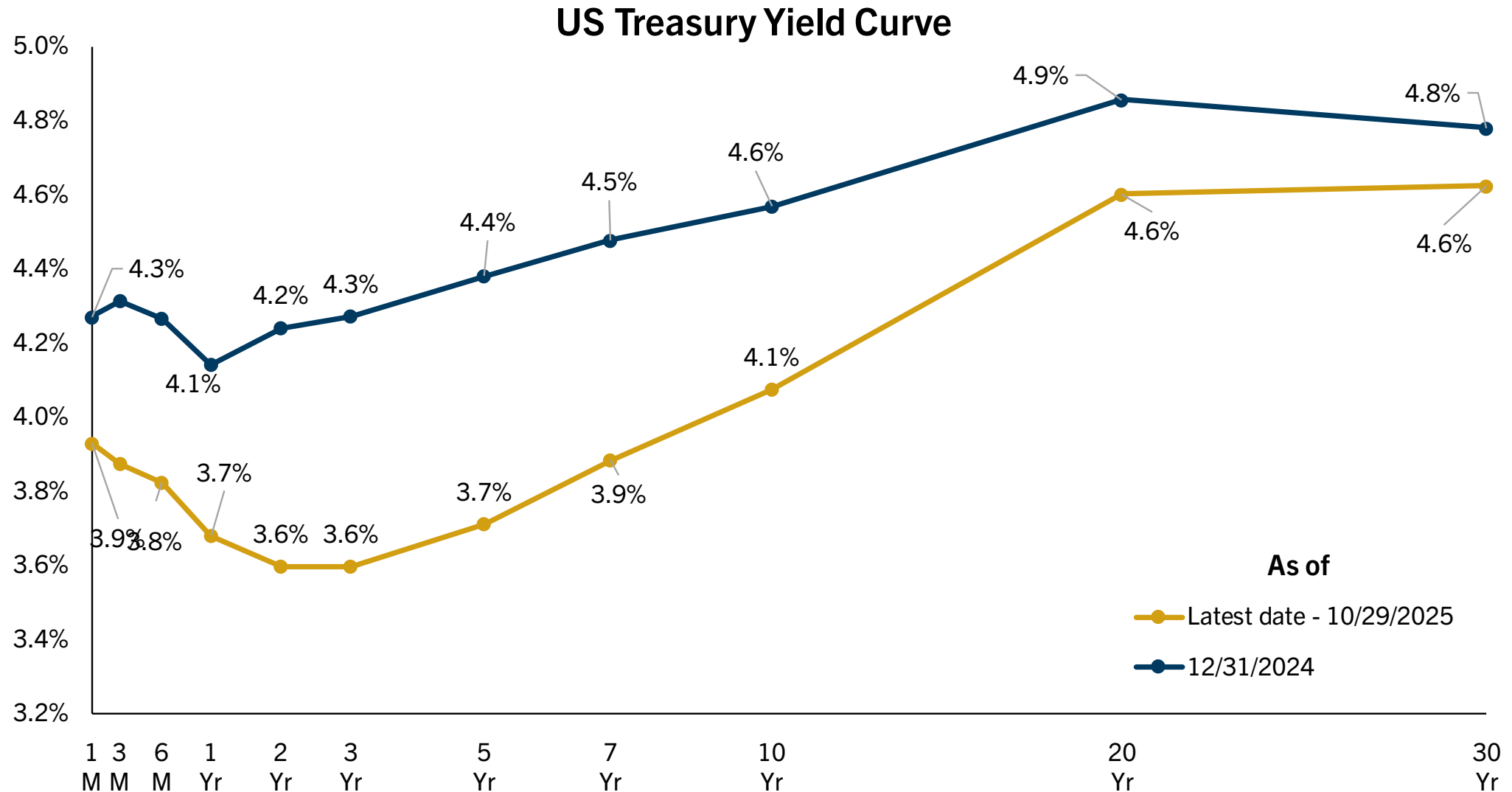
Source: Bloomberg
Data as of: 10/30/2025

