

# Making Sense

December 13, 2023



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# 2024 Market Outlook

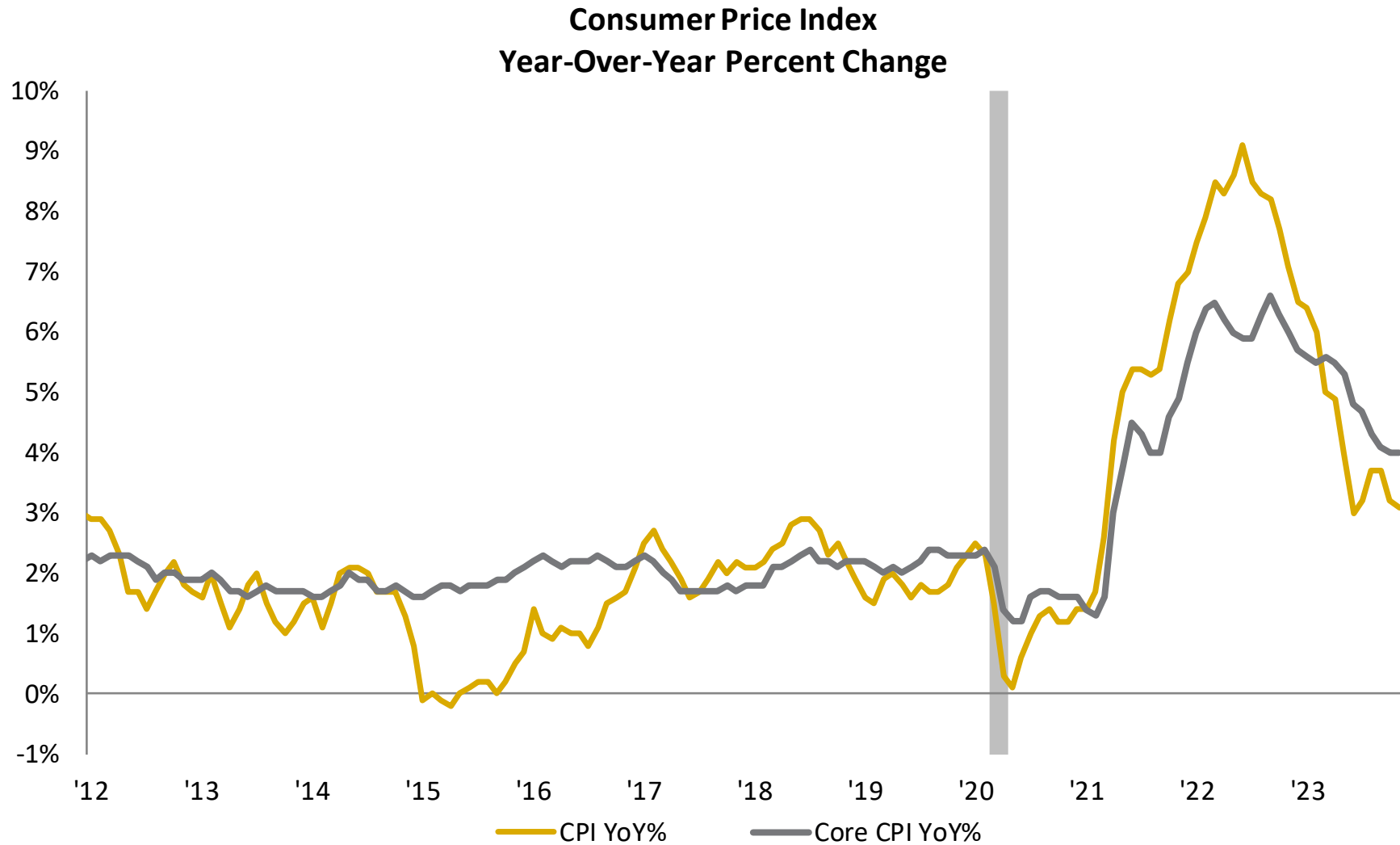
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- 6 Corporate Earnings & Market Valuation
- 7 S&P 500 Price Target
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- 10 Market Tenets to Remember



