First Citizens
Wealth Management

Making **Sense**

Quarterly Market Review

Fourth Quarter 2023

Capital Management Group

1/3/2024

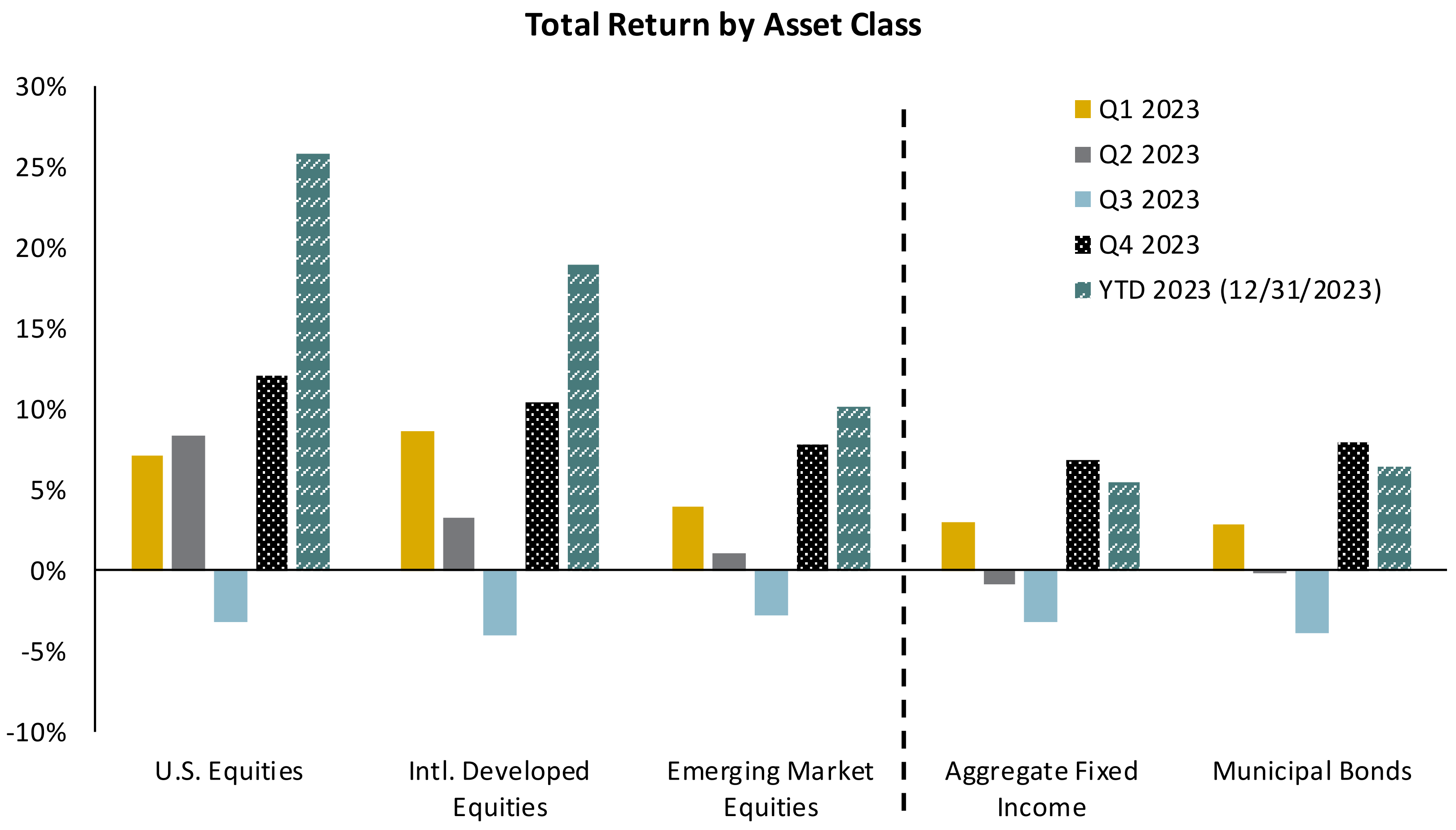
Global Markets

The fourth quarter was characterized by positive asset returns and sharply lower bond yields. Markets cheered the prospect of potentially easier monetary policy in 2024, which bolstered hopes for an economic soft landing. The US dollar weakened, and the price of crude oil fell.

