

Making Sense

Market Update | October 2026



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Recorded on October 21, 2026

What are we going to cover?

1. Economic update:

Economic growth | Inflation | Labor market | Fed policy | Midterm elections

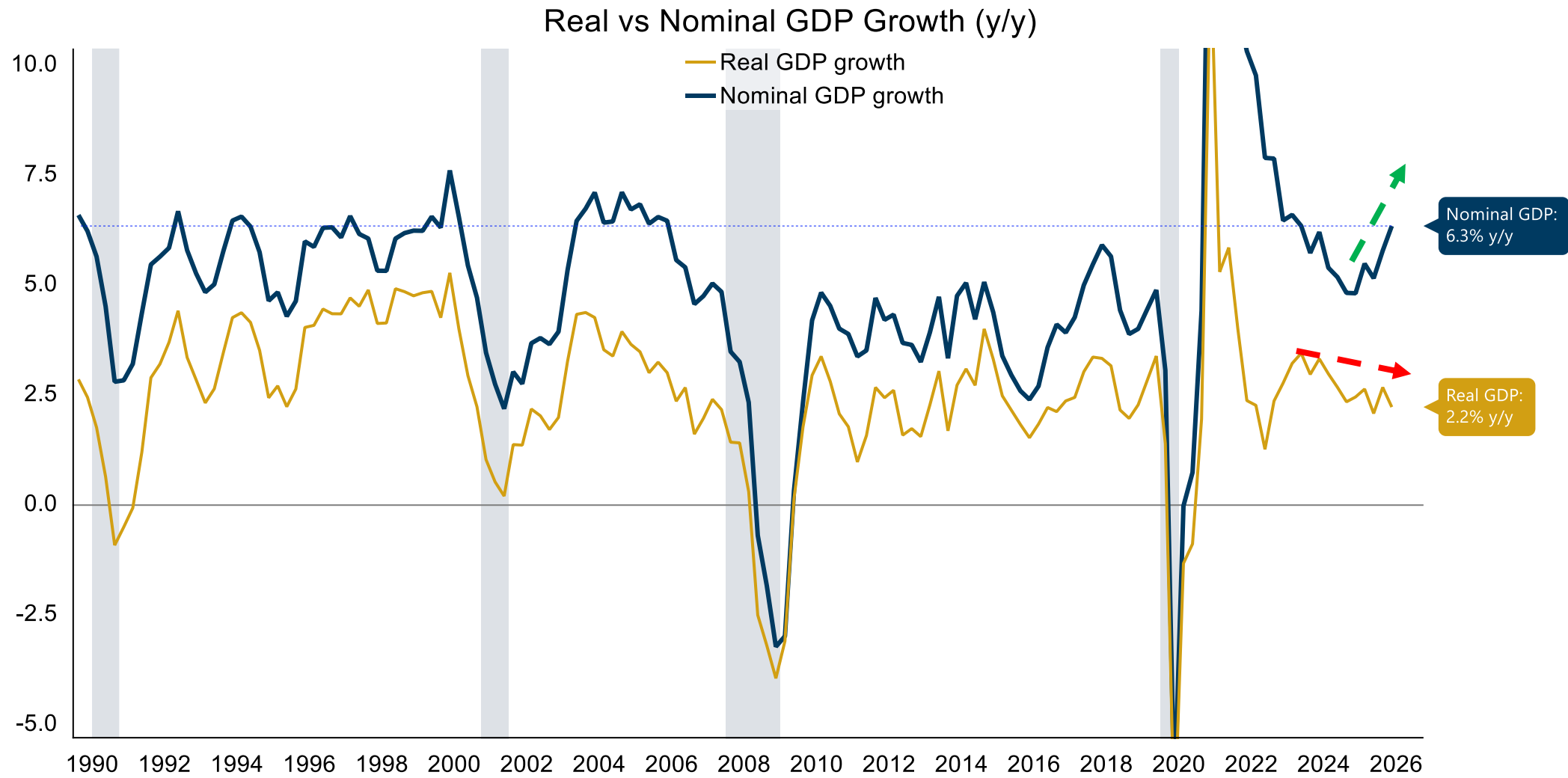
2. Market update:

Equities | Corporate earnings | Valuations | Fixed Income | Fiscal policy

Economic update

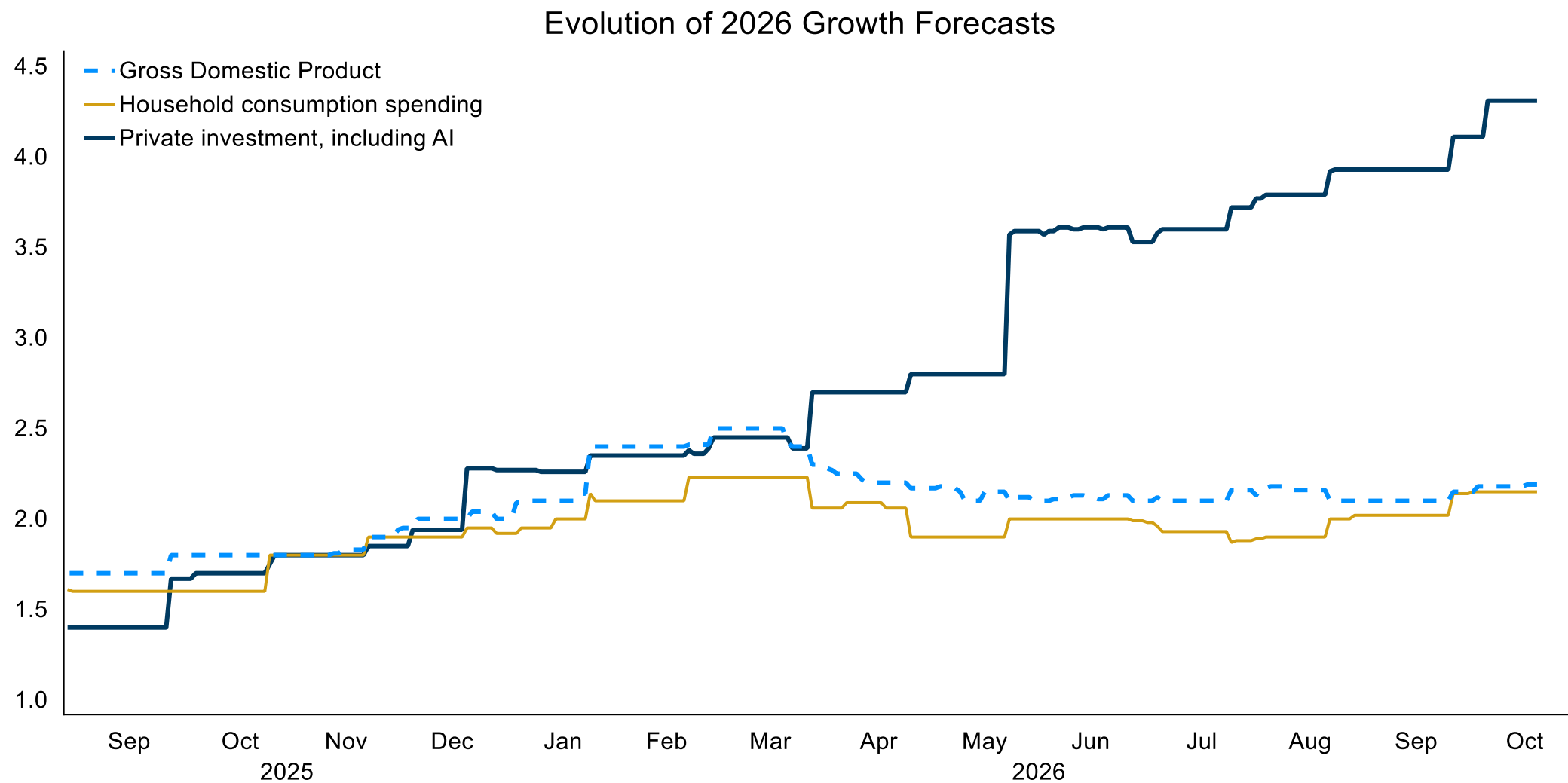


GDP growth is growing at a fast pace...before adjusting for inflation



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

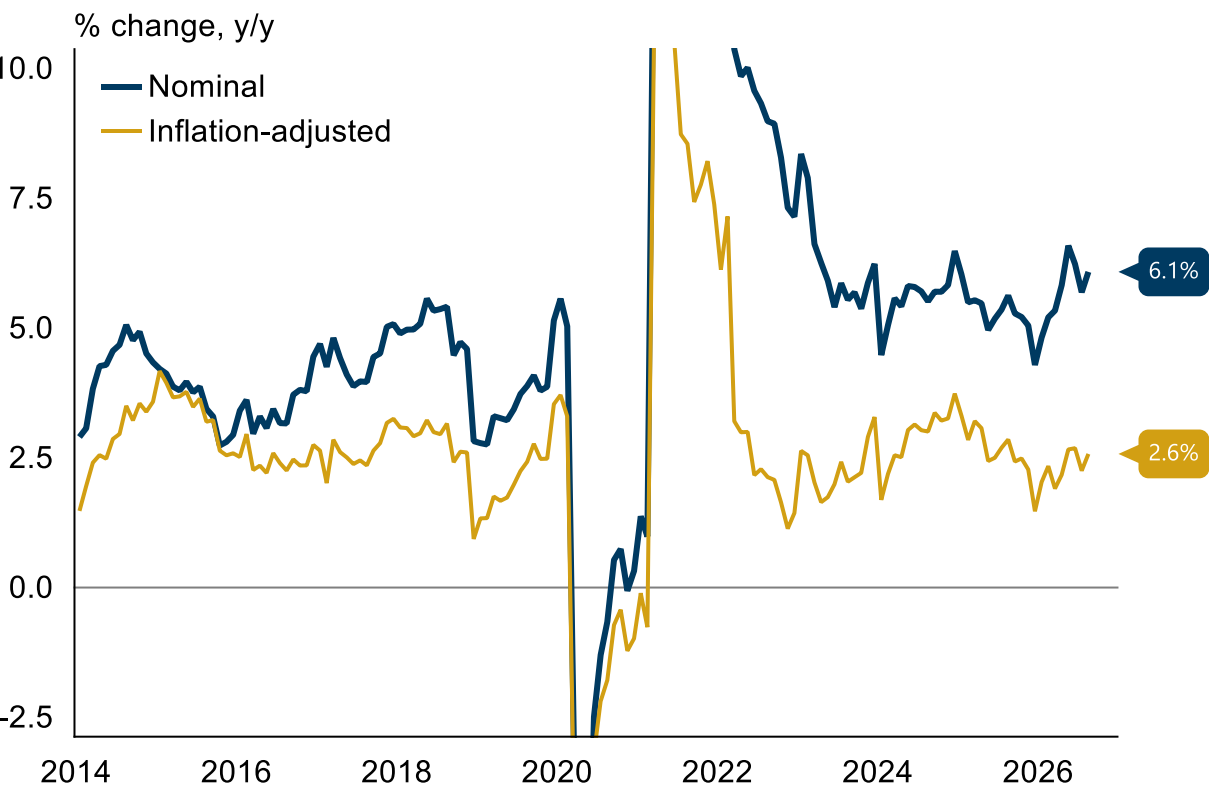
AI investment is driving economic growth this year



Source: Bloomberg
Data as of: 10/20/2026

Households are spending at a decent pace, but saving rates are low

Consumer Spending Growth



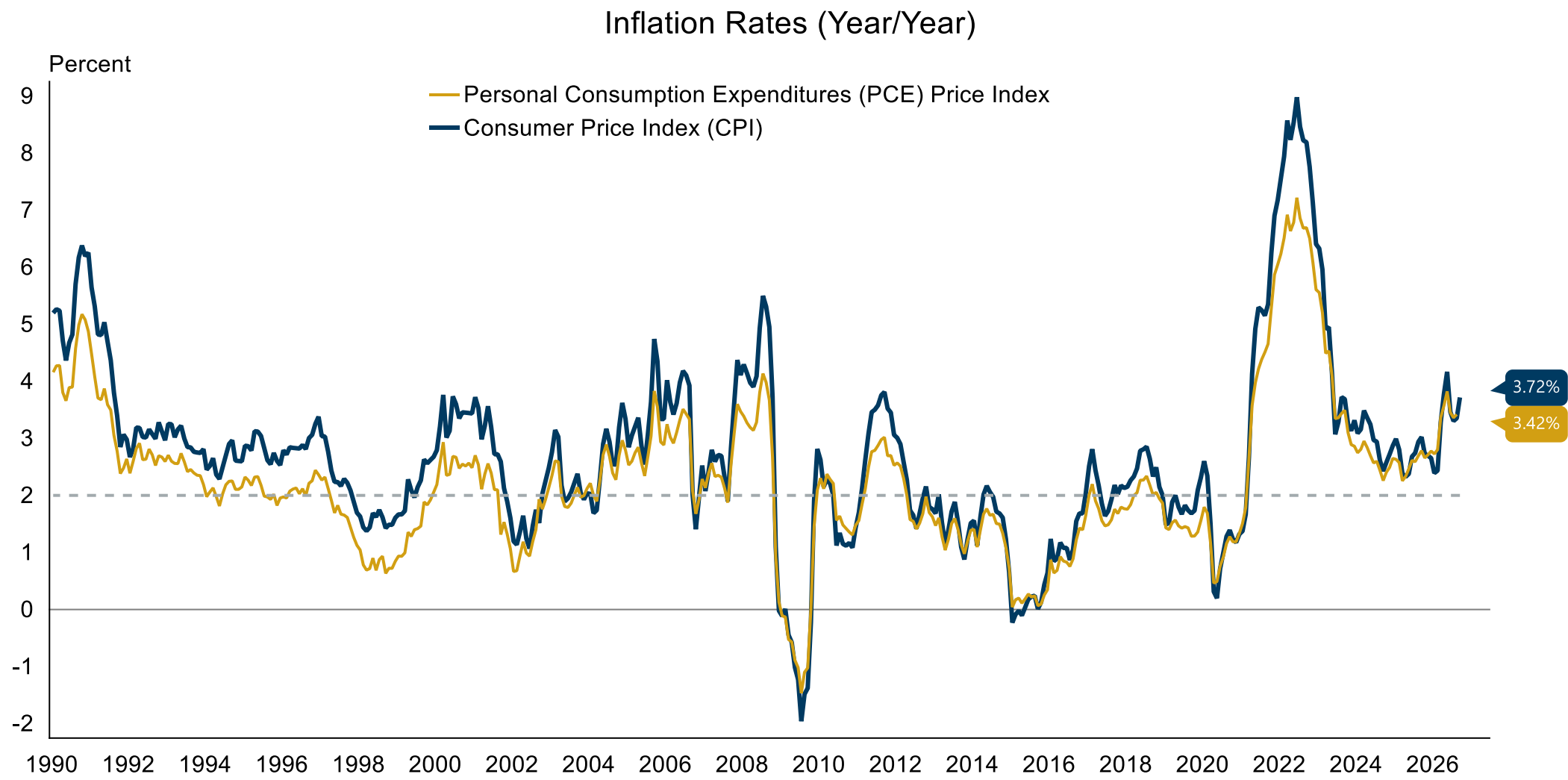
Source: U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data through August 2026

