First Citizens Wealth™

Making **Sense**

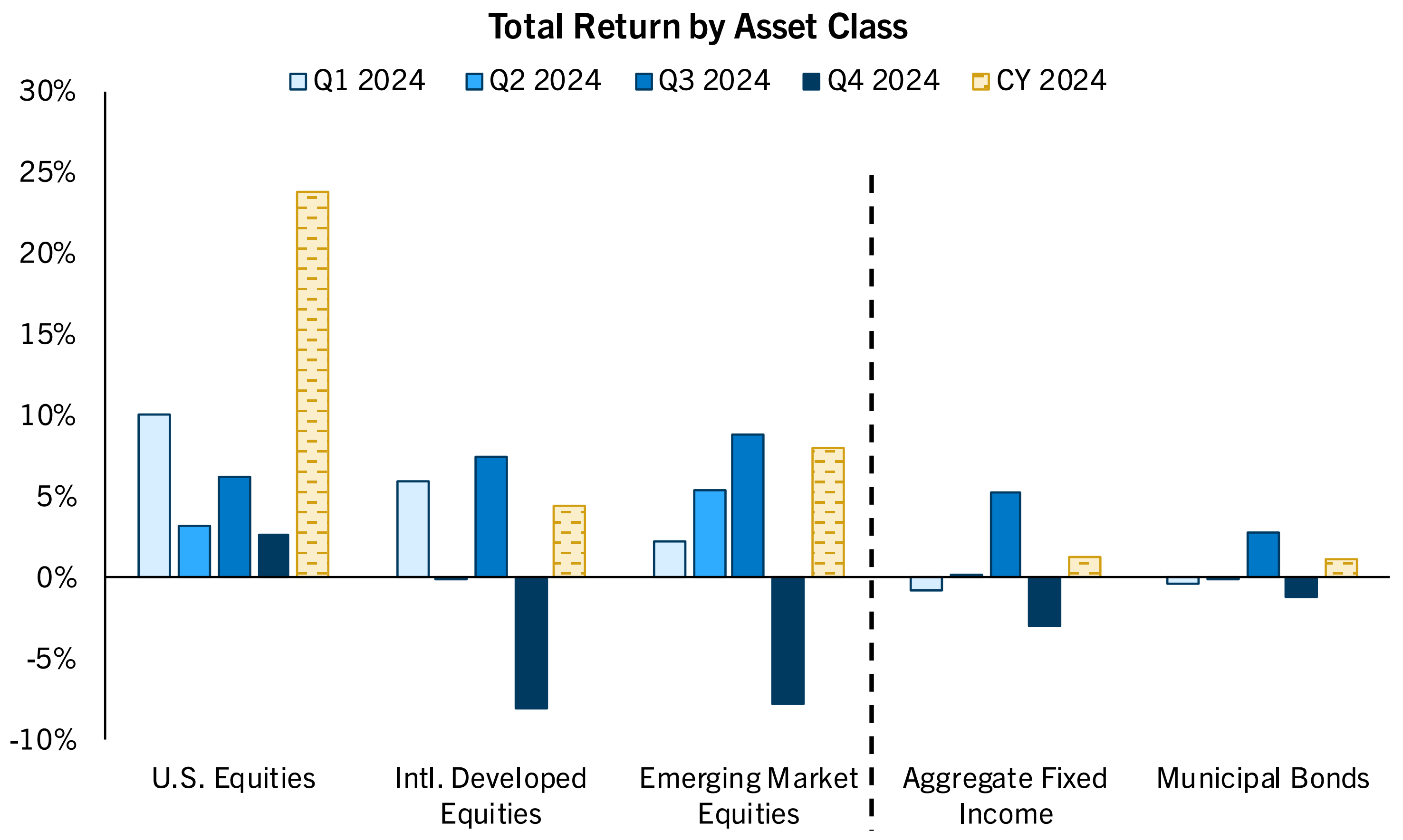
Quarterly Market Review – Q4 2024

Global Markets

2024 was a solid year for diversified investors with major equity and fixed income asset classes delivering positive returns. US equities dominated, but fixed income gains were modest as higher bond yields and a less accommodative monetary policy outlook weighed on returns in the fourth quarter.

