First Citizens Wealth™

Making Sense

Quarterly Market Review — Q2 2025

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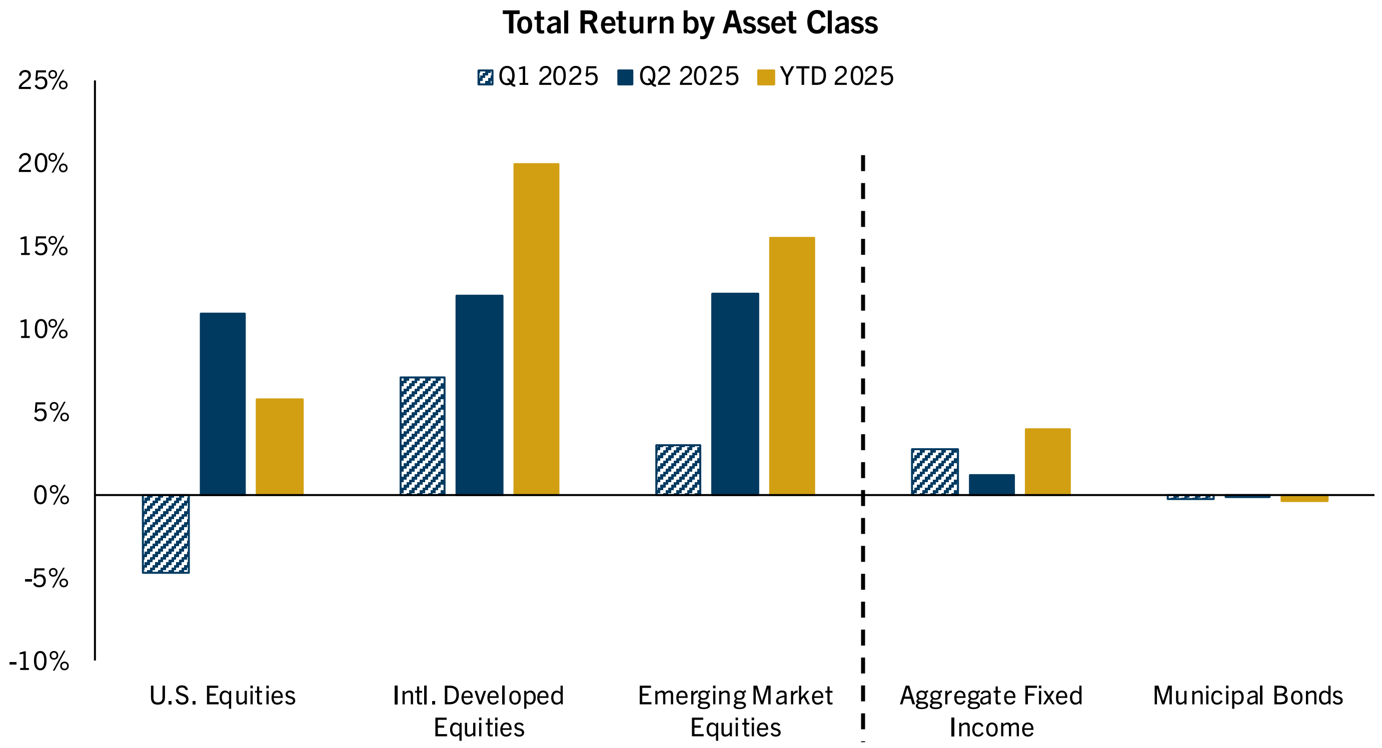
Global Markets

The second quarter of 2025 witnessed extreme swings in financial assets. In the first days of the quarter, sharply higher US tariffs injected enormous uncertainty into financial markets. US stocks plunged in the week following the April 2 announcement, and bond yields tumbled as perceived recession probabilities increased sharply.

Market stress was ultimately short lived. Treasury yields rebounded after April 4, and US stocks bottomed the morning of April 9. For the rest of Q2, bond yields were relatively range bound, and stocks climbed relentlessly, over 25% from the April 8 trough until closing the quarter at new all-time highs.

