

# Making Sense

## Market Update | January 2026



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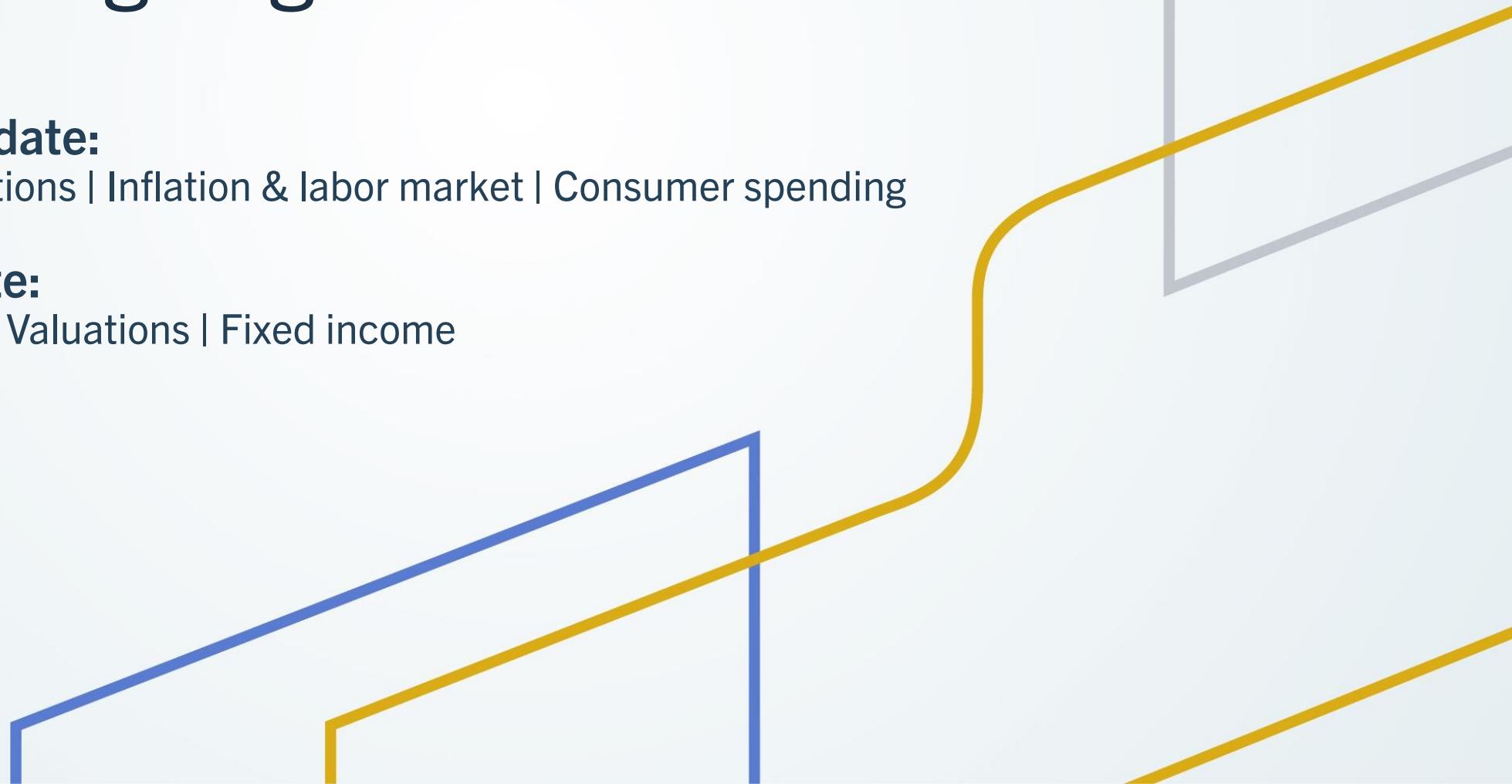
# What are we going to cover?

## 1. Economic update:

Growth expectations | Inflation & labor market | Consumer spending

## 2. Market update:

Equity markets | Valuations | Fixed income



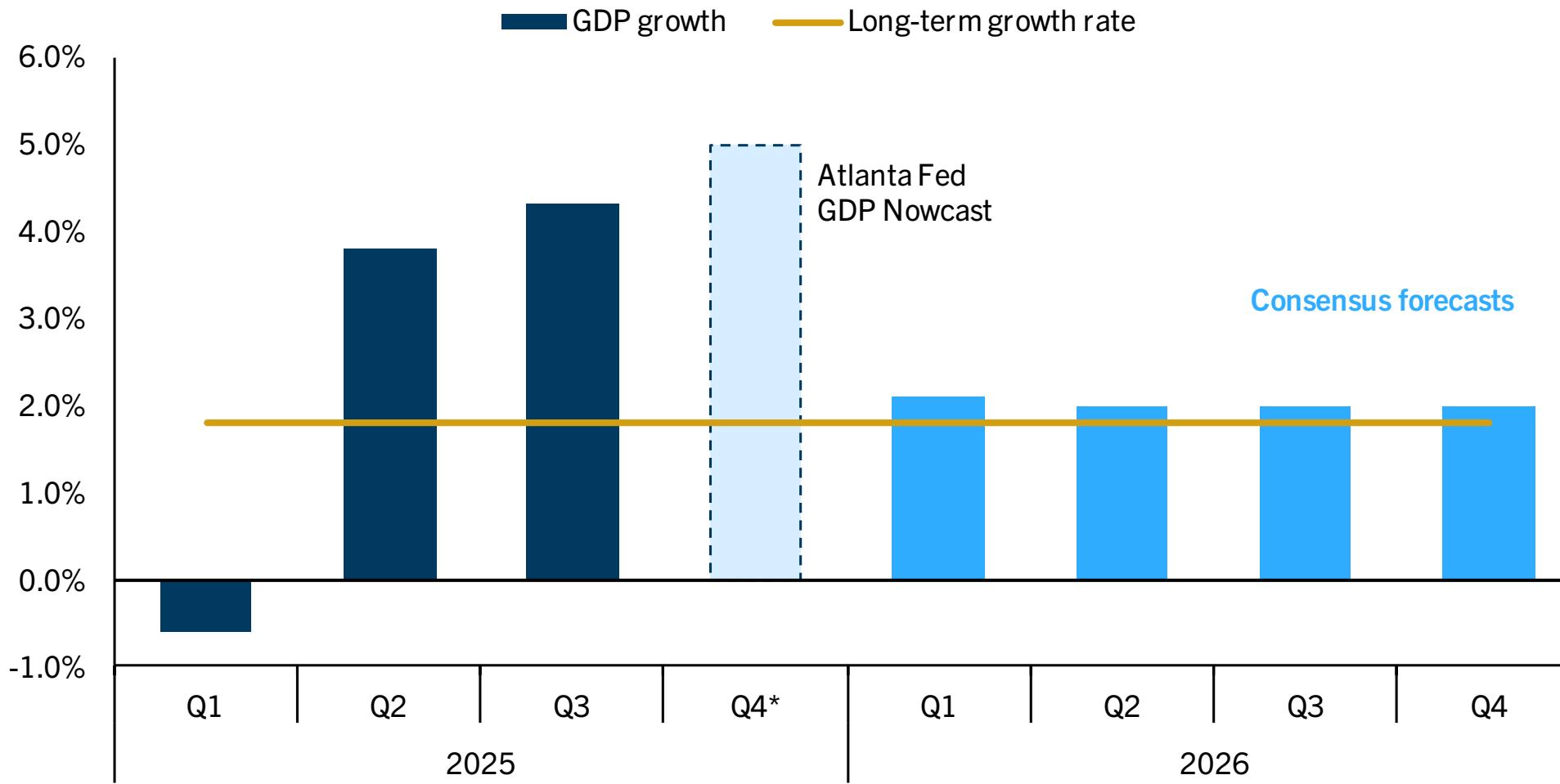


### Economic update



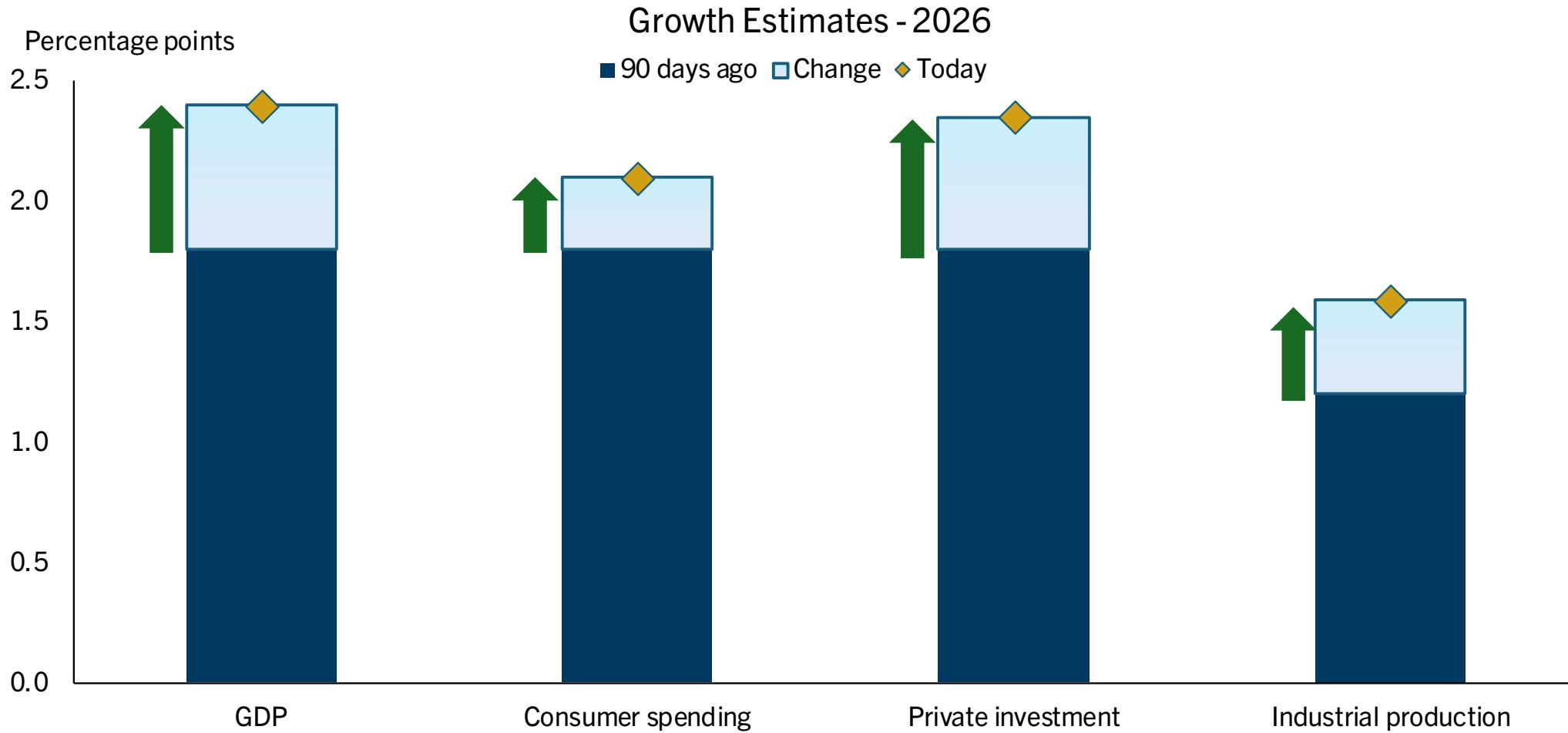
# Forecasters see no sign of the US economy slowing down

