

Making Sense

Market Update | May 2026



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Recorded on May 27, 2026

What are we going to cover?

1. Economic update:

Geopolitics | Economic growth | Interest rates | Inflation | Housing

2. Market update:

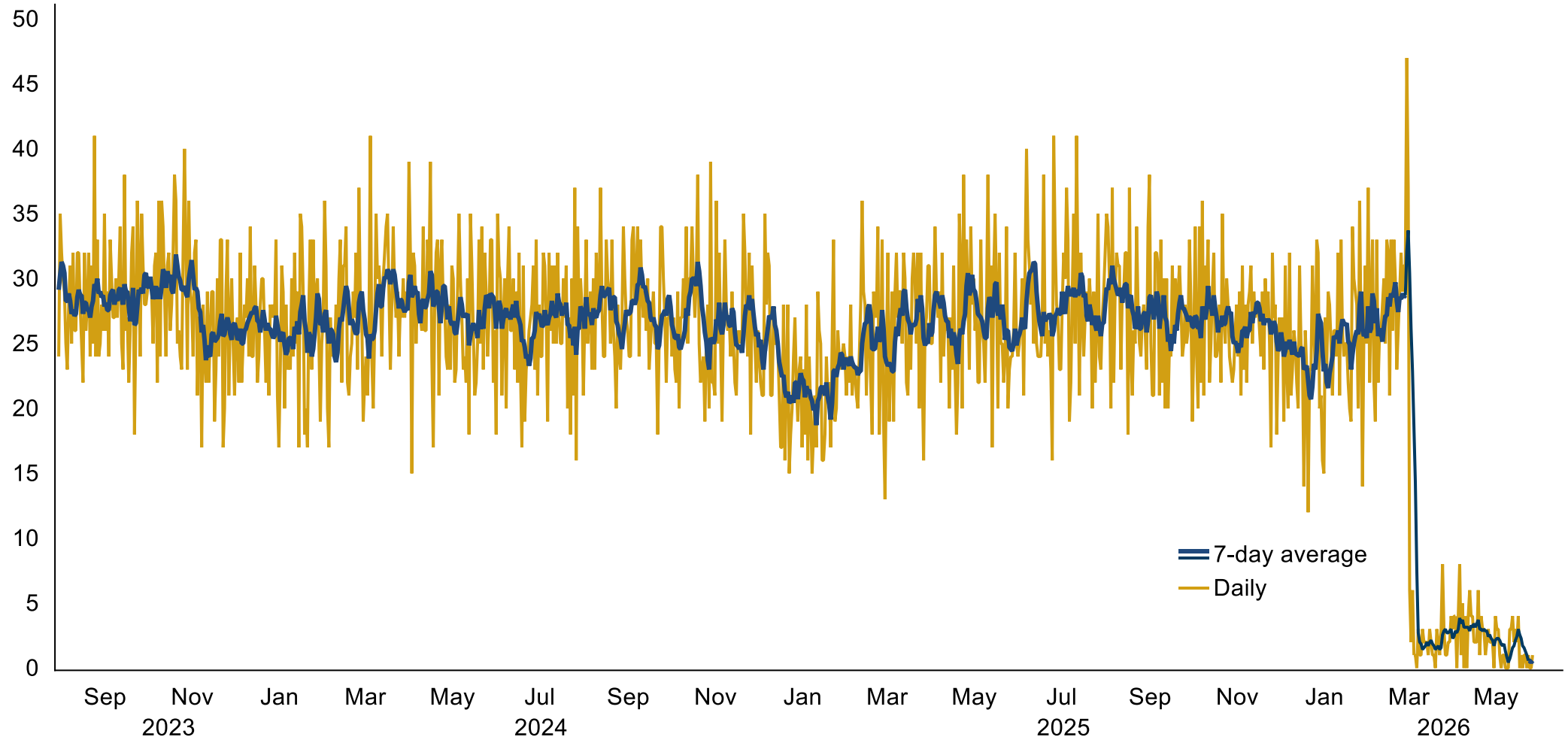
Equity markets | Corporate earnings | Valuations | Fixed income

Economic update



The Middle East war is causing the largest oil supply disruption in history

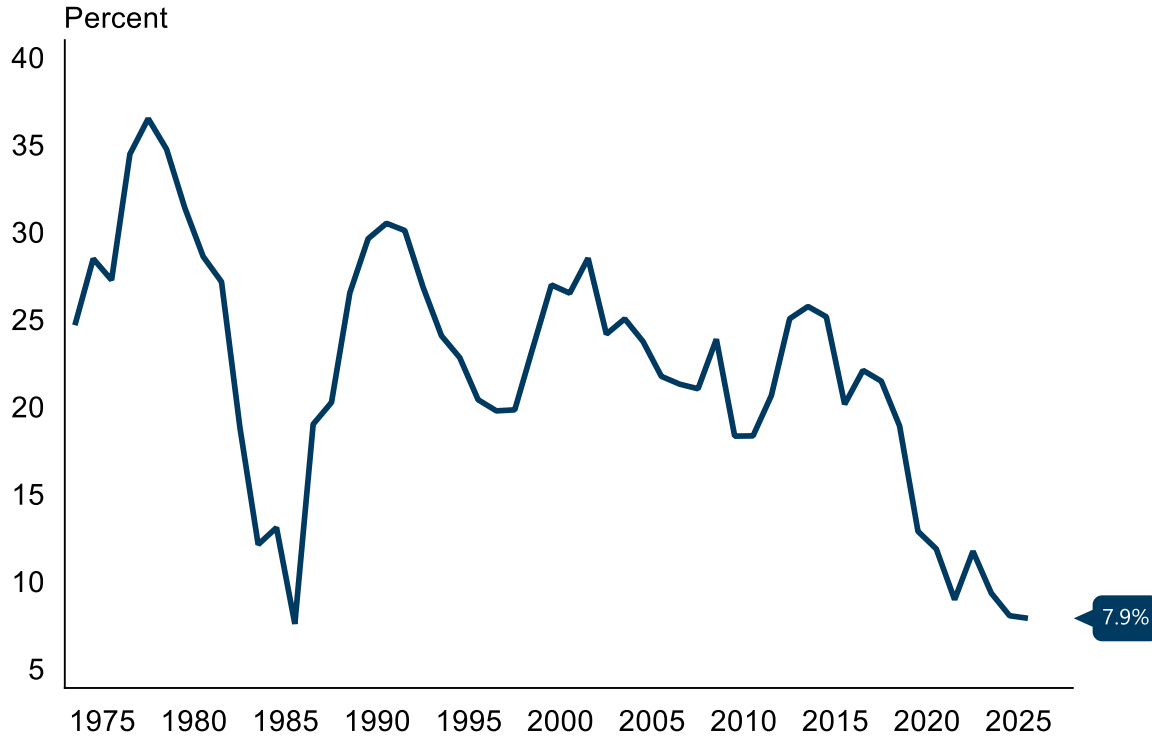
Number of Crude Oil Tankers Crossing the Strait of Hormuz



Source: Bloomberg, First Citizens Bank
Data as of 5/26/2026

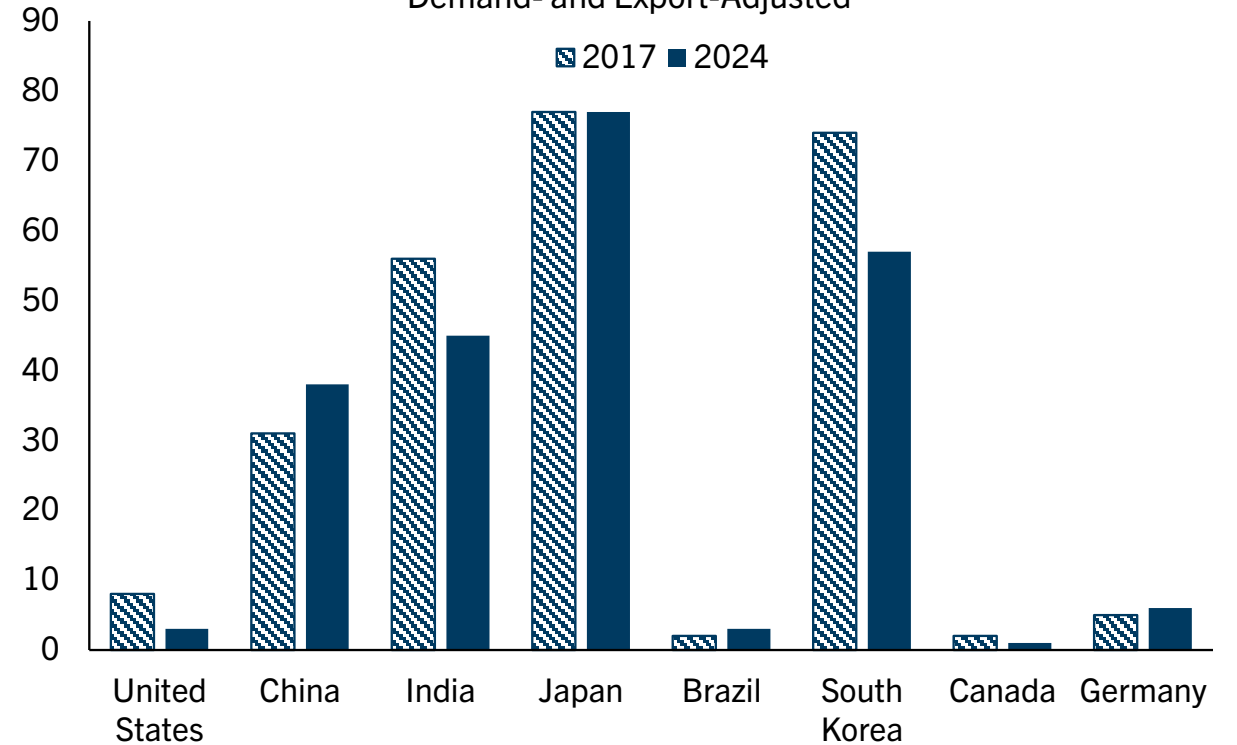
The US has very little direct exposure to Middle East oil supplies

Share of Total US Oil Imports From the Persian Gulf



Source: Energy Information Administration, First Citizens Bank
Data as of May 26, 2026