S&P 500 price target

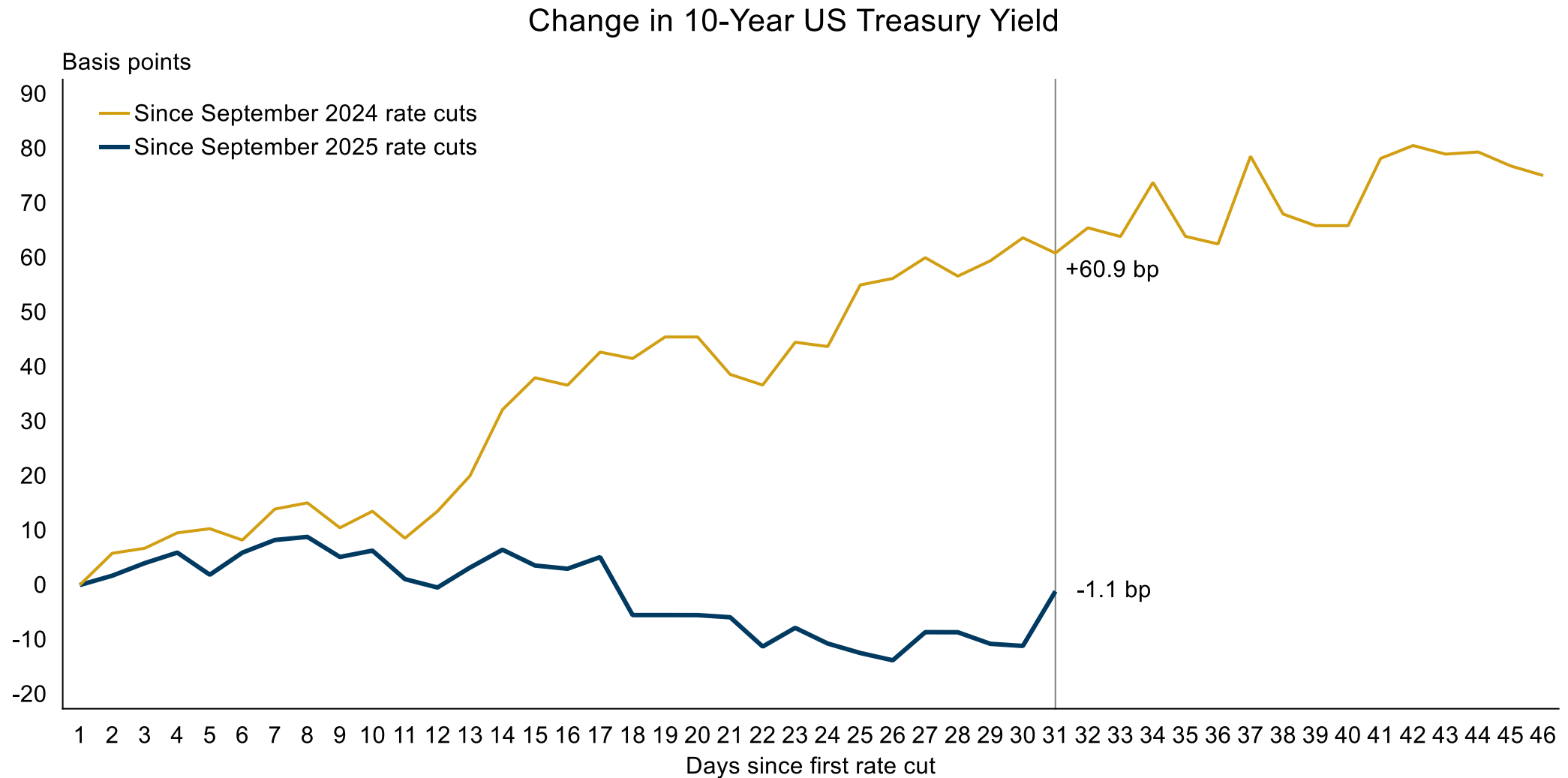
Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 10/28/25
Bear	4,900	-28.9%
Base	6,800	-1.3%
Bull	7,450	8.1%

The Treasury yield curve has continued to steepen



Treasury yields have moved lower since the Fed's rate cut, unlike last year



Source: Bloomberg
Data as of: 10/30/2025

Fixed income is still offering attractive yield relative to post-GFC cycle

US Fixed Income Indices	
	Yield-to-Worst
Index	As of 10/29/2025
2-Year Treasury	3.6%
10-Year Treasury	4.1%
Aggregate Bond	4.3%
Intermediate Government/Credit	3.9%
Municipal Bond	3.5%
Investment Grade Corporate Bond	4.8%
High Yield Corporate Bond	6.7%

Making Sense

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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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