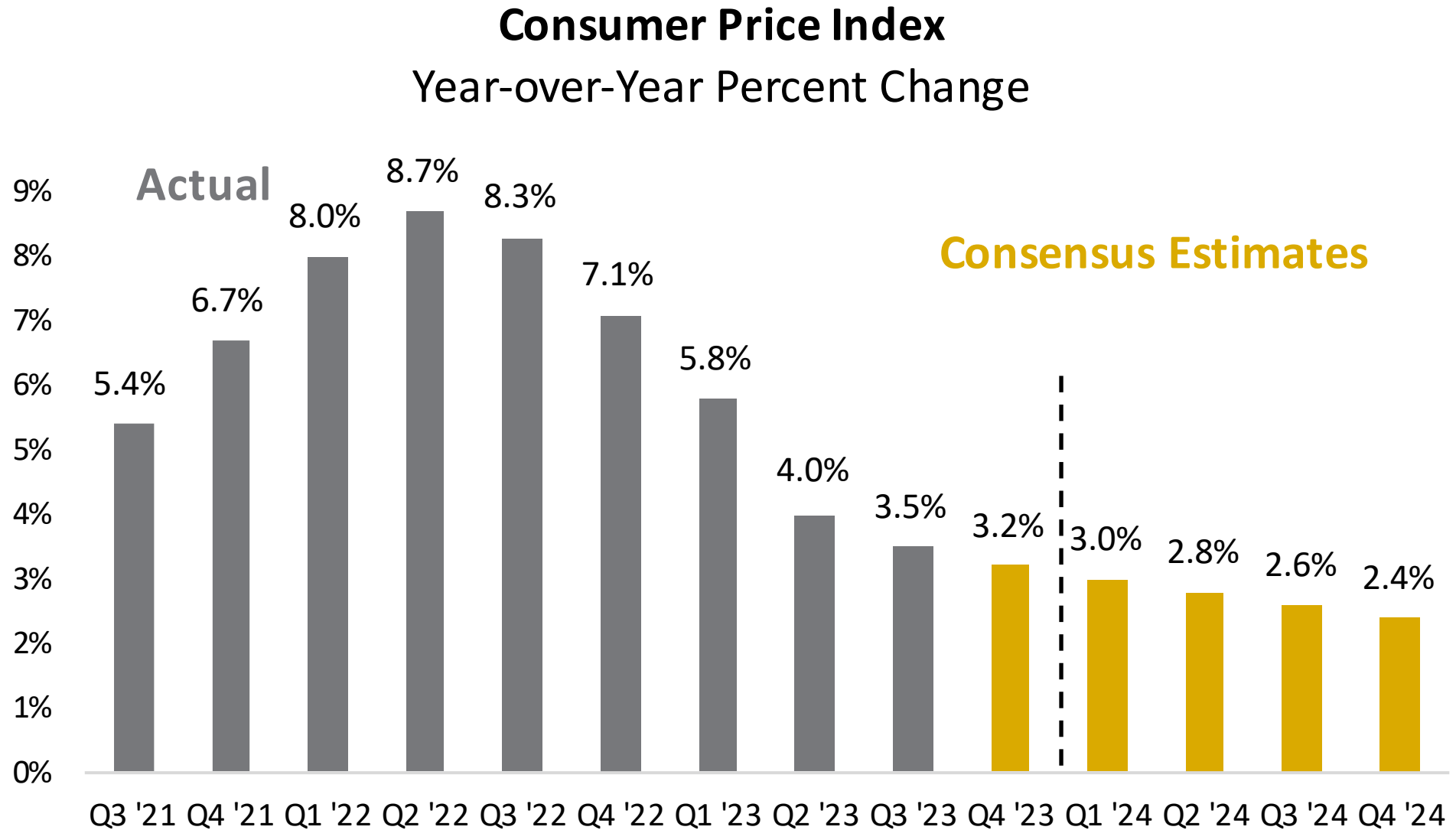
# 1) Inflation

# Inflation Moderating at a Slower Pace

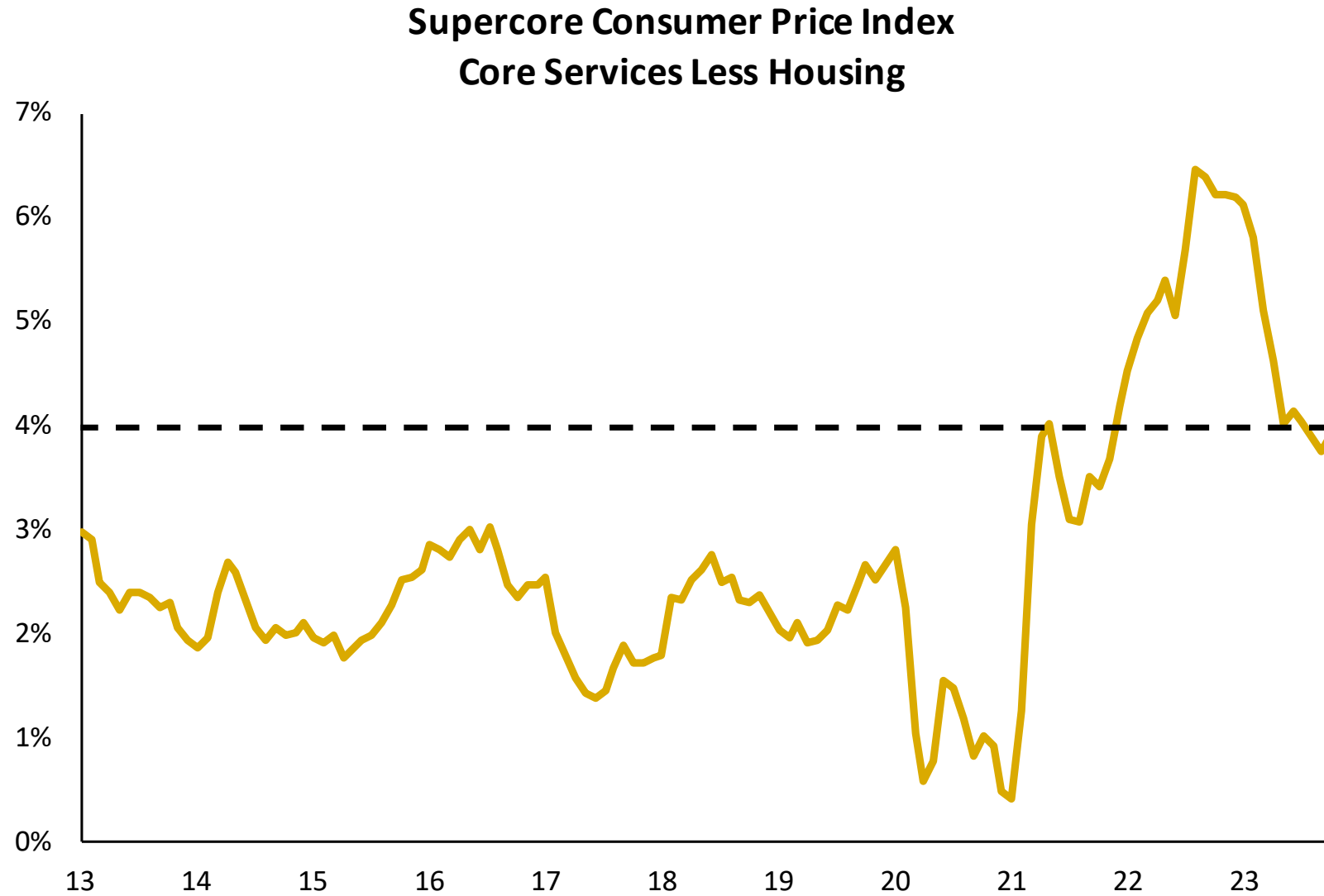




# Path of Inflation

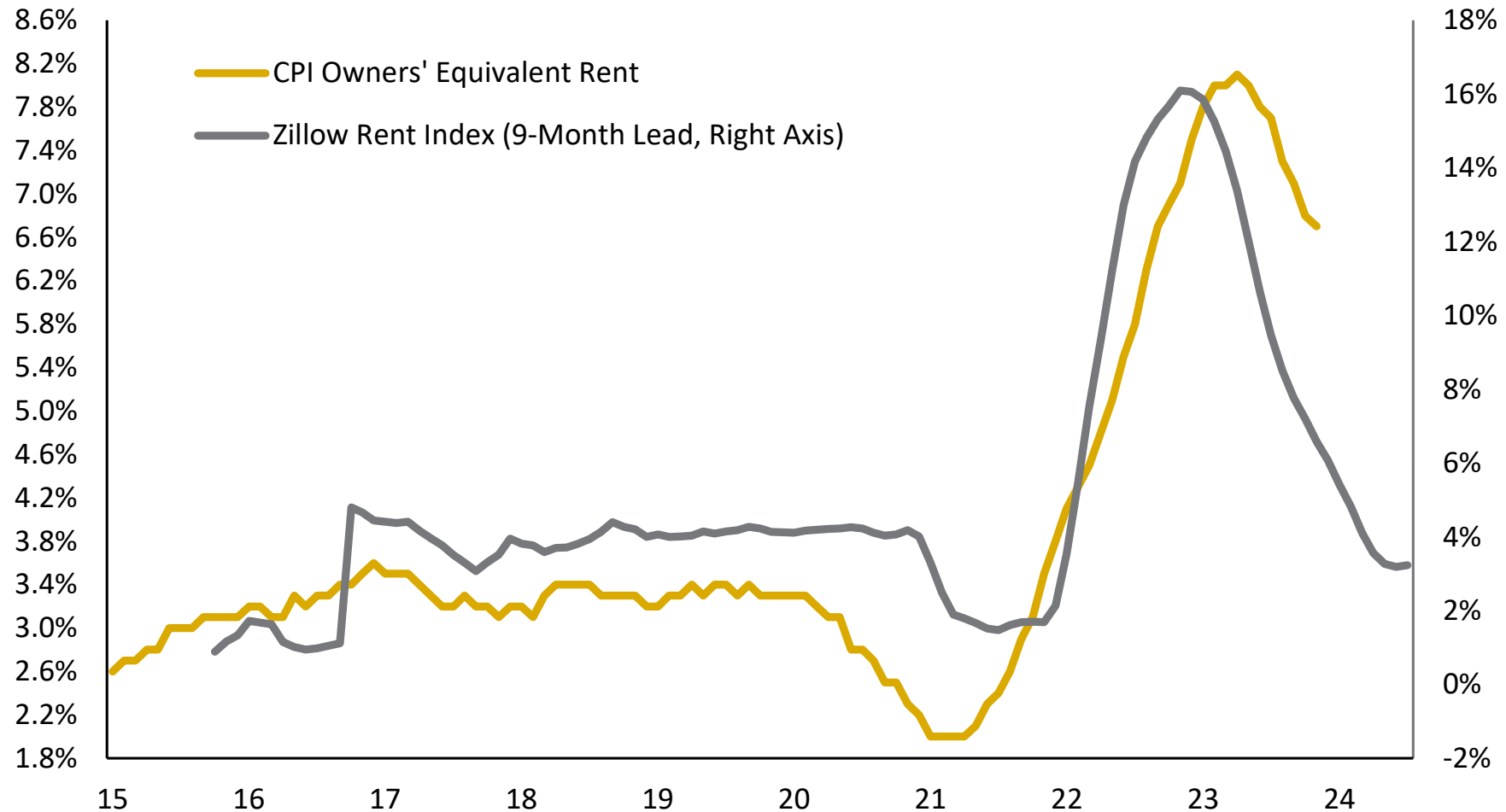


# Supercore Inflation Well Above the Fed's 2% Target



# Path of Inflation

## CPI: Owners' Equivalent Rent & Zillow Rent Index Year-Over-Year Percent Change

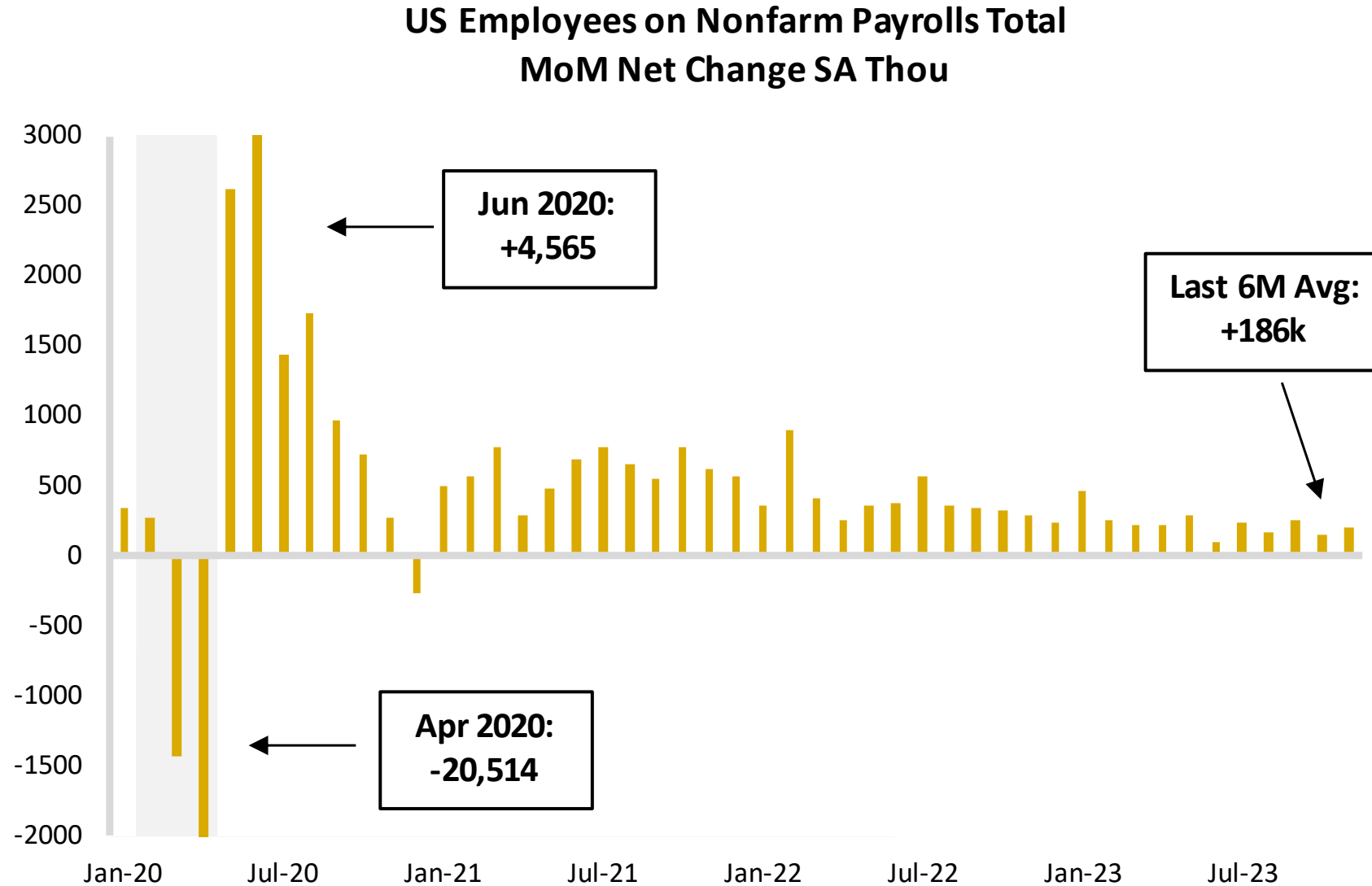


A grayscale landscape photograph showing rolling hills in the foreground and middle ground. In the distance, a windmill stands on a small hill, with a small rectangular building or shed nearby. The background consists of layered mountain ranges under a hazy sky. The overall tone is muted and atmospheric.