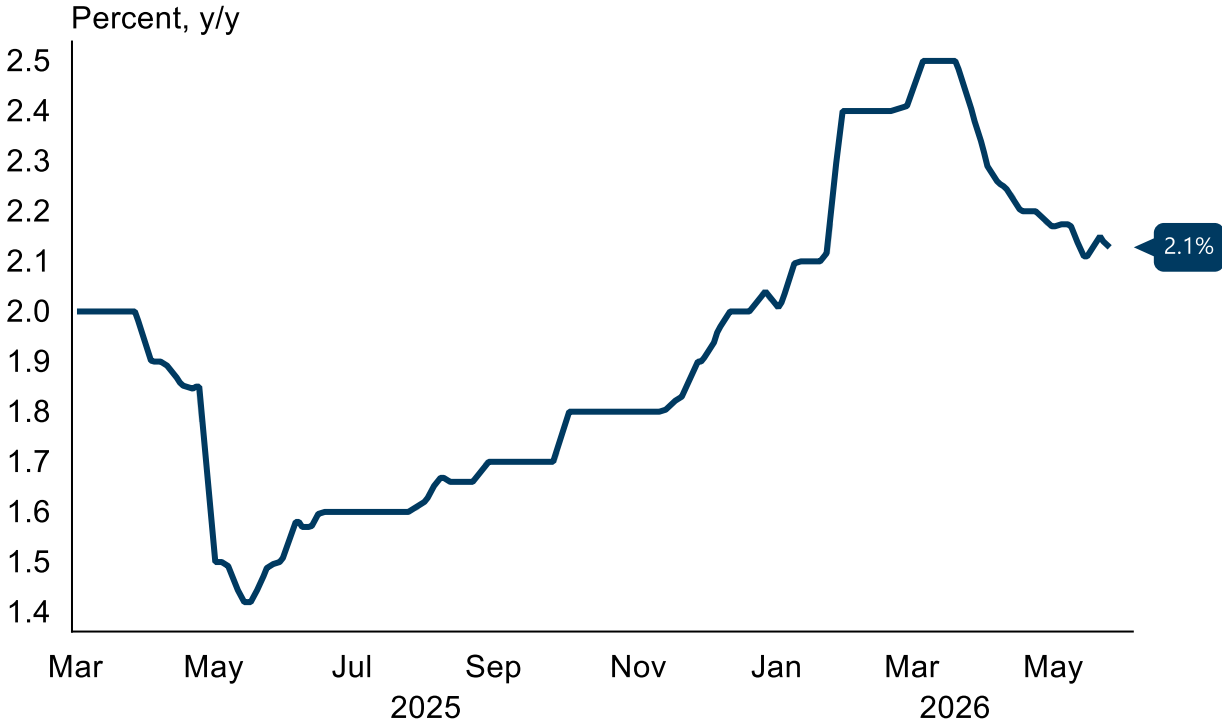
Reliance on Middle East Oil Supplies Demand- and Export-Adjusted



Source: International Energy Agency

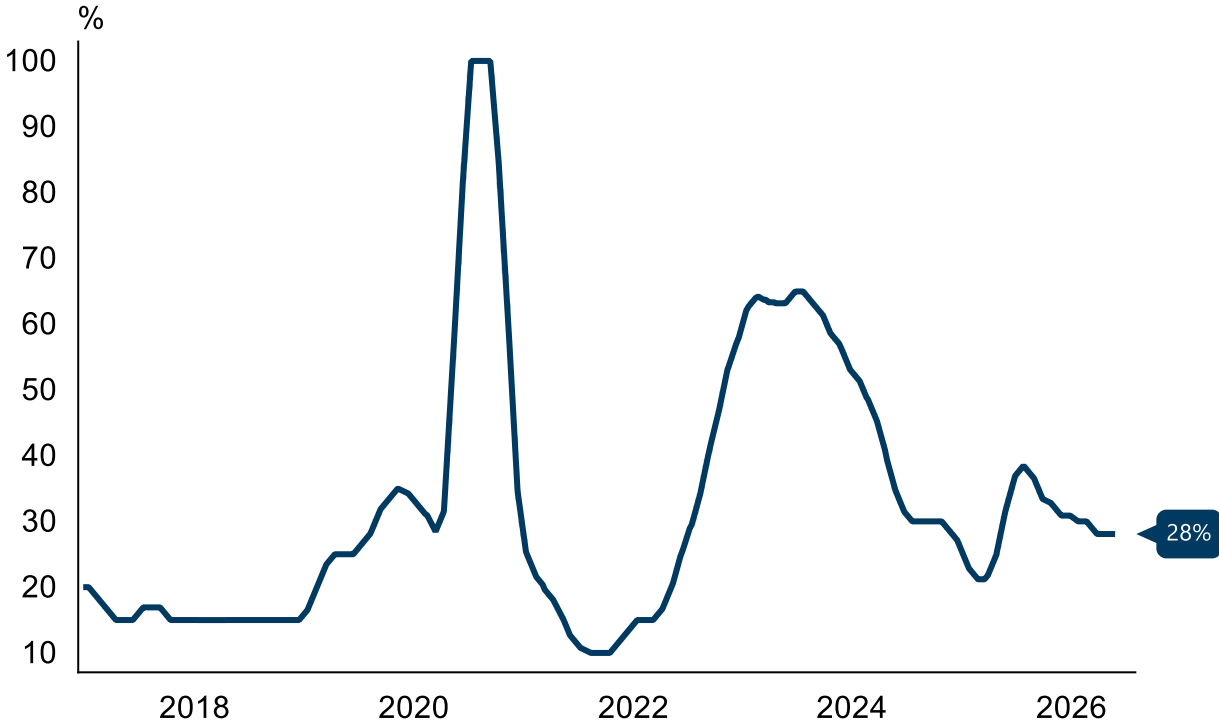
Forecasters see little change to their already optimistic growth outlooks

2026 Real GDP Growth Median Professional Forecast



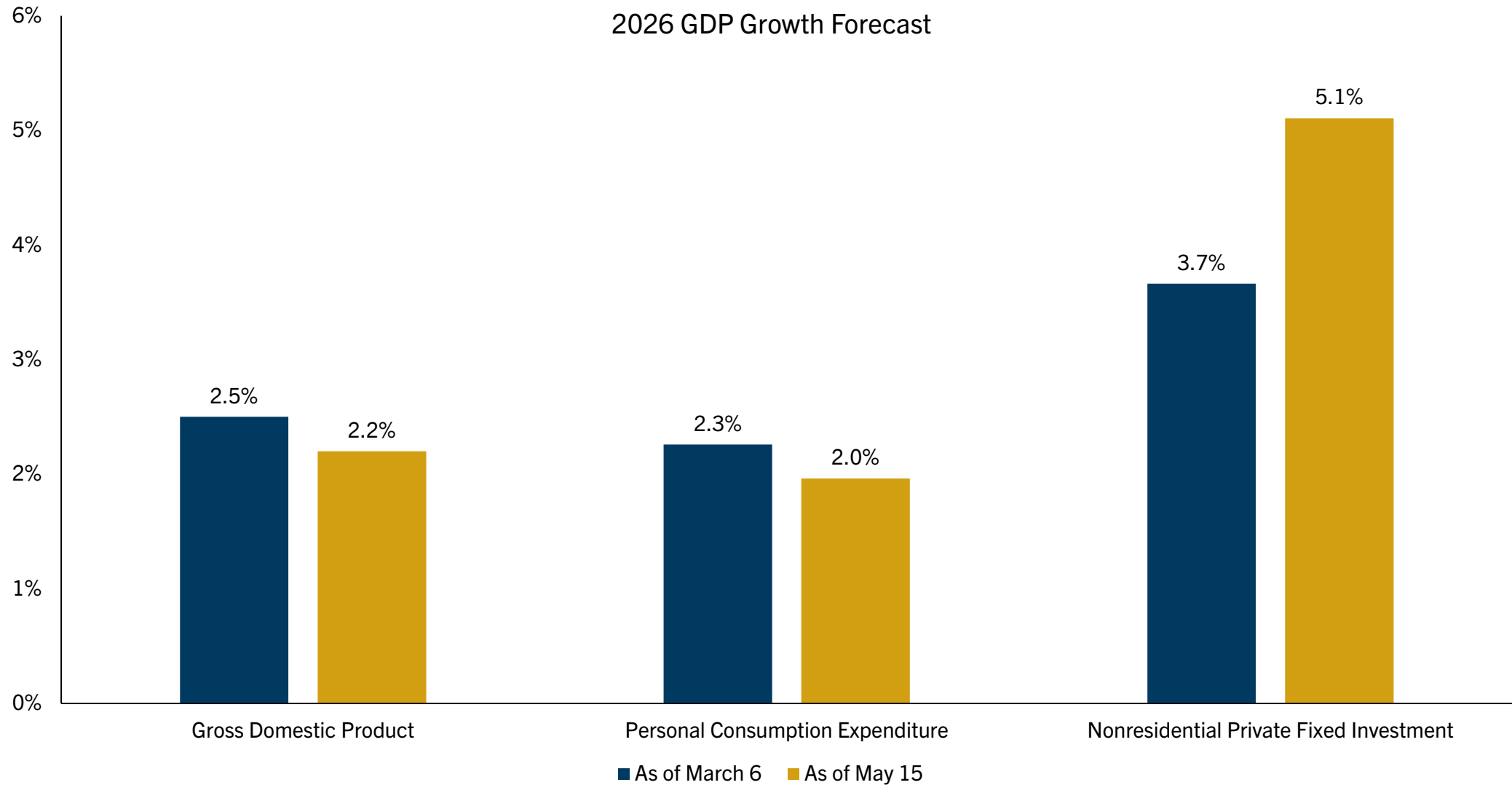
Source: Bloomberg
Data as of: 5/26/2026

United States Recession Probability Median Professional Forecast



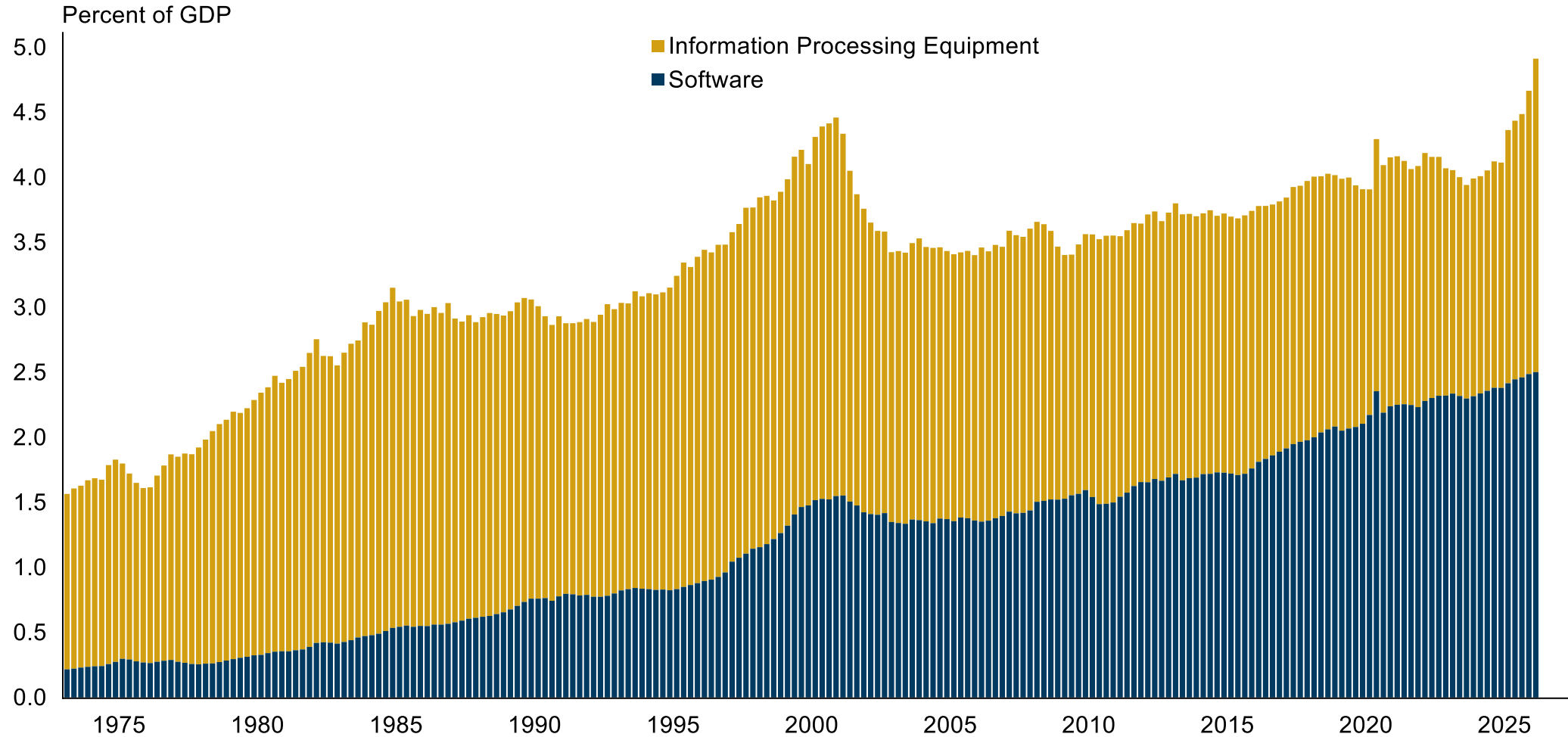
Source: Bloomberg. Note: 3-month average.
Data as of 5/26/2026