## US Real GDP Growth and Median Professional Forecast

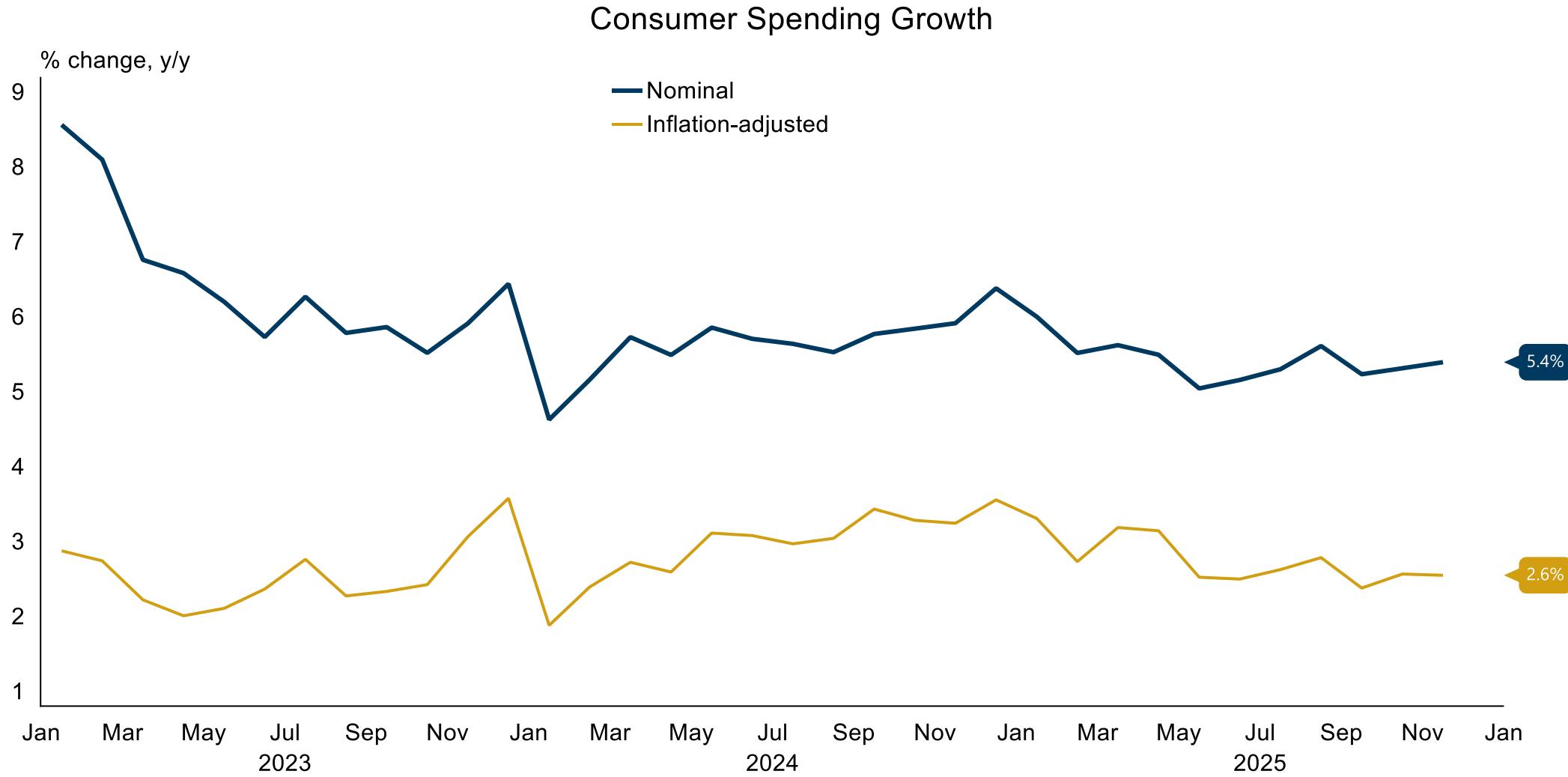


# Forecasters are increasingly optimistic about economic growth

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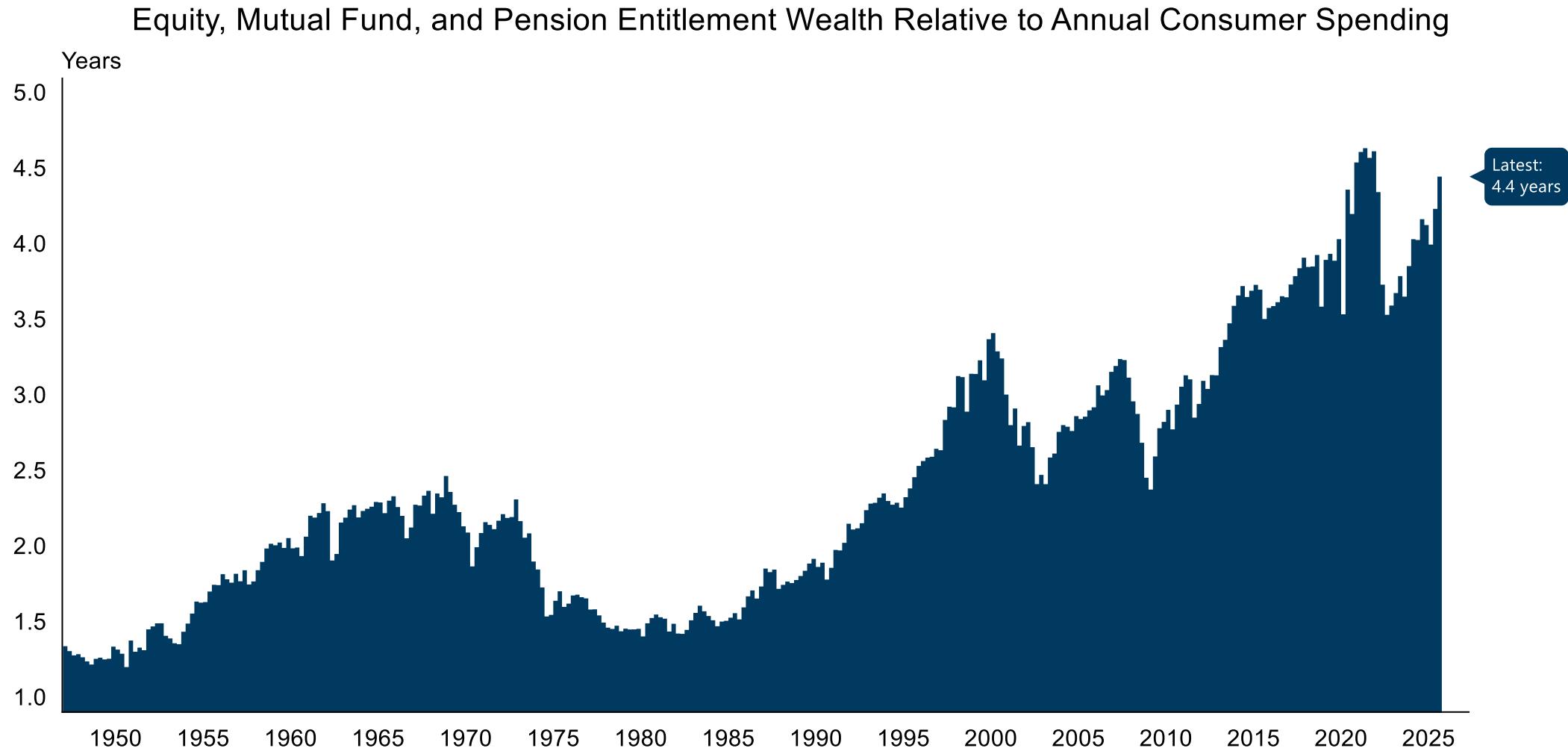


# Even after adjusting for inflation, household spending growth is firm



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

# Market gains have propelled household net worth to new highs



Source: Federal Reserve, U.S. Bureau of Economic Analysis (BEA), First Citizens Bank