Personal Saving Rate



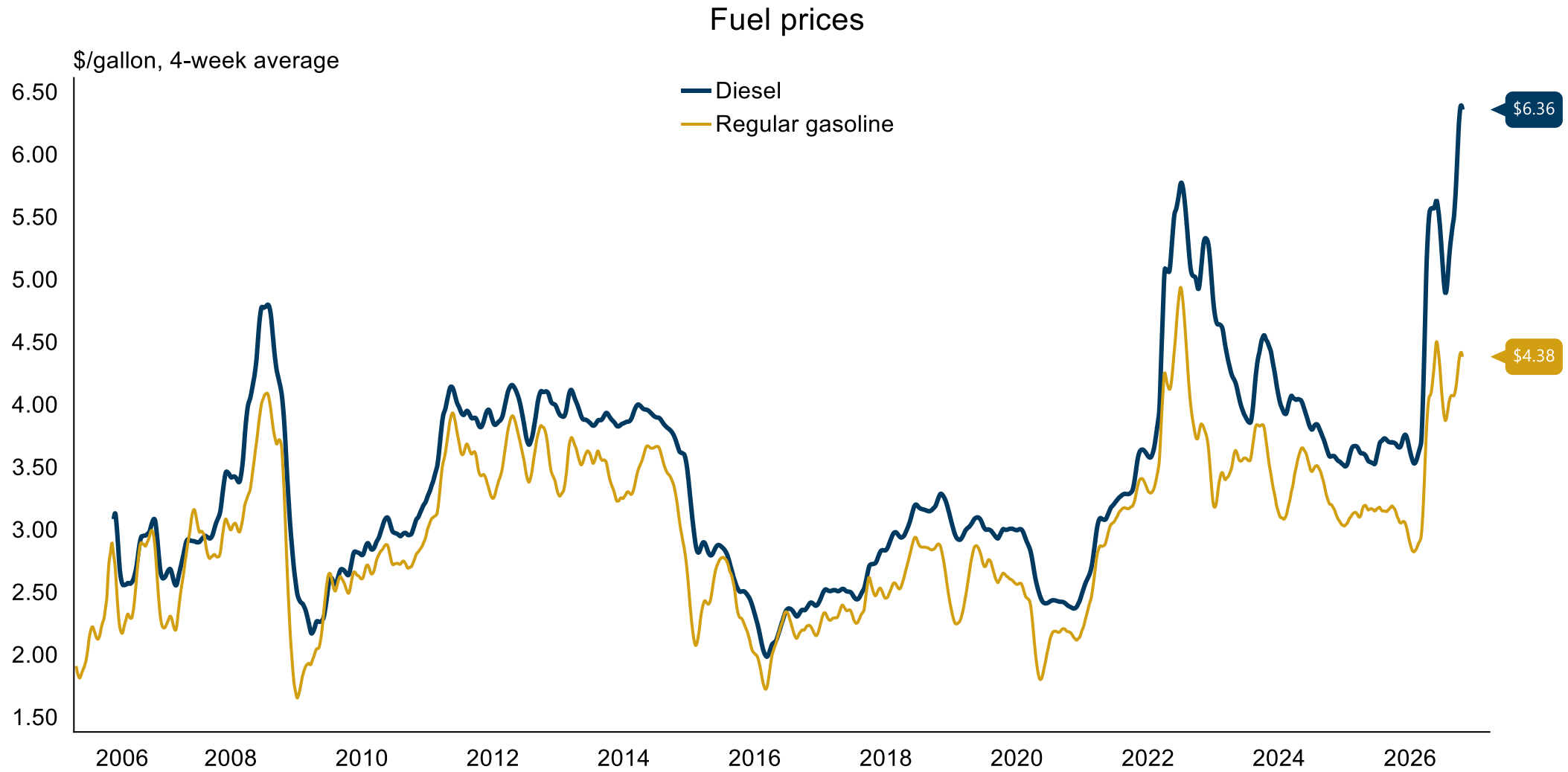
Source: U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data through August 2026

Inflation is running well above the 2% target, as it has for over 5 years



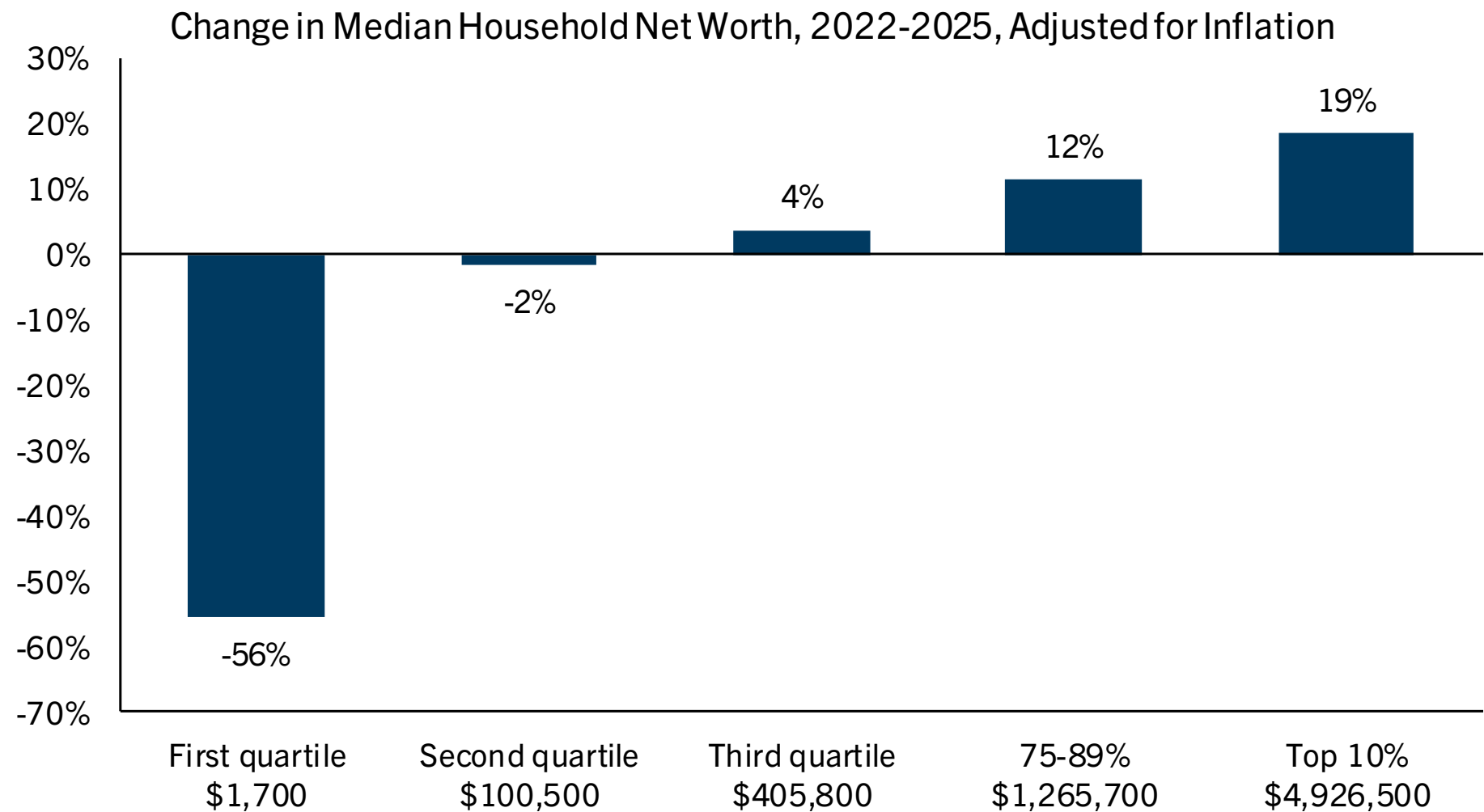
Source: U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA), First Citizens Bank
Data as of October 14, 2026

Gasoline and diesel prices are fueling inflation



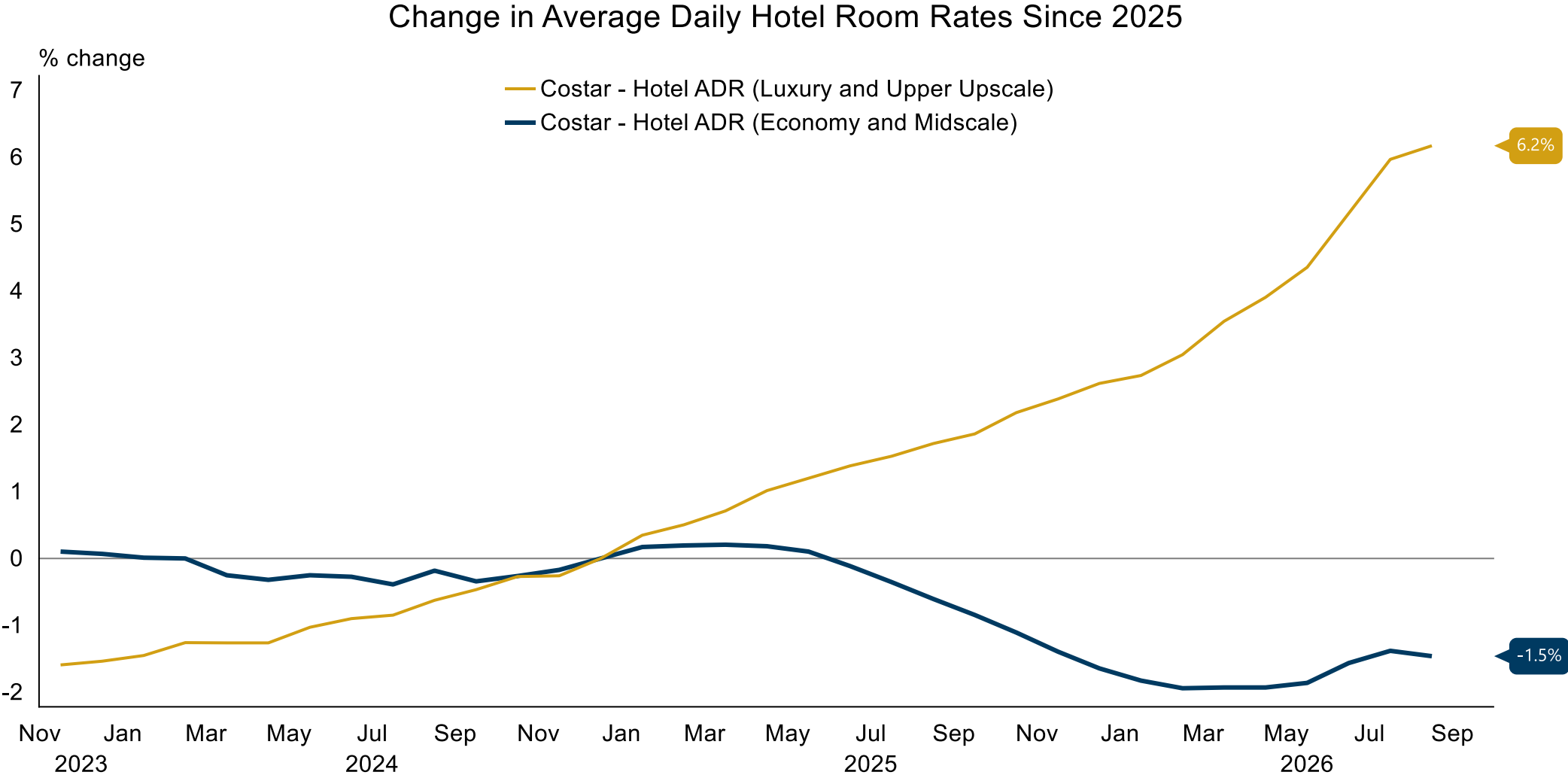
Source: Bloomberg
Data as of: 10/20/2026