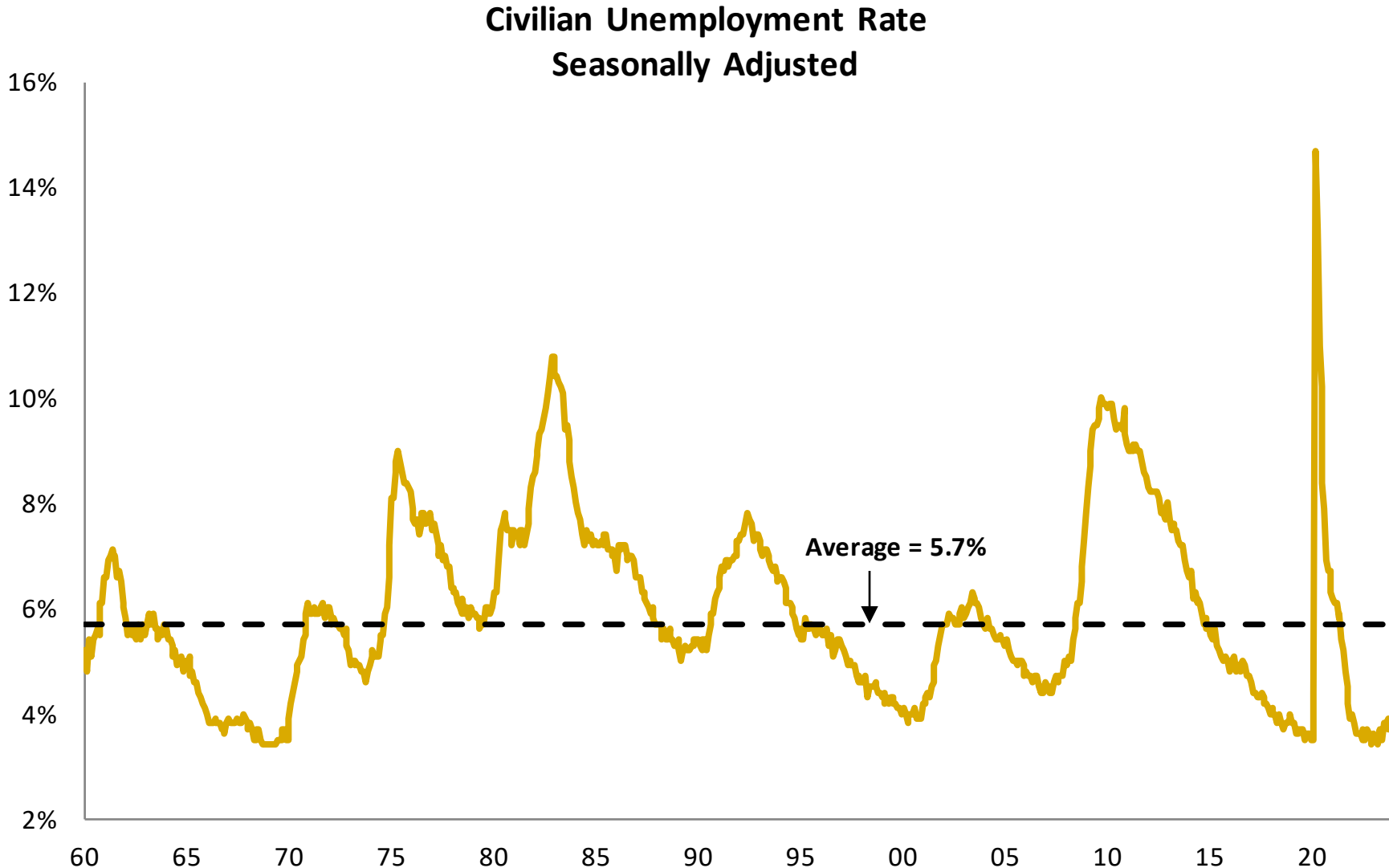
## 2) Labor Market



# Labor Market Resilient but Job Gains Slowing

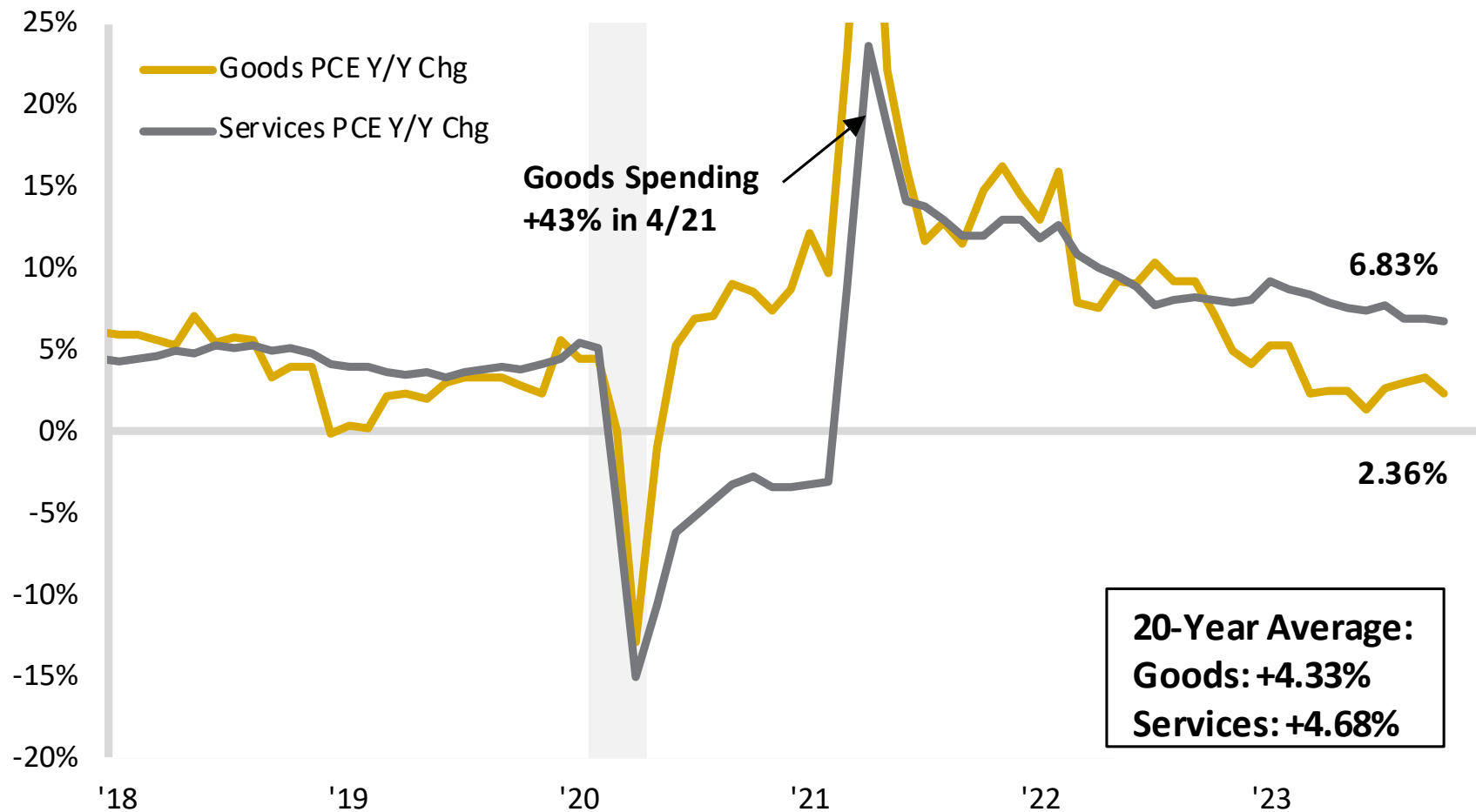


# Unemployment Has Risen But Remains Historically Low



# Consumer Expenditures

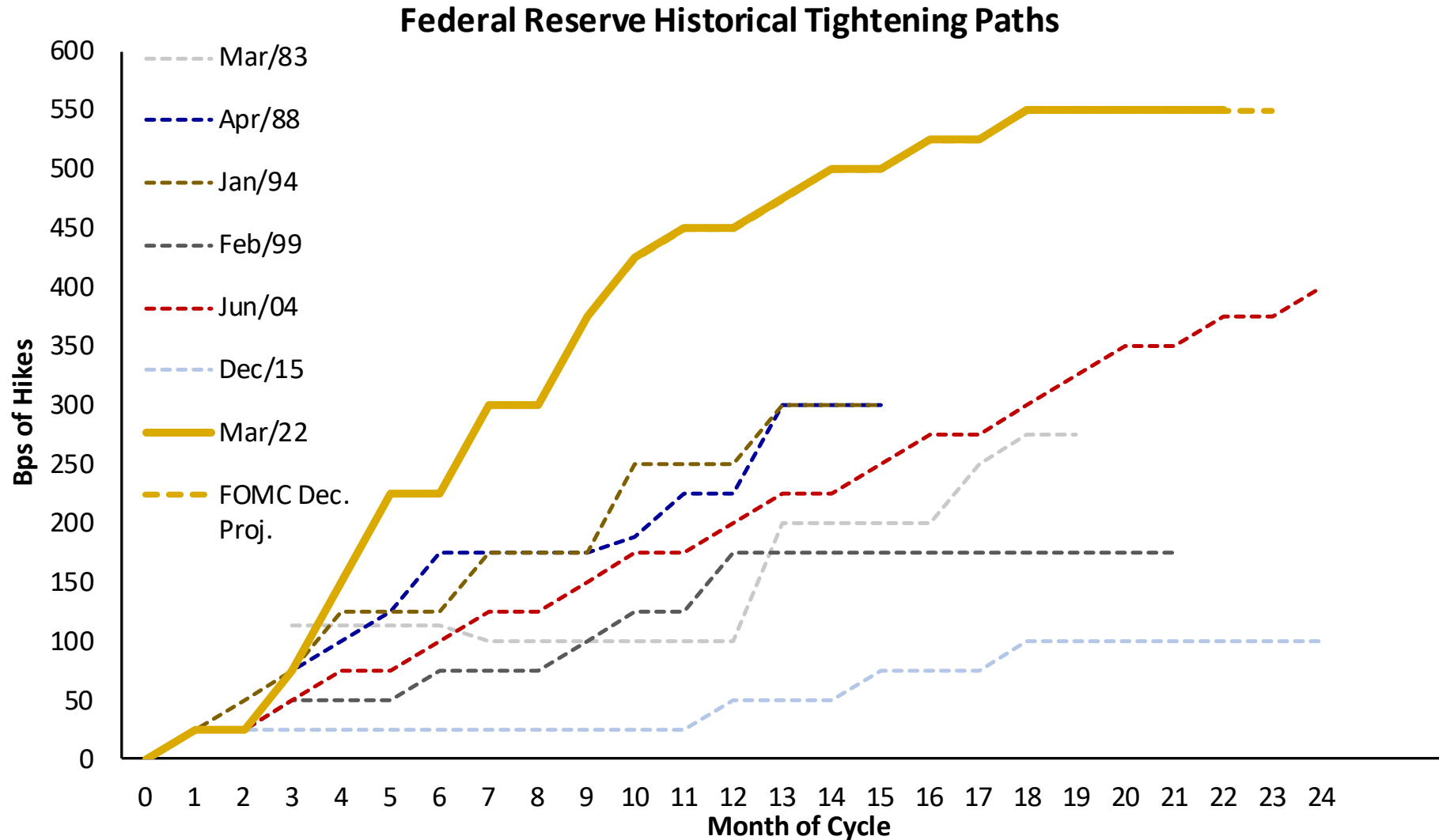
Personal Consumption Expenditures  
(SAAR, \$) % Change - Year to Year