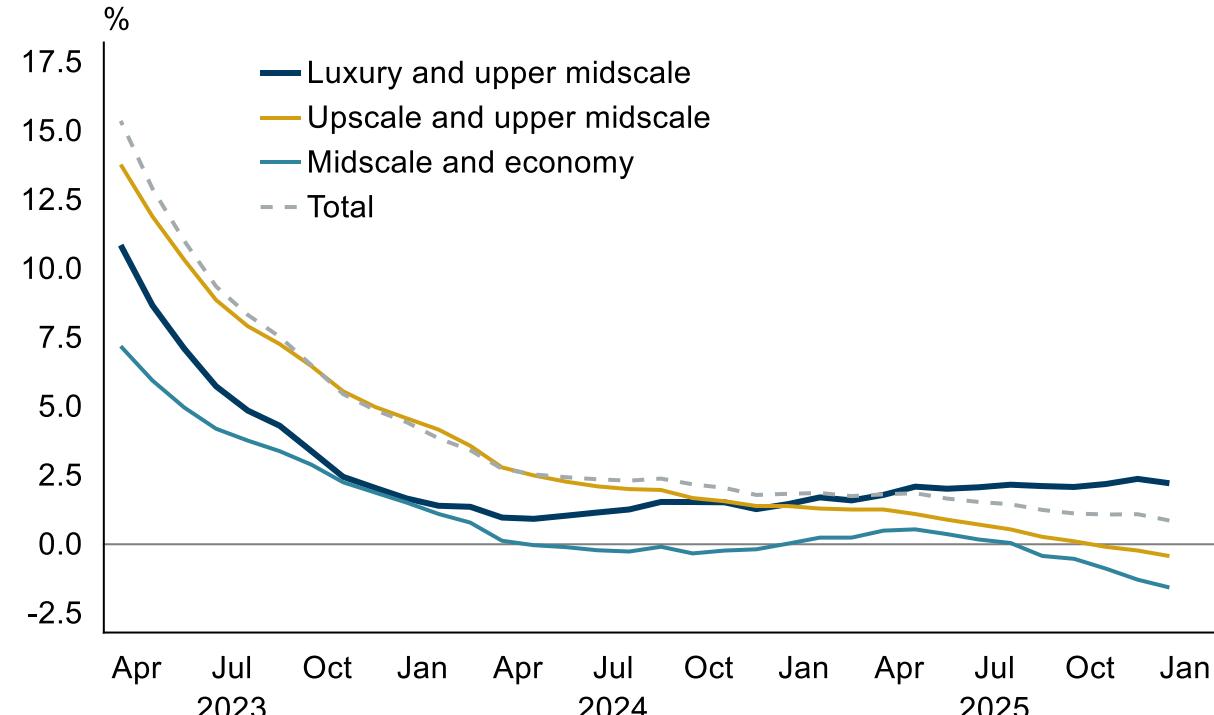
Data as of January 9, 2026

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

# Economy hotel room rates have softened while luxury hotels power higher

US Hotels: Average Daily Room Rate

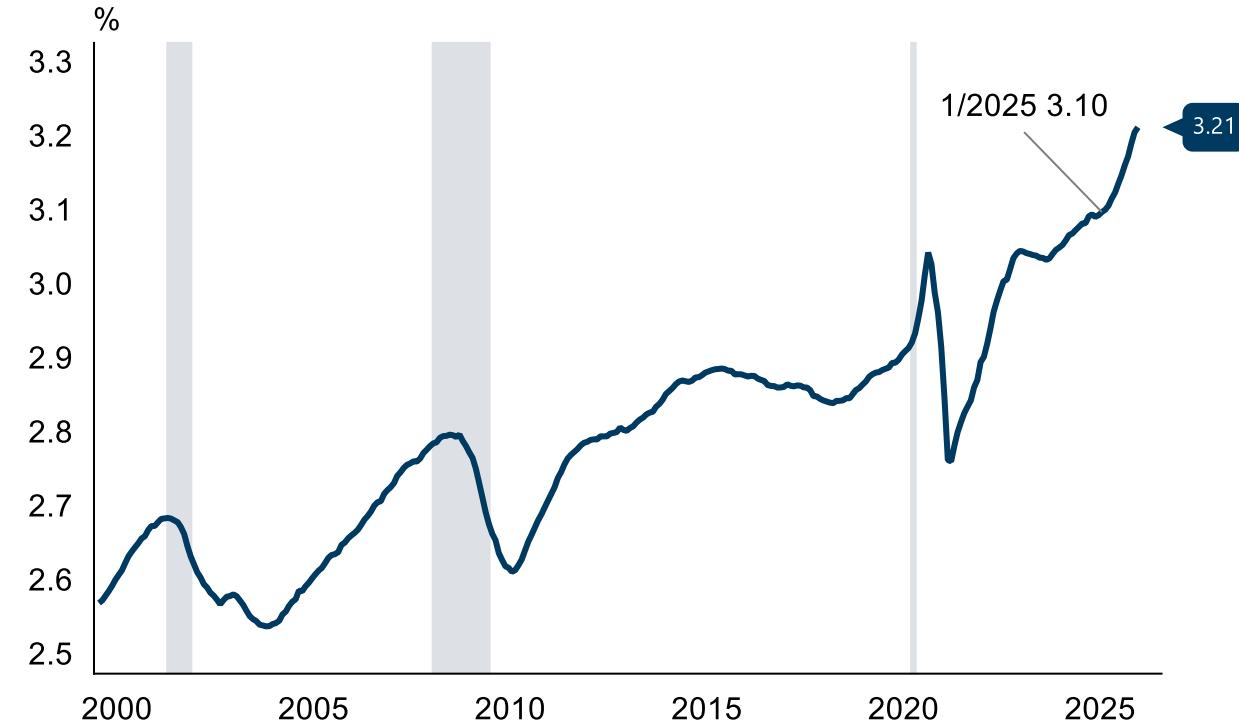
Price change vs 1 year ago



Source: Costar, First Citizens Bank  
Data as of January 6, 2026

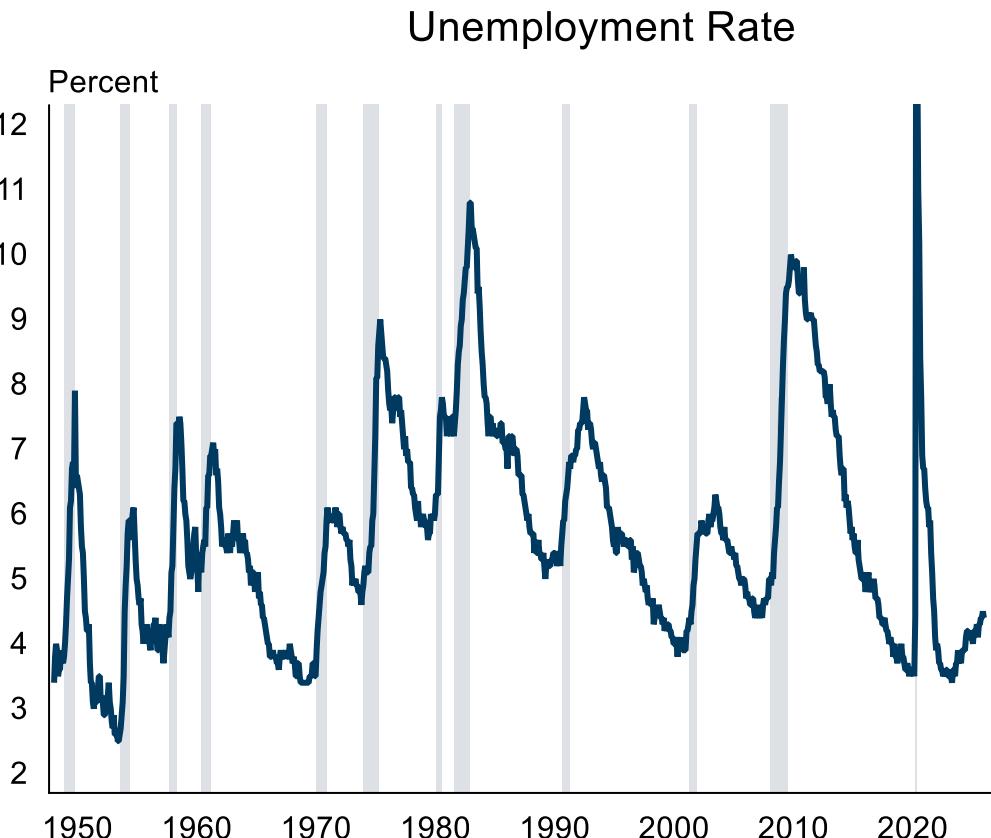
US Hotels: Average Daily Room Rate

Ratio: Luxury rate / economy rate

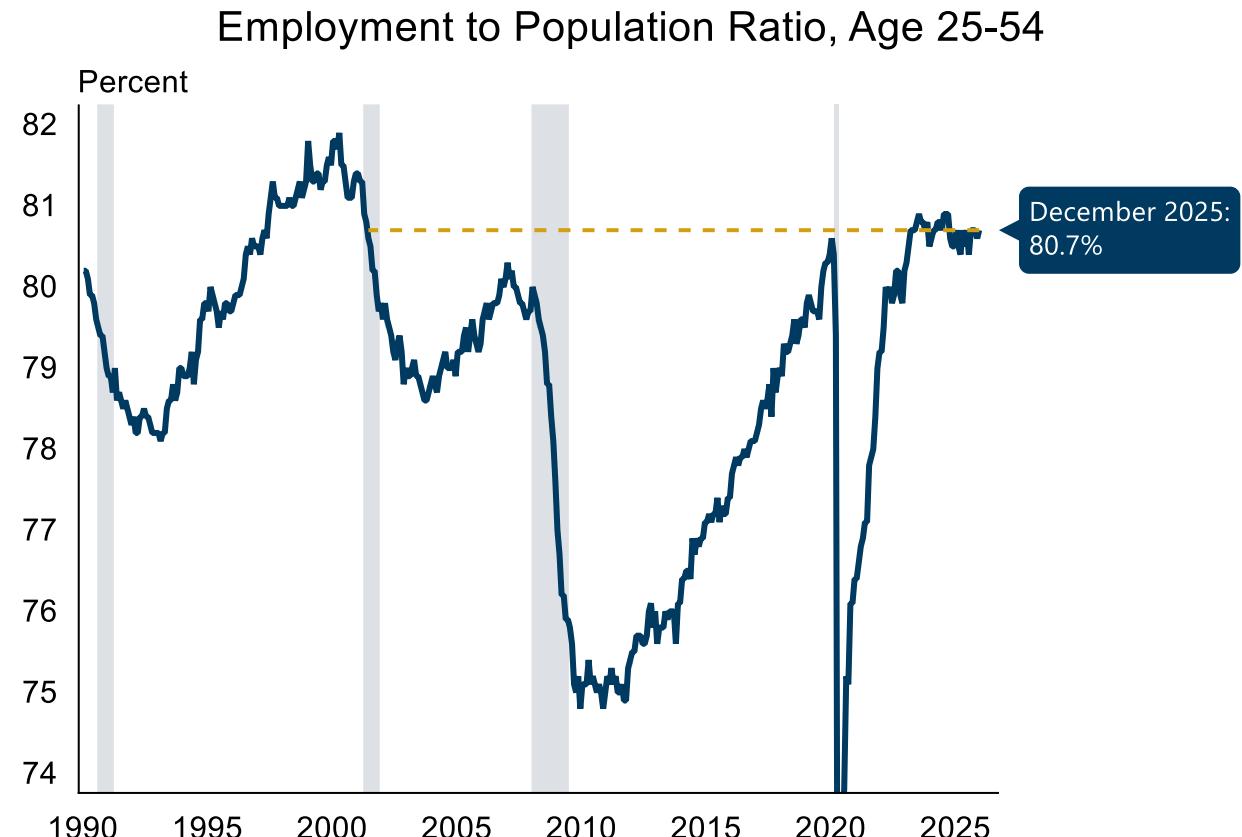


Source: Costar, First Citizens Bank  
Data as of January 6, 2026

# The unemployment rate is up, but the core working population still has a job

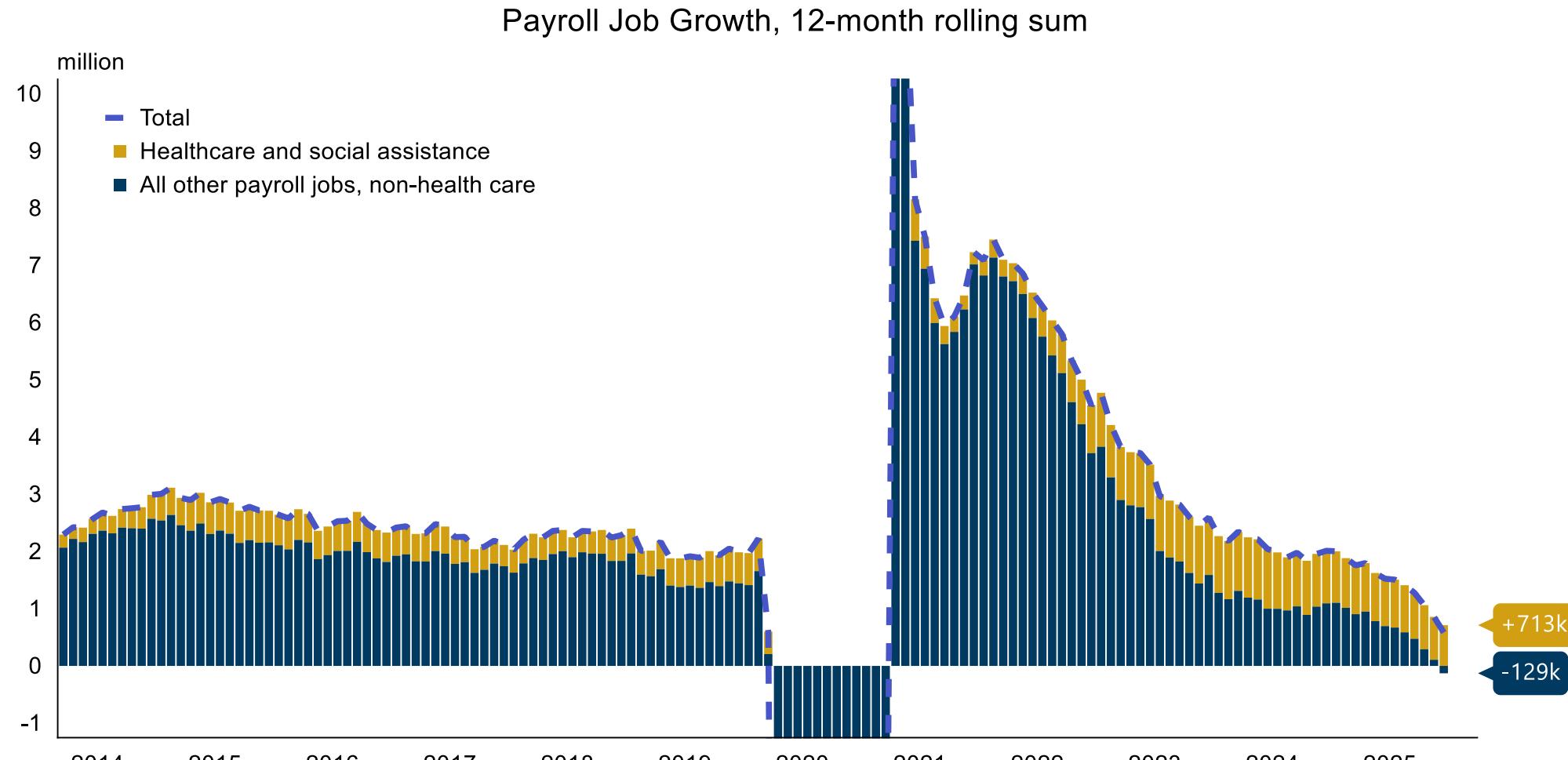


Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank  
Data as of January 9, 2026