Half of households have seen their net worth decline since 2022



Source: Federal Reserve

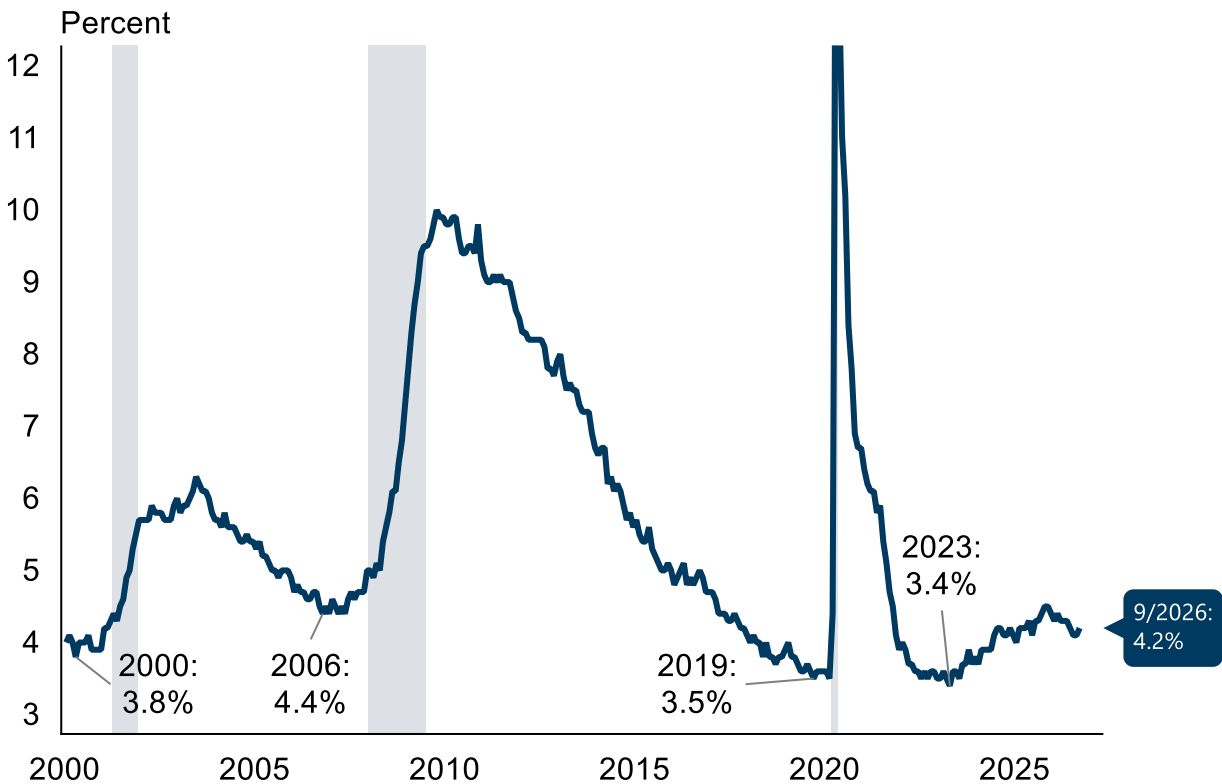
Wealthier households are likely the engine behind strong spending



Source: Costar, First Citizens Bank
Data as of October 7, 2026

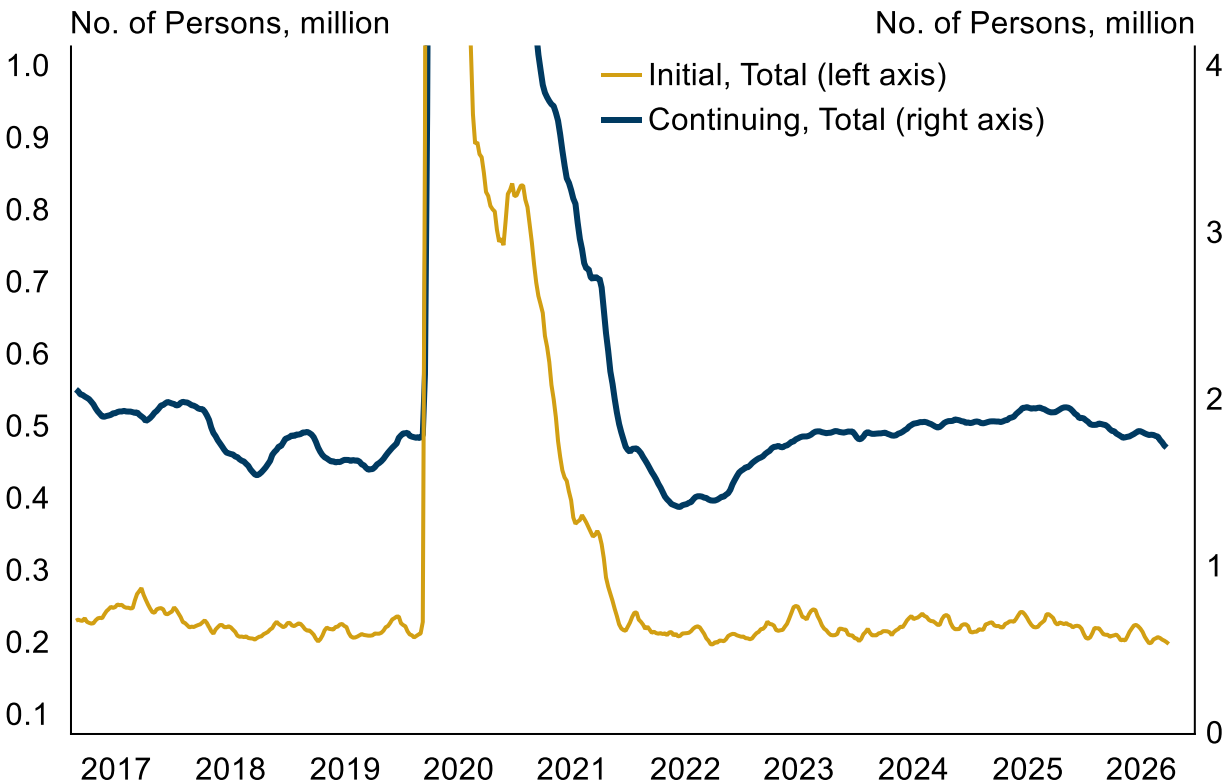
Unemployment is low as companies are reluctant to lay off workers

Unemployment Rate



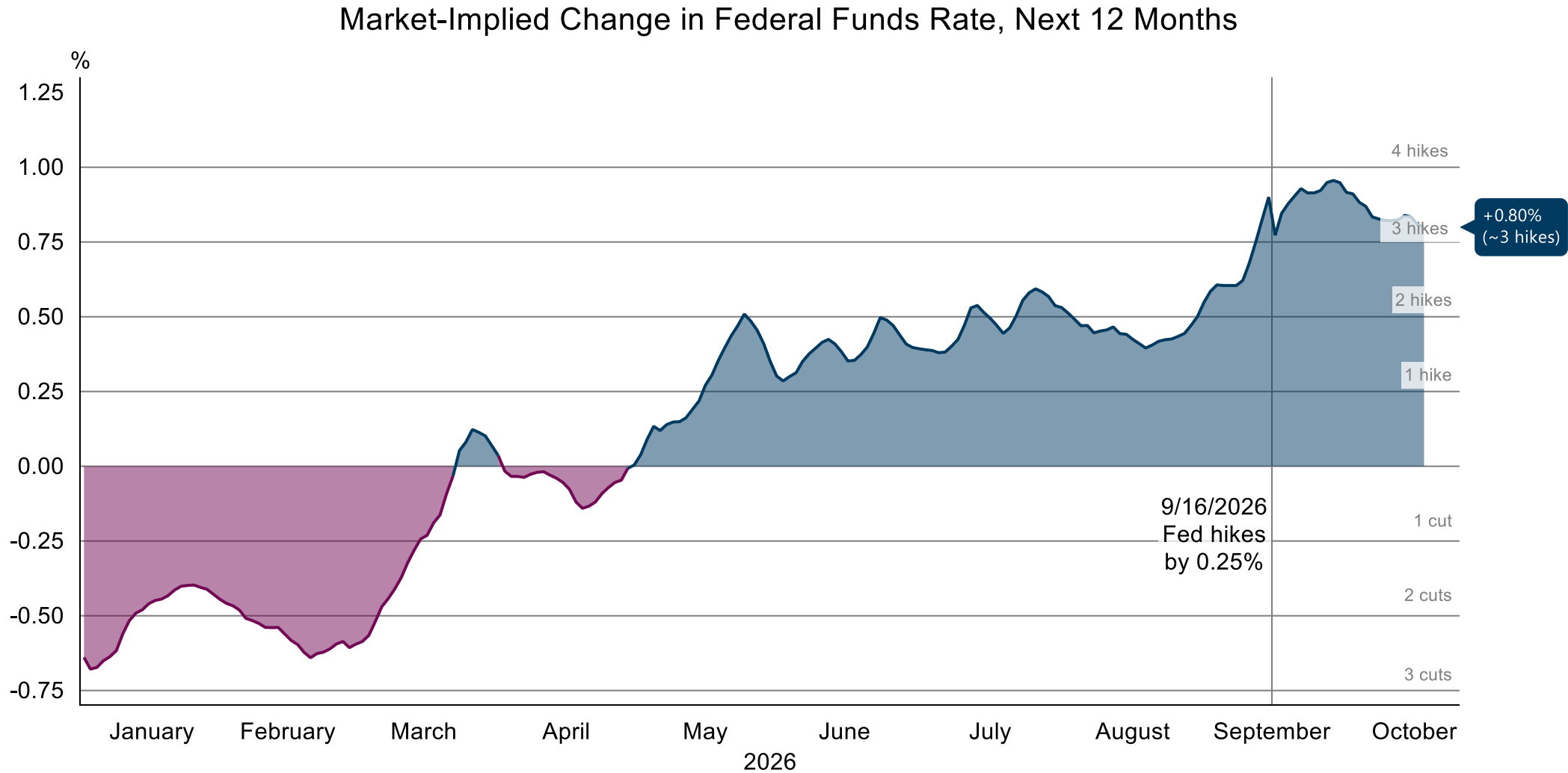
Source: U.S. Bureau of Labor Statistics (BLS), First Citizens Bank
Data as of October 2, 2026

Number of Persons Claiming Jobless Benefits



Source: U.S. Department of Labor, First Citizens Bank
Data as of October 8, 2026

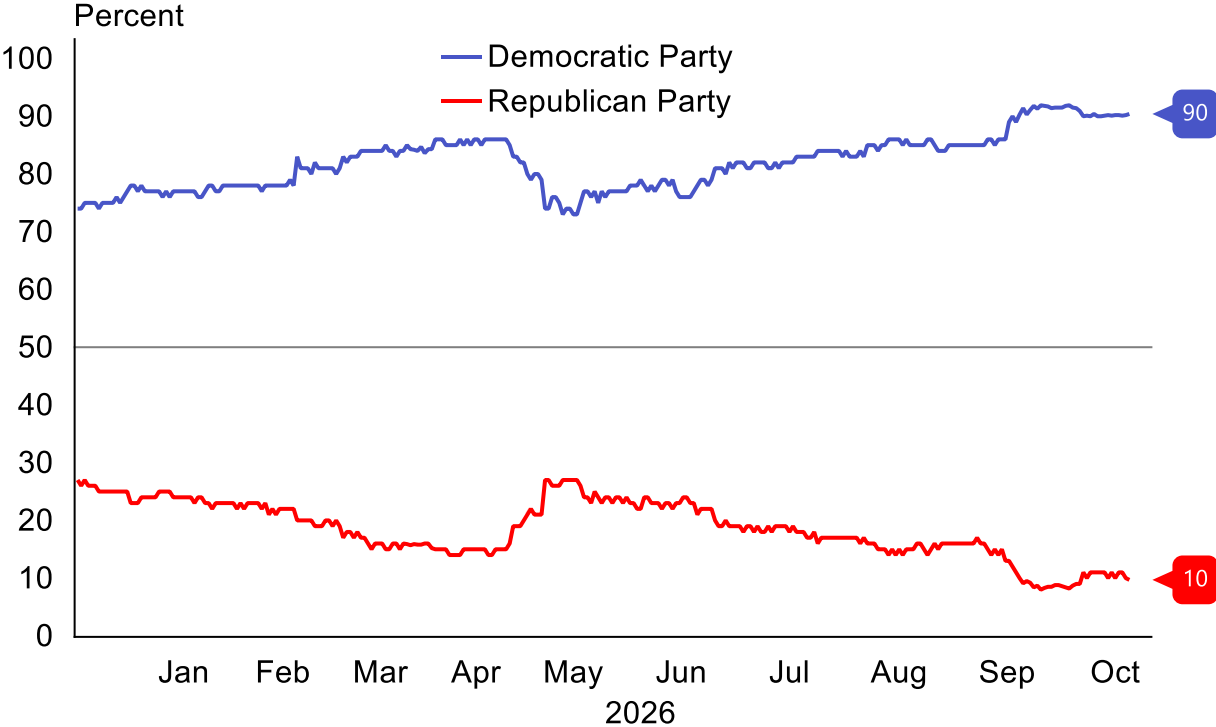
Markets started the year expecting 3 cuts but now expect 3 more hikes