International Developed and Emerging Market equities slightly outperformed in Q2, rising 12.0% and 12.2% compared to 11.0% for the US. Aggregate fixed income gained 1.2% in Q2 as the curve bull steepened modestly at the short end. Municipal bonds again lagged the aggregate fixed income market with -0.1% total return.

Risk Assets Rebounded During the Second Quarter



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond. Data as of 6/30/2025

US Equity Performance

The prevailing trend in US equities in Q1 was the dominance of growth over value, by an average of 11.3 percentage points across large, mid, and small cap, more than making up for Q1 losses.

Mid-cap growth stocks returned a roaring +18.2% return in Q2 and +33.3% from the April 8 low. An index of the seven largest US mega-cap tech equities rose by even more: +20.4% for the quarter and +37.1% from the April 8 low.

Year to date, mid and large cap stocks delivered healthy returns, but small-cap stocks moved moderately lower in the first half.

Equity-Market Returns: Growth Rebounded in Q2

QTD US Equity Returns
As of 06/30/2025

	Value	Blend	Growth
Large	3.0%	11.8%	17.2%
Mid	5.3%	8.5%	18.2%
Small	5.0%	8.5%	12.0%

2025 YTD US Equity Returns
As of 06/30/2025

	Value	Blend	Growth
Large	7.6%	6.5%	5.3%
Mid	3.1%	4.8%	9.8%
Small	-3.2%	-1.8%	-0.5%