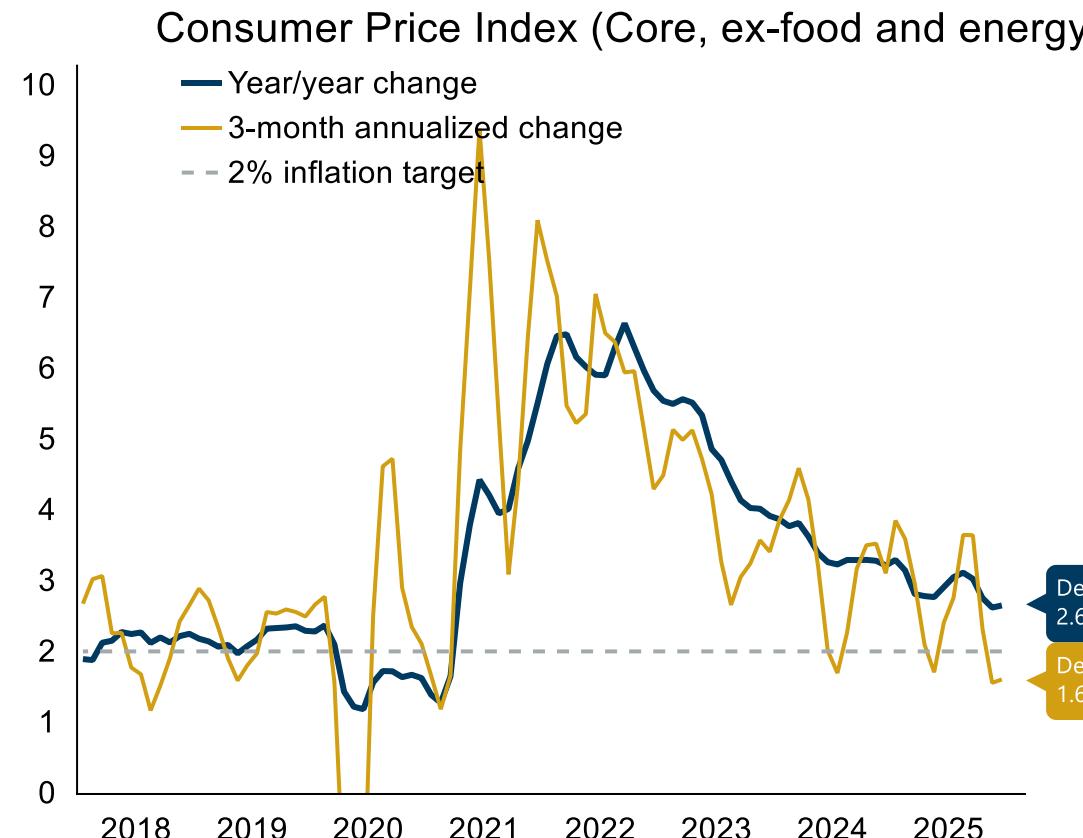
Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank  
Data as of January 9, 2026

# Healthcare accounts for the entirety of net job growth in the past 12 months



Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank  
Data as of January 9, 2026

## Inflation rates – and inflation expectations – have moved lower

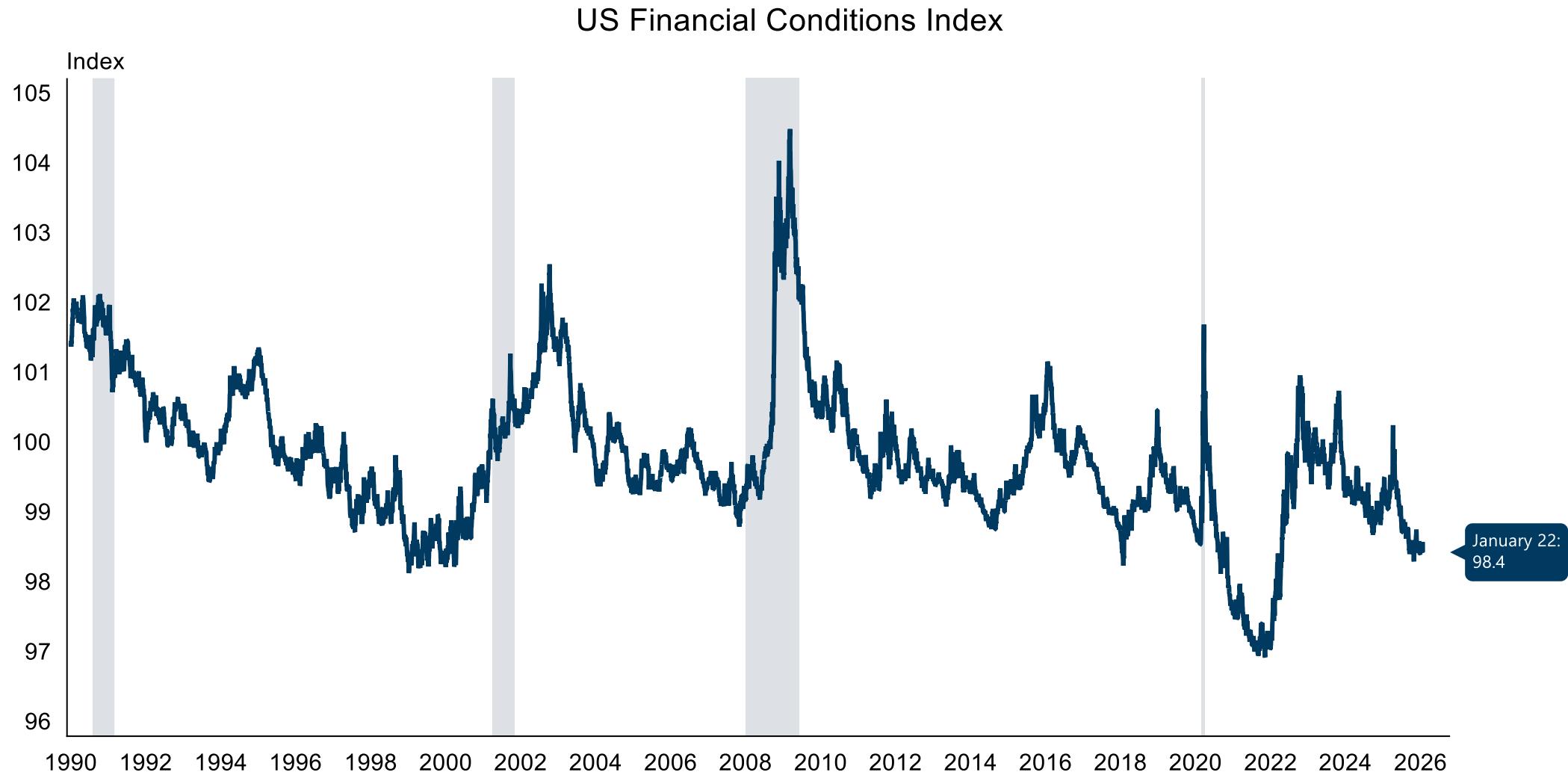


Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank  
Data as of January 13, 2026



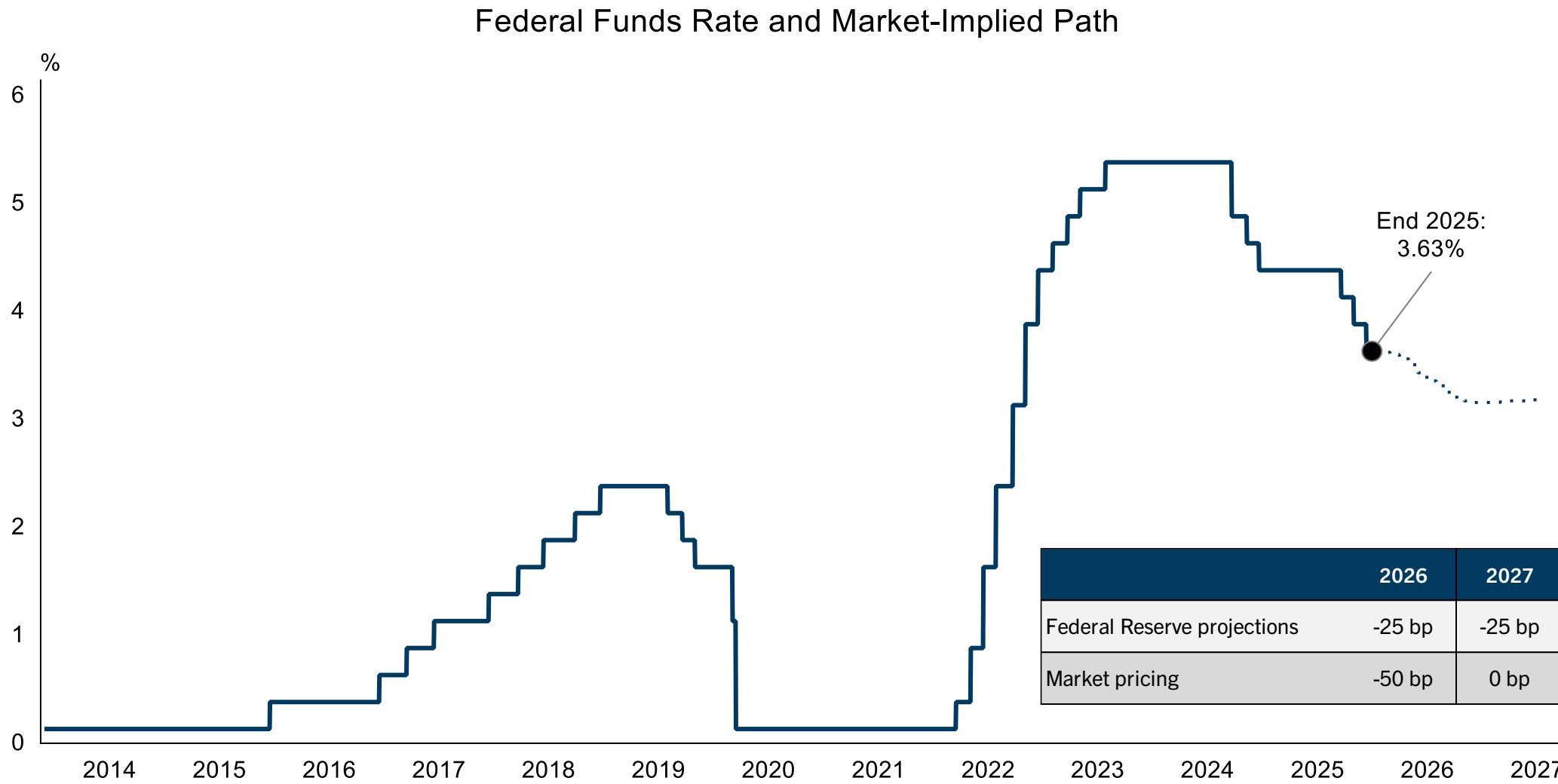
Source: Bloomberg  
Data as of 1/28/2026