Source: Bloomberg, First Citizens Bank
Data as of: 10/20/2026

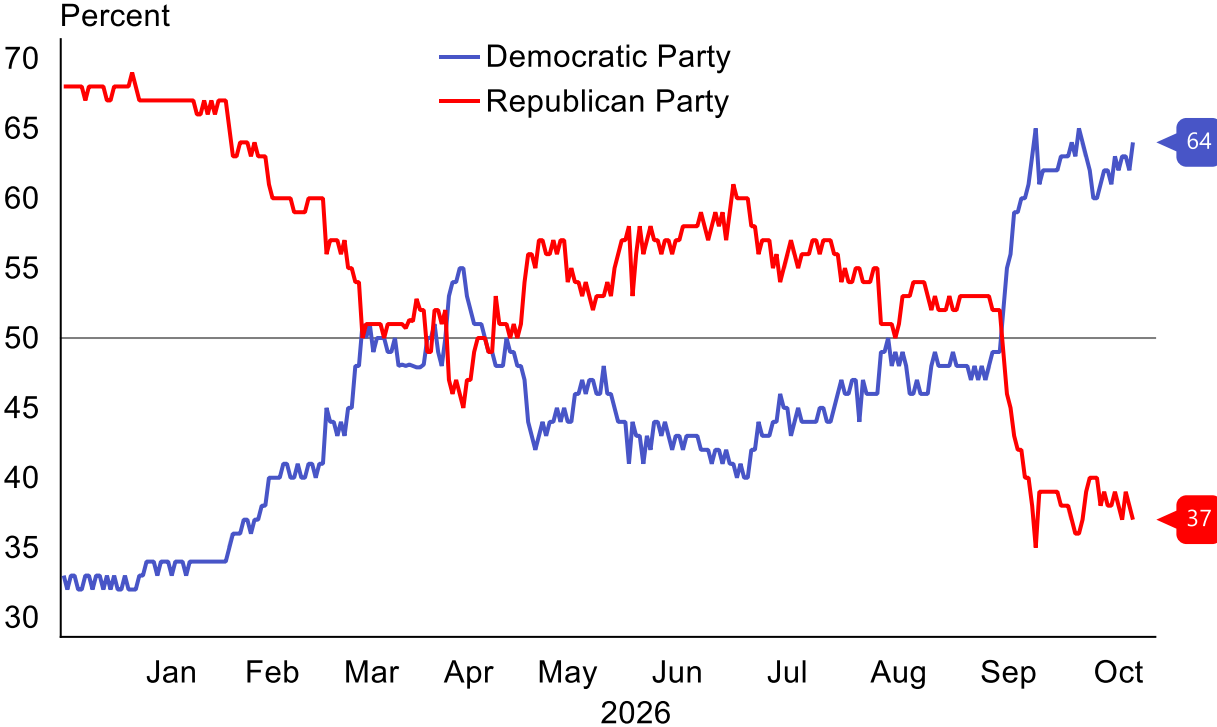
Democrats appear poised to win at least one chamber of Congress

Prediction Market-Implied Probability of Winning Majority:
House of Representatives



Source: Bloomberg
Data as of: 10/20/2026

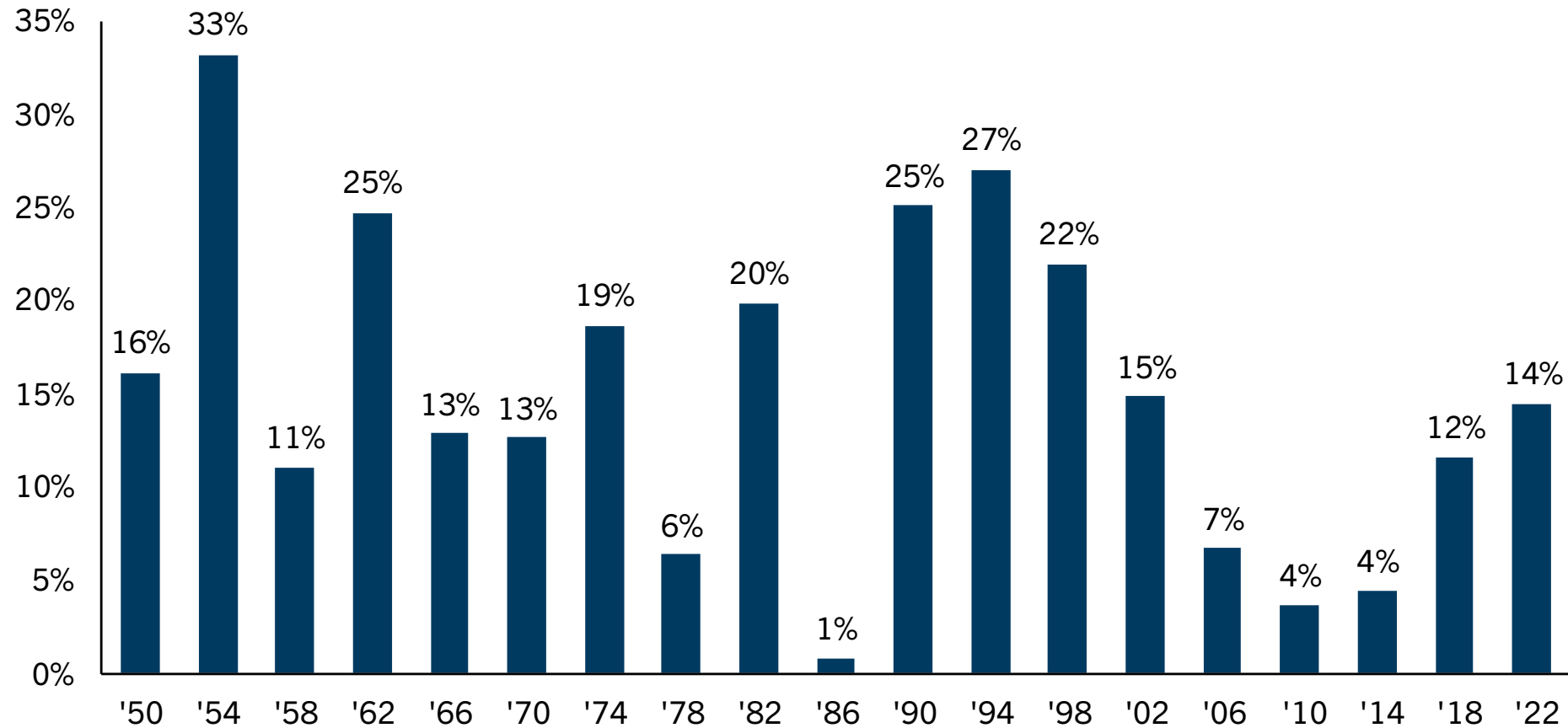
Prediction Market-Implied Probability of Winning Majority:
Senate



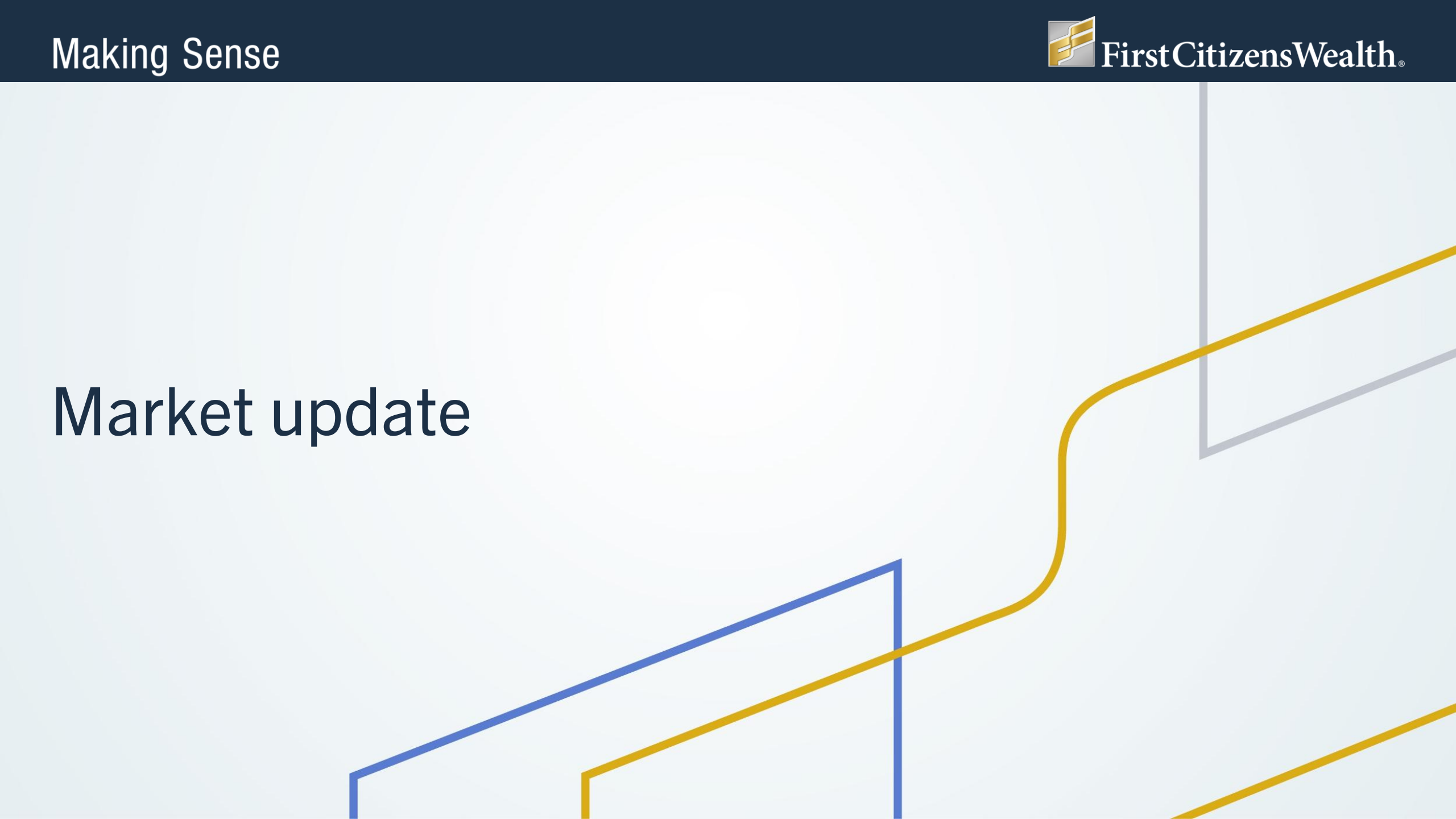
Source: Bloomberg
Data as of: 10/20/2026

Stocks have ended higher every year following the midterms since 1950

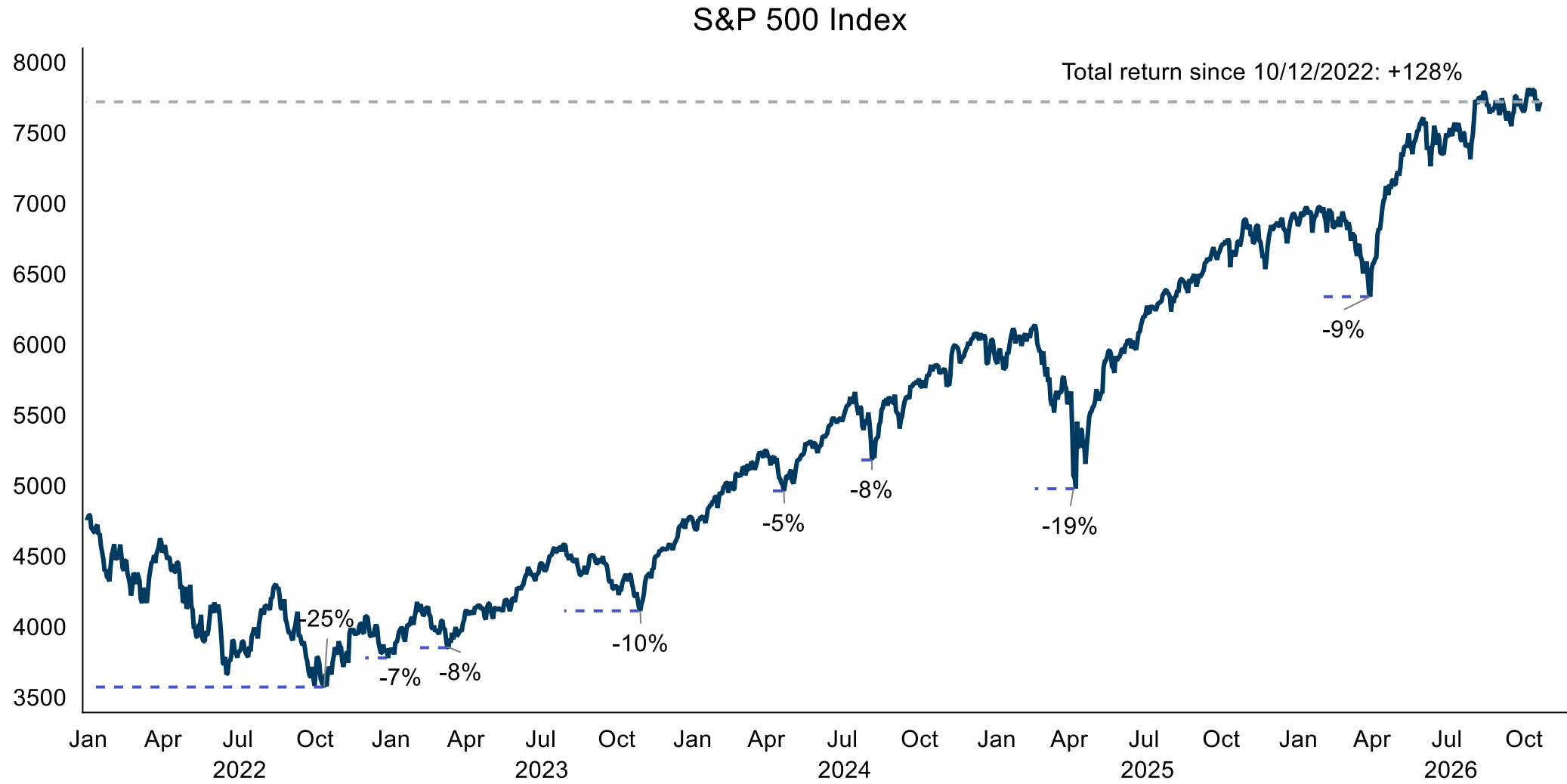
S&P 500 Price Return in the
12-Month Period Following Mid-Term Election
1950-2023, Avg = 15.1%