Tech investment is being revised higher as overall GDP is revised lower



Tech investment has never been such a large share of the US economy

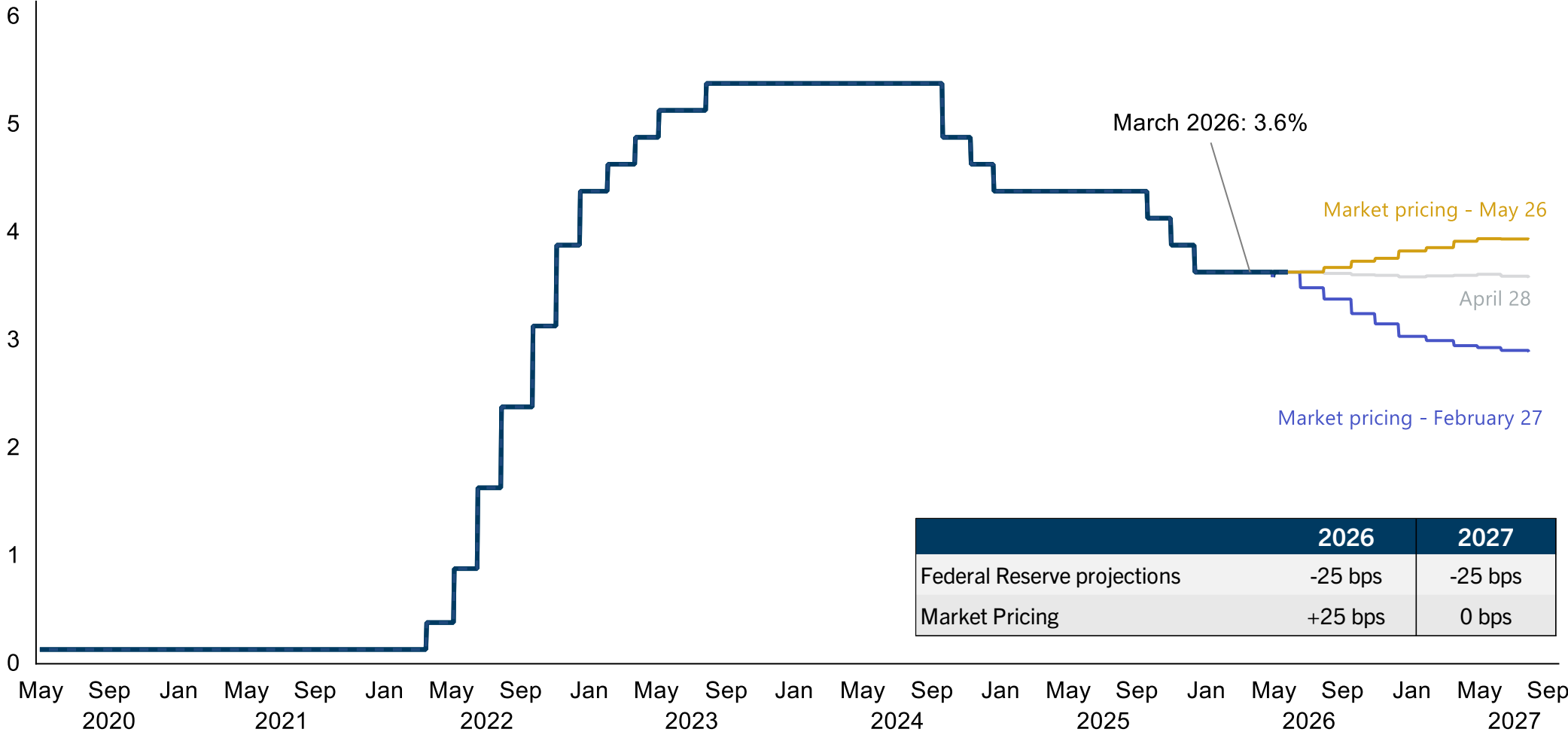
Tech Investment as a Share of GDP



Source: U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data as of April 30, 2026

Markets no longer expect the Fed to cut interest rates this year

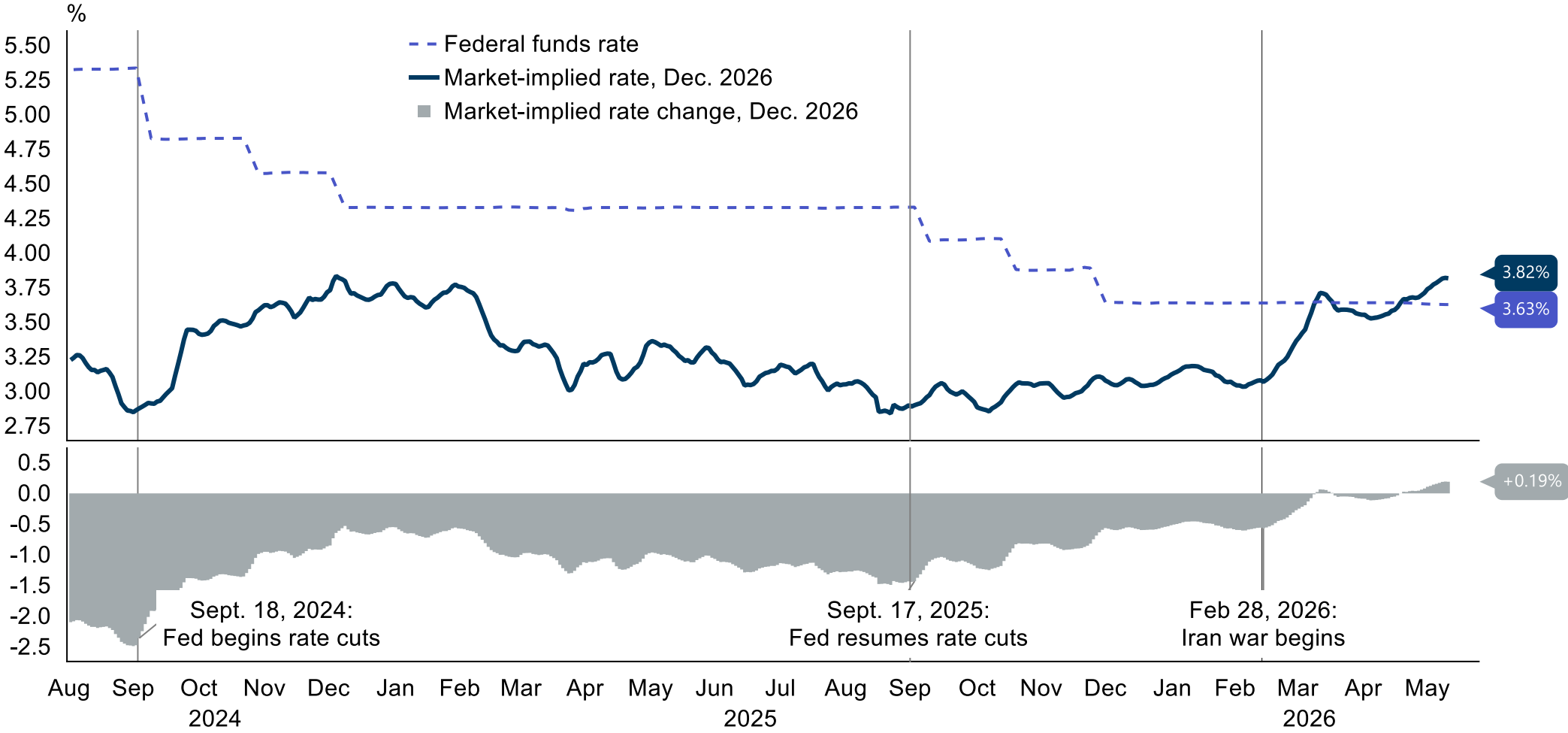
Federal Funds Rate & Market-Implied Path



Source: Federal Reserve, First Citizens Bank
Data as of 5/26/2026

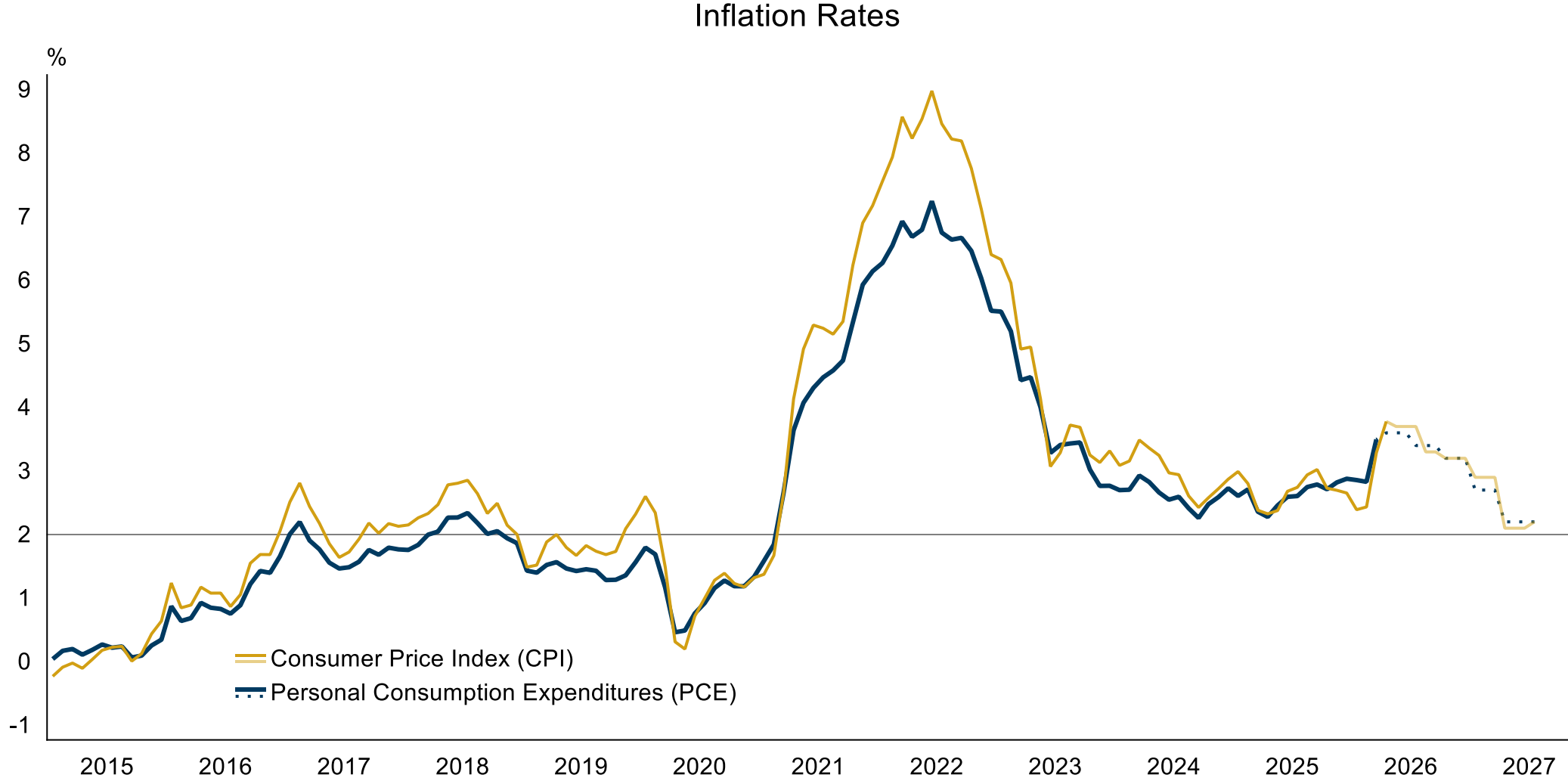
Markets are priced for an interest-rate hike by December

Market-Implied Federal Funds Rate for December 2026



Source: Bloomberg, First Citizens Bank
Data as of 5/26/2026

Forecasters see a temporary bump in consumer price inflation...