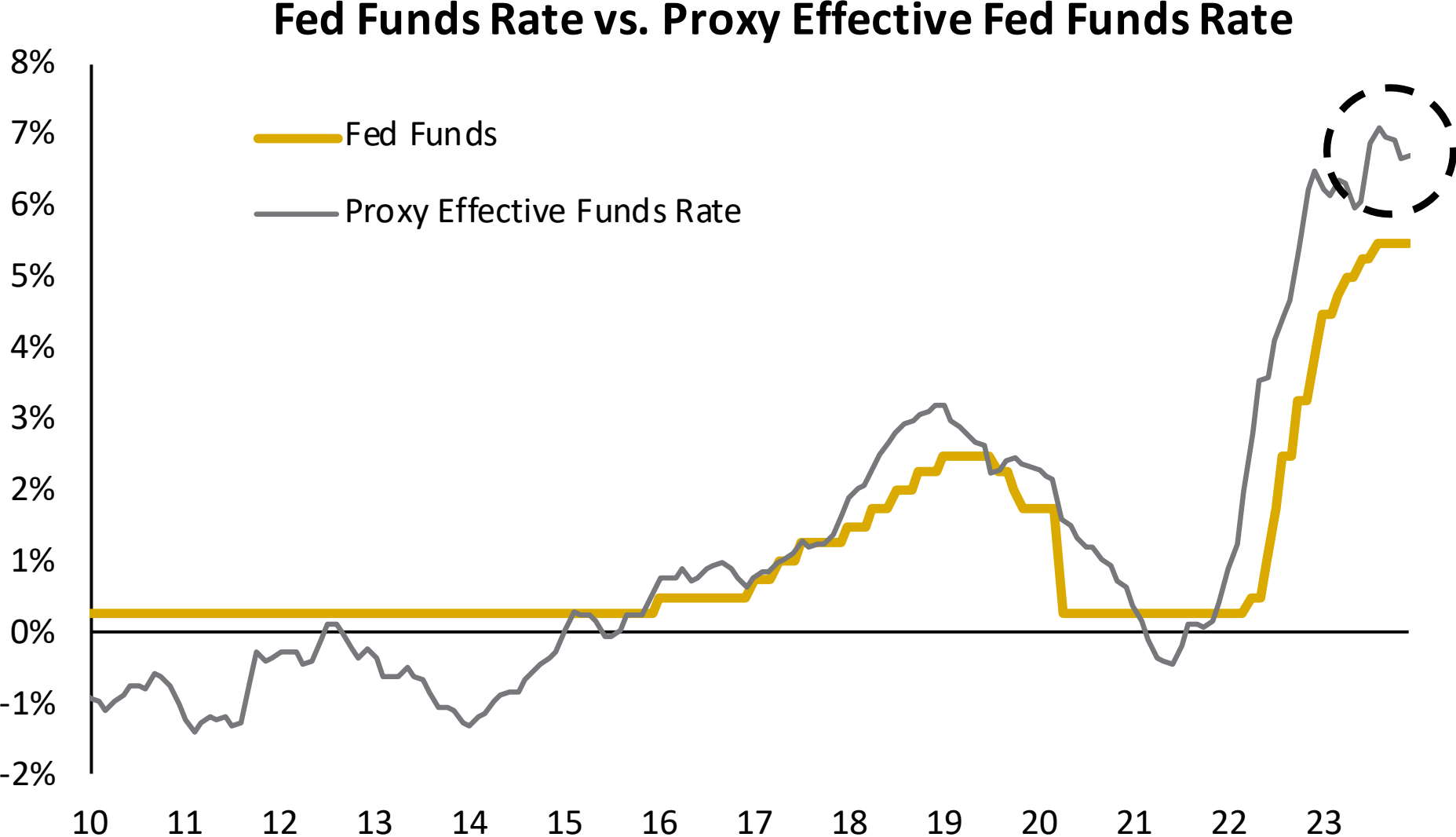
## **3) Monetary Policy**

# Federal Reserve Has Hiked Aggressively

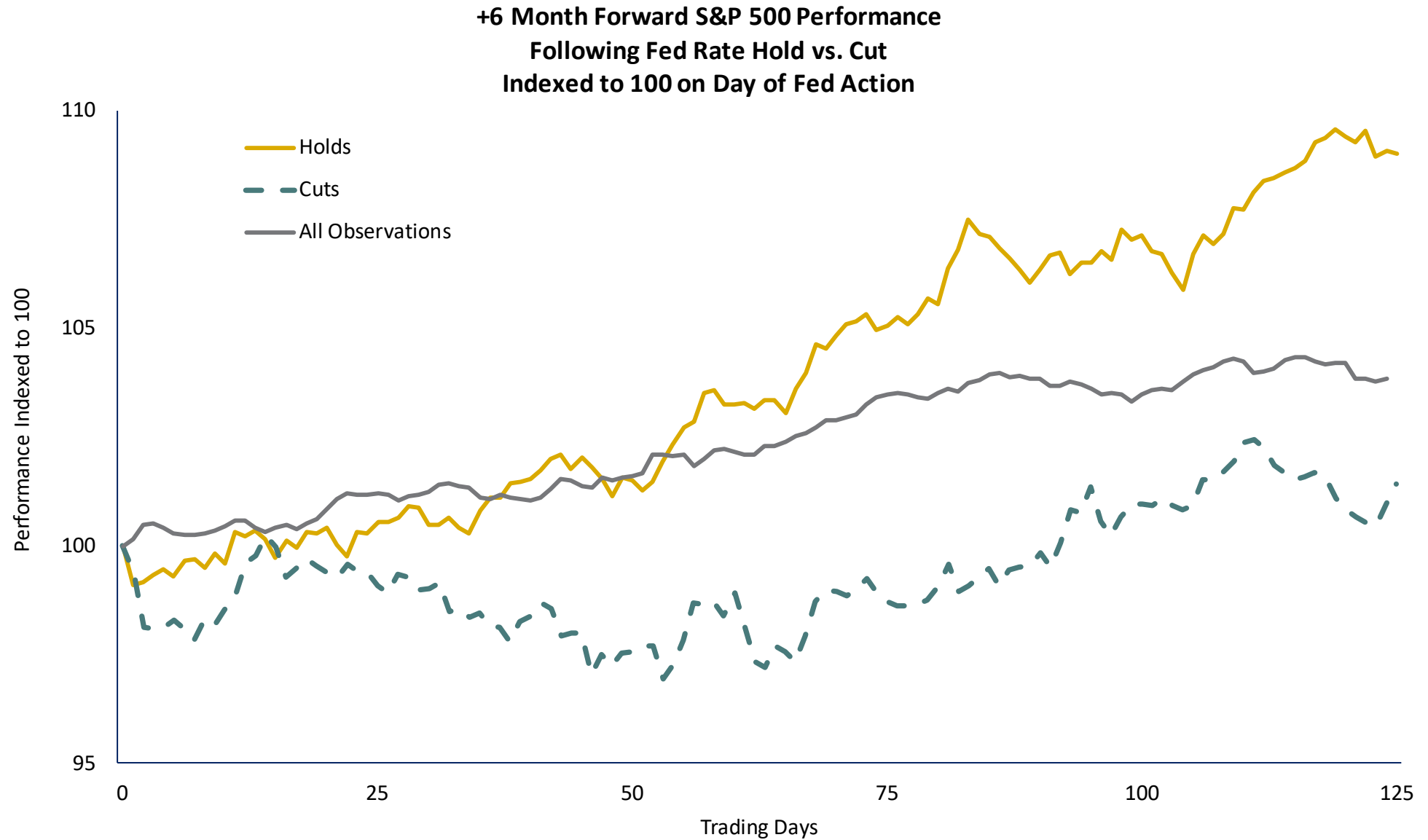




# Federal Reserve's Proxy Rate Measure Is Elevated



# The Fed & Market Performance: Better if FOMC Holds?

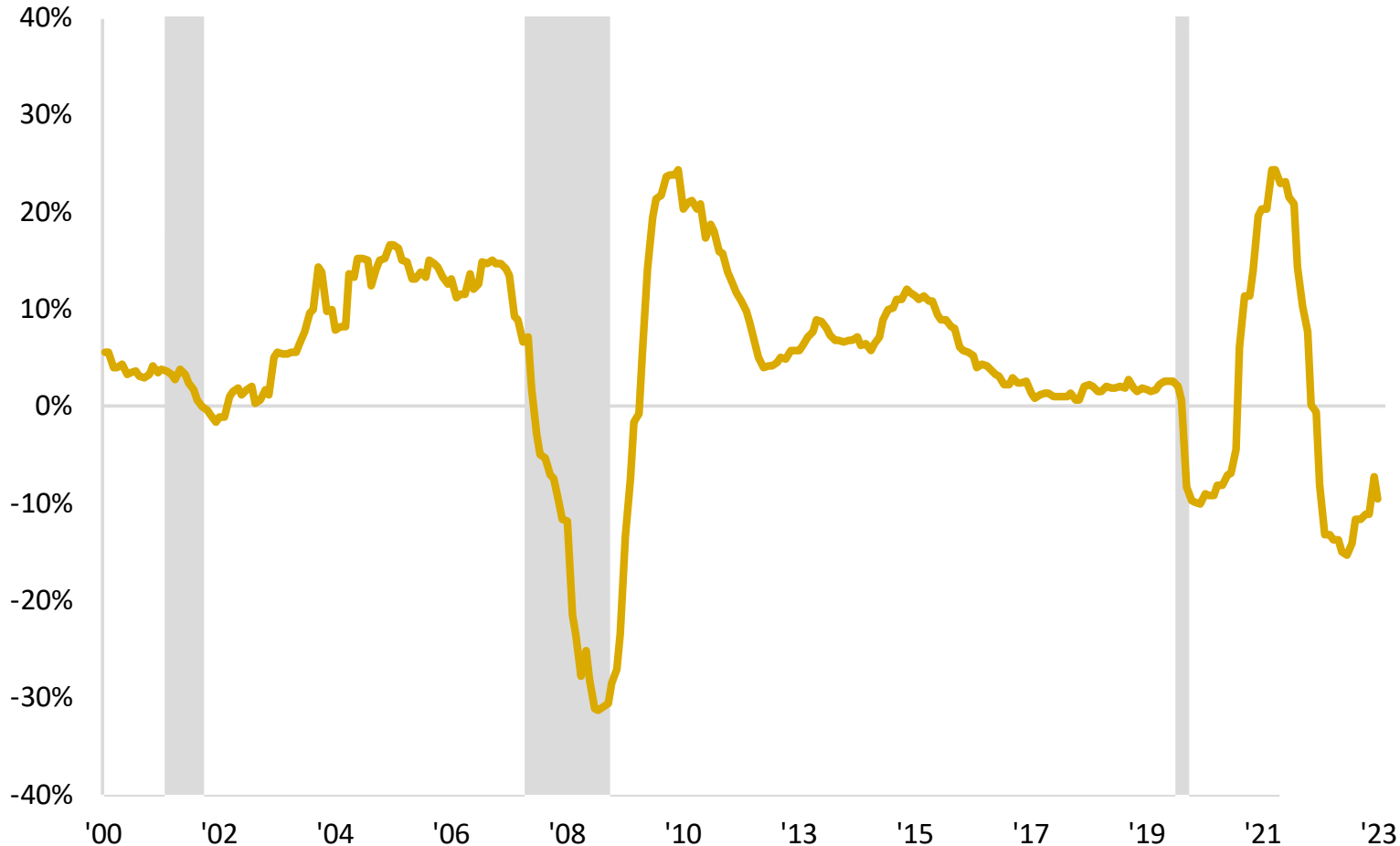




## 4) Commercial Real Estate

# Commercial Real Estate Values Are Under Pressure

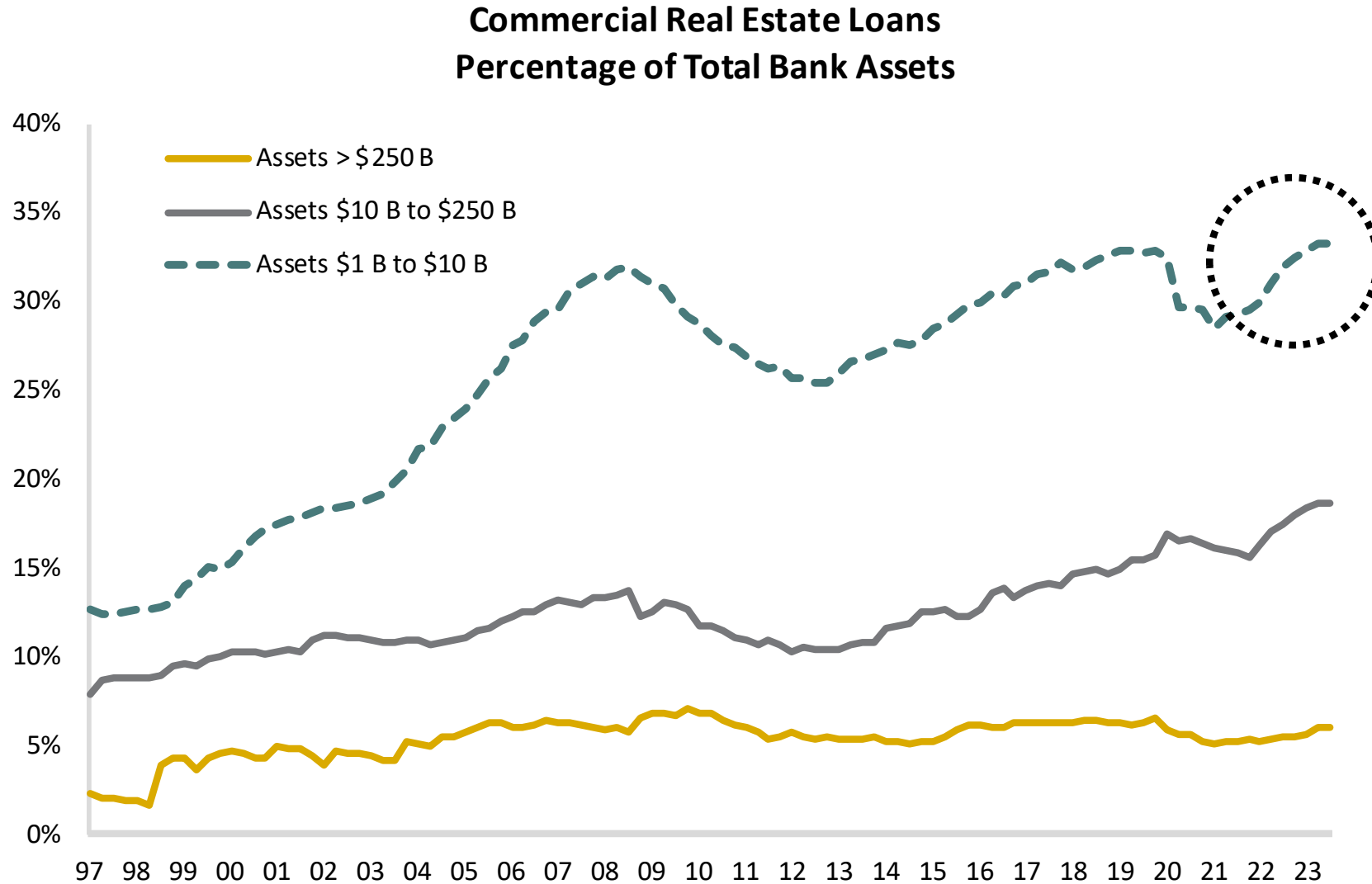
Green Street Commercial Property Price Index: All Property  
% Change - Year to Year



## Change in Property Value from Peak:

- **All Property: -22%**
- **Office: -35%**
- **Apartment: -30%**
- **Industrial: -16%**
- **Strip Retail: -18%**