Market update



After a handful of selloffs, the current bull market has returned ~130%

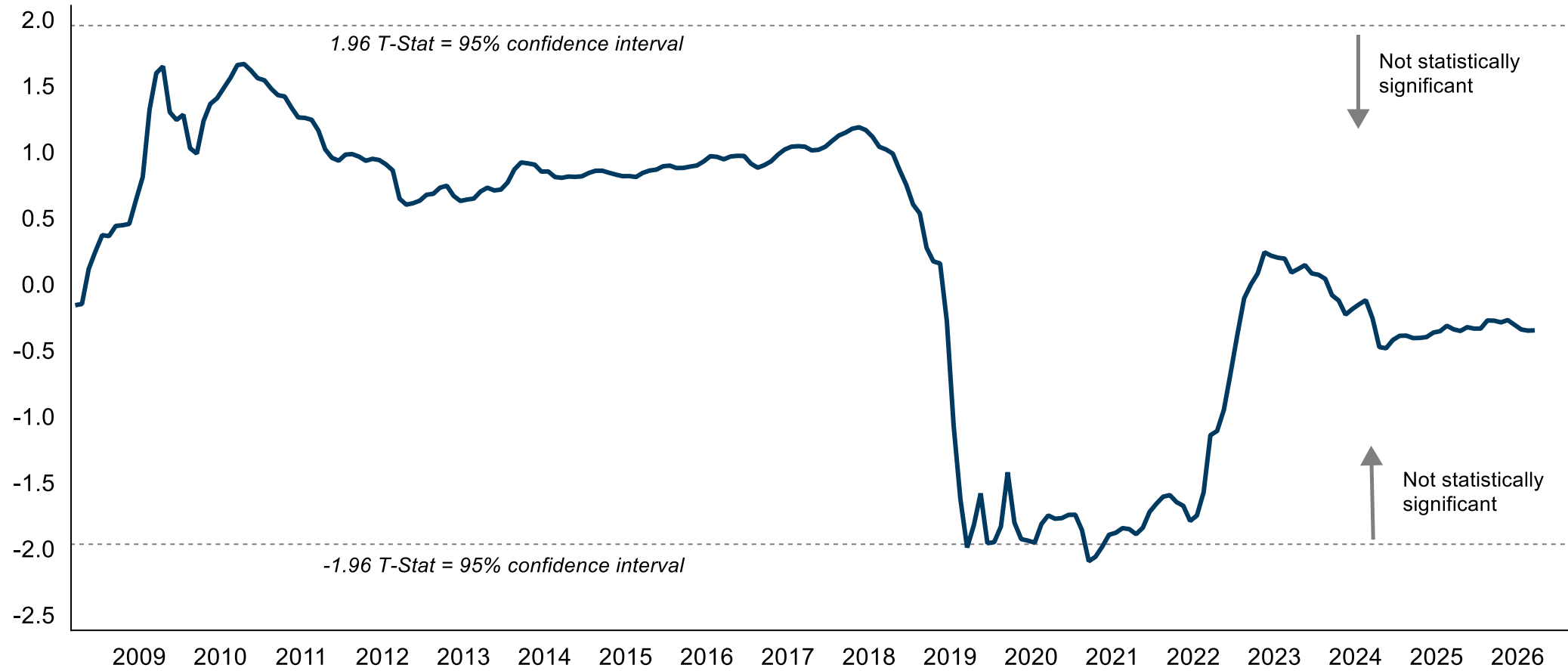


Source: Bloomberg
Data as of: 10/20/2026

There is no mathematical relationship between breadth and returns

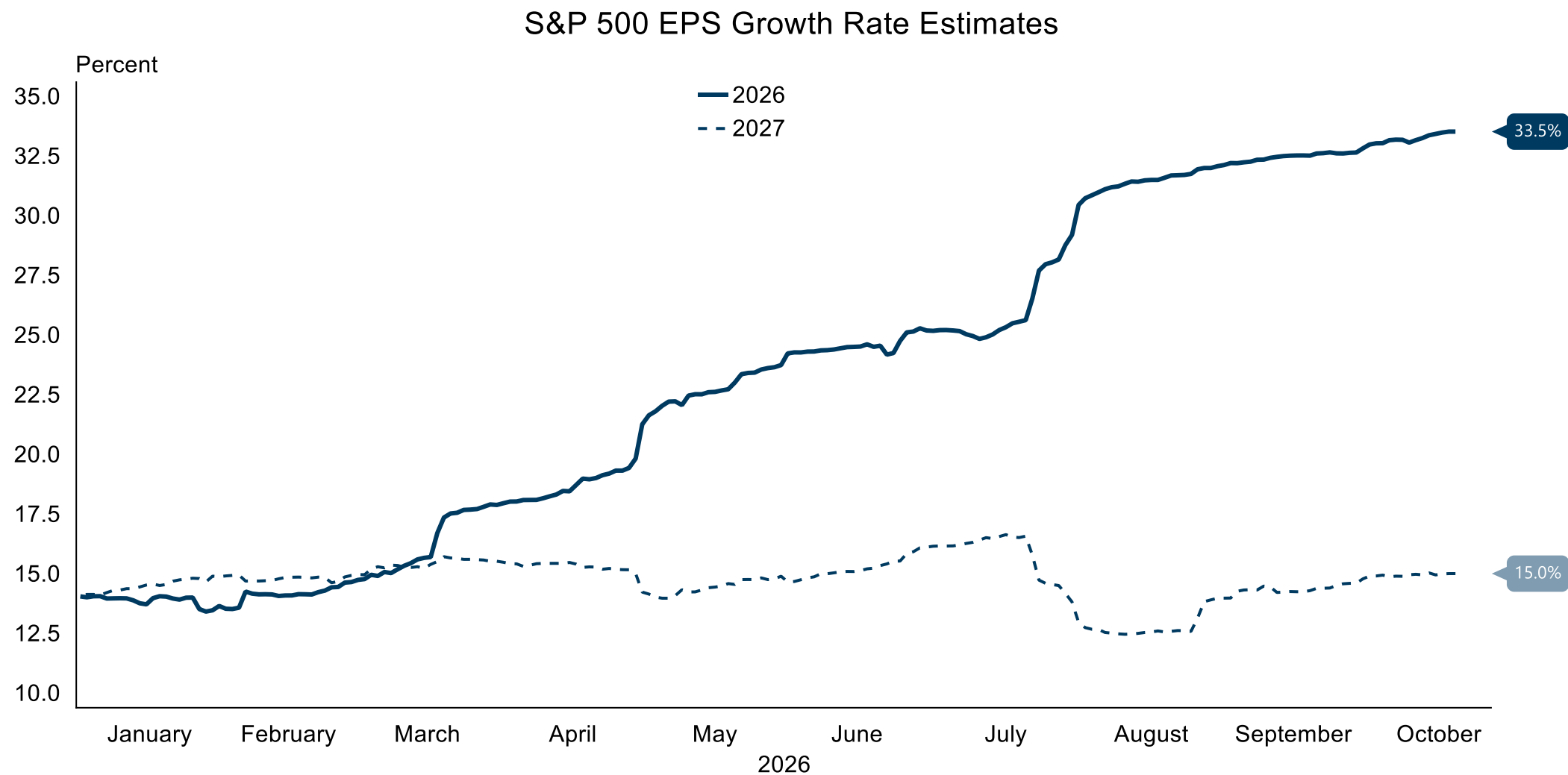
McClellan Summation Index vs. 12-Month Forward S&P 500 Returns

Rolling 120-Month Regression T-Statistic
Through End-September, 2026



Source: Trivariate Research, First Citizens Bank
Data as of October 20, 2026

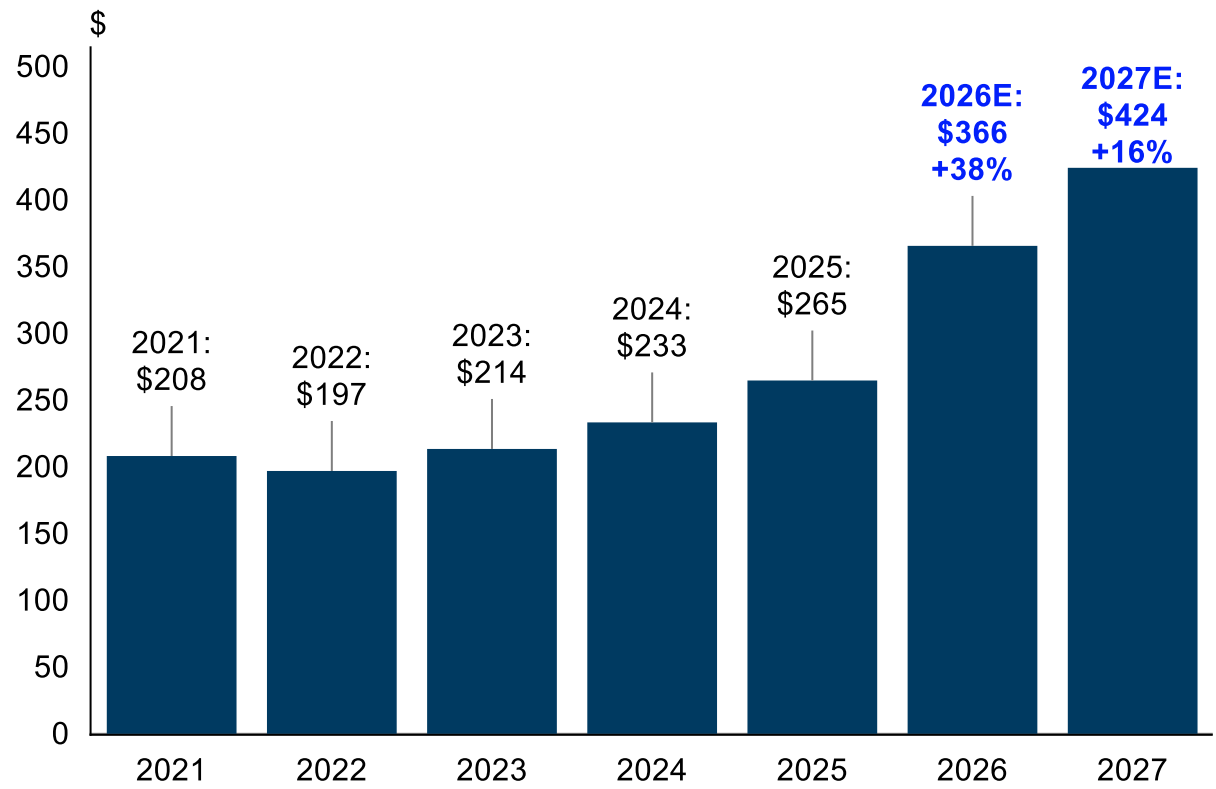
Earnings growth estimates have been revised substantially higher



Source: Bloomberg, First Citizens Bank
Data as of October 20, 2026

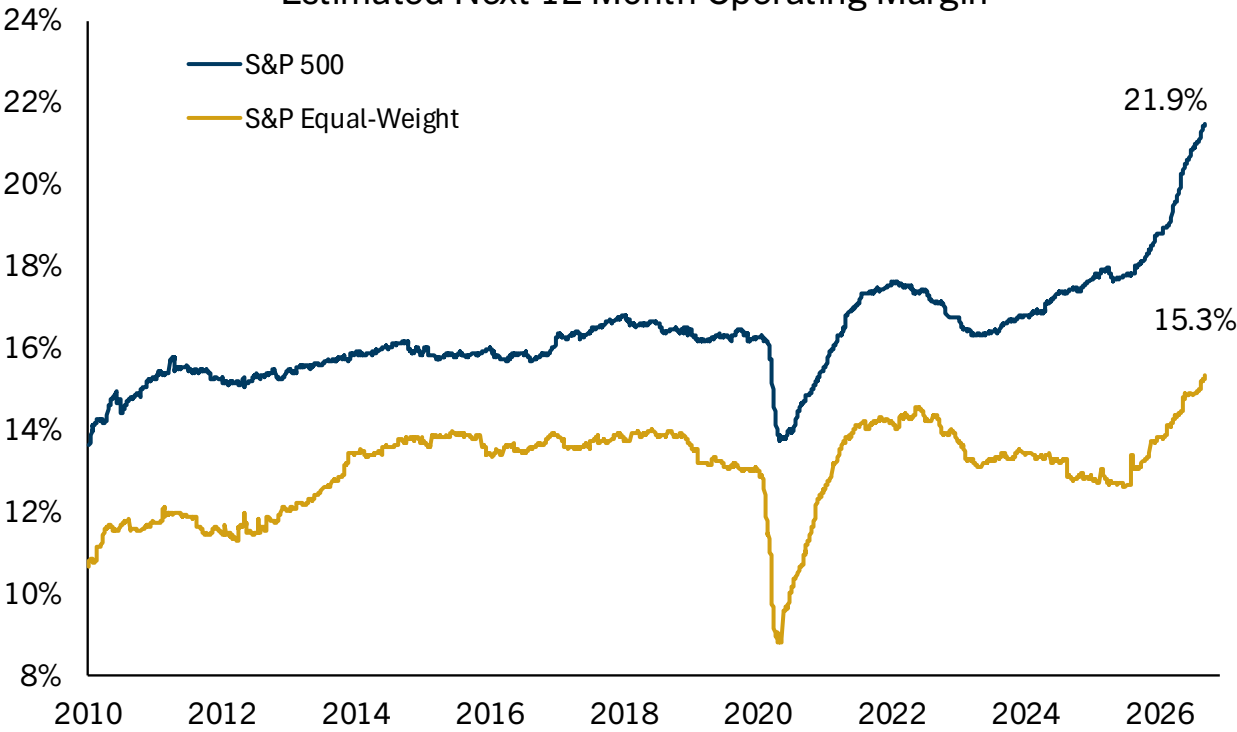
Earnings are remarkably robust, and profit margins are exceptional