In the fourth quarter, the resilience of the US economy was constructive for US equities (+2.6%), but it also pushed bond yields significantly higher. This weighed on aggregate fixed income (-3.1%) and municipal bonds (-1.2%). International equity markets reversed much of their gains in Q4 but still delivered solid returns for the year.

Only US Equities Delivered Positive Returns in Q4



Source: Bloomberg. Note: Chart data represents Russell 3000, MSCI EAFE, MSCI EM, Bloomberg Aggregate Bond, Bloomberg Municipal Bond

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US Equity Performance

After underperforming in the third quarter, growth stocks resumed their dominance in the fourth quarter. The large, mid, and small-cap growth cohorts each outperformed their value brethren, with mid-cap growth the best performer. Value stocks fell in Q4 across the market-cap spectrum.

For the full year, each of the other style and market cap cohorts posted positive returns, but as was the case in 2024, the leader was again large-cap growth. Beyond just growth stocks, large-cap value and blend also outperformed both mid and small-cap in 2024.

Equity-Market Returns: Large-Cap Growth Persists

QTD US Equity Returns As of 12/31/2024

	Value	Blend	Growth
Large	-2.1%	3.3%	6.9%
Mid	-1.8%	0.6%	8.1%
Small	-1.1%	0.3%	1.7%

YTD US Equity Returns As of 12/31/2024

	Value	Blend	Growth
Large	15.1%	27.4%	35.2%
Mid	13.1%	15.3%	22.1%
Small	8.0%	11.5%	15.1%

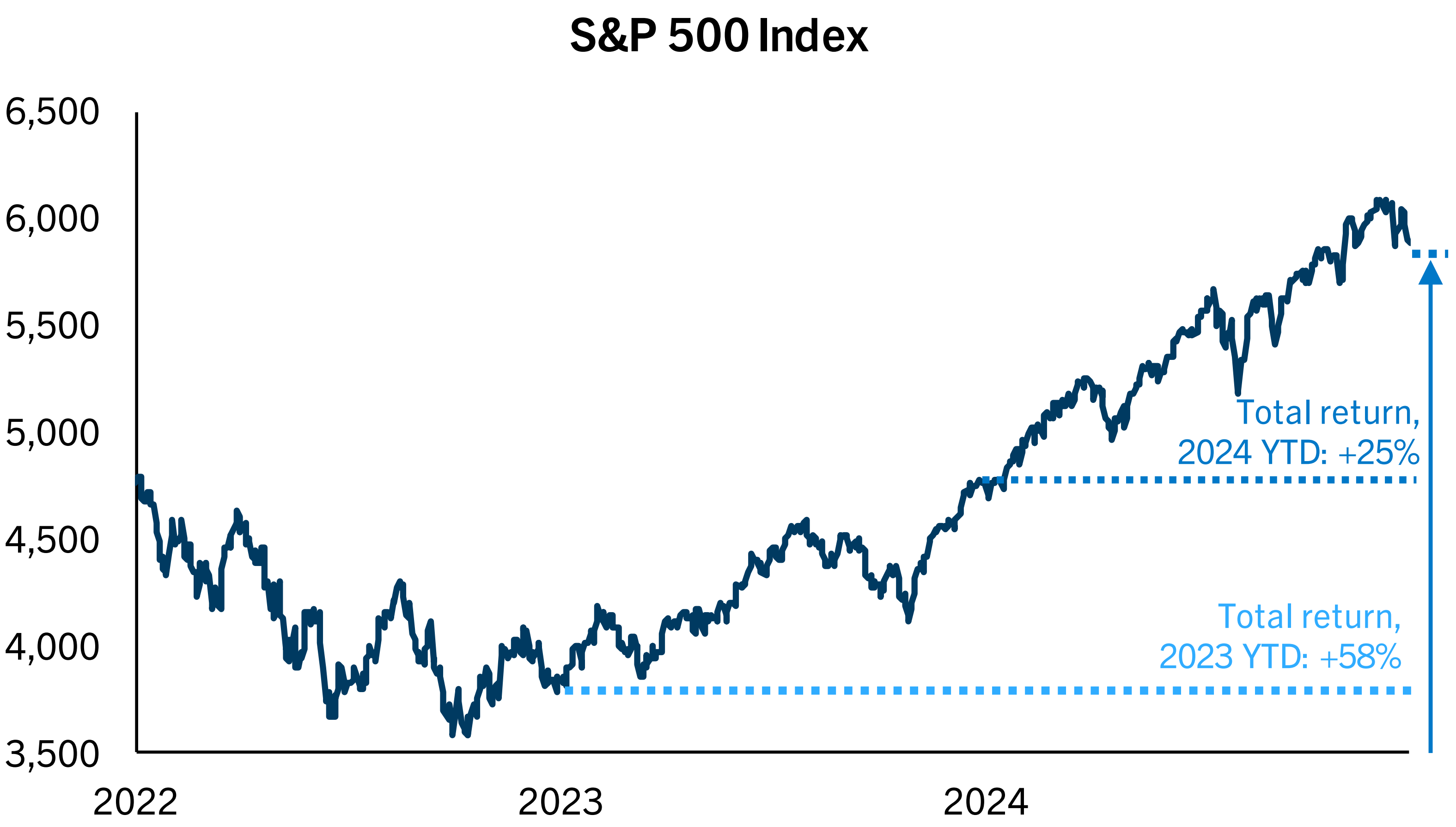
Source: Bloomberg. Note: Chart data represents Russell Top 200, Russell Midcap, and Russell 2000