# Small Banks Are More Exposed to Commercial Real Estate

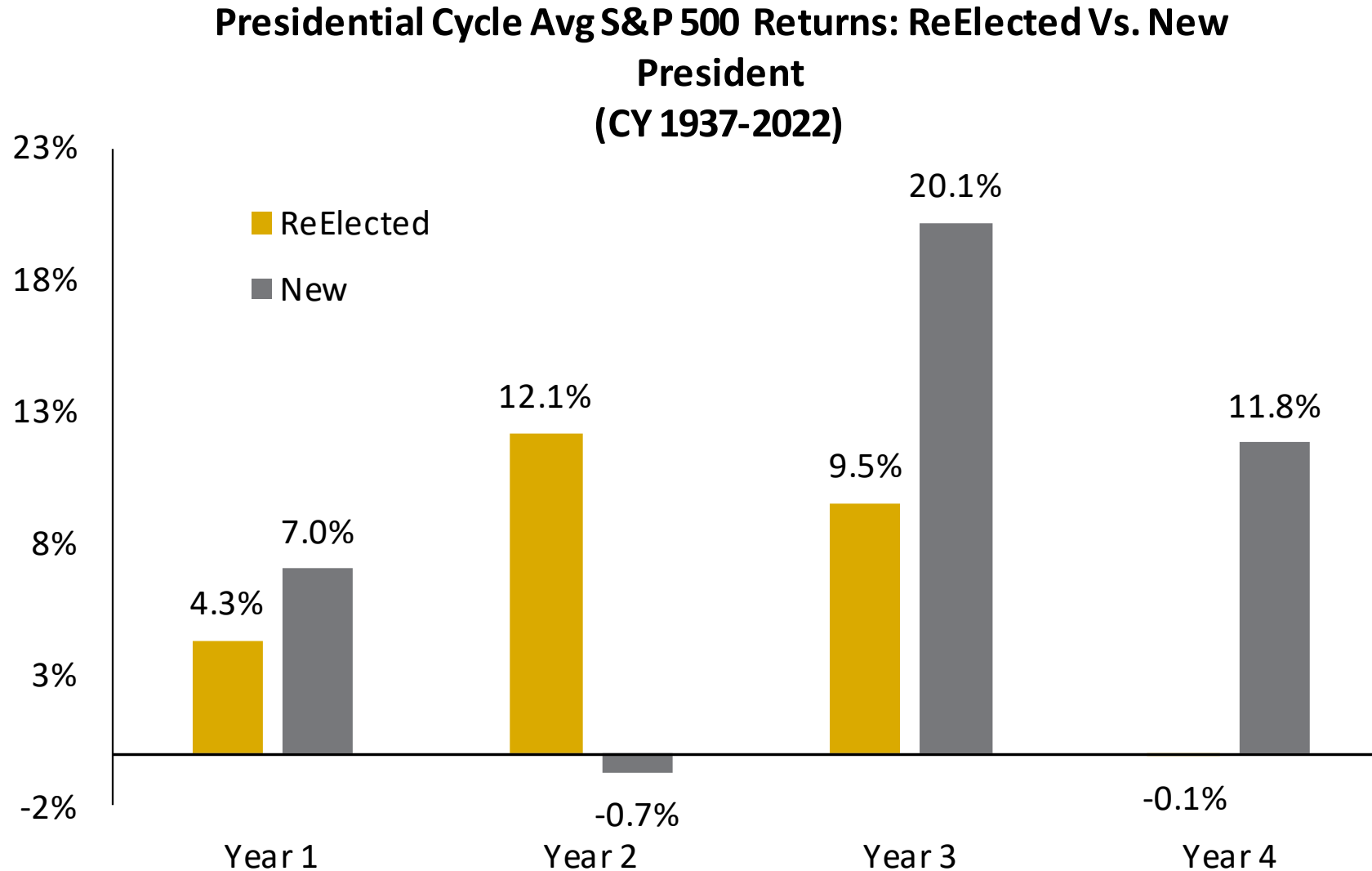






## 5) Election Year / Geopolitical

# Presidential Cycle: S&P 500 Returns



# Geopolitical Events: S&P 500 Returns

Stock Market Performance around Geopolitical Events

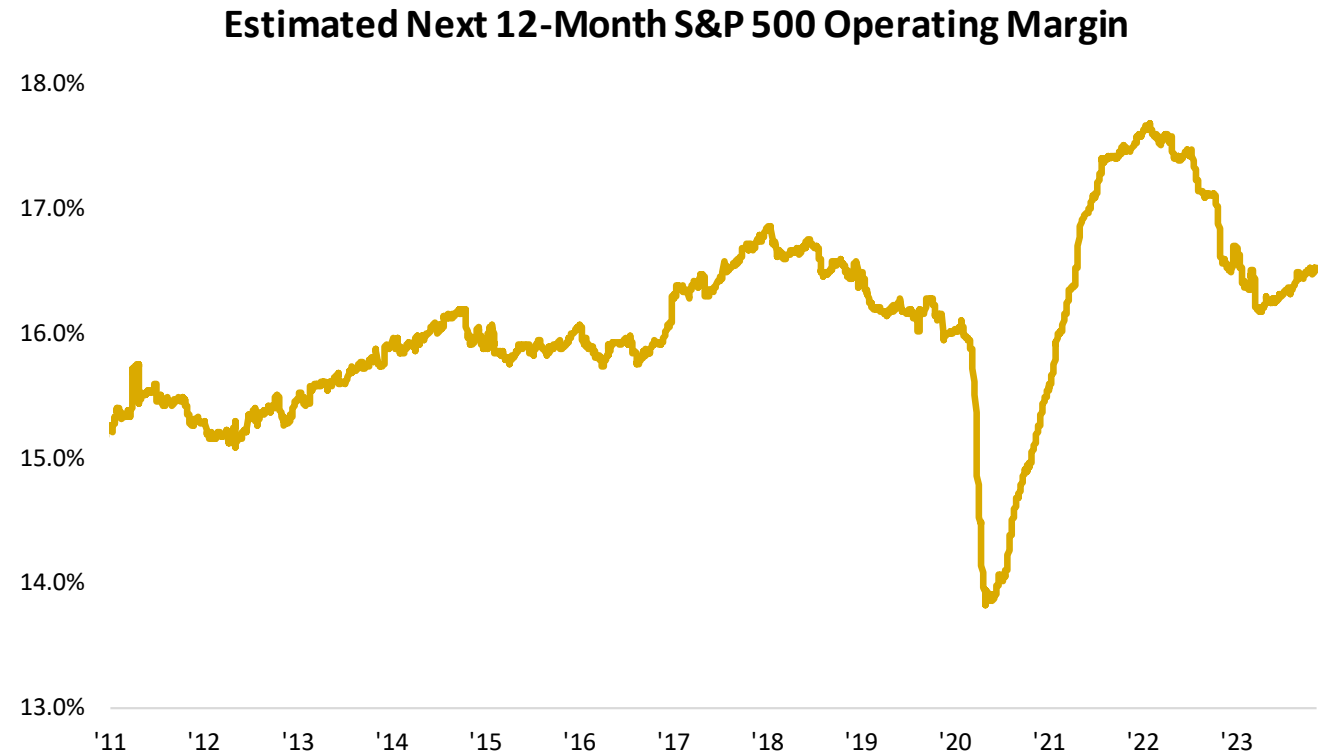
Event	Event date	Time to bottom (trading days)	Time to recover prior level (trading Days)	Size of selloff (%)	1-week from bottom	1-month from bottom	3-months from bottom	6-months from bottom	12-months from bottom
WW-II Germany annexes Czechoslovakia	3/15/1939	22	108	-20.5	2.3	8.3	8.5	23.2	18.9
WW-II 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
Israel-Hamas War	10/7/2023	-	-	-	0.5	1.4	-	-	-
<b>Median</b>		<b>16.0</b>	<b>16.0</b>	<b>-6.0</b>	<b>3.5</b>	<b>6.5</b>	<b>6.6</b>	<b>8.3</b>	<b>13.6</b>
<b>Average</b>		<b>15.5</b>	<b>115.2</b>	<b>-7.4</b>	<b>3.8</b>	<b>6.4</b>	<b>7.3</b>	<b>9.8</b>	<b>12.2</b>



## 6) Corporate Earnings & Market Valuation

# Corporate Earnings

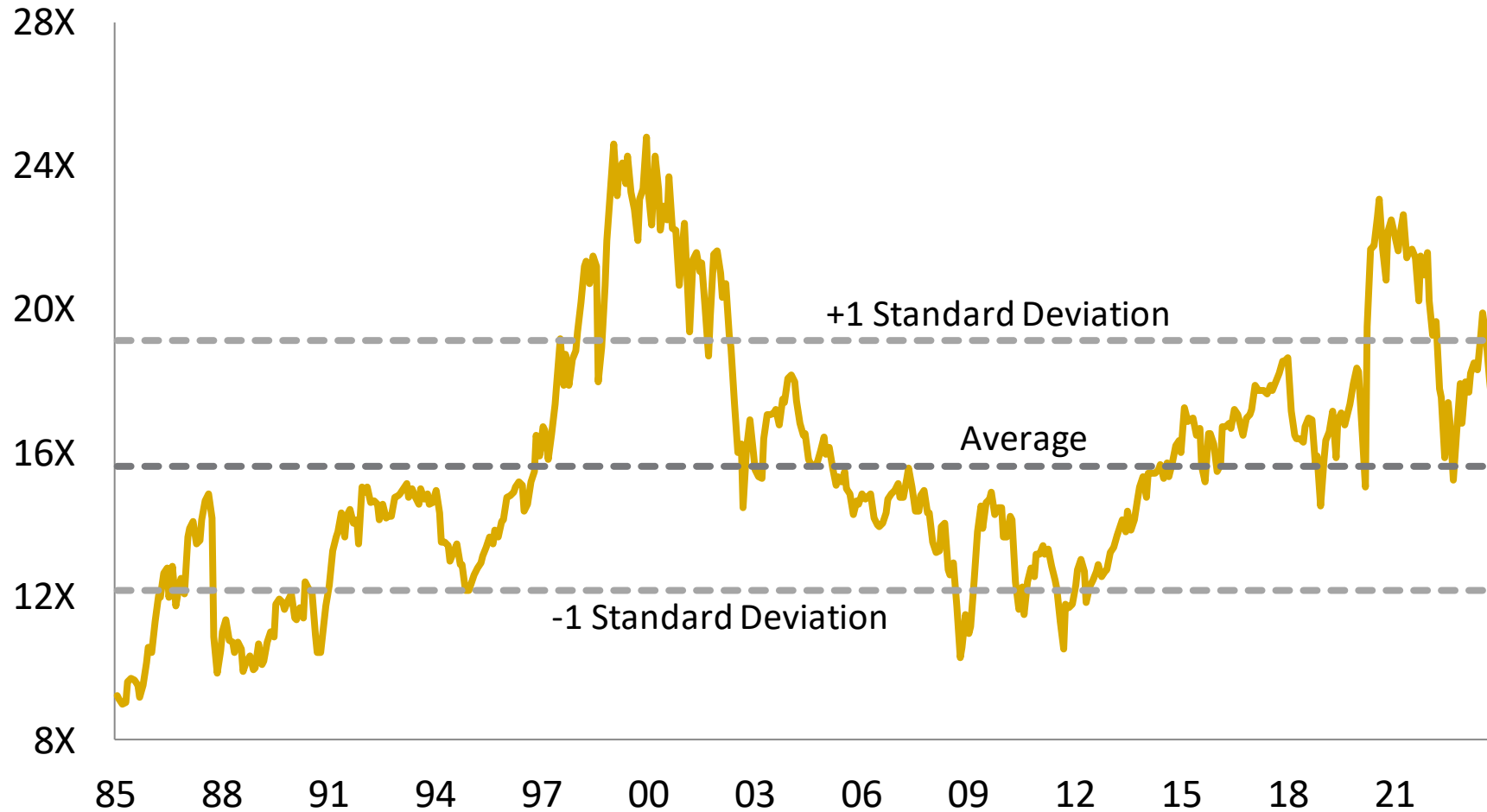
- 2023 estimated growth is **0.7%** or \$221 per share
- 2024 estimated growth is **11.8%** or \$246 per share
- Average growth since 1950 is **7.6%**