Source: U.S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of 5/12/2026

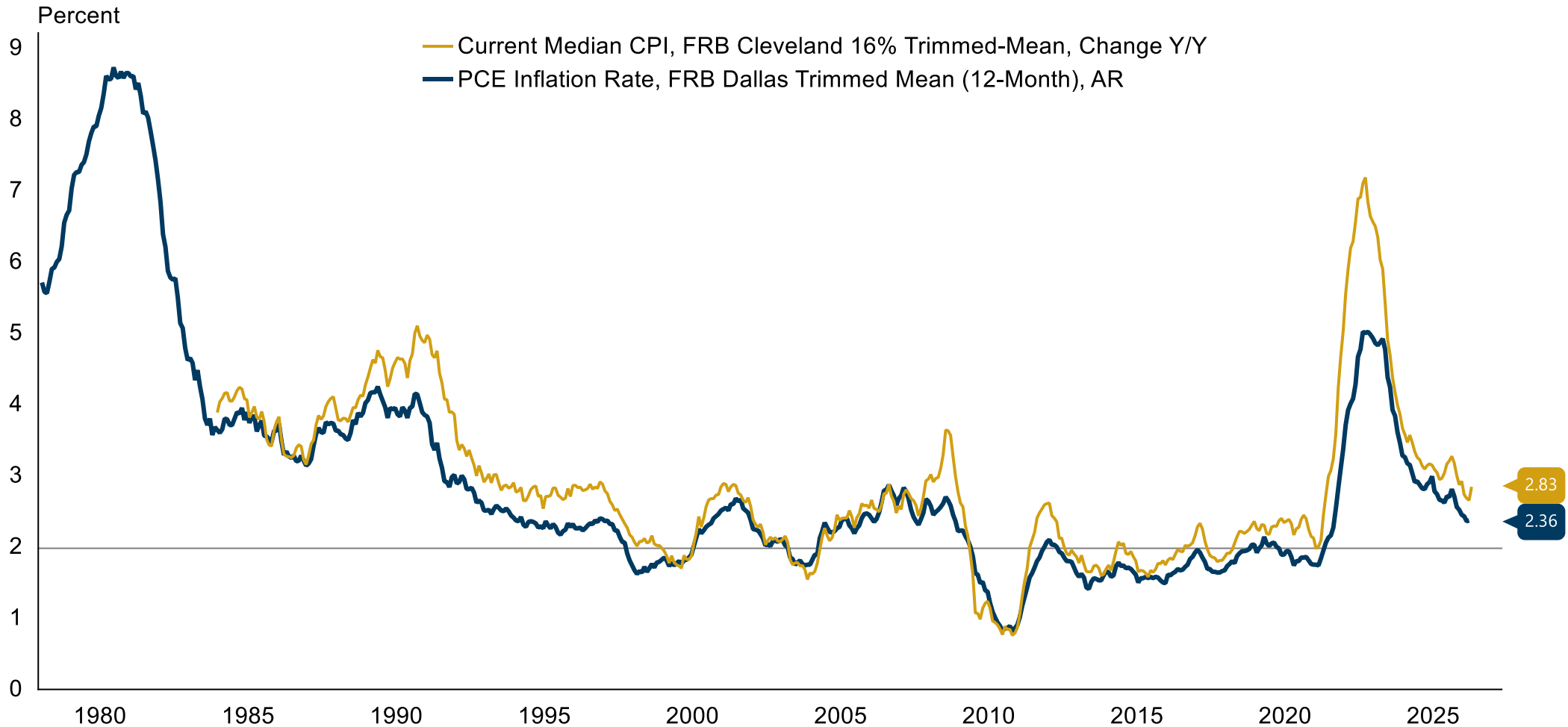
...but markets see inflation staying elevated for some time



Source: Bloomberg, First Citizens Banks
Data as of 5/26/2026

A different metric of “core” inflation shows much milder price pressures

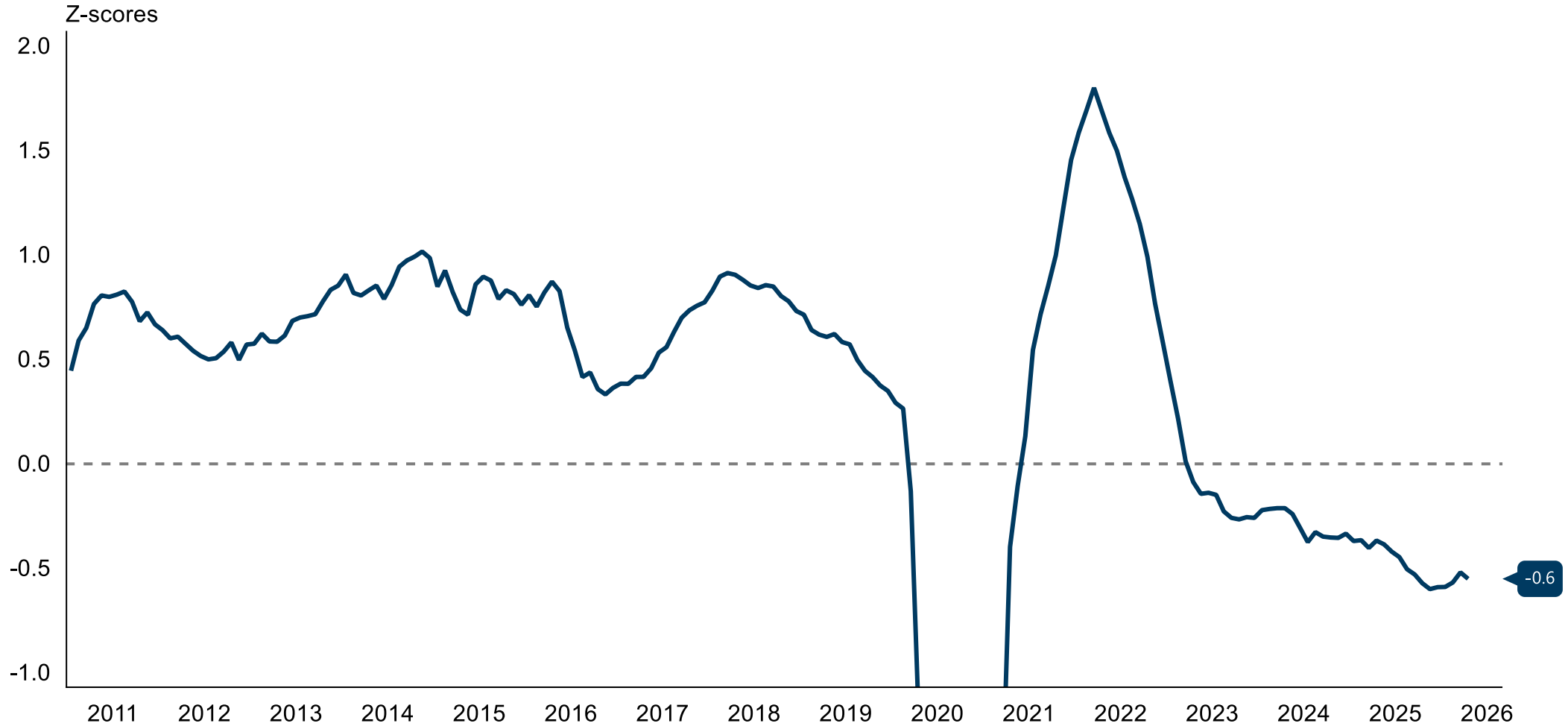
Trimmed Mean Inflation Rates



Source: Federal Reserve Bank of Dallas, Federal Reserve Bank of Cleveland, First Citizens Bank
Data as of May 12, 2026

The labor market has steadily been losing momentum

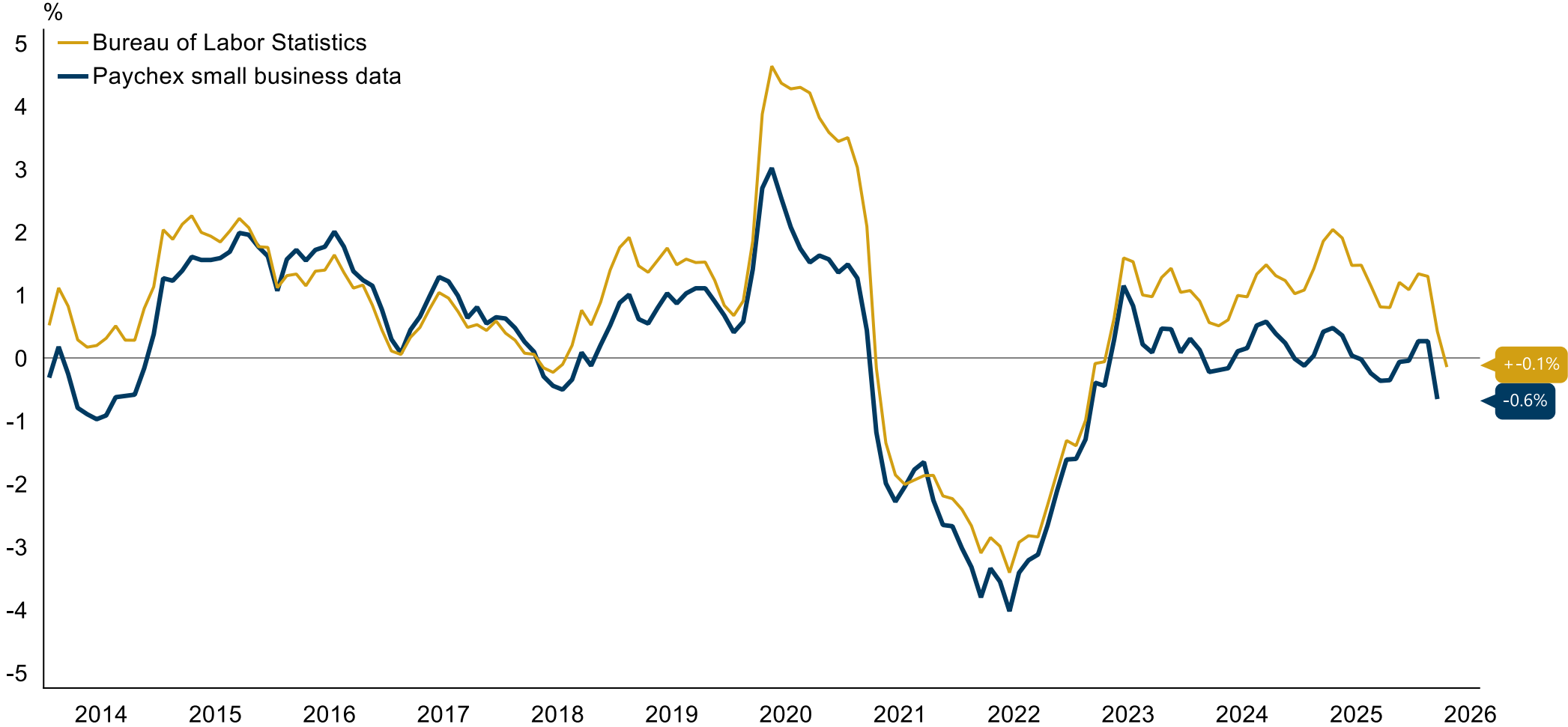
Bloomberg Alternative Labor Market Index