Global equity markets sold-off in October but rallied sharply in November and December, making it the best quarter for global stocks since the fourth quarter of 2020. For the quarter, US stocks rose 12.1% (total return), outperforming international developed (+10.5%) and emerging market equities (+7.8%). For the full-year, US stocks gained 25.9%, while international developed rose 18.9% and emerging markets increased 10.1%.

Aggregate fixed income rallied 6.8% during the quarter, while municipal bonds gained 7.9%. Looking at the entirety of 2023, bond total returns were positive, with aggregate fixed income up 5.5% and municipal bonds gaining 6.4%. This is the first annual gain for aggregate fixed income since 2020.

Global Markets: Rallied in Q4



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

US Equity Performance

As had been the story for much of 2023, growth outperformed value in both large and mid-cap equities during the quarter (left). Conversely, small-cap value stocks outperformed growth stocks. In a reversal of the trend throughout much of the year, both mid- and small-cap stocks outperformed large-cap in the fourth quarter.

For the full calendar year (right side), US equity performance was dominated by large-cap growth. Mid-cap, small-cap, and value posted solid gains, but lagged large-cap growth as a select few stocks led the overall market.

US Equity Performance

QTD US Equity Returns As of 12/31/2023

	Value	Blend	Growth
Large	8.0%	11.7%	14.1%
Mid	12.1%	12.8%	14.5%
Small	15.2%	14.0%	12.7%

YTD US Equity Returns As of 12/31/2023

	Value	Blend	Growth
Large	10.6%	29.8%	46.6%
Mid	12.7%	17.2%	25.9%
Small	14.6%	16.9%	18.6%

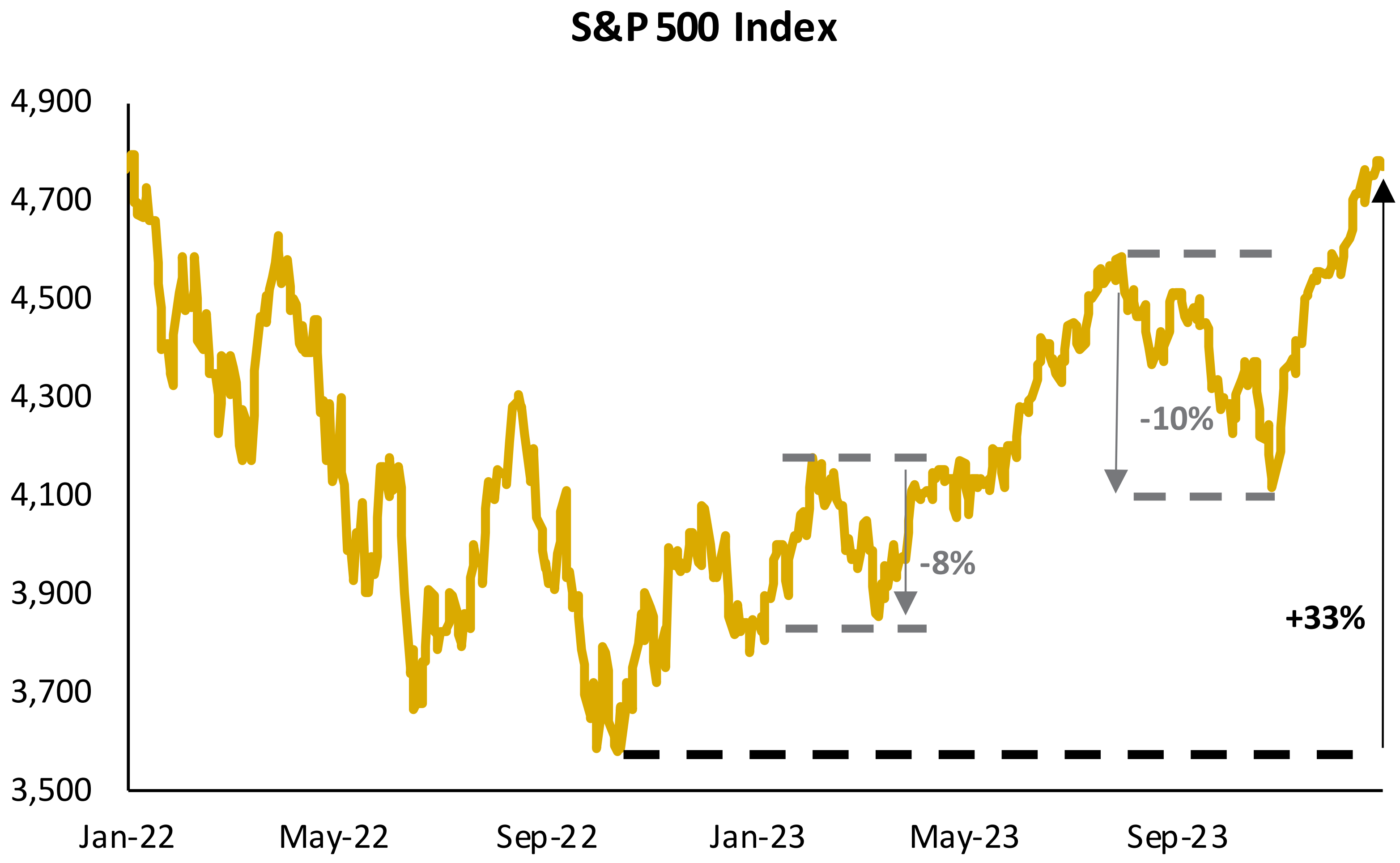
Source: Bloomberg. Note: Chart data represents Russell Top 200, Russell Midcap, and Russell 2000