# Market Valuation Below Extremes but Above Average

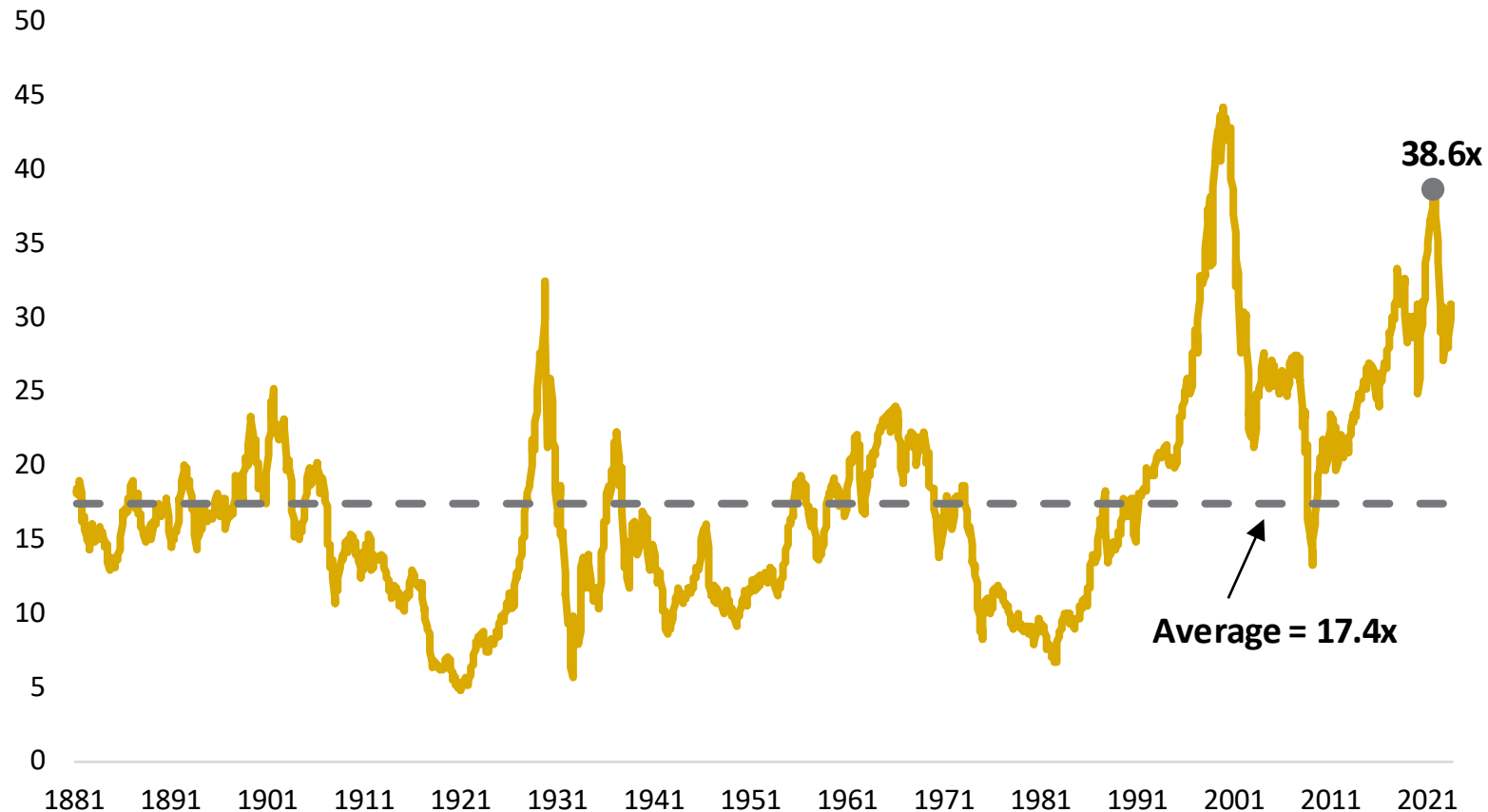
## S&P 500 Next Twelve Months Price-to-Earnings Ratio



# Valuations Below Peak, Above Average

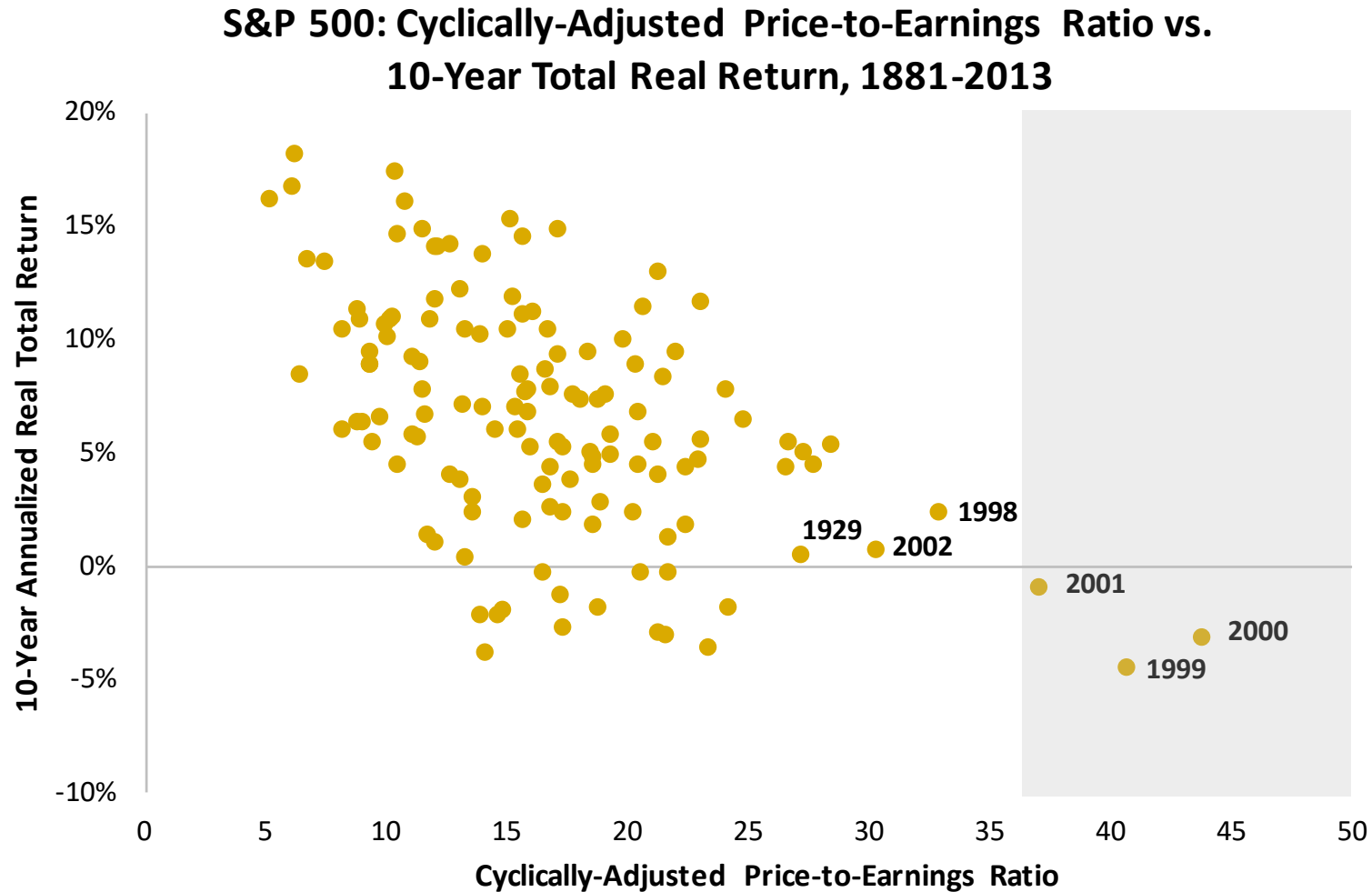
- While the Cyclically-Adjusted P/E ratio (CAPE) has been a **bad predictor of shorter-term performance...**

S&P 500: Cyclically-Adjusted Price-to-Earnings Ratio



# Valuations Significantly Elevated

- ...it has been a **very accurate predictor of longer-term (decade) performance.**



A grayscale landscape featuring rolling hills, a windmill, and a small building in the distance. The scene is misty or hazy, with the hills in the background appearing as soft, layered silhouettes. In the middle ground on the right, there is a tall, thin metal windmill with a circular fan-like top and a small, dark rectangular building or shed next to its base. The foreground is a field of tall grass, slightly out of focus. The overall mood is quiet and rural.

## 7) S&P 500 Price Target

# S&P 500 Price Target

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

	NTM Price Level	Percent Change from 12/11
Bear	3,700	-20.0%
Base	4,850	4.9%
Bull	5,500	19.0%

- **Bear case:** downward next twelve-month (NTM) EPS revision, followed by below average EPS growth in 13-24 months. Multiple (price-to-earnings) contraction.
- **Base case:** modest NTM EPS downward revision, followed by average EPS growth with slight multiple contraction.
- **Bull case:** positive NTM EPS revision, followed by slightly above average EPS growth with slight multiple expansion.



## 8) Recession Market Performance

# What have stocks done during and after a recession?

S&P 500 Performance During Recessions (Post-WWII)								
	Recession Start	Recession End	Recession Length (Mos.)	During Recession	Post Recession End (Cumulative Returns)			
					1-year	3-years	5-years	10-years
1)	11/30/1948	10/31/1949	11	19.0%	35.1%	92.8%	177.8%	510.4%
2)	7/31/1953	5/31/1954	10	22.9%	36.1%	83.7%	145.2%	295.5%
3)	8/31/1957	4/30/1958	8	-0.9%	37.2%	66.4%	89.9%	211.2%
4)	4/30/1960	2/28/1961	10	19.7%	13.6%	35.2%	68.4%	112.2%
5)	12/31/1969	11/30/1970	11	-1.9%	11.3%	20.6%	25.1%	146.6%
6)	11/30/1973	3/31/1975	16	-7.8%	28.3%	22.1%	55.6%	253.5%
7)	1/31/1980	7/31/1980	6	9.6%	13.0%	56.1%	100.5%	344.6%
8)	7/31/1981	11/30/1982	16	14.2%	25.6%	66.8%	103.0%	350.2%
9)	7/31/1990	3/31/1991	8	7.9%	11.0%	29.8%	98.1%	284.2%
10)	3/31/2001	11/30/2001	8	-0.9%	-16.5%	8.4%	34.3%	33.2%
11)	12/31/2007	6/30/2009	18	-35.0%	14.4%	57.7%	136.9%	293.8%
12)	2/29/2020	4/30/2020	2	-1.1%	46.0%	N/A	N/A	N/A
<b>Average</b>			<b>10</b>	<b>3.8%</b>	<b>21.3%</b>	<b>49.0%</b>	<b>94.1%</b>	<b>257.8%</b>
<b>Median</b>			<b>10</b>	<b>8.8%</b>	<b>19.6%</b>	<b>45.6%</b>	<b>94.0%</b>	<b>268.8%</b>
<b>Percent Positive</b>				<b>50.0%</b>	<b>91.7%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average of Positive Events</b>				<b>15.6%</b>				
<b>Median of Positive Events</b>				<b>16.6%</b>				
<b>Average of Negative Events</b>				<b>-8.0%</b>				
<b>Median of Negative Events</b>				<b>-1.5%</b>				