US Equity Performance

Last year was another great one for the S&P 500. The index returned 25% (total return) in 2024 and has now returned a remarkable 58% since the beginning of 2023.

Investors have priced significant good news into the US equity market. As we highlighted in our 2025 outlook, our year-end price target for the S&P 500 is 6,400. While we remain optimistic on the direction of the equity market, we expect increased volatility in 2025 as elevated market valuation and policy uncertainty drive unpredictability.

The S&P 500 Had Another Great Year in 2024



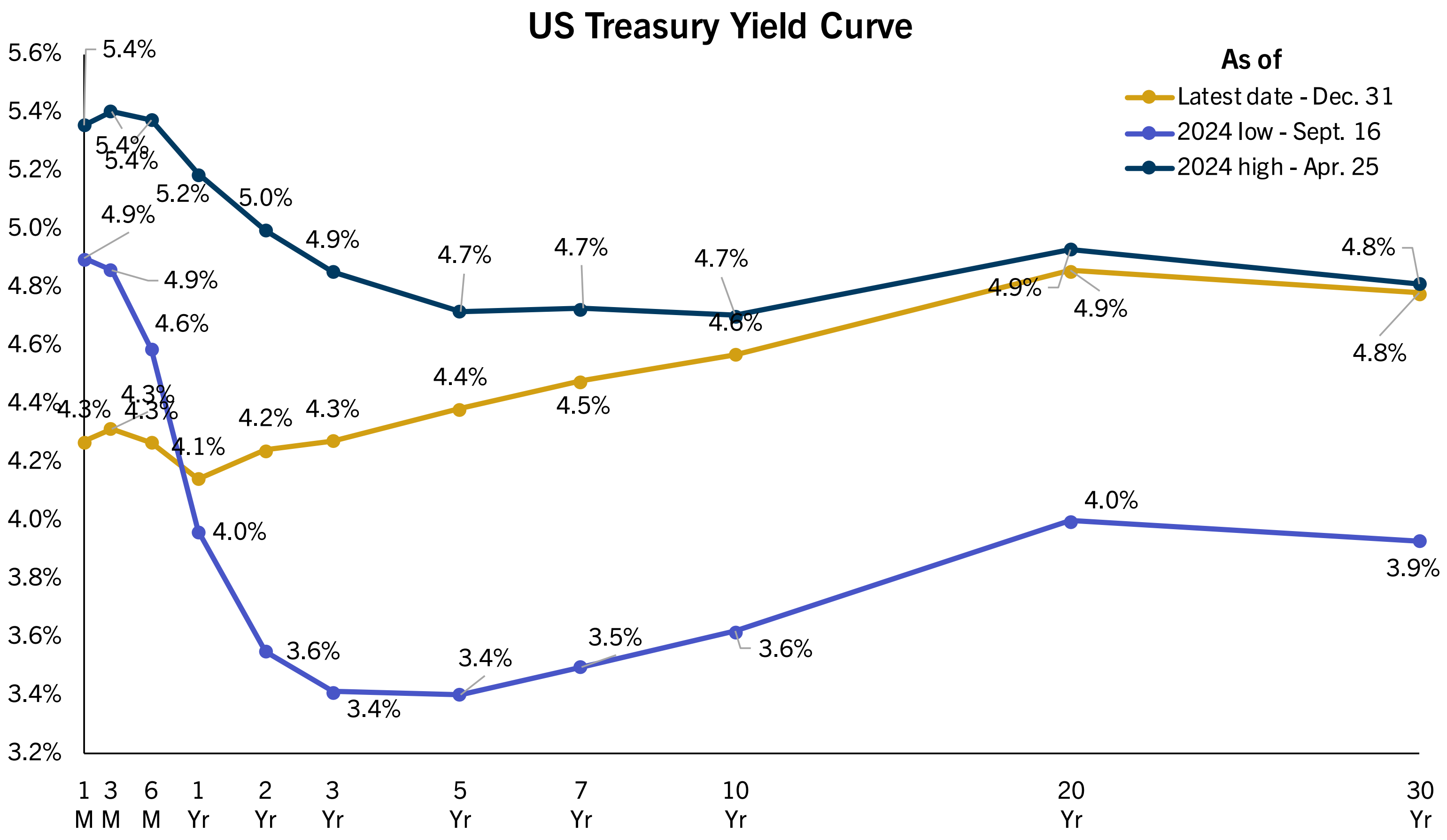
Source: Bloomberg. Data as of 12/31/2024.

Fixed Income

US government bond yields rose sharply higher in the fourth quarter as economic resilience and higher inflation made their way into fixed income prices.

Recent moves in both the short and long ends of the curve are notable. Moves lower on the short end reflected the Federal Reserve's widely anticipated interest-rate cuts, which amounted to another 0.5% in Q4 and 1.0% since September. But since the Fed started cutting interest rates in Q3, the long end of the curve has steepened, with the 10-year Treasury yield rising 95 basis points since the Fed's rate cuts began. This increase in longer-term yields is unusual in a rate-cutting cycle and reflects investors' new outlooks for more growth, more inflation, and fewer interest-rate cuts.

US Yield Curve Steepened and Normalized in Q4



Source: Bloomberg

Fixed Income

Yields are attractive after rising in the fourth quarter from already decent levels. The selloff in Q4 drove the 10-year yield to 4.6% and the aggregate bond to a healthy 4.9%, a continuation of a volatile year in fixed income. Intermediate government/credit yields stepped up to 4.6%, and municipal bond yields rose to 3.7% at year end. Corporate bond yields have been relatively flat by comparison, reflecting tighter spreads.

Fixed income has been volatile for several quarters. Most yields are lower than their peaks over the last couple years, but the recent increase offers opportunity to fixed income investors.