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

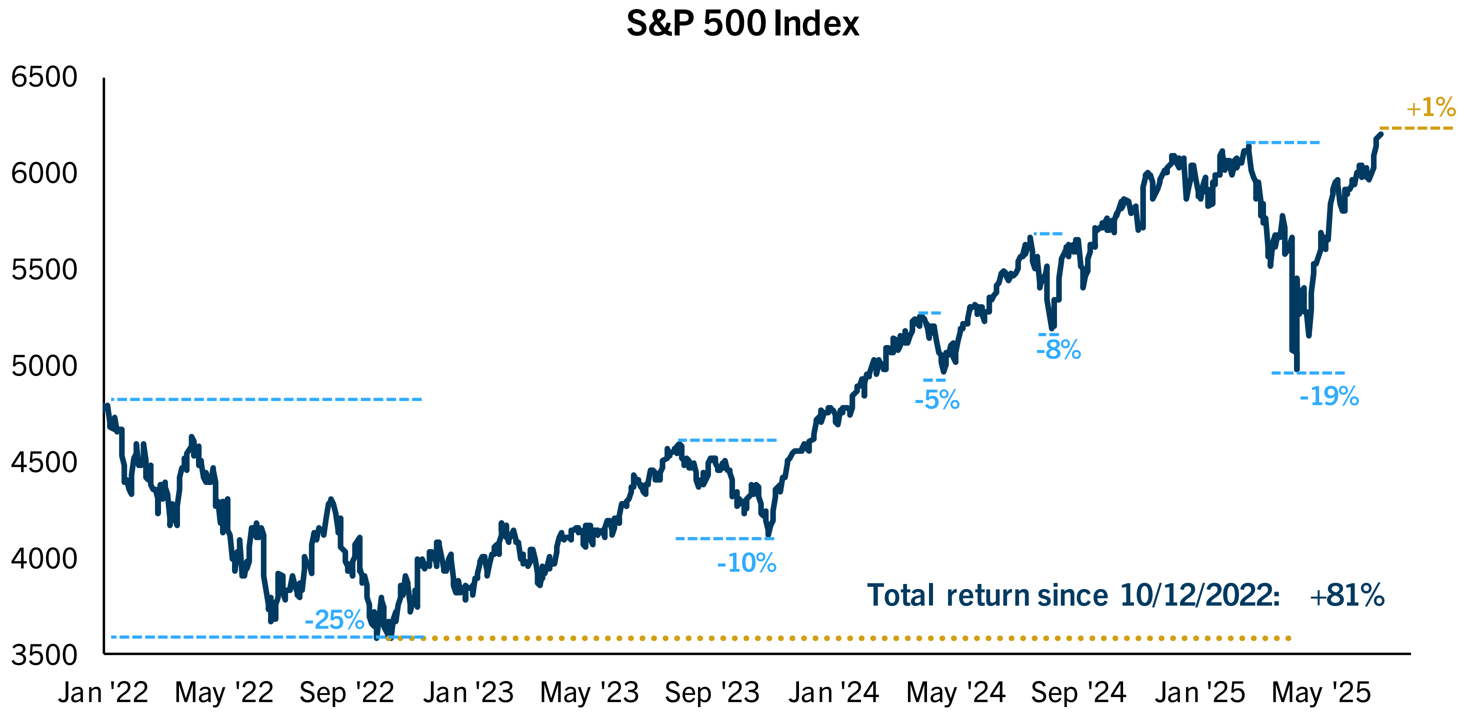
US Equity Performance

The S&P 500 closed Q2 at an all-time high after a historically tumultuous quarter. In the first days of April, the S&P 500 sold off over 12% in the four days after the Liberation Day tariff announcement, down 19% from February highs. But within a week, the White House expressed openness to trade negotiations, and the path of the index changed course, rallying 6.5% in just eight minutes and 25% to yesterday's close.

We continue to believe that investors have priced a significant amount of good news into US equity markets. Through tariff turmoil and even war, Q2 served as a seminal reminder that markets can quickly move past significant geopolitical events. That said, we think policy uncertainty and elevated valuations may drive further market volatility.

We recently raised our 12-month ahead S&P 500 price target to 6,400. However, if policy developments skew negative, then our bear case of 4,700 looks more likely than our bull case of 6,950.

The S&P 500 Whipsawed in Q2 to Finish at a New Peak



Source: Bloomberg. Data as of 6/30/2025.

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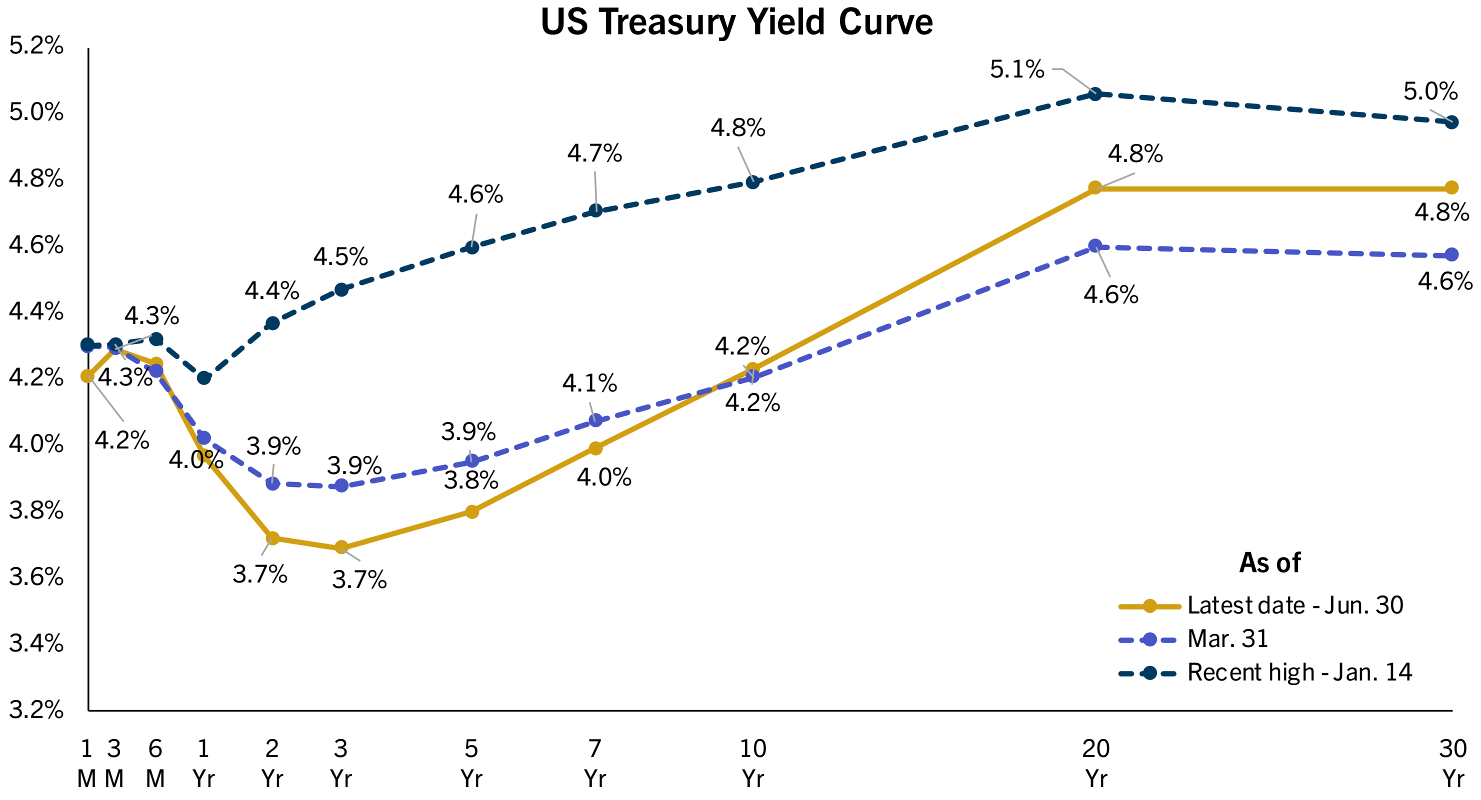
Fixed Income