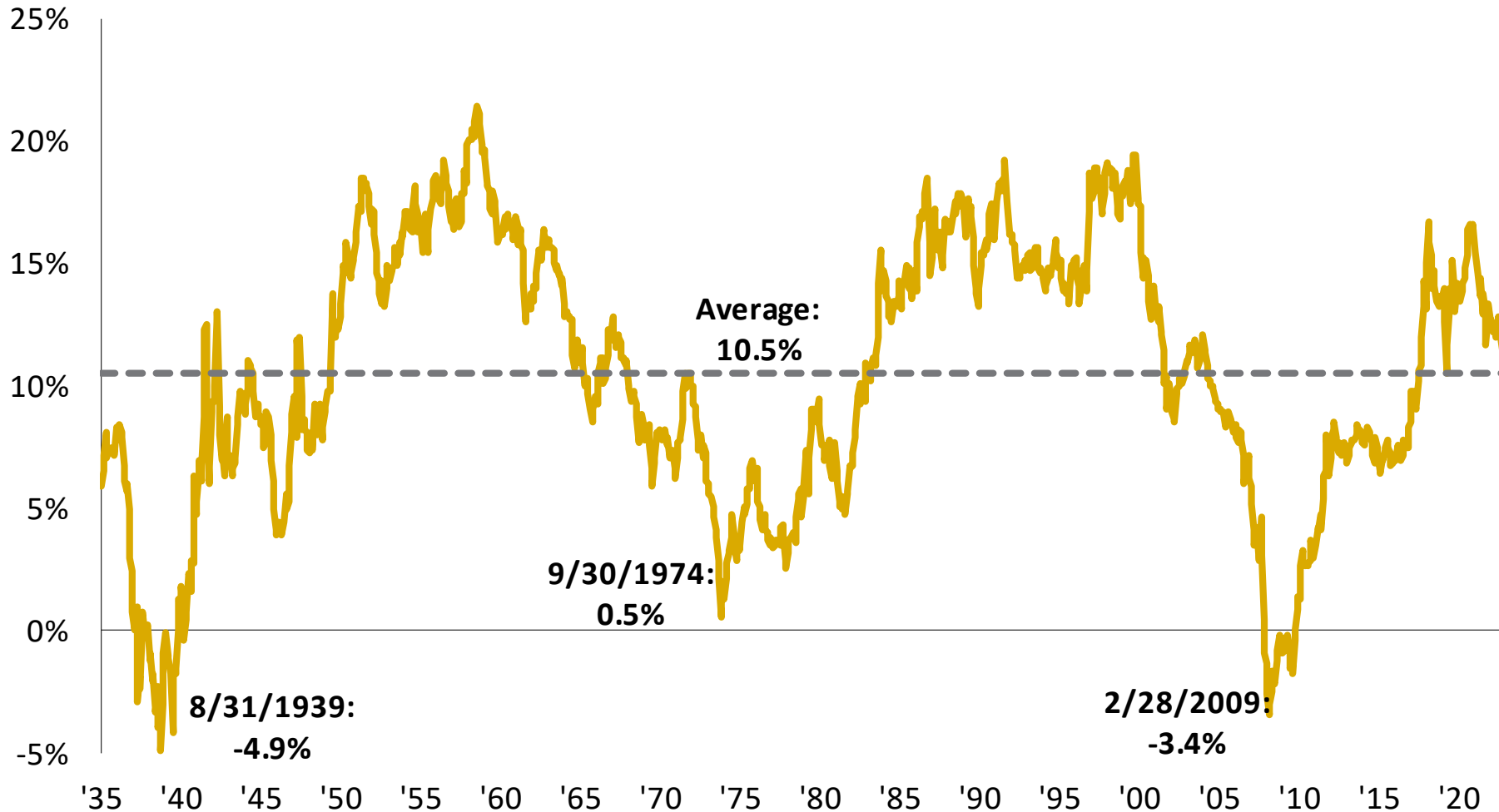


A grayscale landscape featuring a field in the foreground, a windmill on a tall tower to the right, and a range of mountains in the background. The scene is dimly lit, creating a serene and quiet atmosphere.

## 9) Balance Between Stocks & Bonds

# S&P 500: 10-Year Rolling Returns

## S&P 500 Rolling 10-Year Annualized Total Returns



# Expect Much More Balance Over the Next Decade

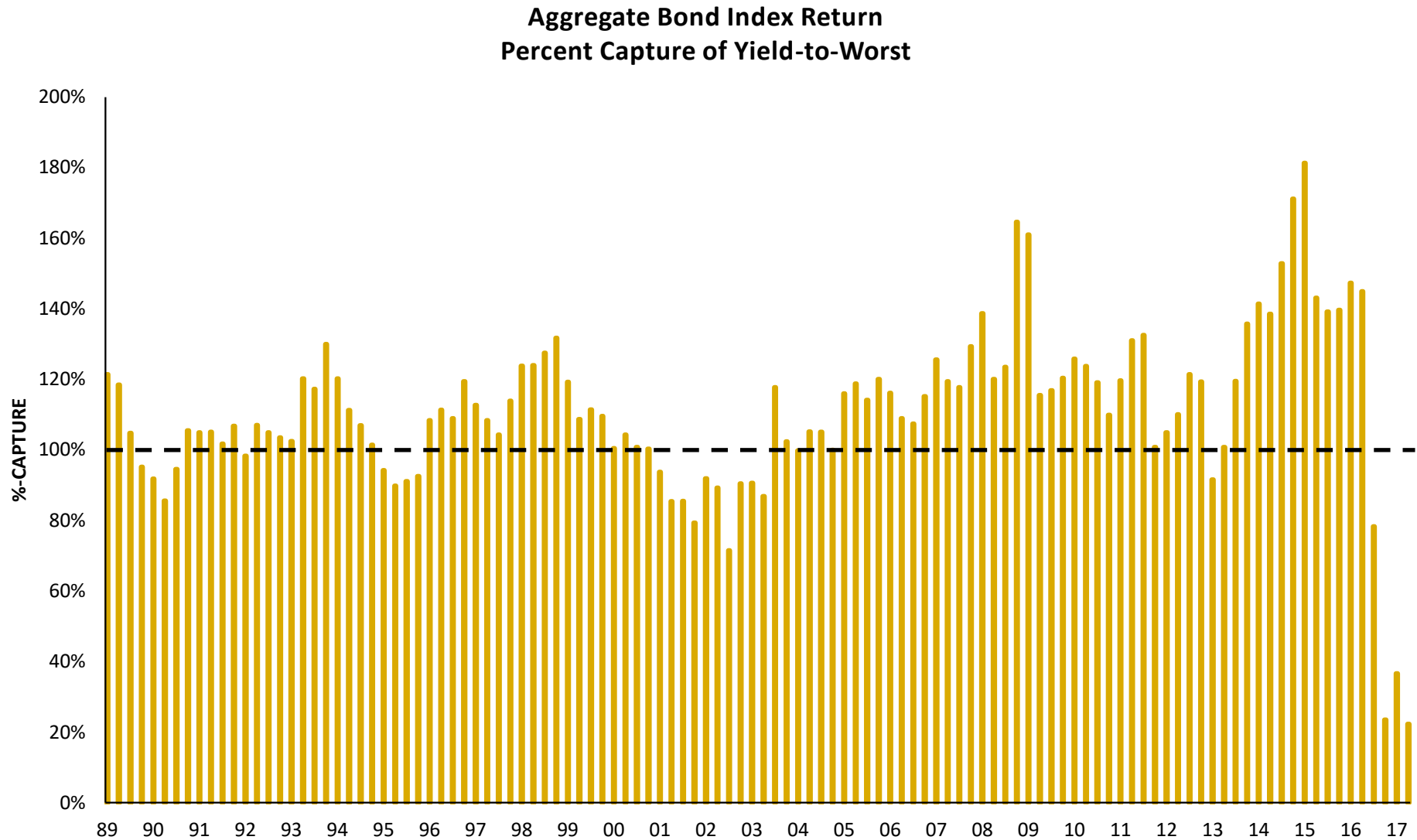
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	<b>Decade Ended 2021</b>	<b>Next 10 years*</b>	<b>Annualized Difference</b>
US Large Cap Stocks	16.3%	7.0%	-9.3%
US Core Taxable Bonds	2.9%	4.7%	1.8%
Annualized spread	13.4%	2.3%	

# Bond Yields Remain Elevated versus Recent History

US Fixed Income Indices		
Index	Yield-to-Worst	
	12/31/2021	12/8/2023
2-Year Treasury	0.73%	4.72%
10-Year Treasury	1.51%	4.23%
Aggregate Bond	1.75%	4.95%
Intermediate Government/Credit	1.30%	4.81%
Municipal Bond	1.11%	3.46%
Investment Grade Corporate Bond	2.33%	5.51%
High Yield Corporate Bond	4.21%	8.29%