# Financial conditions are easy and likely supporting growth

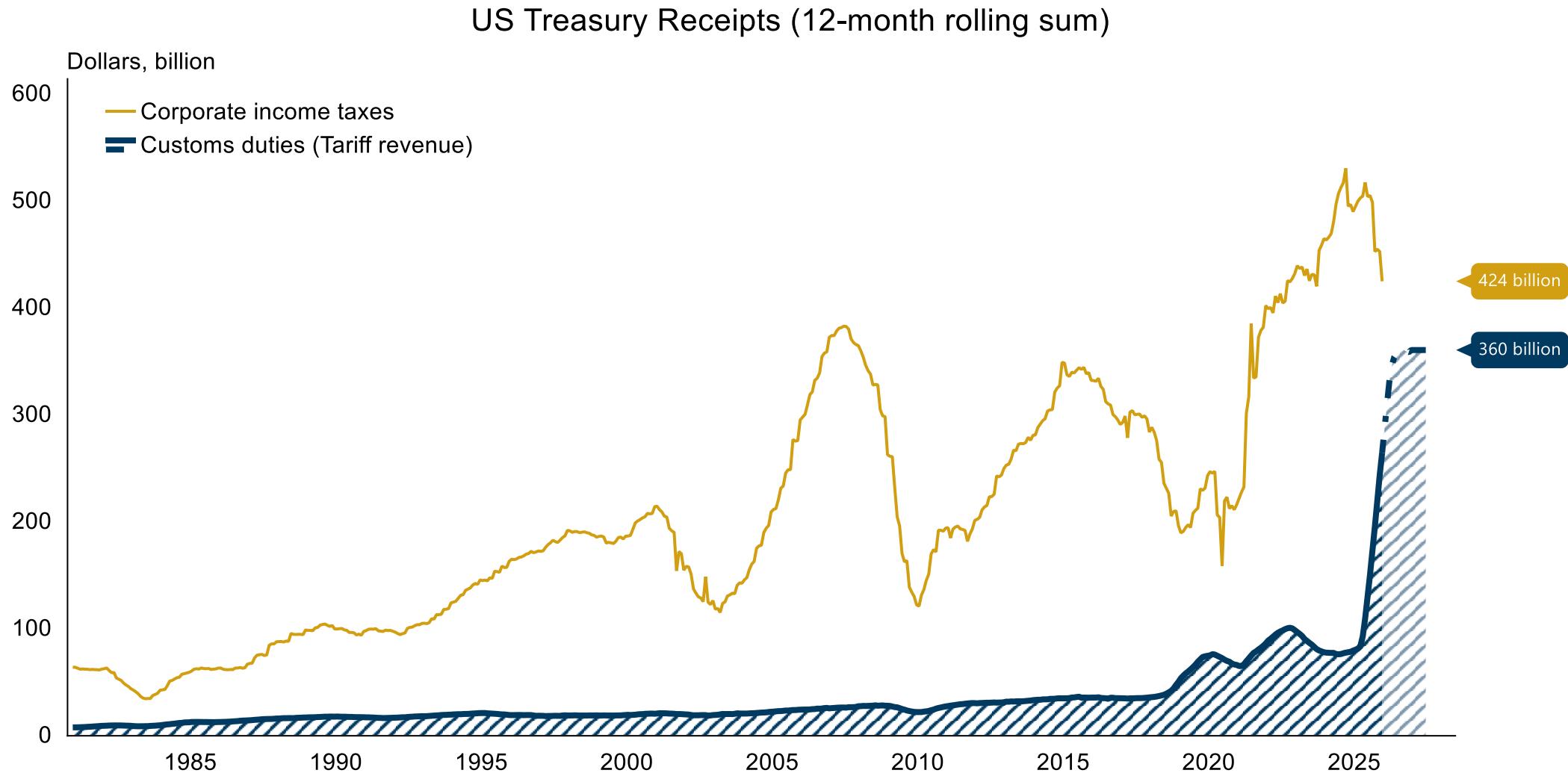


Source: Goldman Sachs, First Citizens Bank  
Data as of 1/22/2026

# Monetary easing is likely to be more modest in coming quarters



# Tariffs have not been terribly disruptive, but companies are paying billions



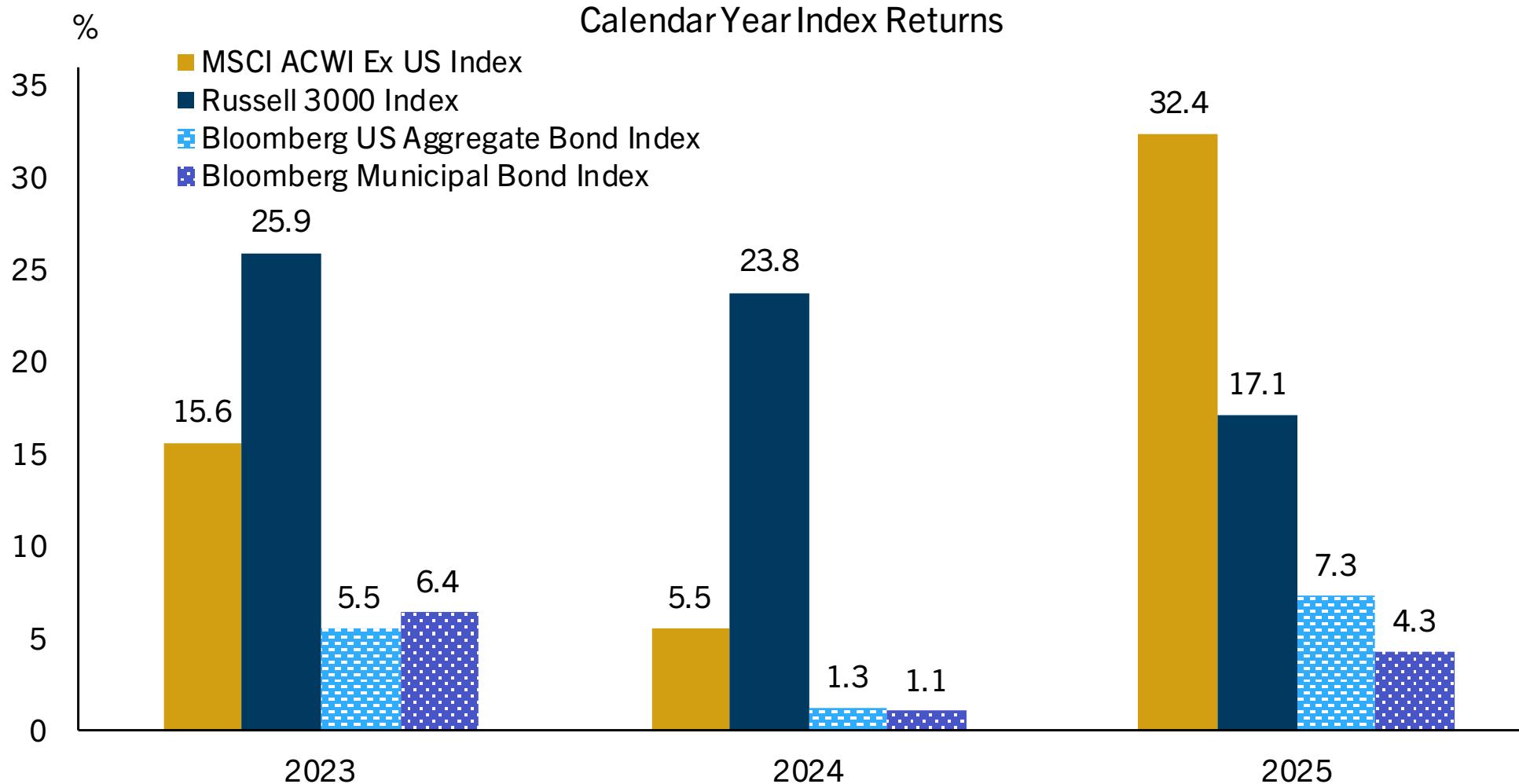
Source: U.S. Department of Treasury, First Citizens Bank  
Data as of January 13, 2026. 3-month average.



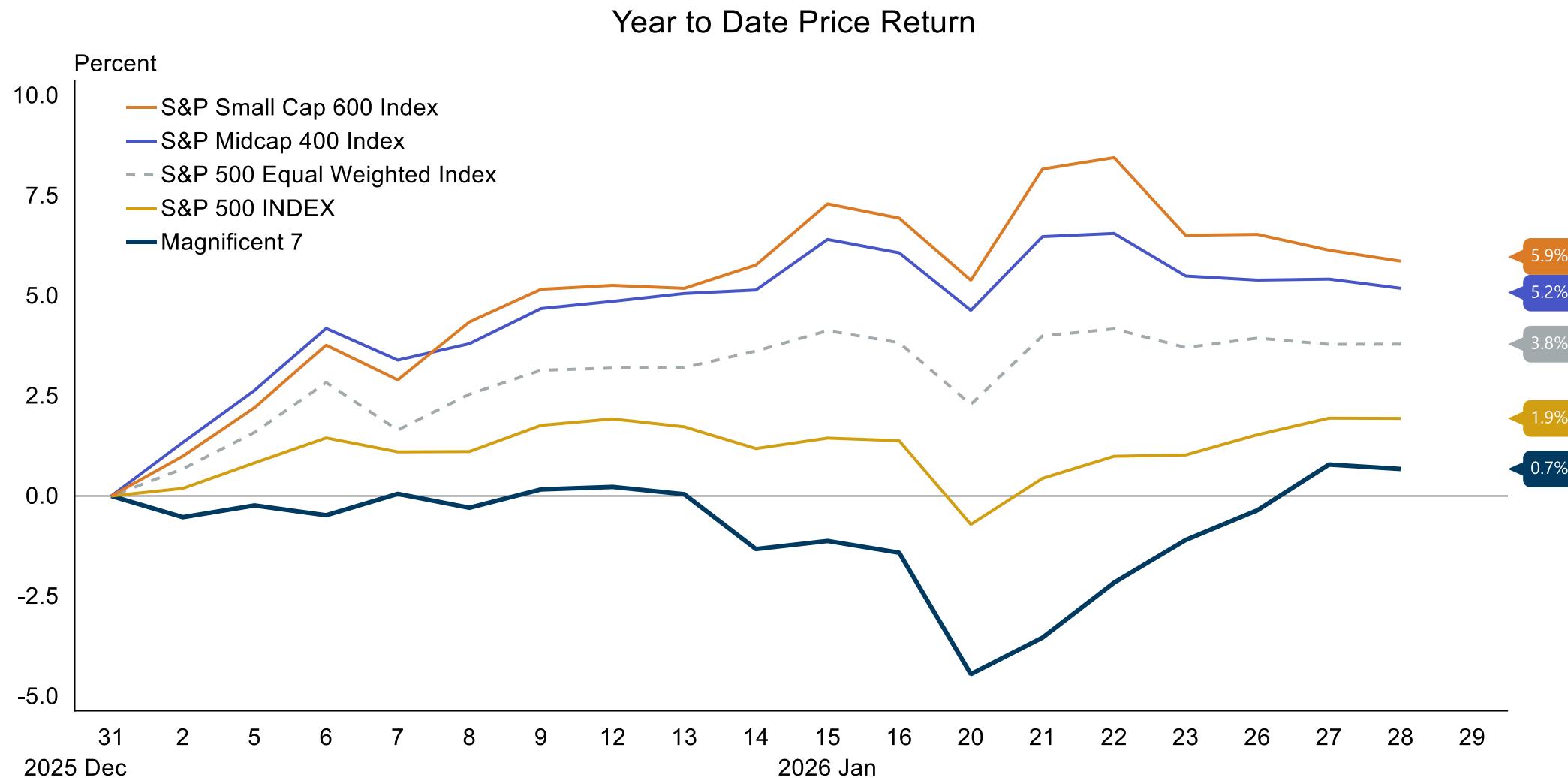
### Market update



# Global multi-asset portfolios had an exceptional 2025



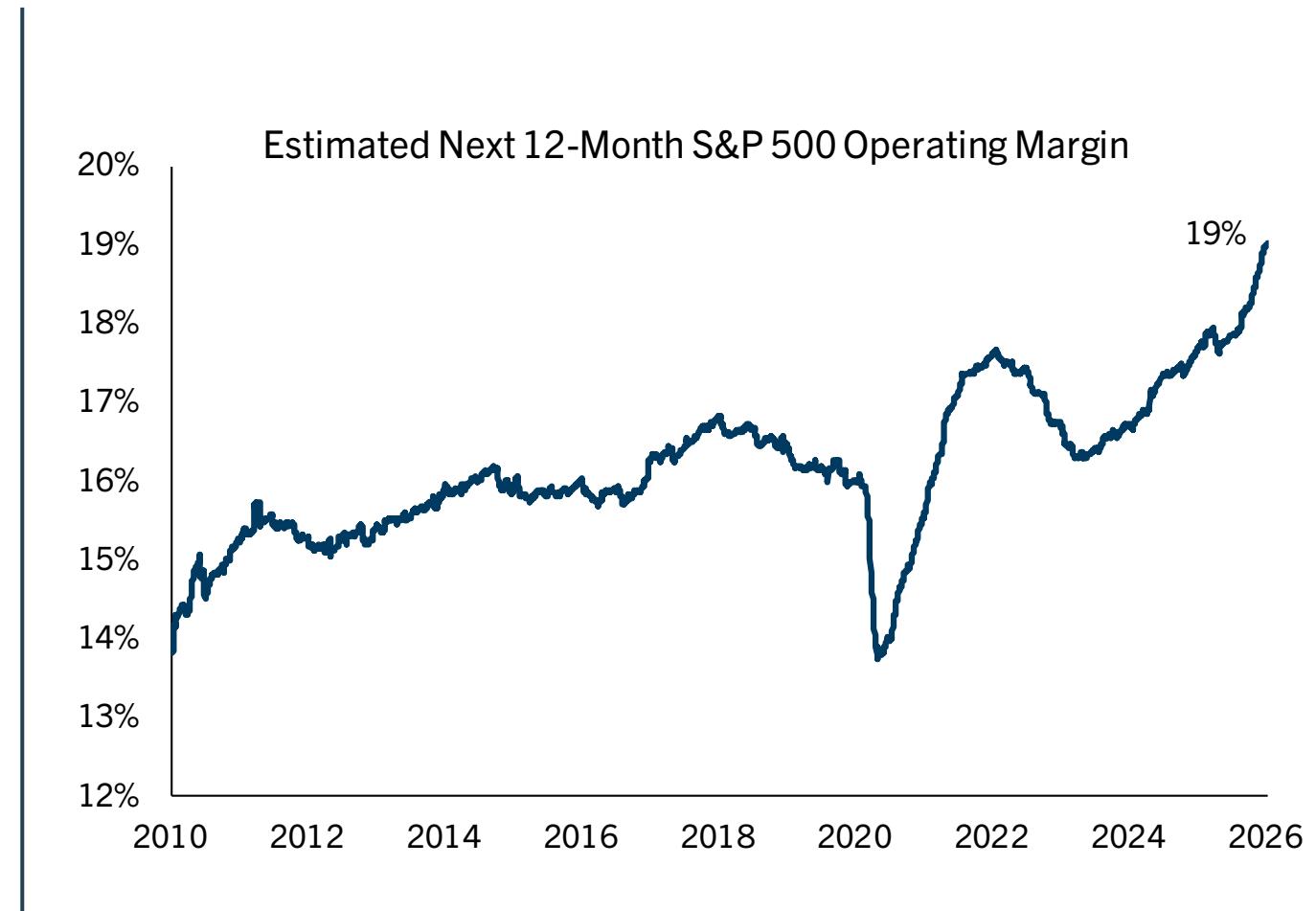
# Small cap equities are outperforming large cap year to date