US Equity Performance

As of year-end, the S&P 500 rallied 33% (price return) since its October 2022 low. The index finished the year less than 1% from the January 2022 record high of 4,796.56.

Given persistent macro concerns, the US stock market was incredibly resilient in 2023. The market sold-off 8% during the first quarter regional banking crisis, and 10% during the August-October sell-off. The average intra-year sell-off in a given year since 1990 is 15%.

S&P Has Rallied Since October ‘22



Source: Bloomberg

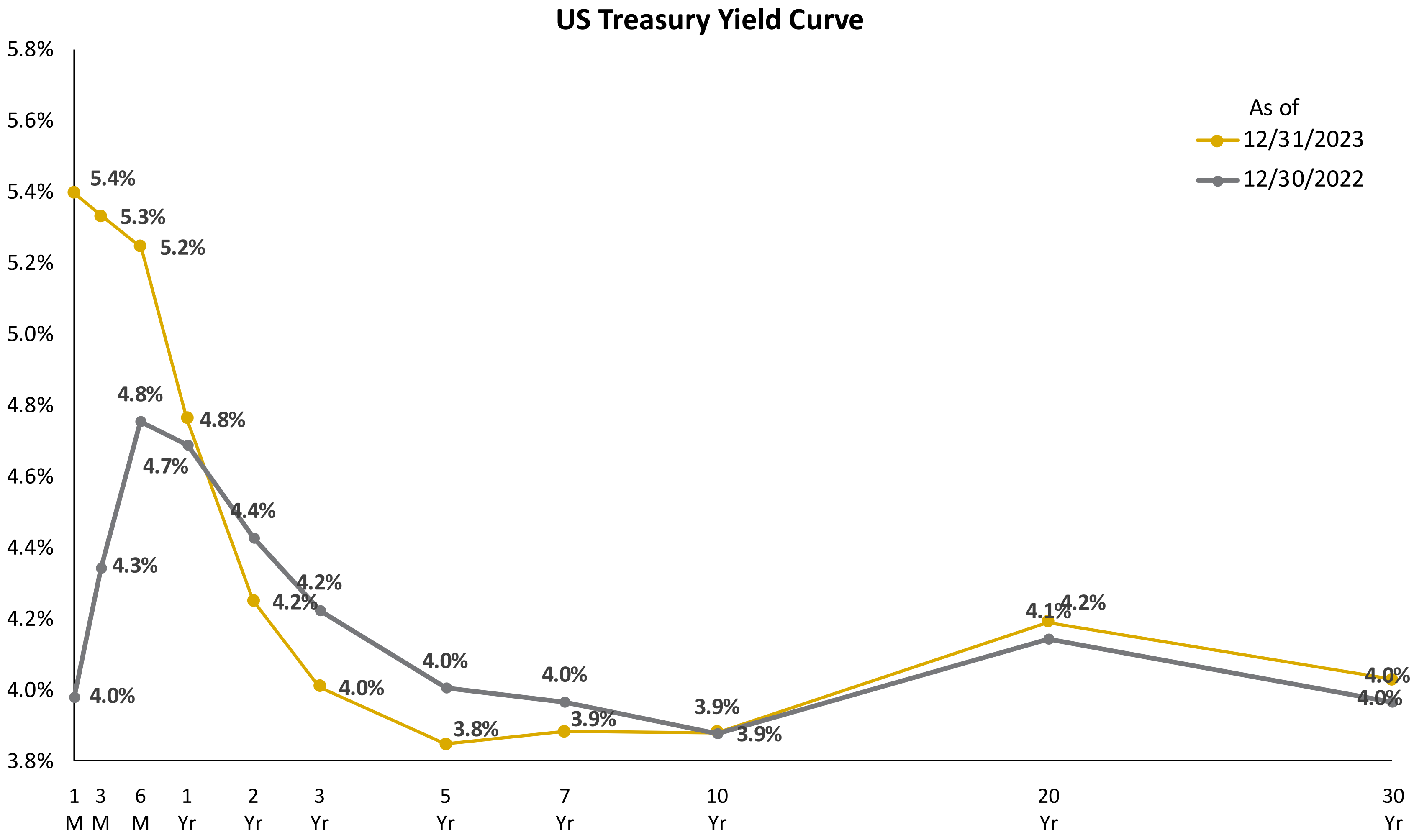
Fixed Income

US Government bond yields fell dramatically during the fourth quarter. The 2- and 10-year Treasury yielded 4.25% and 3.88% at quarter-end, respectively. As points of comparison, the 2-year yield peaked on October 18th at 5.22%, while the 10-year peaked on October 19th at 4.99%.

Investors began to price earlier and more Federal Reserve interest rate cuts in 2024. As of year-end 2023, fed funds futures were pricing the first cut in March 2024 and a total of six or seven 25 basis point cuts during 2024. In their December Summary of Economic Projections, the Federal Open Market Committee forecasted three 25 basis point cuts in 2024.

As the chart shows, the Treasury yield curve remains inverted, and while it was a wild ride intra-year, much of the yield curve is relatively unchanged or lower than where it started 2023. The exception is short-term yields, which are materially higher compared to the start of the year.

US Yield Curve Remains Inverted



Source: Bloomberg

Fixed Income

Even with bond yields declining in during the fourth quarter, yields remain attractive compared to levels at the start of 2022. This is true across Treasuries, investment grade, high yield, and municipals bonds.

The aggregate bond index, for example, was yielding 4.53% at year-end, 2.6 times higher than its 1.75% yield at the end of 2021. Investors are now able to generate yield from risk-managing assets.

Yield Levels Still Attractive

US Fixed Income Indices		
	Yield-to-Worst	
Index	**12/31/2021**	**12/31/2023**
2-Year Treasury	0.73%	4.25%
10-Year Treasury	1.51%	3.88%
Aggregate Bond	1.75%	4.53%
Intermediate Government/Credit	1.30%	4.37%
Municipal Bond	1.11%	3.22%
Investment Grade Corporate Bond	2.33%	5.06%
High Yield Corporate Bond	4.21%	7.59%