# Bonds' Future Total Returns Tend to Capture Current YTW

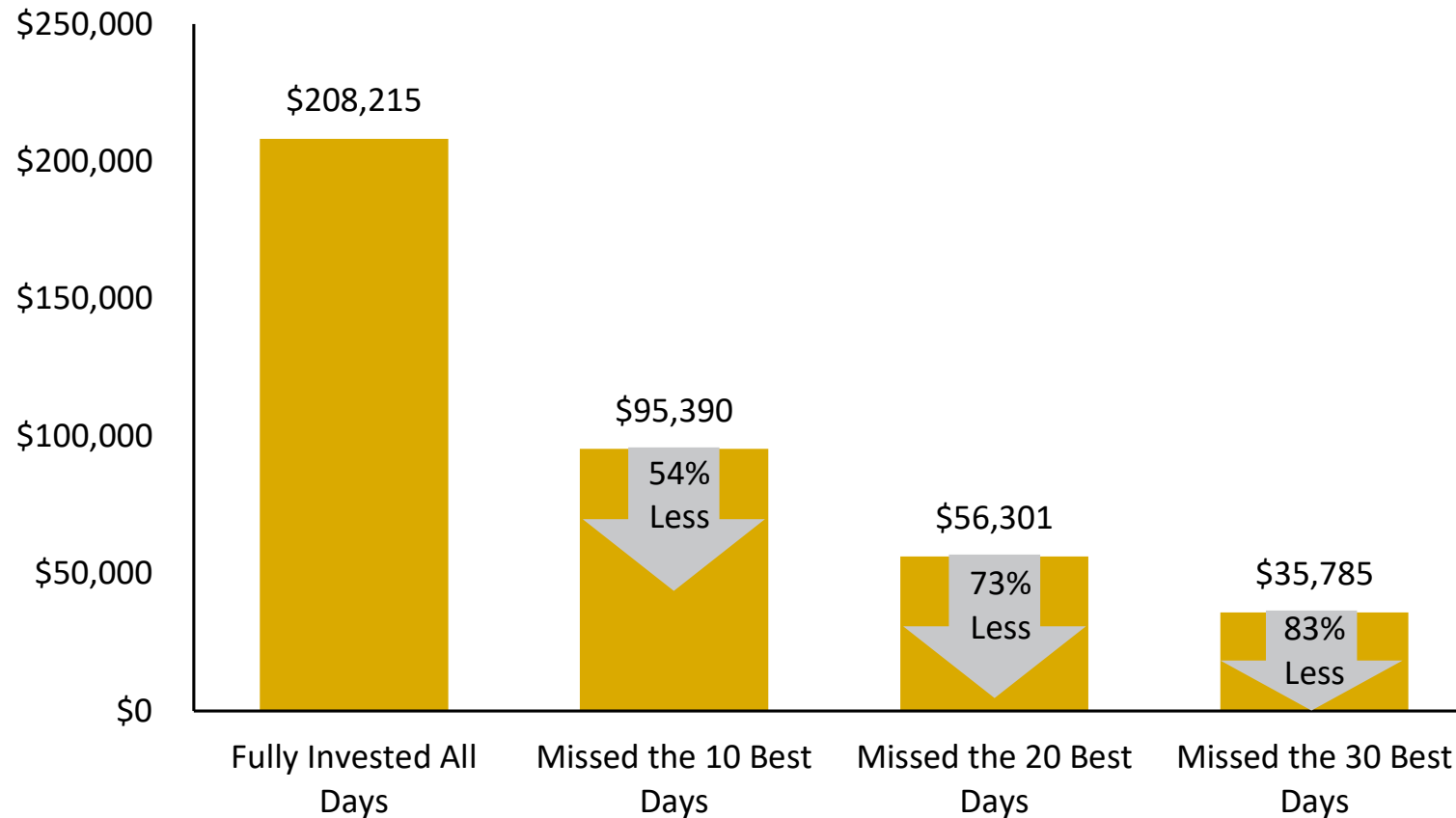




# 10) Market Tenets to Remember

# Timing Markets Can Prove Costly

Growth of \$10,000: S&P 500 Average Annual Total Returns  
1992-2021

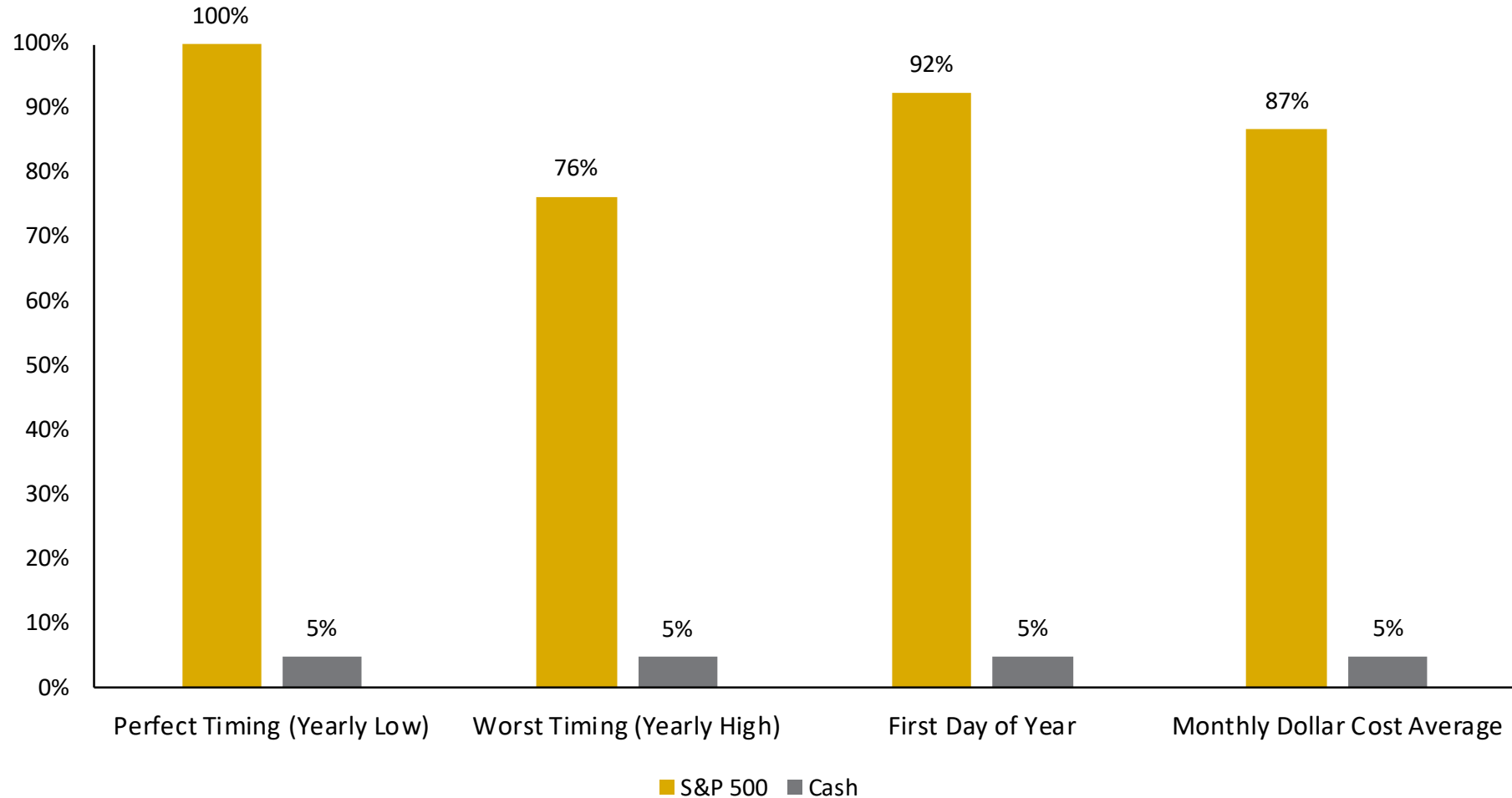


- **Nearly half (48%) of the S&P 500 Index's strongest days occurred during a bear market.\***
- **Another 28% of the market's best days took place in the first two months of a bull market—before it was clear a bull market had begun.\***



# Market Timing, Anyone?

Percent Capture of Perfect Timing with \$12,000 Annual Contribution  
1980-2023 YTD  
Perfect Timing Portfolio Value: \$10,516,789

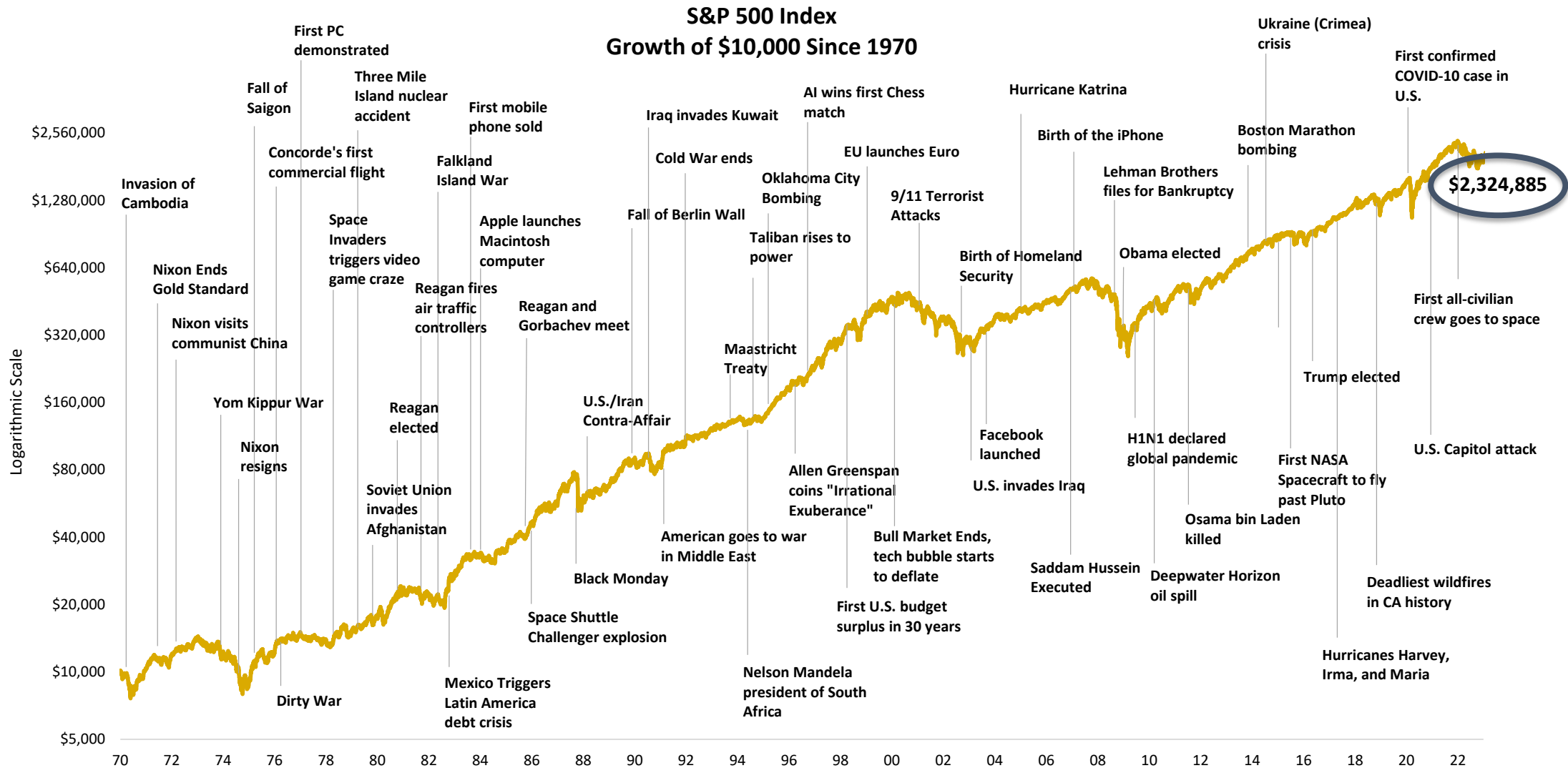


# 10% or Greater Drawdowns Post-WWII

Major S&P 500 Declines - 1950 to Present							
Start Date	End Date	Months Peak-to-Trough	% Decline	1-year Post Low	1-year % Recovery of Previous High	Months Peak-to-Full Recovery	
1/3/2022	10/12/2022	9	-24.5%	23.6%	93.3%	N/A	
2/19/2020	3/23/2020	1	-33.8%	79.1%	118.6%	6	
9/20/2018	12/24/2018	3	-19.4%	39.9%	112.8%	7	
5/20/2015	2/11/2016	9	-12.6%	28.3%	112.2%	11	
5/2/2011	10/4/2011	5	-16.7%	32.0%	110.0%	9	
10/9/2007	3/9/2009	17	-55.2%	72.0%	77.0%	54	
3/24/2000	10/9/2002	30	-47.4%	35.5%	71.3%	79	
7/20/1998	10/8/1998	3	-18.7%	39.1%	113.2%	4	
7/16/1990	10/11/1990	3	-19.2%	33.2%	107.6%	7	
8/25/1987	10/20/1987	2	-29.4%	21.4%	85.8%	21	
11/30/1981	8/12/1982	8	-15.6%	65.5%	139.6%	9	
2/13/1980	3/27/1980	1	-16.7%	46.1%	121.7%	4	
9/21/1976	3/6/1978	17	-13.5%	19.0%	102.9%	20	
7/15/1975	9/16/1975	2	-13.5%	32.1%	114.2%	6	
11/7/1974	12/6/1974	1	-13.2%	39.5%	121.1%	3	
10/12/1973	10/3/1974	12	-41.8%	40.9%	82.0%	28	
11/29/1968	5/26/1970	18	-32.6%	48.8%	100.3%	28	
2/9/1966	10/7/1966	8	-15.6%	27.0%	107.3%	13	
12/12/1961	6/26/1962	6	-26.9%	38.7%	101.4%	16	
8/3/1959	10/25/1960	14	-10.1%	34.1%	120.5%	17	
7/15/1957	10/22/1957	3	-19.8%	36.8%	109.7%	13	
1/5/1953	9/14/1953	8	-12.4%	44.8%	126.9%	12	
		<b>Average</b>	<b>8.2</b>	<b>-23.1%</b>	<b>39.9%</b>	<b>106.8%</b>	<b>17.4</b>
		<b>Median</b>	<b>7.1</b>	<b>-18.9%</b>	<b>37.8%</b>	<b>105.1%</b>	<b>12.0</b>

# Staying Invested Matters!

S&P 500 Average Annual Return Since 1970: **+10.6%**



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