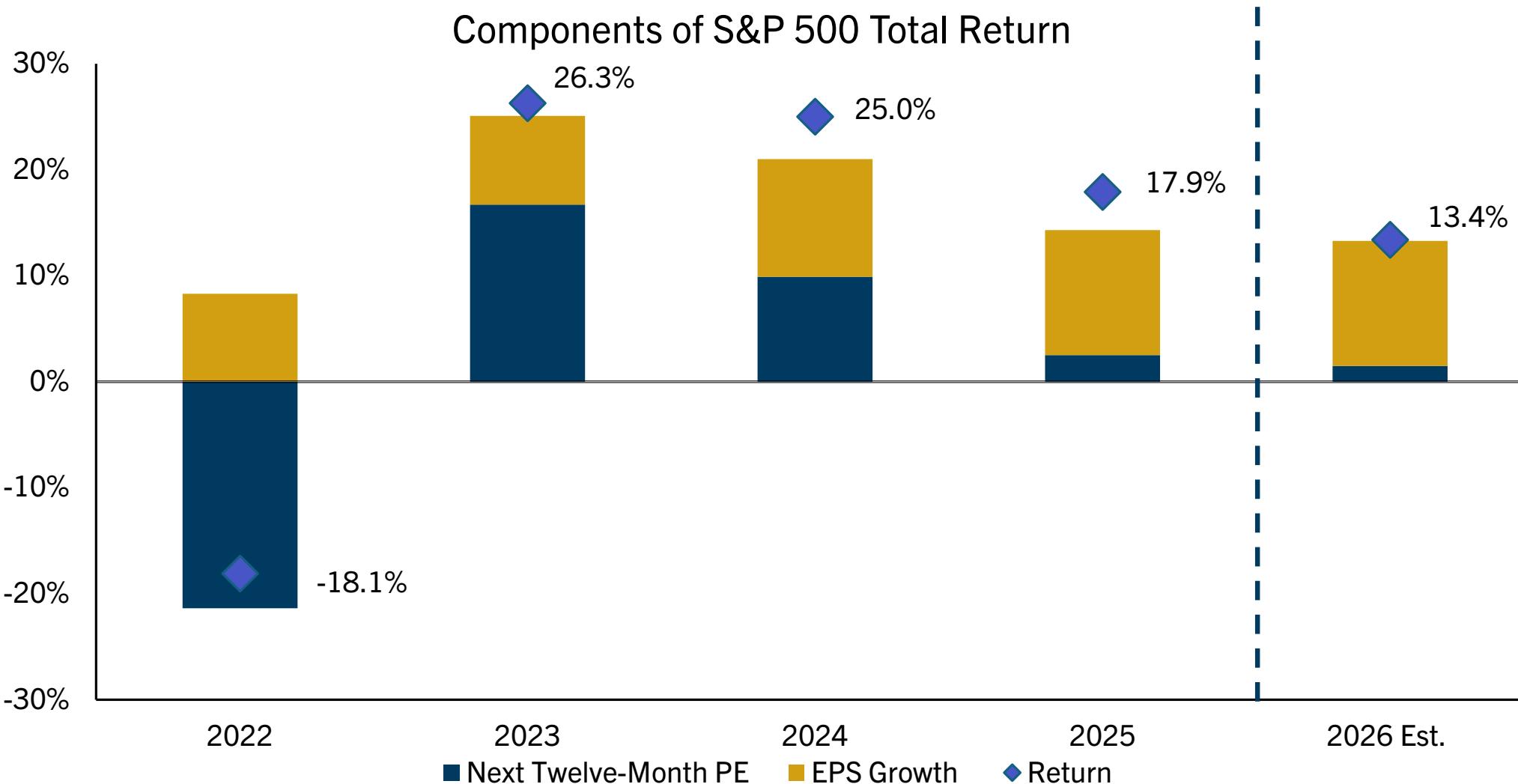
Source: Bloomberg  
Data as of: 1/28/2026

# Analysts expect corporate earnings and margin growth will be robust in 2026

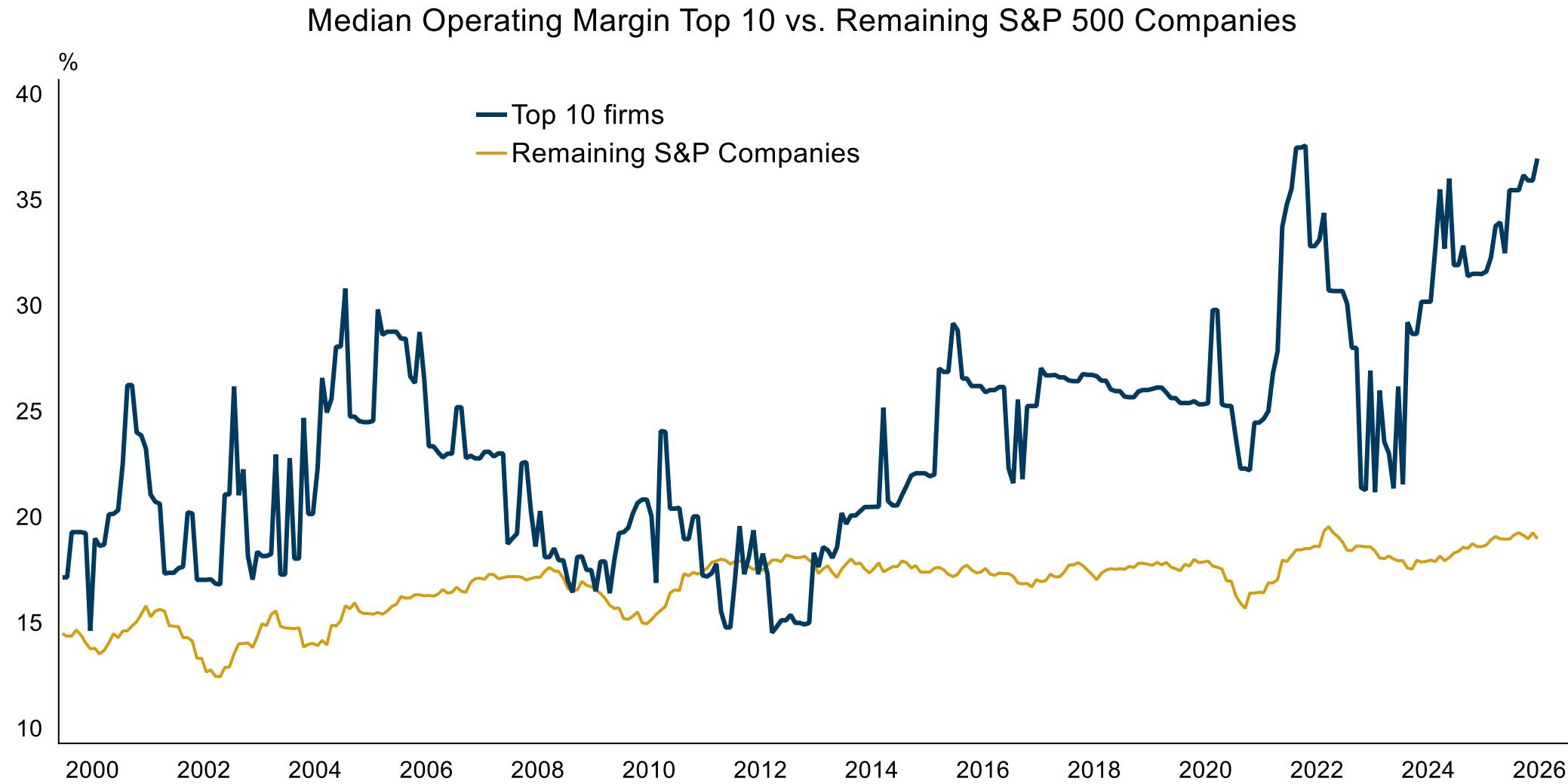
- CY 2025 estimated growth is **12.4%**  
Q4 2025 estimated growth is **8.3%**
- CY 2026 estimated growth is **14.7%**
- Average growth since 1950 is **7.6%**