S&P 500 Operating Earnings per Share



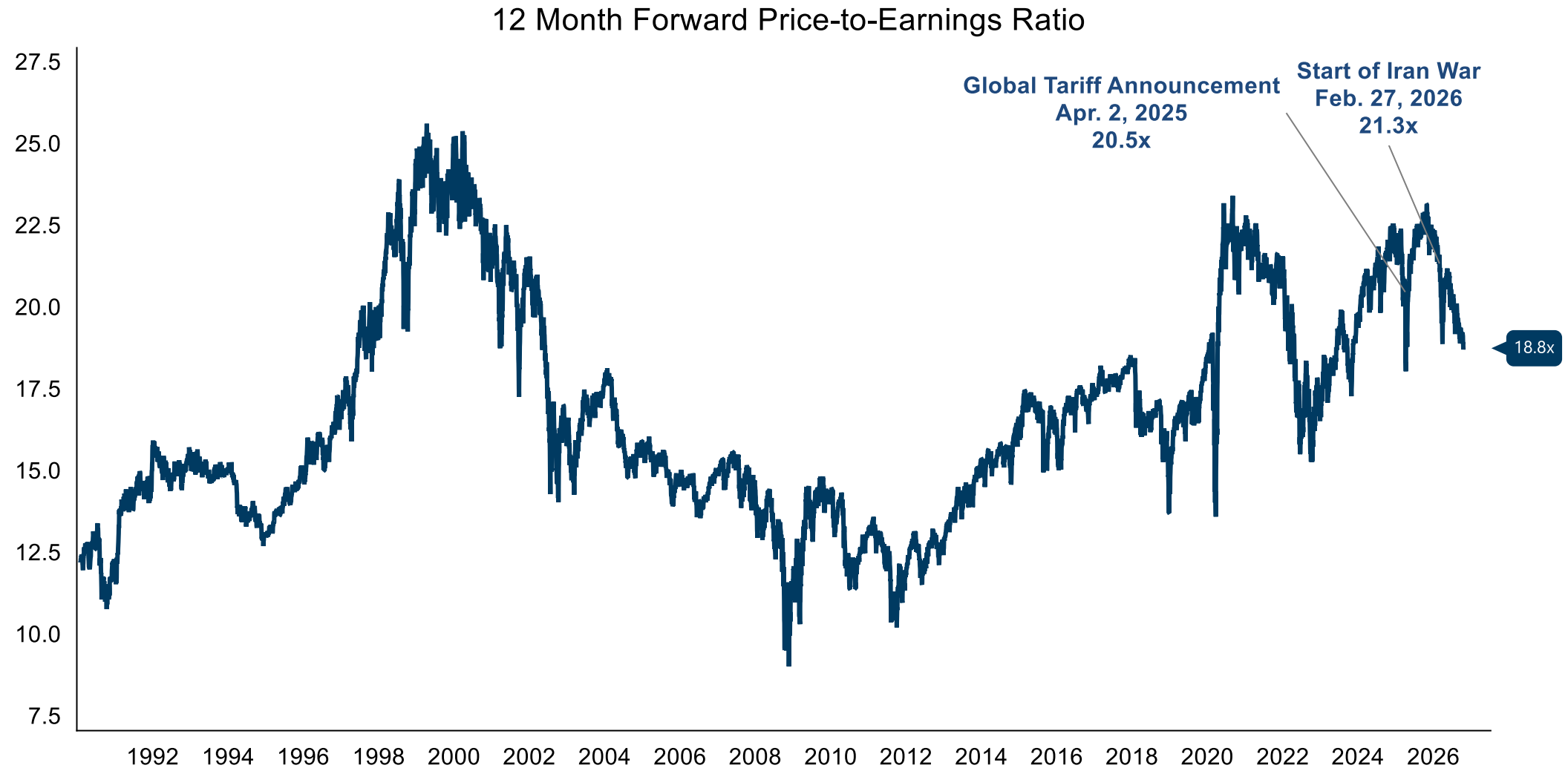
Source: Strategas, First Citizens Bank
Data as of October 20, 2026

Estimated Next 12-Month Operating Margin



Source: FactSet, Bloomberg. Data as of 10/20/2026.

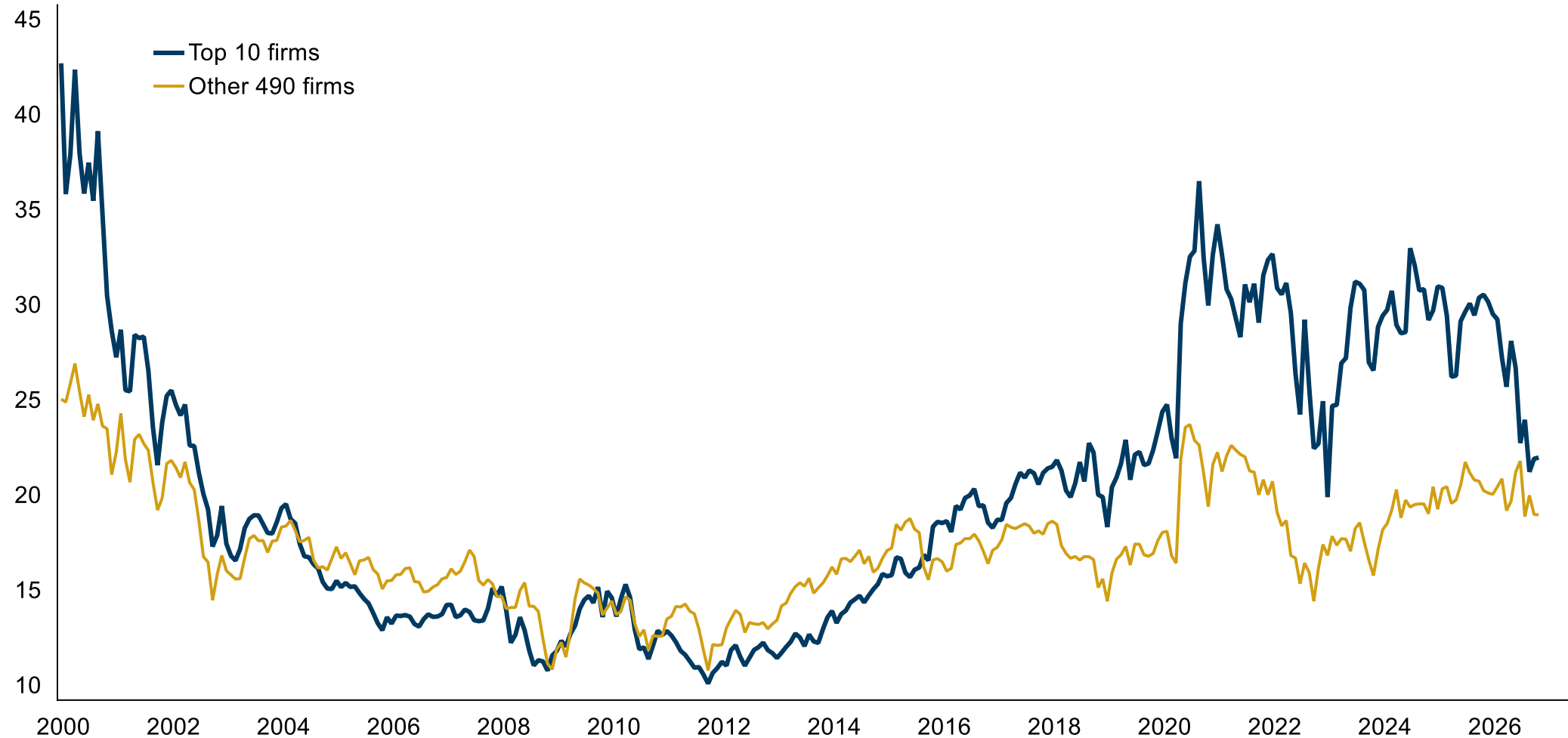
Forward valuations have recovered but remain below recent highs



Source: Bloomberg, First Citizens Bank
Data as of 10/20/2026

Forward valuations for the largest stocks have compressed dramatically

S&P 500 Market Cap-Weighted Price to Forward Earnings (P/E) Ratio



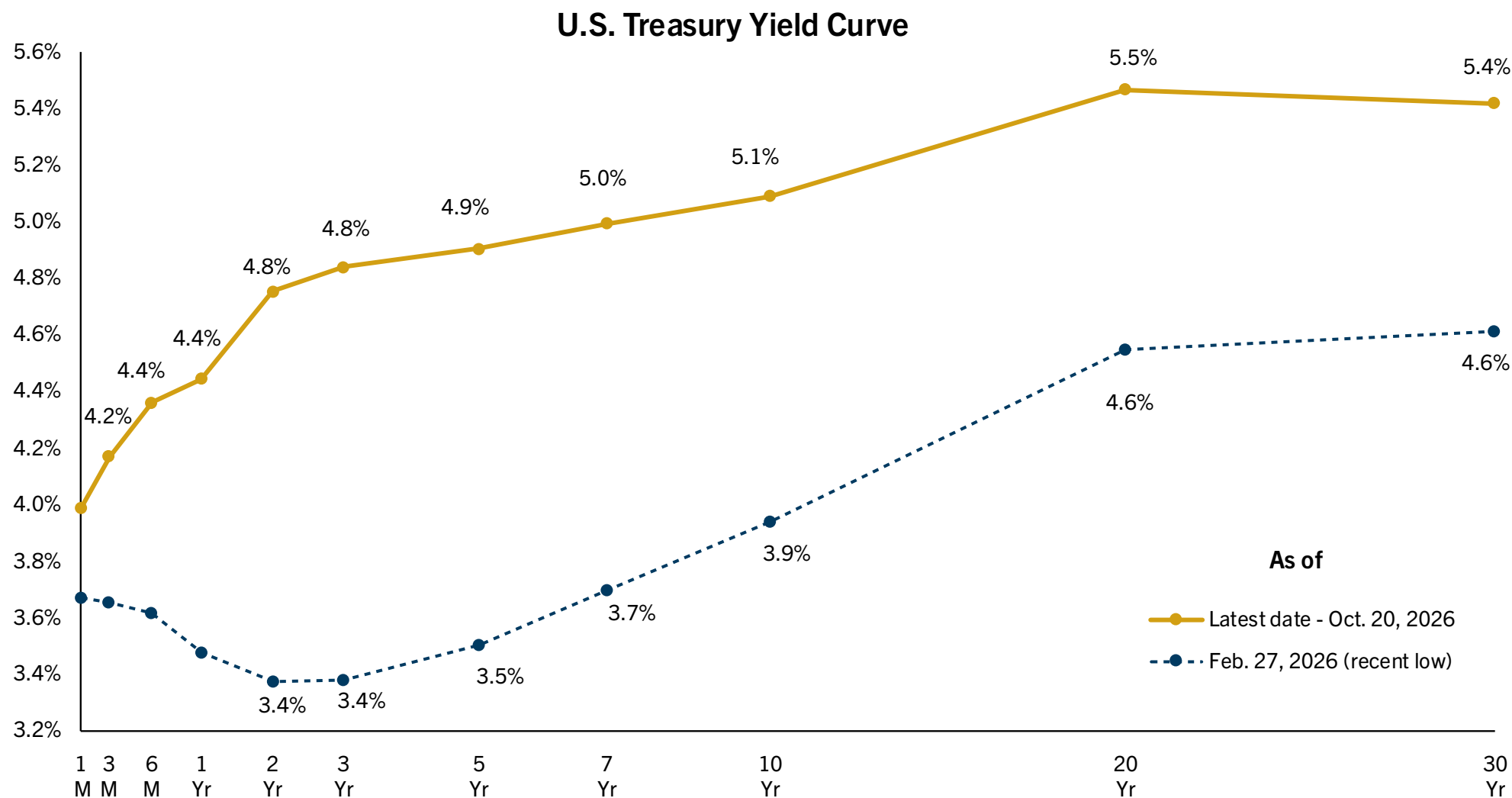
Source: Trivariate Research, First Citizens Bank
Data as of October 2026