Source: Bloomberg, First Citizens Bank
Data as of April 2026

Inflation-adjusted wage growth has been near zero for small businesses

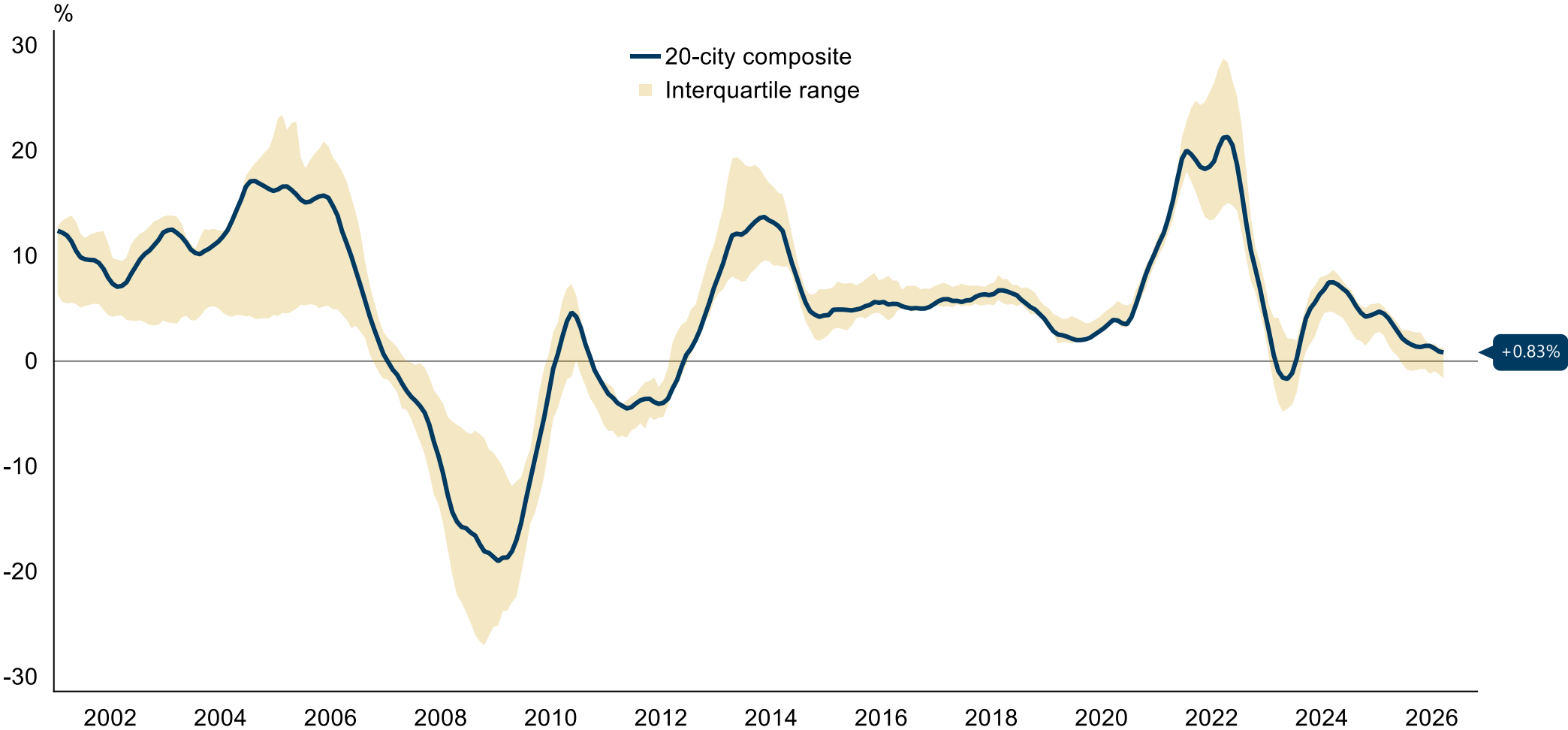
Hourly Wage Growth, Inflation-Adjusted



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

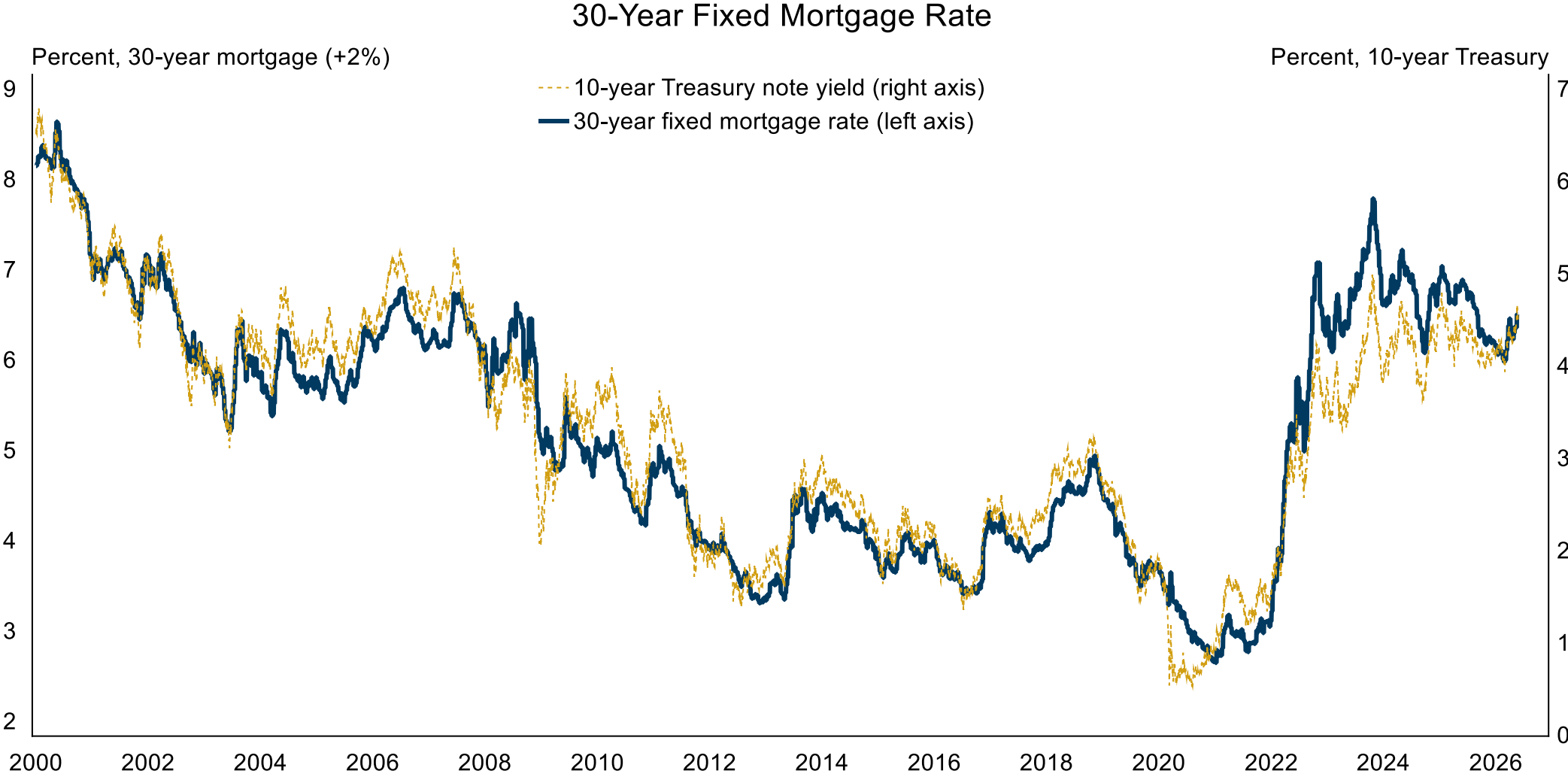
Home price growth has moderated to a very weak pace