# Earnings account for the lion's share of total return

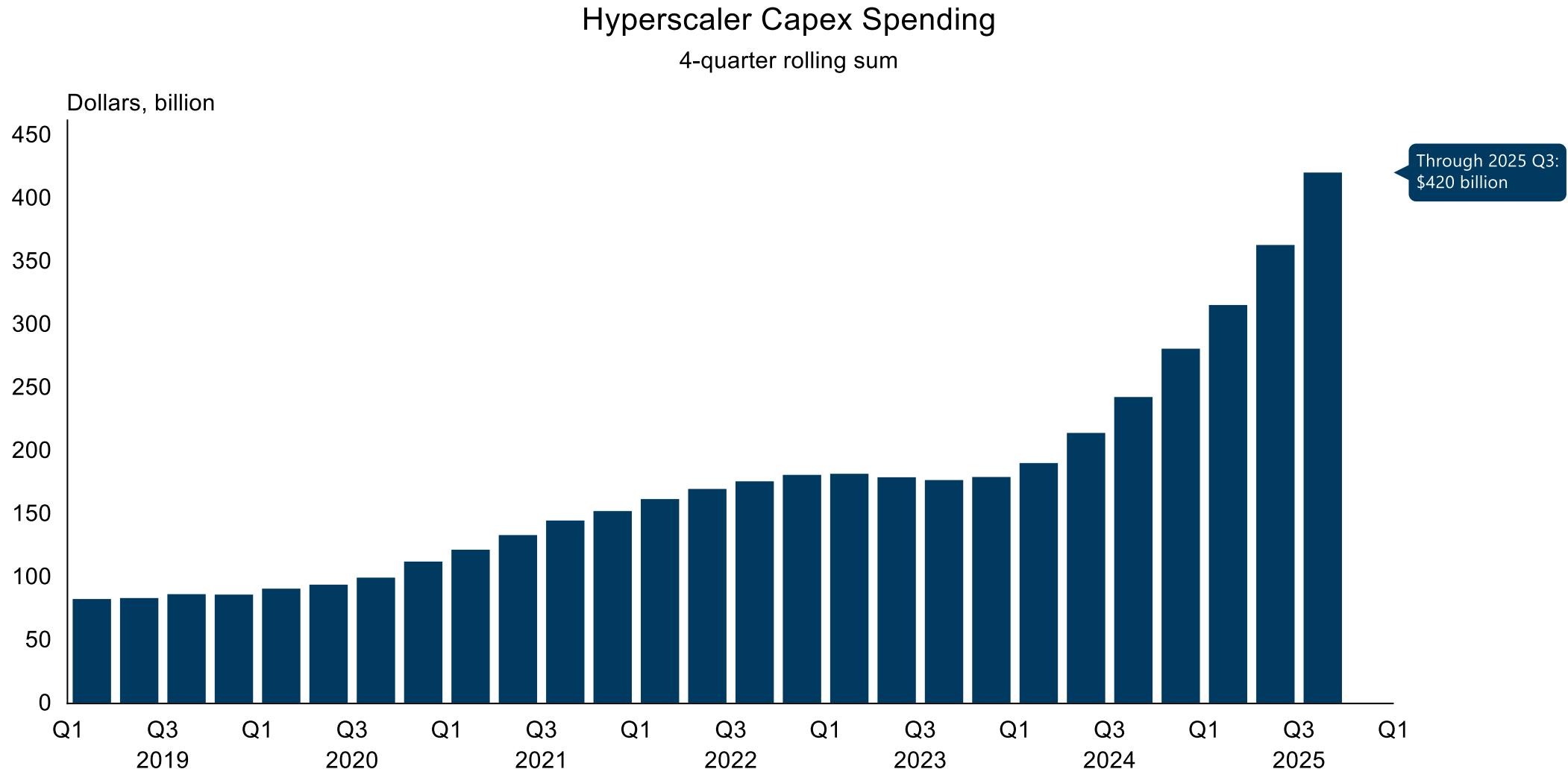


# Exceptional profit margins among the largest stocks may justify high valuation



Source: Trivariate Research, First Citizens Bank  
Data as of 12/31/2025

# Mega cap technology stocks are spending massively on AI capex

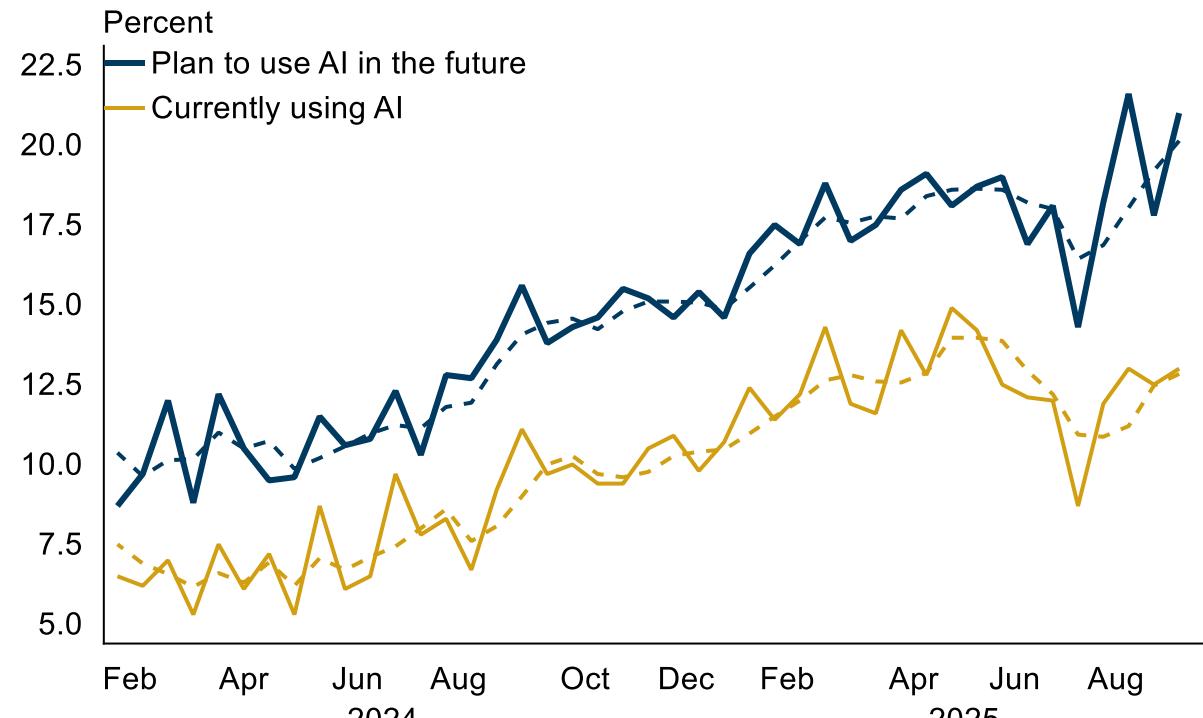


Source: Bloomberg  
Data as of 2025 Q3

# AI adoption is real, but there are no benchmarks for assessing the impact

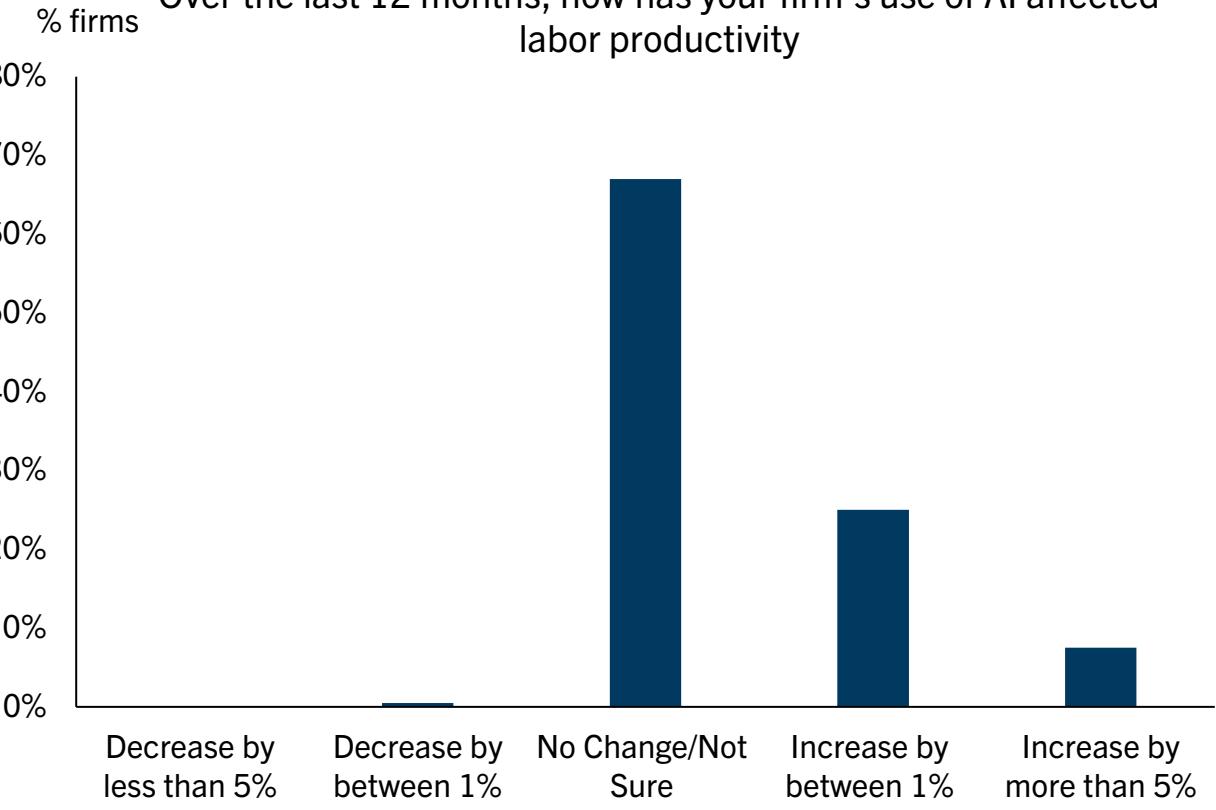
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Share of US Companies with 250+ Employees Reporting Artificial Intelligence Use in Business



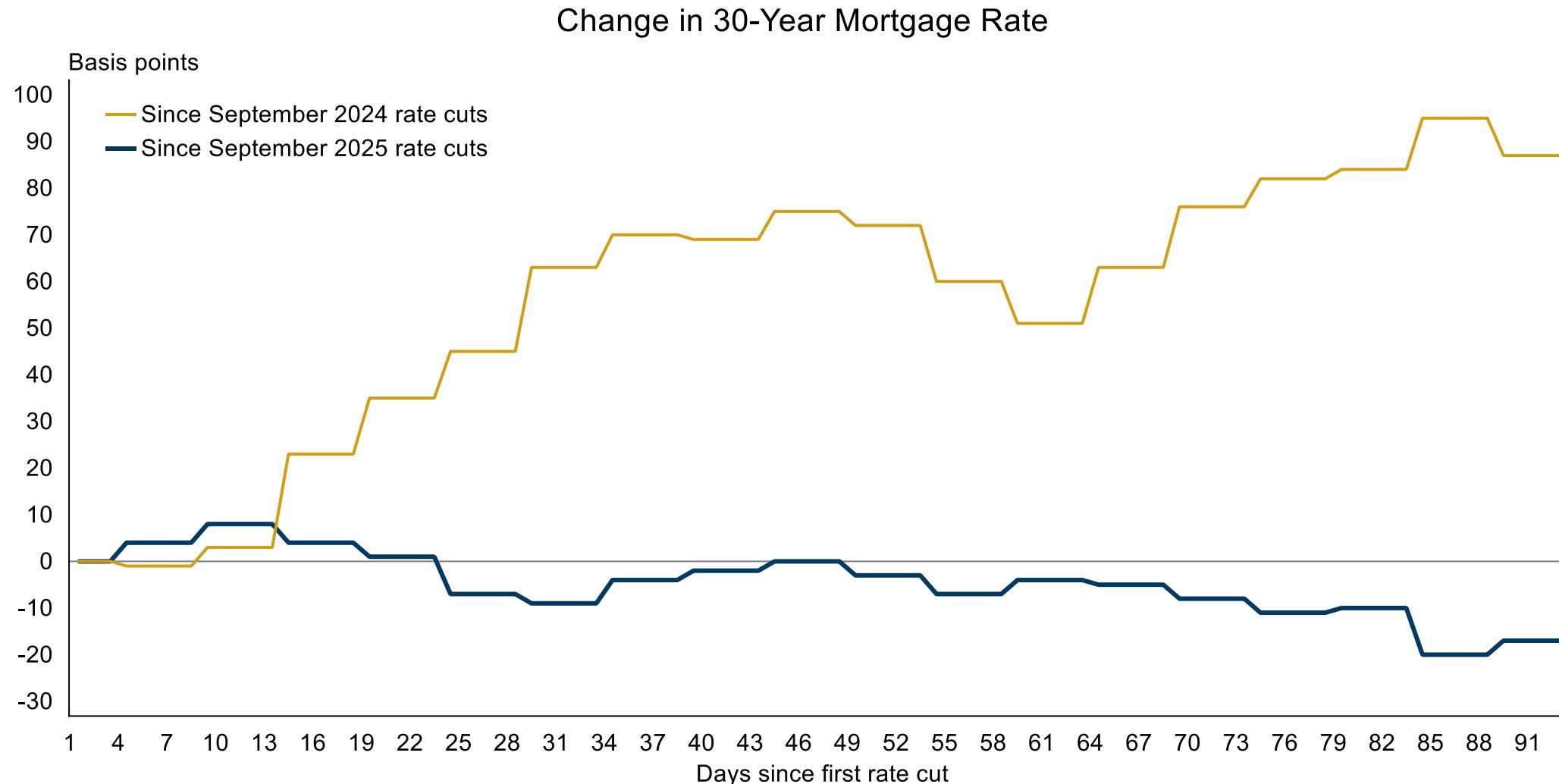
Source: U.S. Census Bureau, First Citizens Bank  
Data as of November 20, 2025

Over the last 12 months, how has your firm's use of AI affected labor productivity