Upward earnings revisions have pushed our price target higher

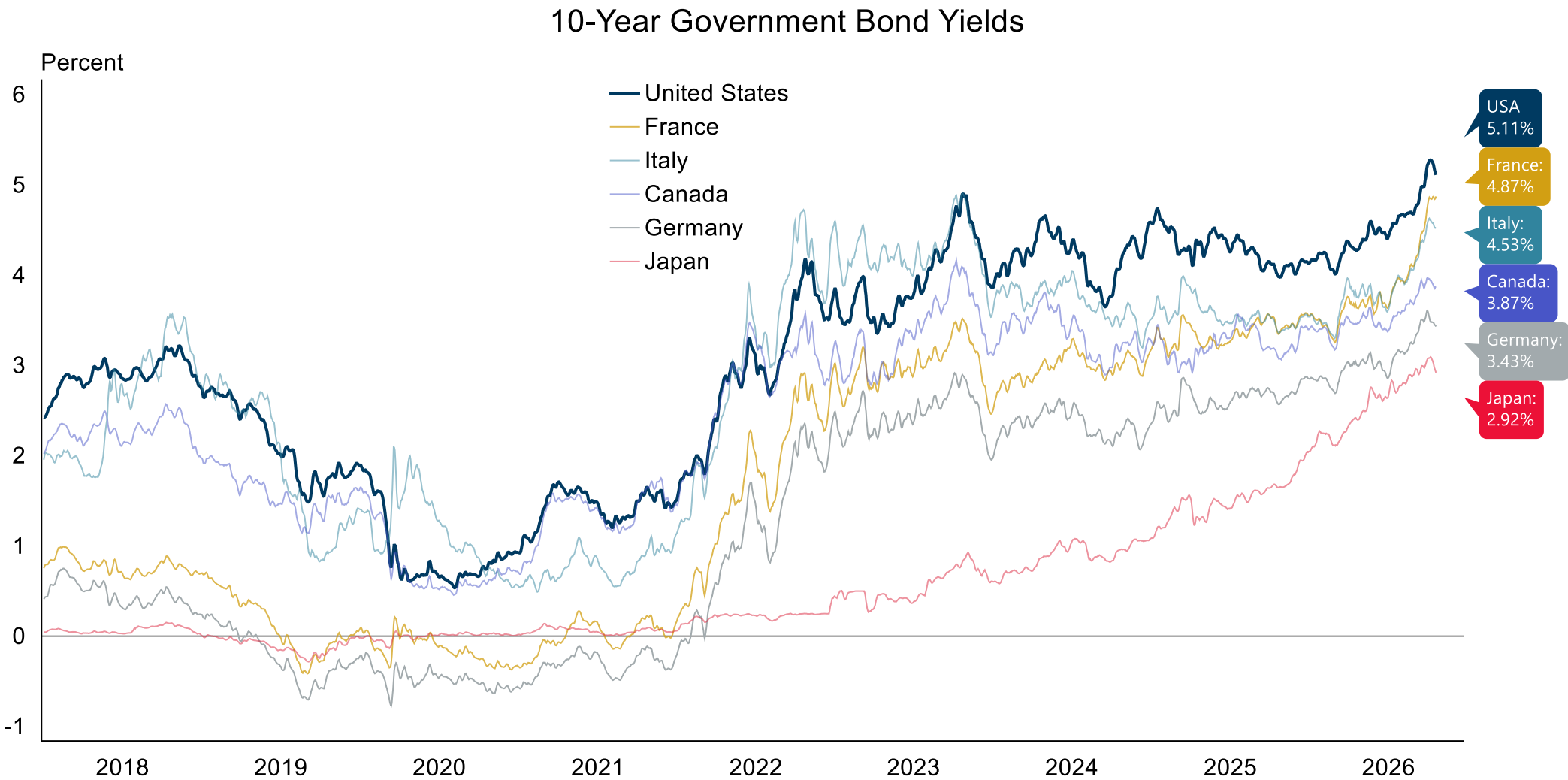
Next Twelve-Month S&P 500 Price Target

	Next Twelve Months Price Level	Percent Change from 10/20/2026
Bear	6,300	-18.1%
Base	8,300	7.9%
Bull	9,100	18.3%

Treasury yields have risen sharply across the curve

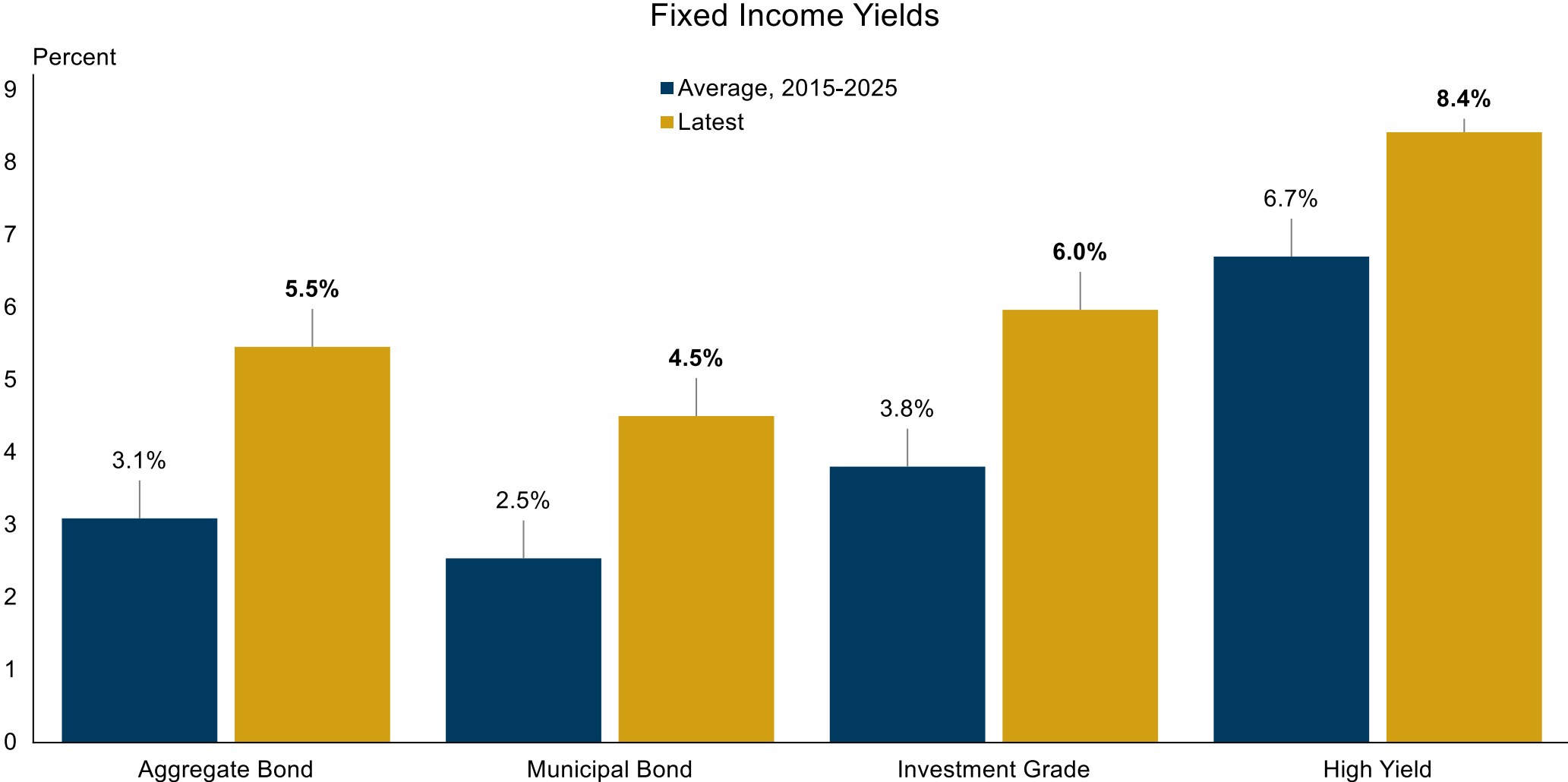


Bond yields have climbed higher across the globe



Source: Bloomberg
Data as of: 10/20/2026

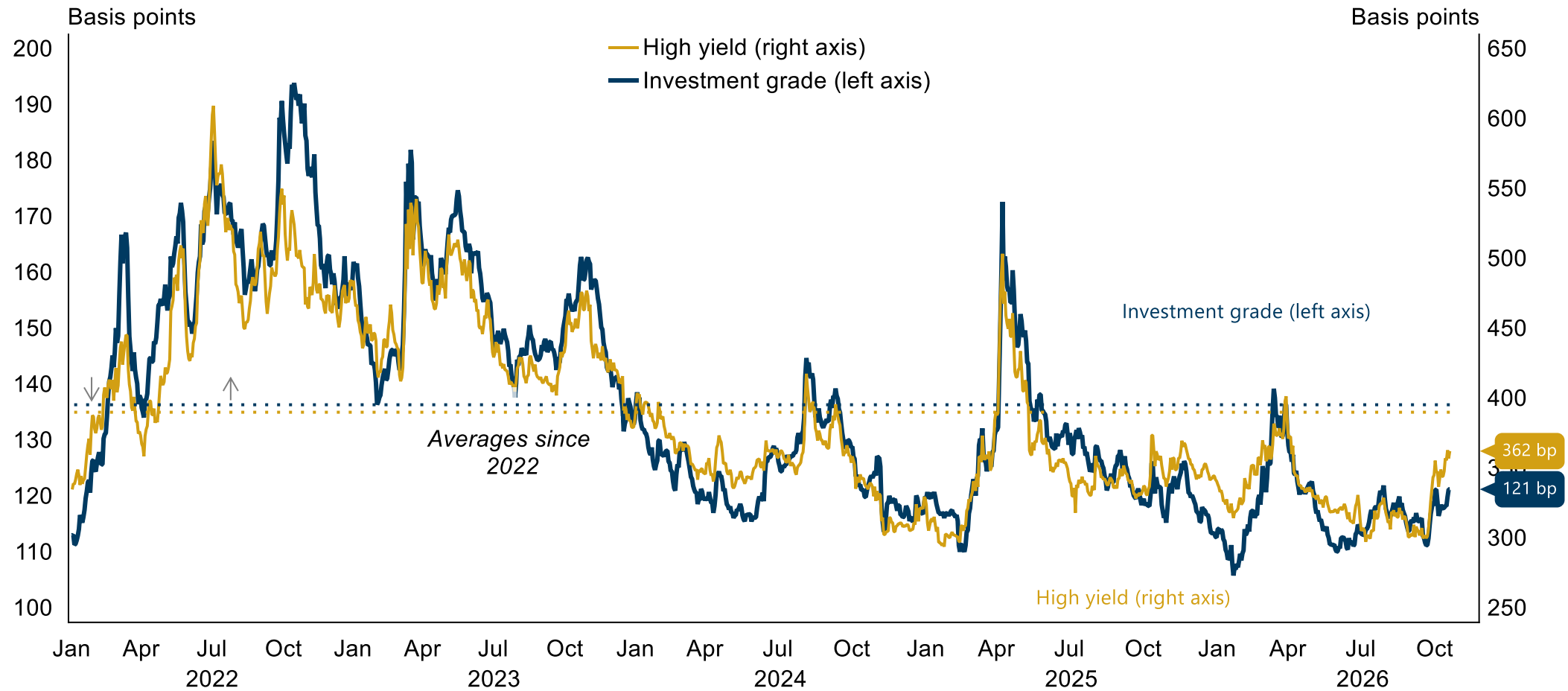
Fixed income is at an attractive entry point compared to the last decade



Source: Bloomberg
Data as of: 10/20/2026

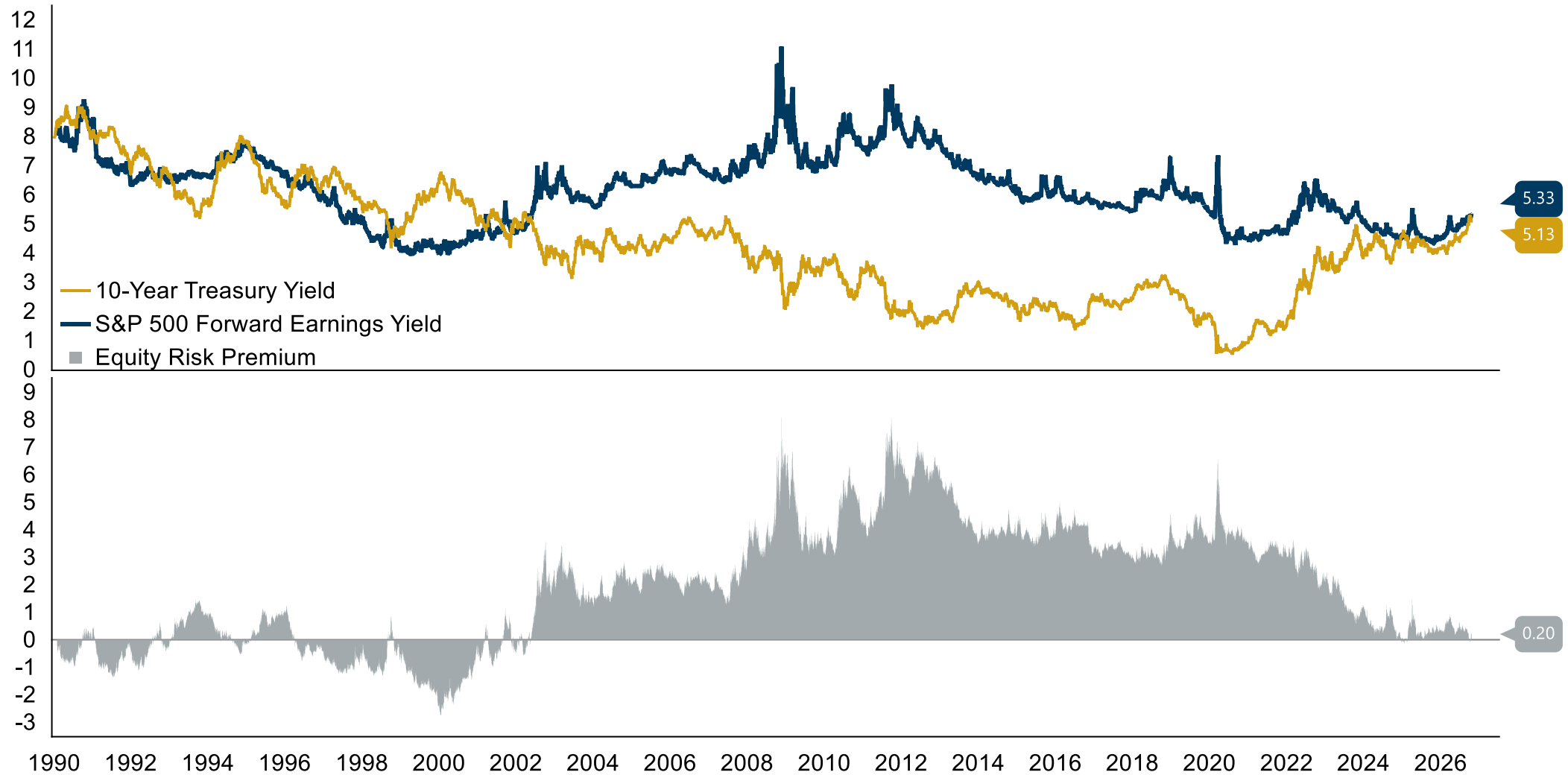
Corporate bonds yield very tight spreads over Treasuries