Single-Family House Price Growth



Source: S&P Global, First Citizens Bank
Data as of March 2026

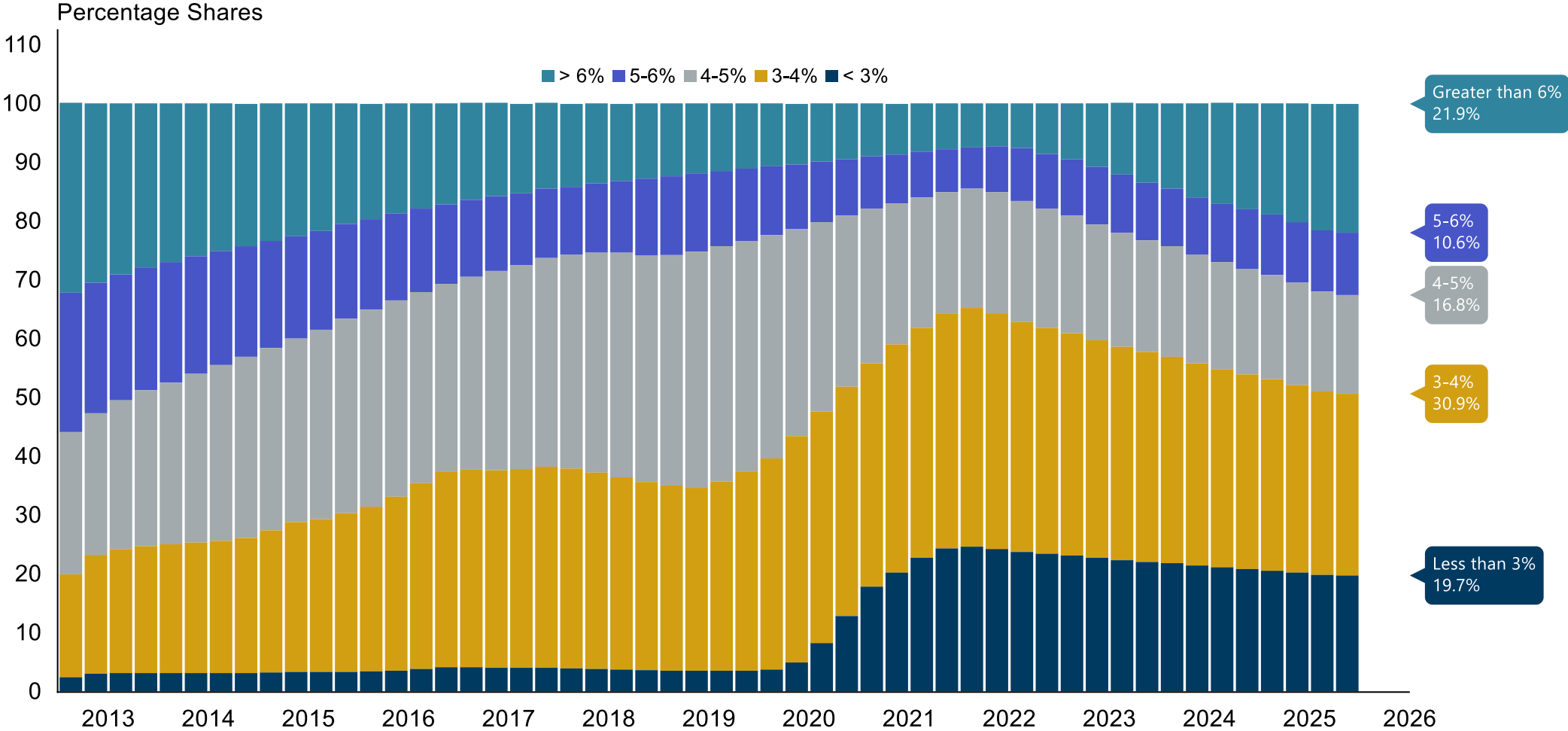
Mortgage rates have tracked the 10-year Treasury yield higher



Source: Freddie Mac, First Citizens Bank
Data as of May 21, 2026

Half of mortgages outstanding still have a rate below 4%

FHFA count-weighted average contracted interest rate

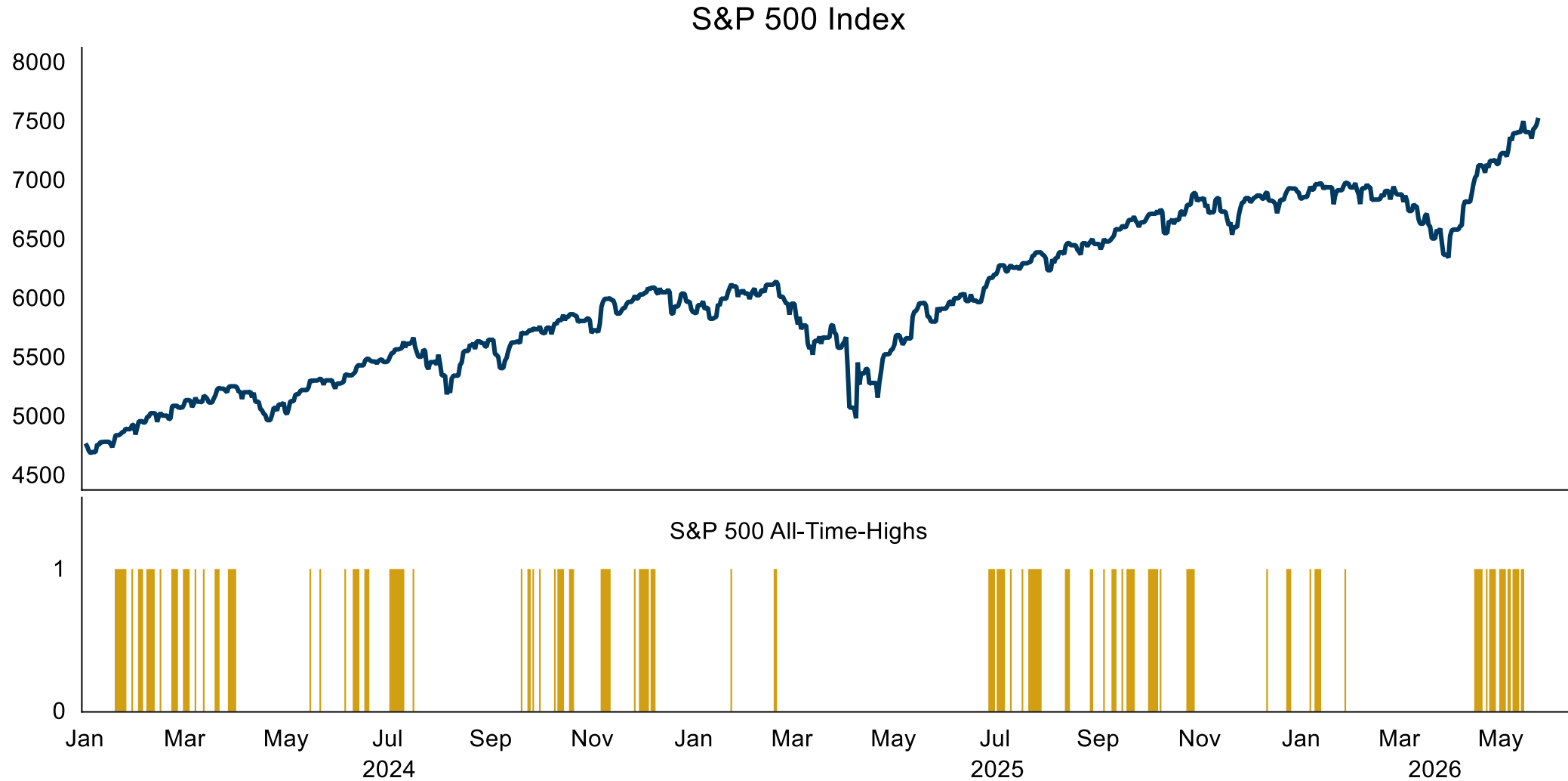


Source: Federal Housing Finance Agency (FHFA), First Citizens Bank
Data as of March 27, 2026

Market update



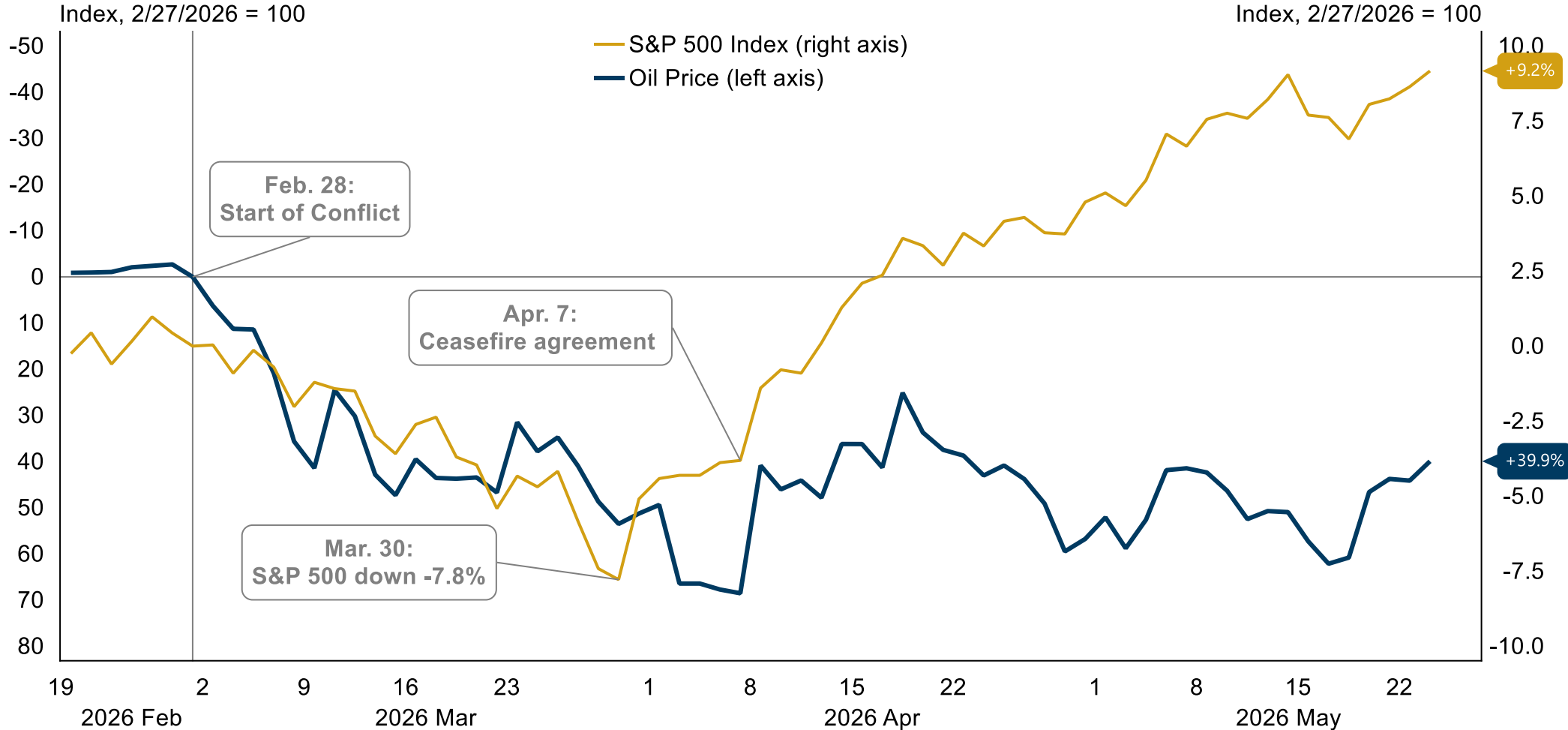
Stocks are crossing new all-time highs very frequently