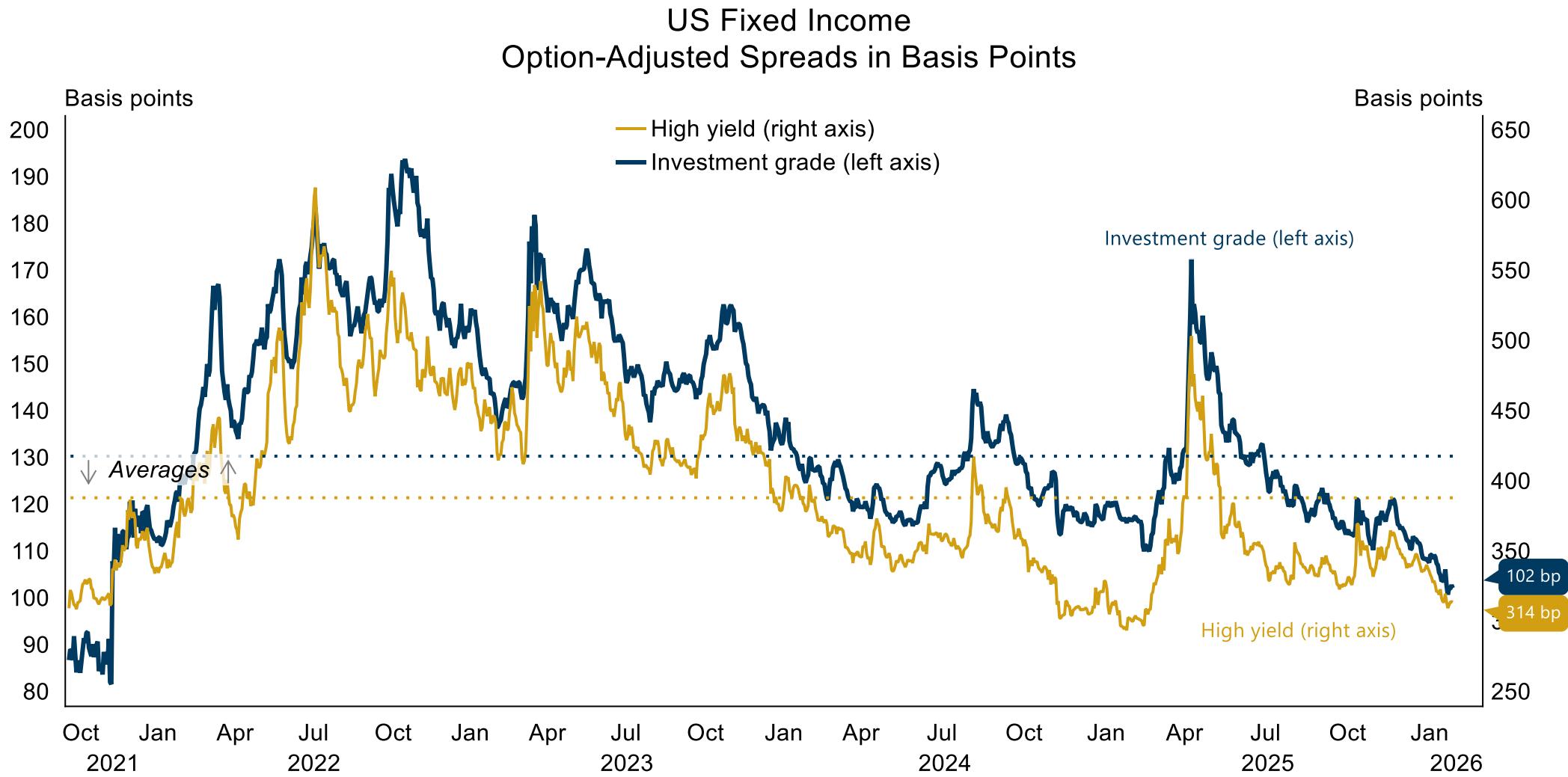
Source: Apollo Global Management

# Unlike last year, mortgage rates have moved a little lower after the Fed's cuts



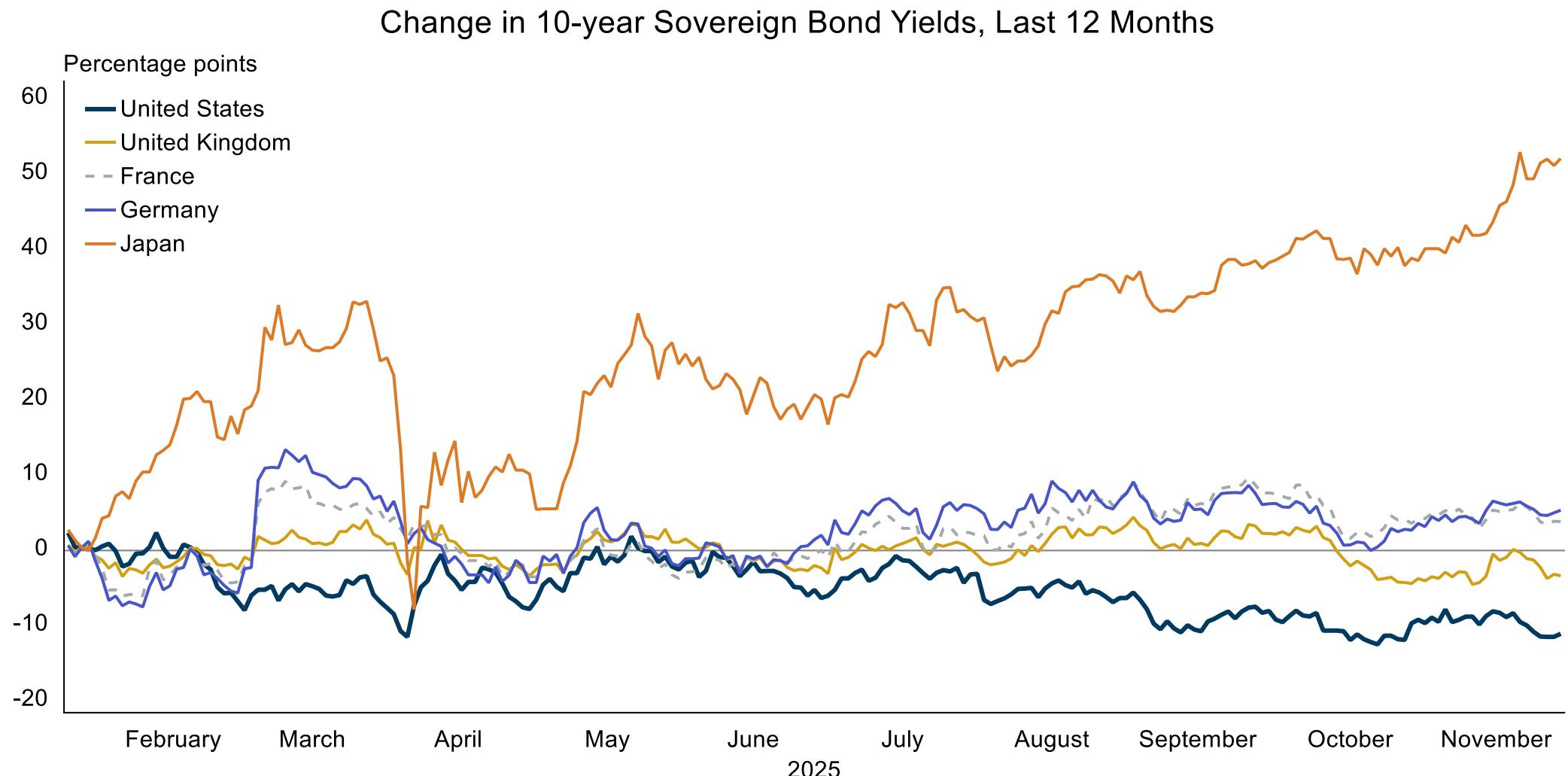
Source: Bloomberg  
Data as of: 1/28/2026

# Credit spreads remain near their tightest in years



Source: Bloomberg  
Data as of: 1/28/2026

# Japan serves as a reminder that sovereign bond yields can swing



Source: Bloomberg  
Data as of: 1/28/2026

# We are cautiously constructive on the S&P 500

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## Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 1/28/2026
Bear	5,200	-25.5%
Base	7,200	3.2%
Bull	7,800	11.8%

# Fixed income yields declined in 2025, driving strong total returns

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Fixed Income Indices		
	Yield to Worst	
	12/31/2024	Latest
<b>Aggregate Bond</b>	4.9%	4.4%
<b>Intermediate Government/Credit</b>	4.6%	4.0%
<b>Municipal Bond</b>	3.7%	3.5%
<b>Investment Grade Corporate Bond</b>	5.3%	4.8%
<b>High Yield Corporate Bond</b>	7.5%	6.5%

# Stock markets typically recover – often quickly – after geopolitical disruption

Stock Market Performance around Geopolitical Events

Event	Event date	Time to recover								
		Time to bottom (trading days)	Time to prior level (trading Days)	Size of selloff (%)	1-week from bottom	1-month from bottom	3-months from bottom	6-months from bottom	12-months from bottom	
WW-II Germany annexes Czechoslovakia	3/15/1939	22	108	-20.5	2.3	8.3	8.5	23.2	18.9	
WW-II Germany attacks France	5/9/1940	22	745	-25.8	11	10.9	17.1	18	9.2	
WW-II Pearl Harbor	12/7/1941	17	201	-10.8	11	6.5	-3.8	-1.1	15.3	
N. Korea invades S. Korea	6/24/1950	17	43	-12.9	4.8	11.2	19.2	29.2	31.4	
Suez Crisis	10/29/1956	17	131	-6.8	5.5	4.9	-1.4	6.2	-6	
Berlin Wall Built	8/13/1961	25	18	-3.9	1.4	4.1	8	6.2	-14.6	
Cuban missile crisis	10/14/1962	7	9	-6.6	5.7	15	22.7	30	36.5	
Assassination of President Kennedy	11/22/1963	2	1	-2.8	5.2	6.7	11.5	16	23.9	
Authorization of military in Vietnam	8/7/1964	15	36	-3.2	1.3	1.7	4.8	7.3	5.8	
Six Day Israel Arab war	6/5/1967	20	40	-6.5	4.1	3.3	6.5	7.7	13	
Assassination of Martin Luther King Jr	4/4/1968	2	2	-0.6	3.5	5.8	8.2	11.2	7.9	
Israel Arab war/oil embargo	10/16/1973	27	1475	-17.1	1.5	7.3	5.6	-2	-28.2	
President Nixon impeachment proceedings	2/6/1974	9	16	-6.6	1.8	9.1	0.9	-10.8	-13.3	
Shah of Iran exiled	1/16/1979	9	34	-4.6	1.8	1.3	1.9	8.7	19.7	
Iranian hostage crisis	11/4/1979	24	51	-10.2	3.5	7.7	16.4	7.3	29.3	
Soviet invasion of Afghanistan	12/24/1979	12	6	-3.8	4.4	9.4	-2.9	11.6	29.6	
Invasion of Grenada	10/25/1983	22	304	-6.3	2.2	2.1	-3.7	-0.8	4.3	
Bombing of Libya	4/15/1986	20	7	-4.9	3.7	5.7	6.2	5	23.5	
First Gulf War	10/2/1990	50	87	-15.9	3.5	6.2	6.7	27.8	29.1	
President Clinton impeachment proceedings	12/19/1998	6	5	-3.9	5.4	6.2	13.4	13.4	23	
Kosovo bombing	3/24/1999	4	9	-4.1	3.1	7.5	5.6	1.4	21	
9/11 Attacks	9/11/2001	6	15	-11.6	7.8	11.1	18.5	19.4	-12.5	
Iraq war	3/20/2003	7	16	-5.3	3.7	8	15.8	20	32.8	
Arab spring (Egypt)	1/25/2011	2	3	-1.8	2.7	4	6.6	1.9	3.1	
Intervention in Libya	3/19/2011	18	29	-6.4	3.2	5	0.9	-3.3	11.7	
Ukraine conflict	3/1/2014	6	13	-2	1.4	-0.6	5.2	7.8	11.5	
Intervention in Syria	9/22/2014	21	12	-7.4	4.7	9.5	8.4	13	9.1	
Brexit Vote	6/23/2016	14	9	-5.6	5.1	8.3	8	13.4	20.9	
Airstrike on Syrian Airbase	4/7/2017	32	16	-2.8	1.2	2.7	5.1	9.6	14.1	
Russia-Ukraine War	2/24/2022	9	14	-1.3	2.3	7.8	-0.9	-3.2	-2.7	
"Liberation Day" tariffs	4/2/2025	5	23	-12.1	8.3	13.7	20.8	36.0	-	
Median		15.0	16.0	-6.3	3.5	6.7	6.6	8.7	13.6	
Average		15.1	112.2	-7.6	4.1	6.8	7.7	10.6	12.2	

\*Gray denotes recession



# 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

**Written commentary** | Often coinciding with market or economic events



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