Yield Levels Are Attractive

US Fixed Income Indices		
	Yield-to-Worst	
Index	Year-end 2023	**Year-end 2024**
2-Year Treasury	4.2%	**4.2%**
10-Year Treasury	3.9%	**4.6%**
Aggregate Bond	4.5%	**4.9%**
Intermediate Government/Credit	4.4%	**4.6%**
Municipal Bond	3.2%	**3.7%**
Investment Grade Corporate Bond	5.1%	**5.3%**
High Yield Corporate Bond	7.6%	**7.5%**

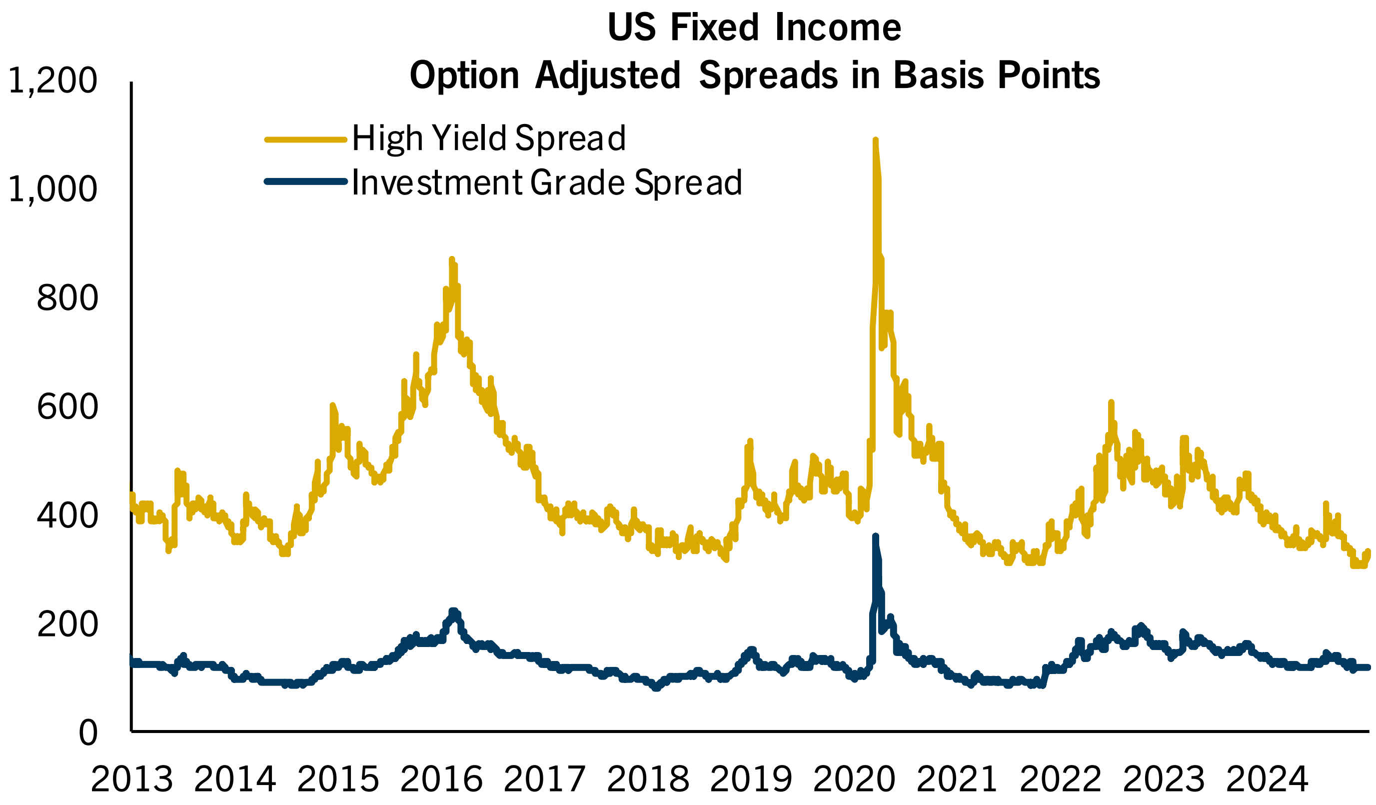
Source: Bloomberg

Fixed Income

Credit spreads for investment grade and high yield corporate bonds have continued to narrow and are close to historic levels of tightness.

Credit spreads are a good proxy for perceived risk, and fixed income markets are not currently pricing an imminent dislocation. We would expect to see a widening of spreads before any severe economic downturn.

Corporate Credit Spreads Tightened Even Further



Source: Bloomberg

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