First Citizens Wealth.

Making Sense

Basis Points | January 13, 2026

Staying Focused

1. Patience and discipline

The first two weeks of 2026 have been noisier in the news headlines than in the financial markets. Geopolitical and economic policy uncertainty have been more important factors this decade than in the 2010s, and recent domestic and international developments underscore this reality. Many investors view policy surprises as opportunities to reconsider their investments. We disagree: we believe markets reward patience and discipline far more often than they reward attempts to time market moves around complex events. This is particularly true when economic and market fundamentals remain constructive despite heightened noise, as has been the case for the last three years when the typical 60/40 portfolio delivered average annual returns of about 15%.[i]

2. Constructive, but cautious

In our 2026 Market Outlook we laid out a constructive case for US equities but with more caution than in recent years. US equity markets are expensive, with price-to-earnings ratios near historic highs. Indices are also top heavy, with a sizable fraction of total market capitalization concentrated in just a few mega-cap technology stocks. Trends like these may push some investors toward the exits, but it is not that simple. The largest public US firms operate with very high profit margins, which we think justifies a higher multiple. And although these firms may dominate indices, gains have broadened. The share of S&P 500 companies reporting positive earnings has risen the last three quarters to 75% in Q3 2025, the highest share since 2021. Also, US equities are more than just the largest companies—the Russell 2000 index of small-cap stocks is outperforming the S&P 500 by 4.3% so far this year. History shows us that even expensive markets can rally substantially further: more money is likely lost anticipating some future market correction than in the correction itself.

3. Messy data

Recent economic data reports have been hazy and do not provide clear insight into the health and outlook for the economy. GDP growth came in at +4.3% for the third quarter of last year, way above expectations. But the labor market has stalled, with fewer jobs created in 2025 than any other non-recession year since 2003. And of the net jobs added to the economy, healthcare accounted for the overwhelming share, even though that sector accounts for only 15% of total US payroll employment. Unfortunately, we think companies have held off hiring new workers in recent quarters, likely as uncertainty around future investment needs remains elevated. But encouragingly, we still see little evidence of heightened layoffs across the economy, suggesting firms are on average looking to keep their workforces stable rather than cutting them. The result has been a surprisingly stable unemployment rate between 4.2-4.5% for 18 months, an unusual trend in modern labor markets, which in past cycles have inexorably tightened until some shock would send unemployment surging.

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4. Disinflation?

Financial market and household expectations for inflation this year and next have plunged. Only a few months ago, 3% inflation looked like the new norm, but softer than expected price growth, including in the most recent consumer price index report, has left many businesses and households less concerned about inflation than any time in years. We also find the recent price data encouraging on the margin, but we are still cautious. Government-reported inflation data suffered from data collection issues during the Q4 government shutdown, and analysts believe it will be months before the data normalize. And while tariff-related price effects so far have been more modest than feared, we would still like to see more evidence that companies don't plan to pass along more of their ~$350 billion annual tariff bill to households and consumers.

5. Rangebound rates

The three interest rate cuts the Federal Reserve delivered late last year were widely expected and had already been priced into markets for months. With no major surprises to the growth and inflation outlook last quarter, longer-term interest rates have been relatively stable as rate cuts at the front end steepened the yield curve. Greater corporate and government issuance along with higher uncertainty pose upside risk to yields. But even so, we see fixed income yields as a still attractive and necessary element of a well-balanced portfolio.

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[i] Source: Bloomberg