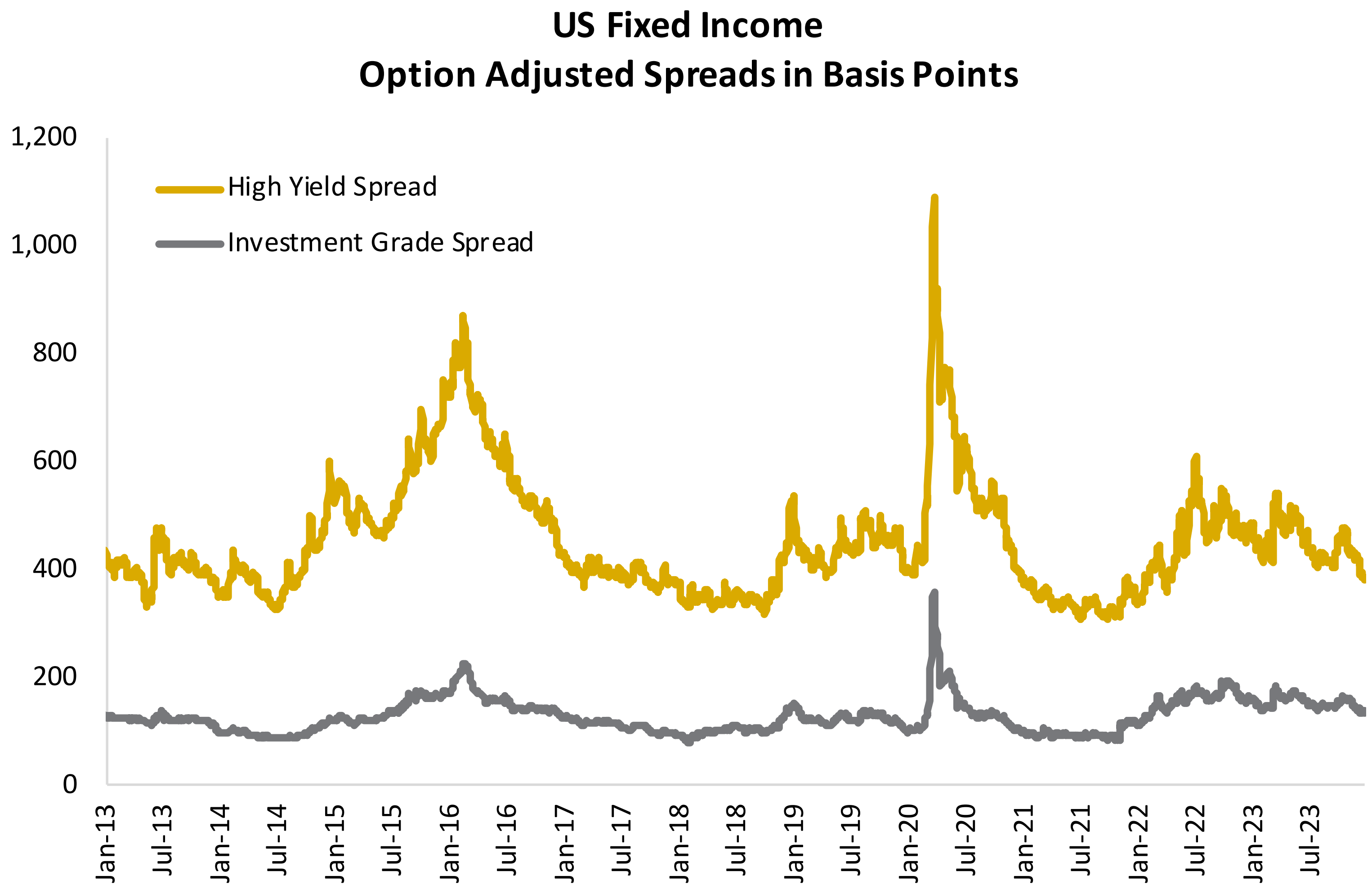
Source: Bloomberg

Fixed Income

Credit spreads for investment grade and high yield corporate bonds contracted during the quarter. As the chart shows, spreads remain tight compared to history.

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 Remain Tight



Source: Bloomberg

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