The US Treasury yield curve steepened as investors priced additional interest-rate cuts at the short end but demanded a higher yield for longer-term bonds. After falling as low as 3.99% on April 4, the 10-year yield basically returned to the 4.2-4.6% channel for the remainder of Q2. While the 10-year closed the quarter roughly unchanged compared three months ago, 20- and 30-year bond yields both climbed about 20 basis points during Q2.

Markets are now priced for at least five quarter-point rate cuts by the end of 2026, compared to four on March 31. Inflation was softer than expected in Q2, but employment was firmer. For the Federal Reserve to cut rates by 1% or more, we think inflation would need to subside even further or the labor market would need to weaken materially.

Investors are demanding a higher term premium at the longer end compared to the past several years, likely reflecting concerns about higher inflation and greater Treasury debt issuance over the longer term.

US Yield Curve Steepened in Q2



Source: Bloomberg. Data as of 6/30/2025.

Fixed Income

Bond yields swung wildly in early April after the US tariff announcement. Yields dropped initially, but within 10 days of the tariff announcement, bonds sold off sharply across the board, with the aggregate bond yield rising as high as 4.9% and municipal bonds as high as 4.5%, equating to an eye-popping drop of 2.5% and 5.2% respectively within just a few days.

By quarter-end, yields had normalized. Most fixed income indices finished Q2 only modestly different compared to three months ago, with the exception of high yield corporate bond yields, which declined 60 basis points in the quarter.

Despite Wild Swings, Yields Remain Attractive

US Fixed Income Indices

	Yield-to-Worst	
Index	**3/31/2025**	**6/30/2025**
2-Year Treasury	3.9%	3.7%
10-Year Treasury	4.2%	4.2%
Aggregate Bond	4.6%	4.5%
Intermediate Government/Credit	4.3%	4.1%
Municipal Bond	3.8%	4.0%
Investment Grade Corporate Bond	5.1%	5.0%
High Yield Corporate Bond	7.7%	7.1%