US Fixed Income
Option-Adjusted Spreads in Basis Points



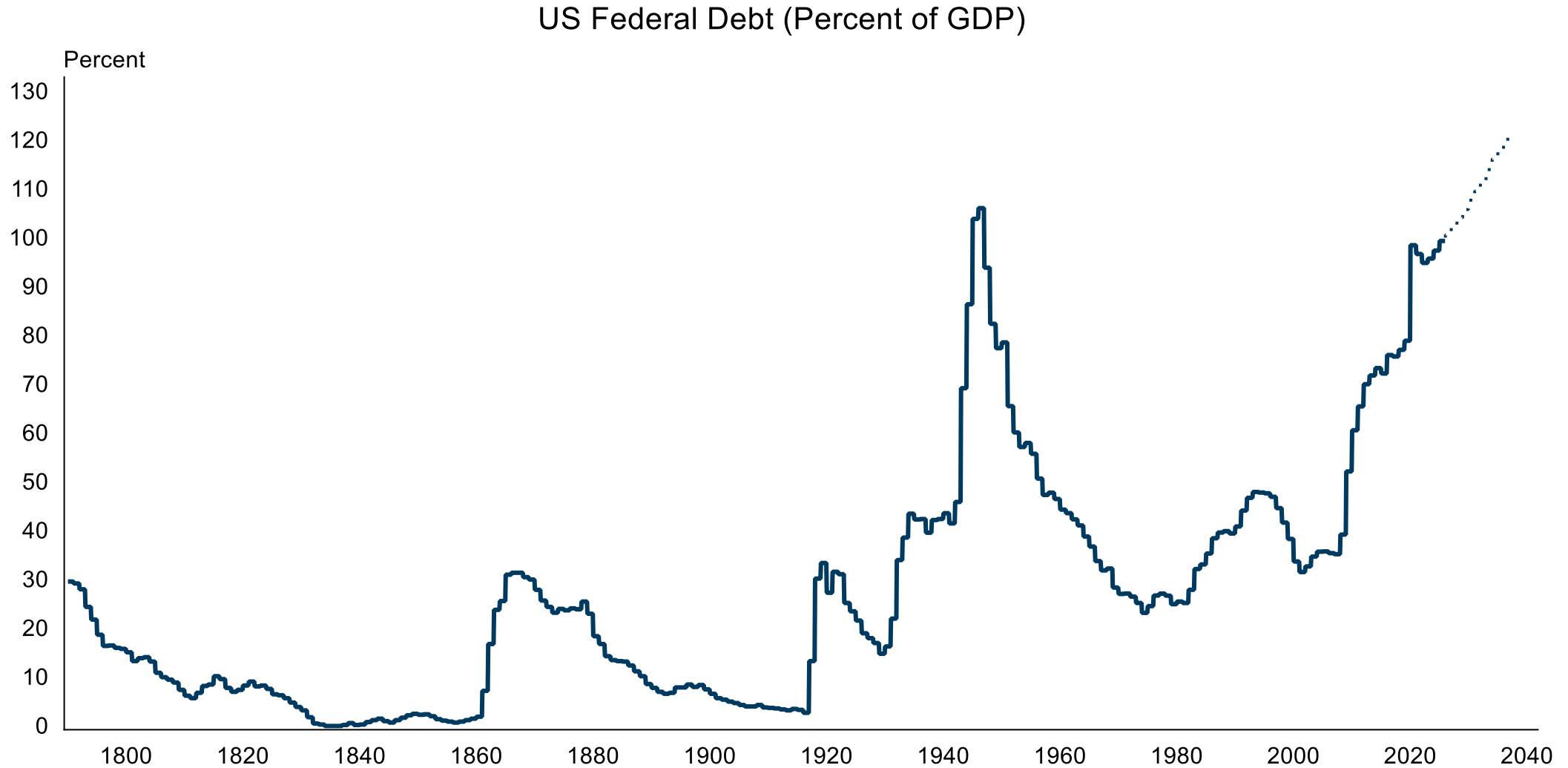
Source: Bloomberg
Data as of: 10/20/2026

The S&P 500 equity risk premium has all but disappeared



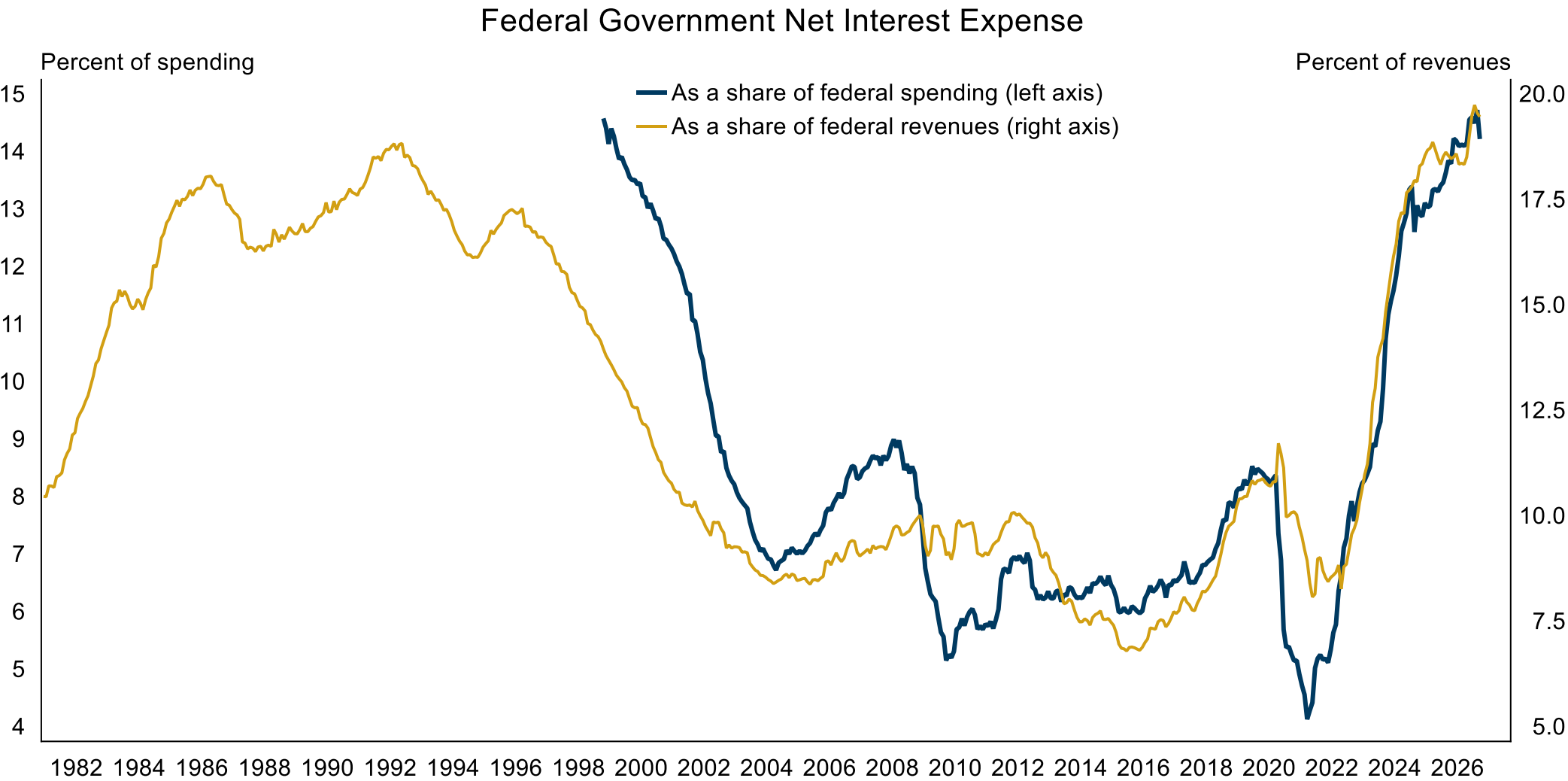
Source: Bloomberg
Data as of: 10/20/2026

The federal debt burden is on an unsustainable trajectory



Source: U.S. Department of Treasury, U.S. Congressional Budget Office (CBO), First Citizens Bank
Data as of September 11, 2026

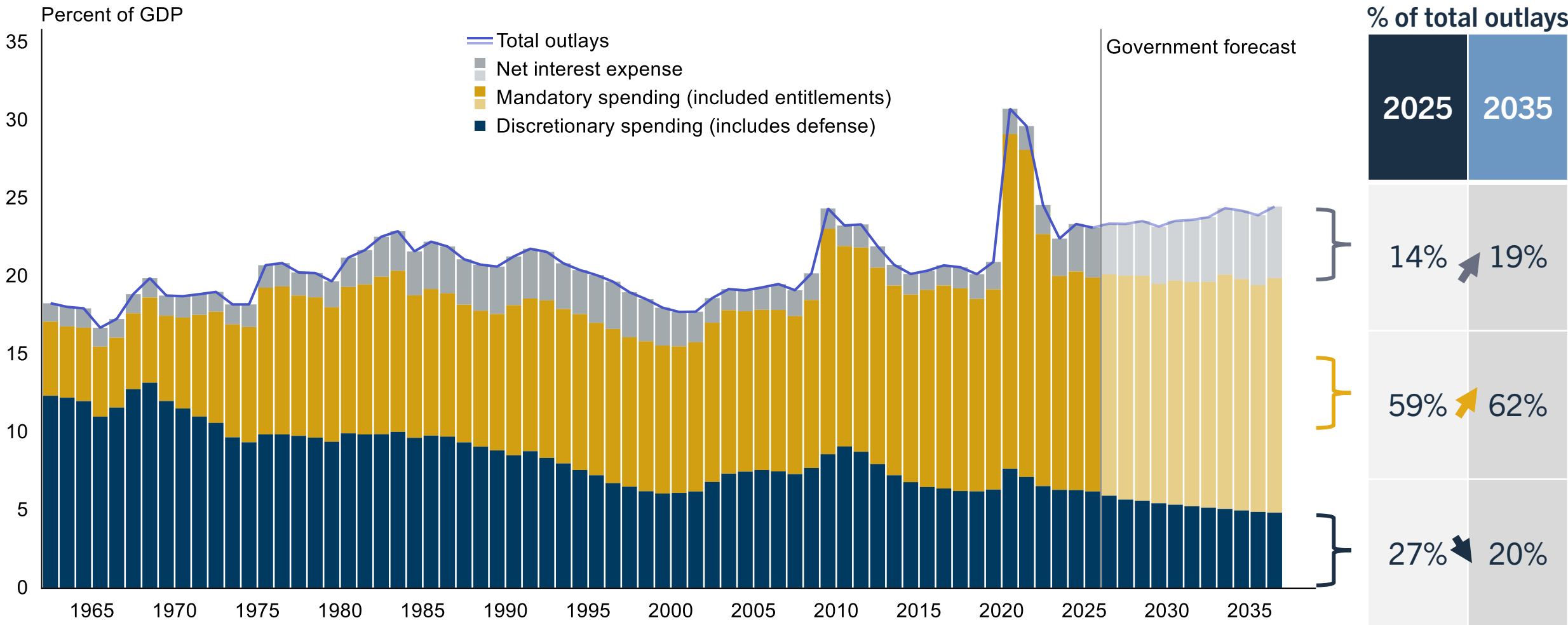
Federal net interest expense is rising at an unsustainable rate



Source: U.S. Department of Treasury, First Citizens Bank
Data as of October 16, 2026

Discretionary spending is an increasingly small share of the total budget

Federal Outlays as a Share of GDP



Source: U.S. Congressional Budget Office (CBO), First Citizens Bank
Data as of February 11, 2026

Making Sense

In Brief | A look at the week ahead in under two minutes every Monday morning

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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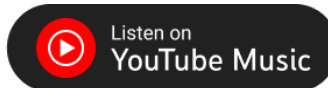
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