Source: Bloomberg
Data as of: 5/26/2026

US equities appear to have moved past the energy-price shock

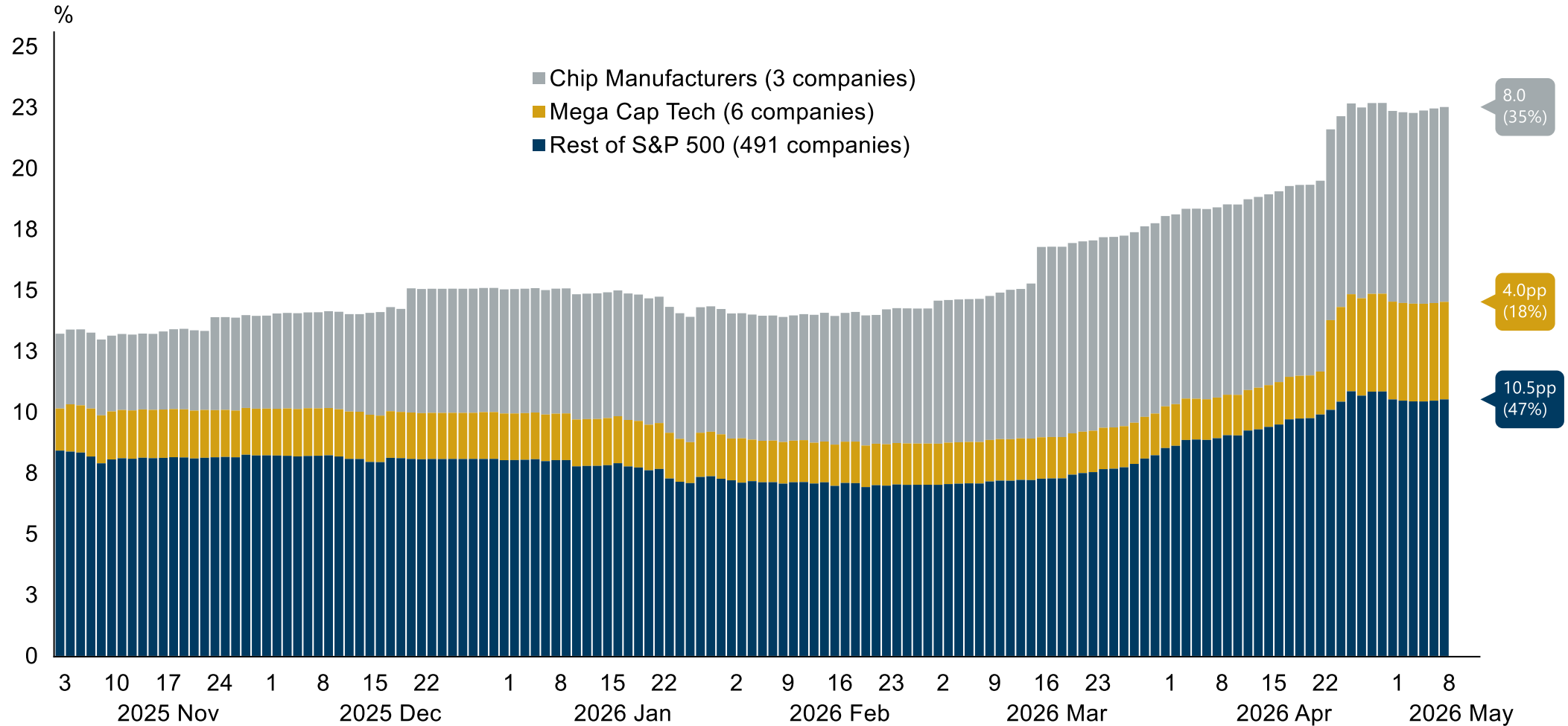
Oil Price vs. S&P 500 Performance



Source: Bloomberg. Oil price is West Texas Intermediate front month future.
Data as of: 5/26/2026

The lion's share of earnings growth is from a handful of large tech firms

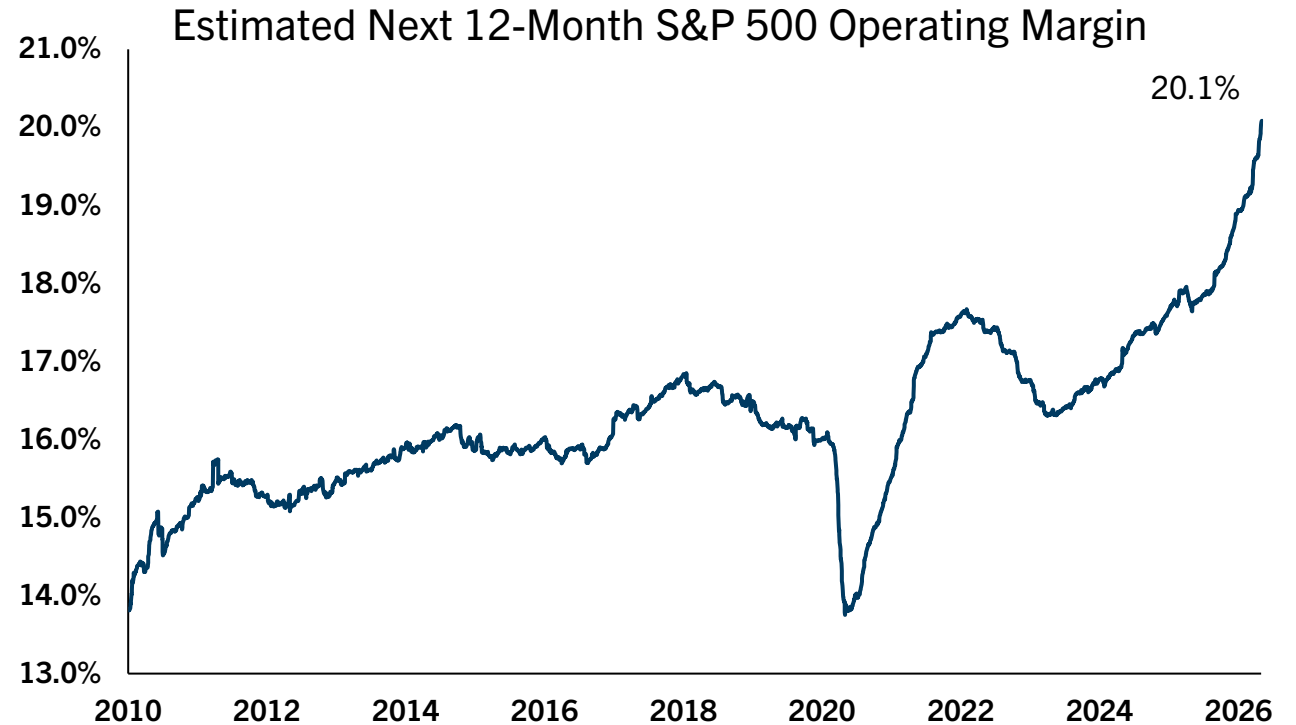
Contribution to S&P 500 2026 EPS Growth Estimate



Source: Trivariate Research, First Citizens Bank
Data as of May 18, 2026

Estimates point to robust corporate earnings and margin growth for 2026

- Q1 2026 estimated growth is **28.4%**
- CY 2026 estimated growth is **22.1%**
- Average growth since 1950 is **7.6%**



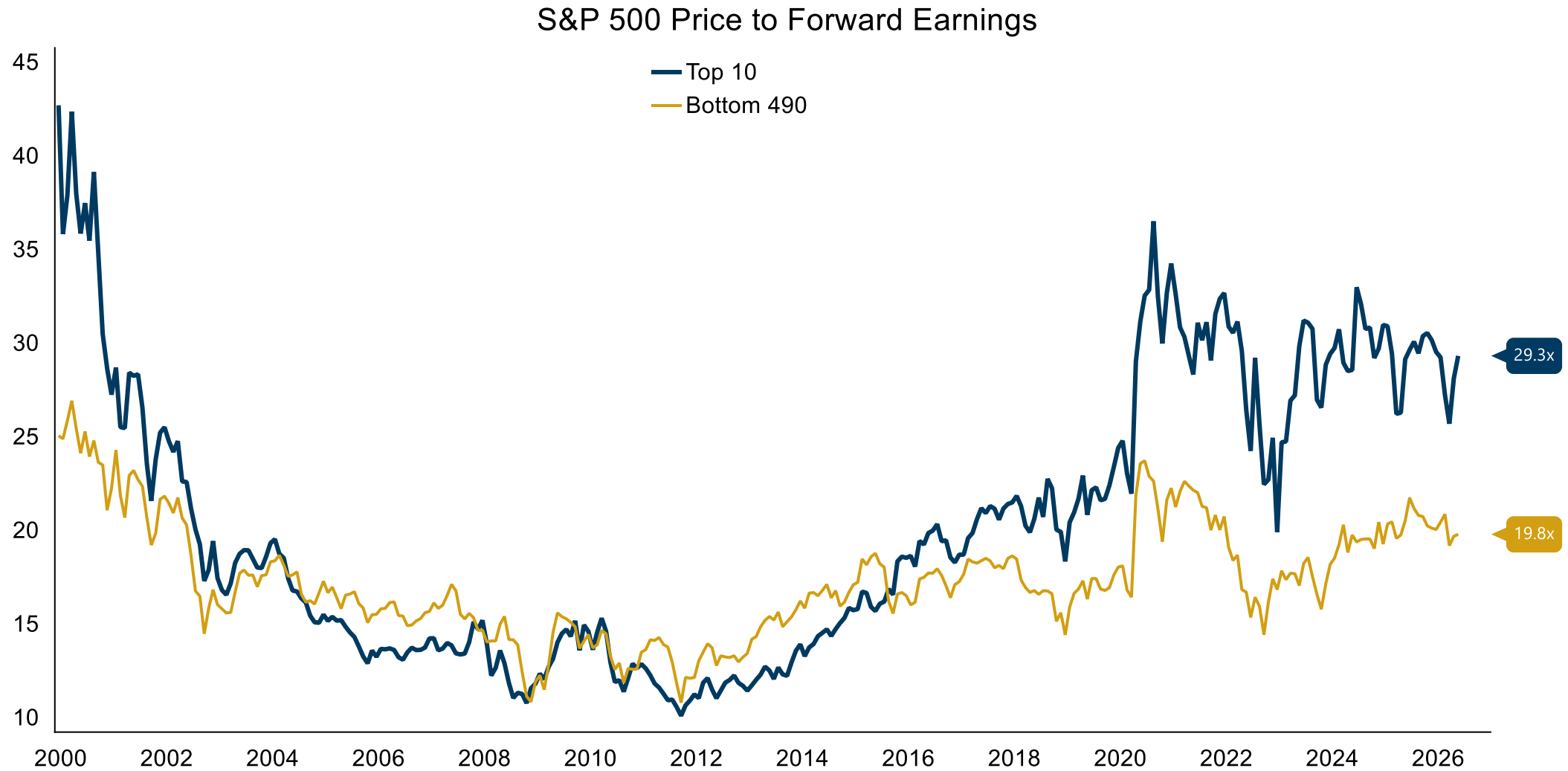
Forward valuations have recovered but remain below recent averages