Source: Bloomberg

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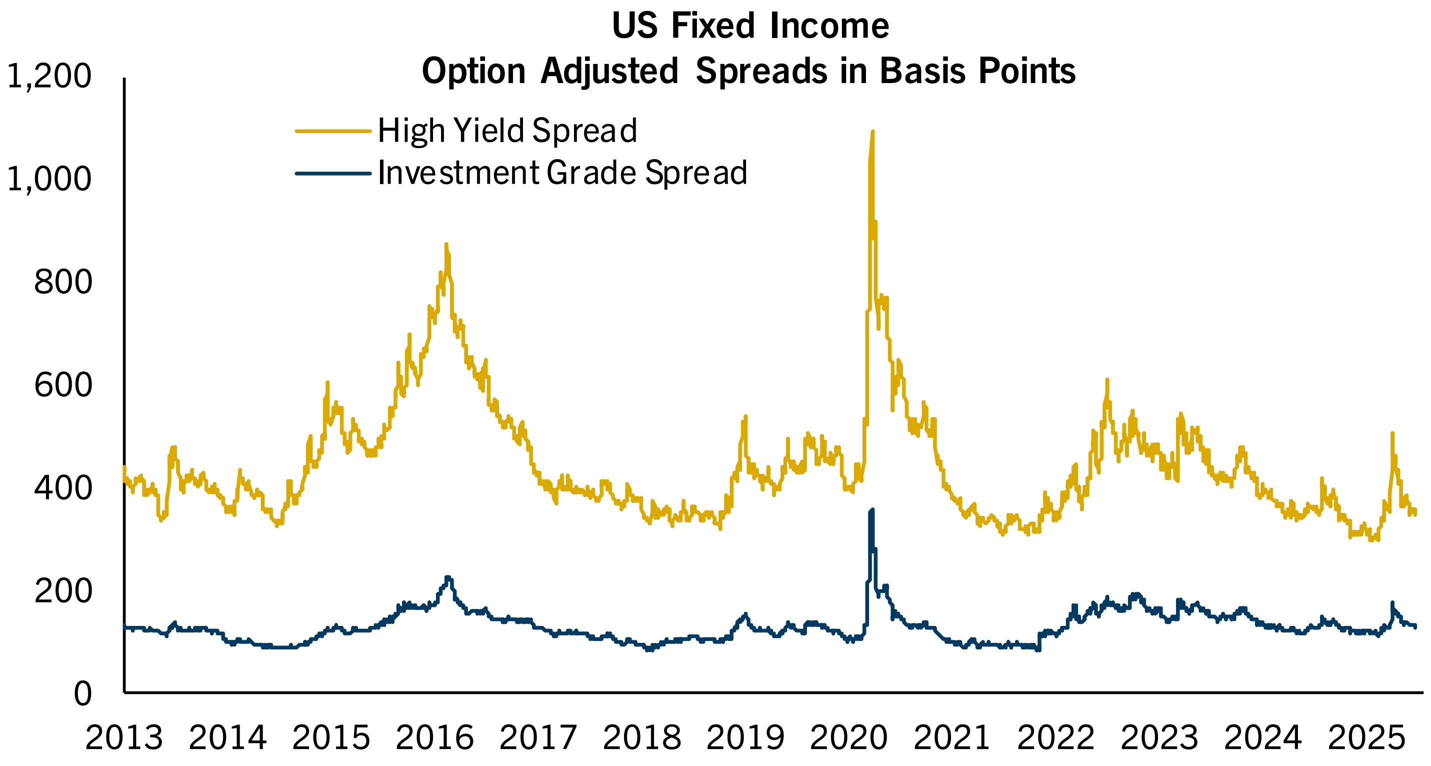
Fixed Income

Despite extreme levels of economic and policy uncertainty, the spread of corporate bond yields over Treasuries moved even lower in Q2, suggesting less risk priced for non-government borrowers. Spreads moved up in early April during while market volatility was high but only briefly and not to extraordinary levels.

Corporate bond spreads are often an early indicator of market stress or a more pessimistic outlook, neither of which appeared to be reflected in spreads at the end of Q2.

Corporate Credit Spreads Tightened Even Further



Source: Bloomberg. Data as of 6/30/2025.

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