12 Month Forward Price-to-Earnings Ratio



Source: Bloomberg, First Citizens Bank
Data as of 5/26/2026

The rest of the S&P 500 Index is less expensive than the top 10 stocks



Source: Trivariate Research, First Citizens Bank
Data as of May 19, 2026

Upward earnings revisions have pushed our price target higher

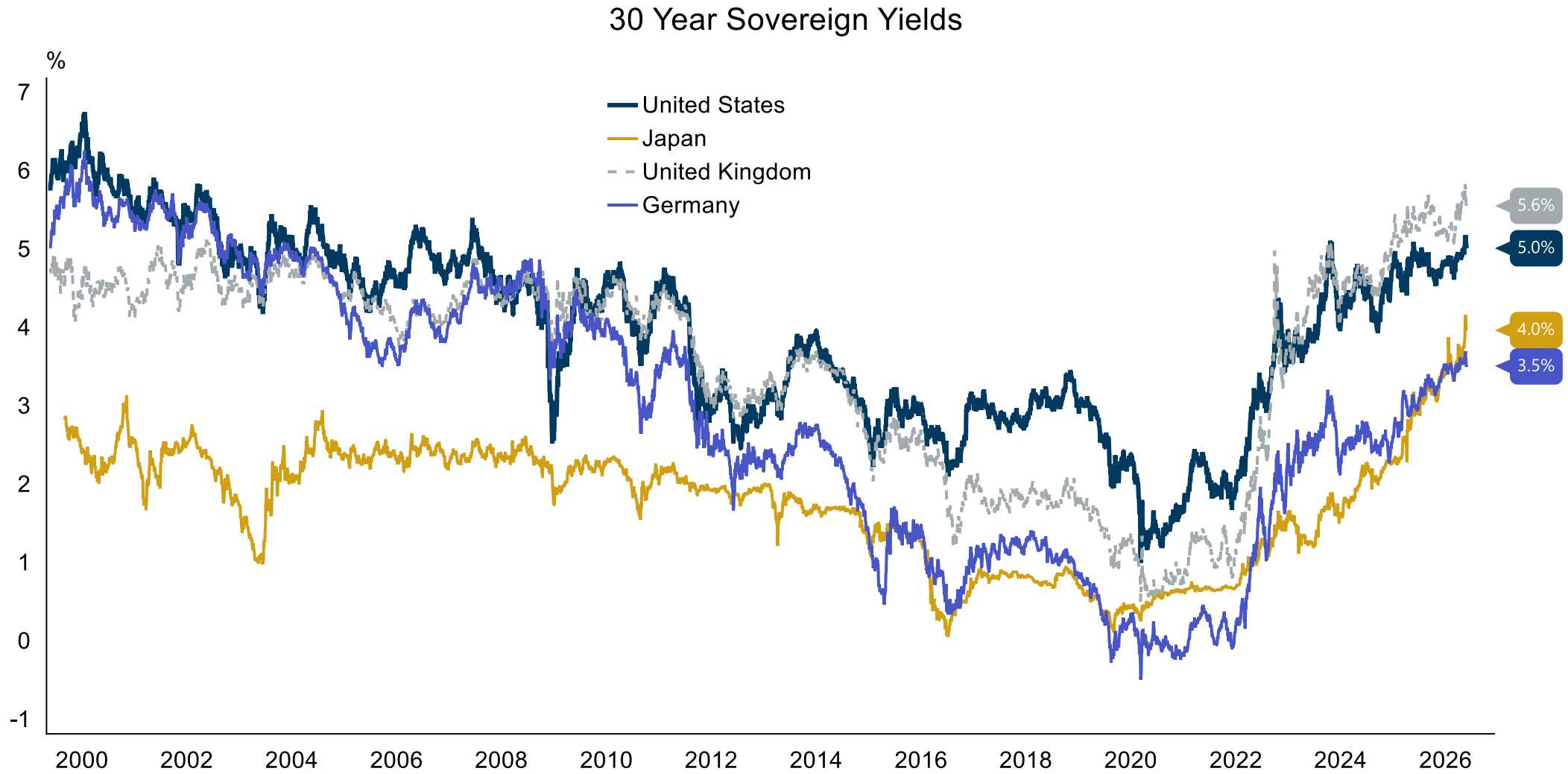
Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 5/26/2026
Bear	5,900	-21.5%
Base	8,000	6.4%
Bull	8,700	15.7%

Interest rates have climbed notably higher over the last 12 weeks

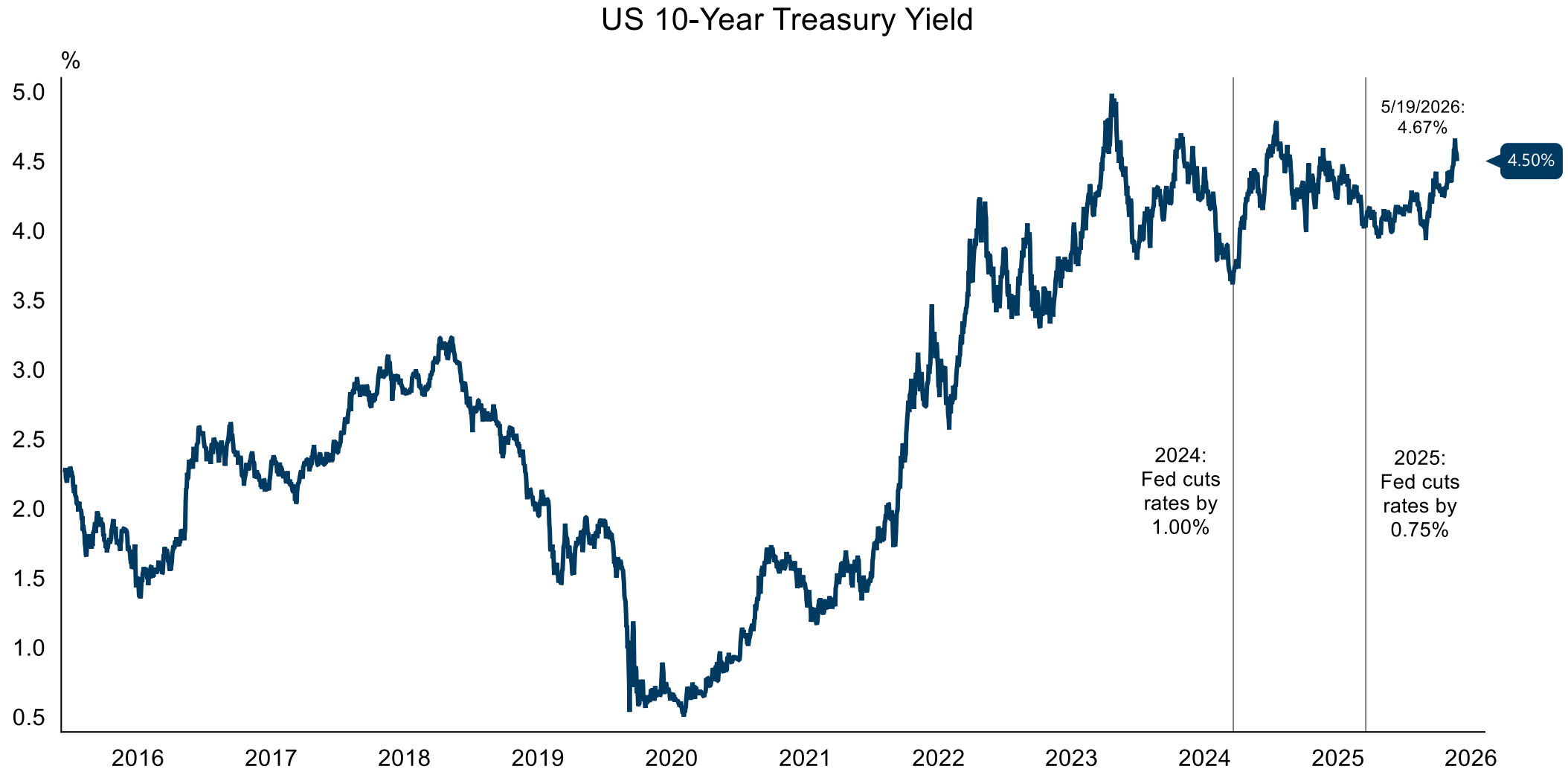
Fixed Income Indices			
	Yield to Worst		
	5/27/2026	2/27/2026	12/31/2025
2-Year Treasury	4.0%	3.4%	3.5%
10-Year Treasury	4.5%	3.9%	4.2%
30-Year Treasury	5.0%	4.6%	4.8%
Aggregate Bond	4.7%	4.2%	4.3%
Intermediate Government/Credit	4.4%	3.8%	3.9%
Municipal Bond	3.7%	3.3%	3.6%
Investment Grade Corporate Bond	5.2%	4.7%	4.8%
High Yield Corporate Bond	7.1%	6.7%	6.5%

Sovereign bond yields are at their highest in 15-20 years



Source: Bloomberg, First Citizens Bank
Data as of 5/26/2026

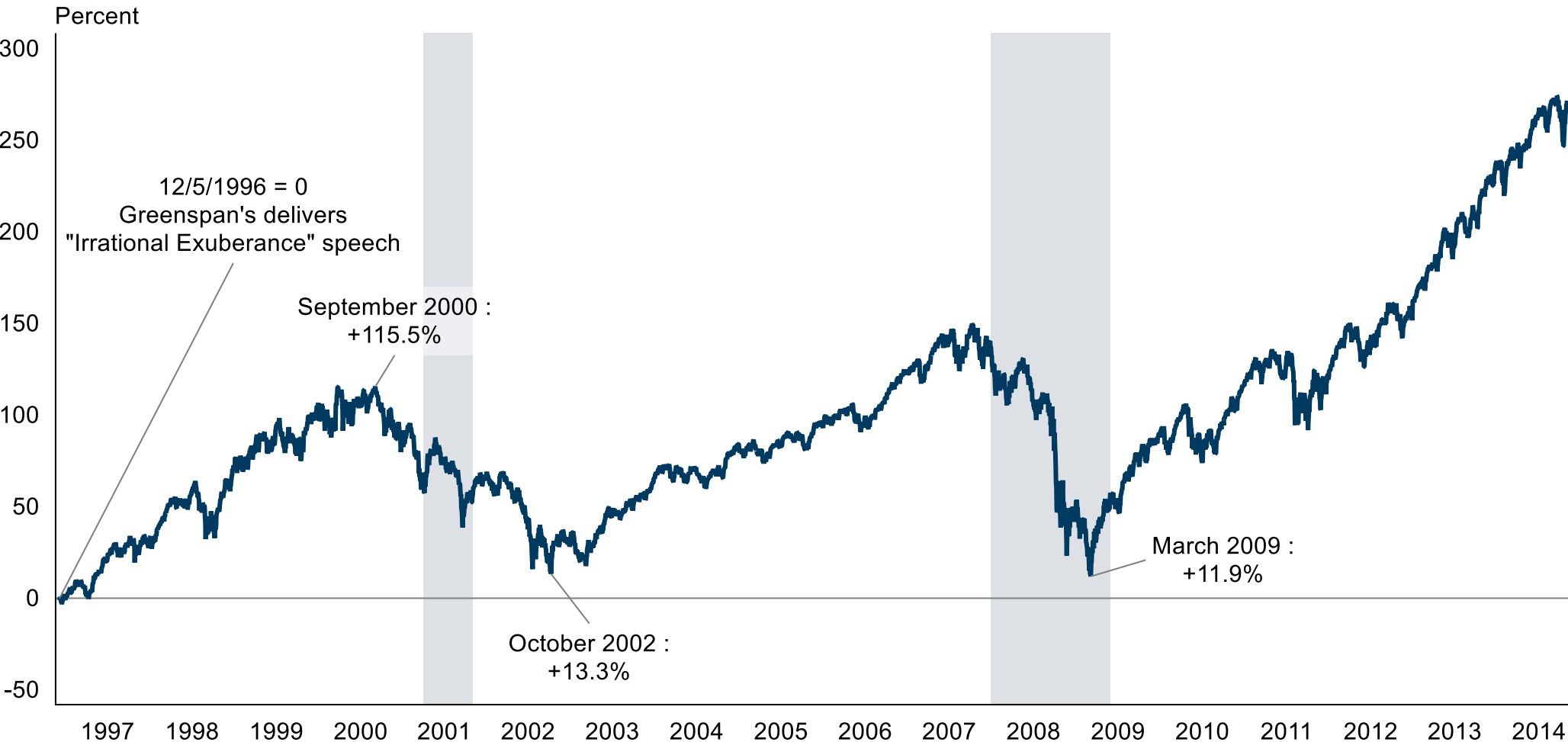
The 10-year Treasury yield has remained elevated despite Fed rate cuts



Source: Bloomberg
Data as of: 5/26/2026

Expensive equity markets can rally much further

S&P 500 Total Return Since Alan Greenspan's 1996 "Irrational Exuberance" Speech



Source: Bloomberg
Data as of: 5/21/2026

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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