

# Making Sense

2025 Market Outlook

December 11, 2024



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# Five Themes for 2025

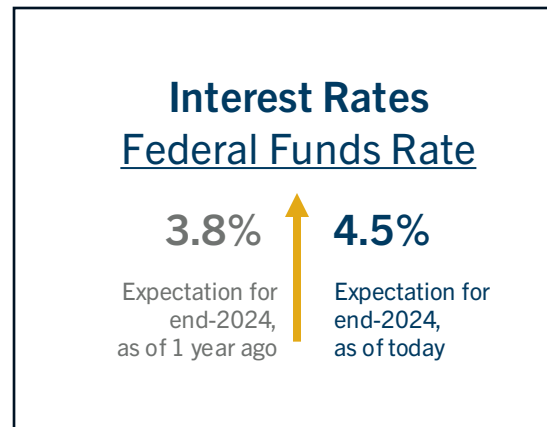
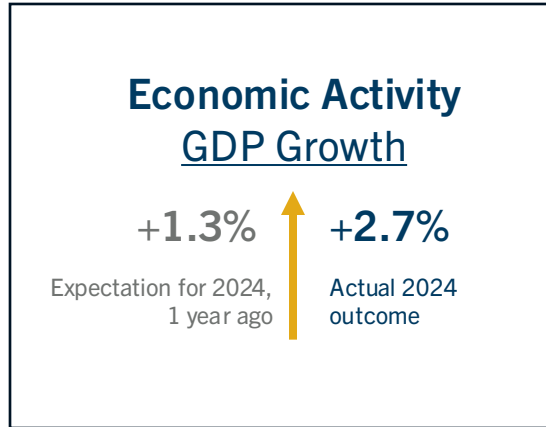
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1. **Fundamentals: Still in Place?**
2. **The Fed May Deliver Fewer Cuts**
3. **We Expect Lower Future Returns from Here**
4. **Portfolio Balance and Broader Diversification Is Critical**
5. **Market Tenets to Remember**

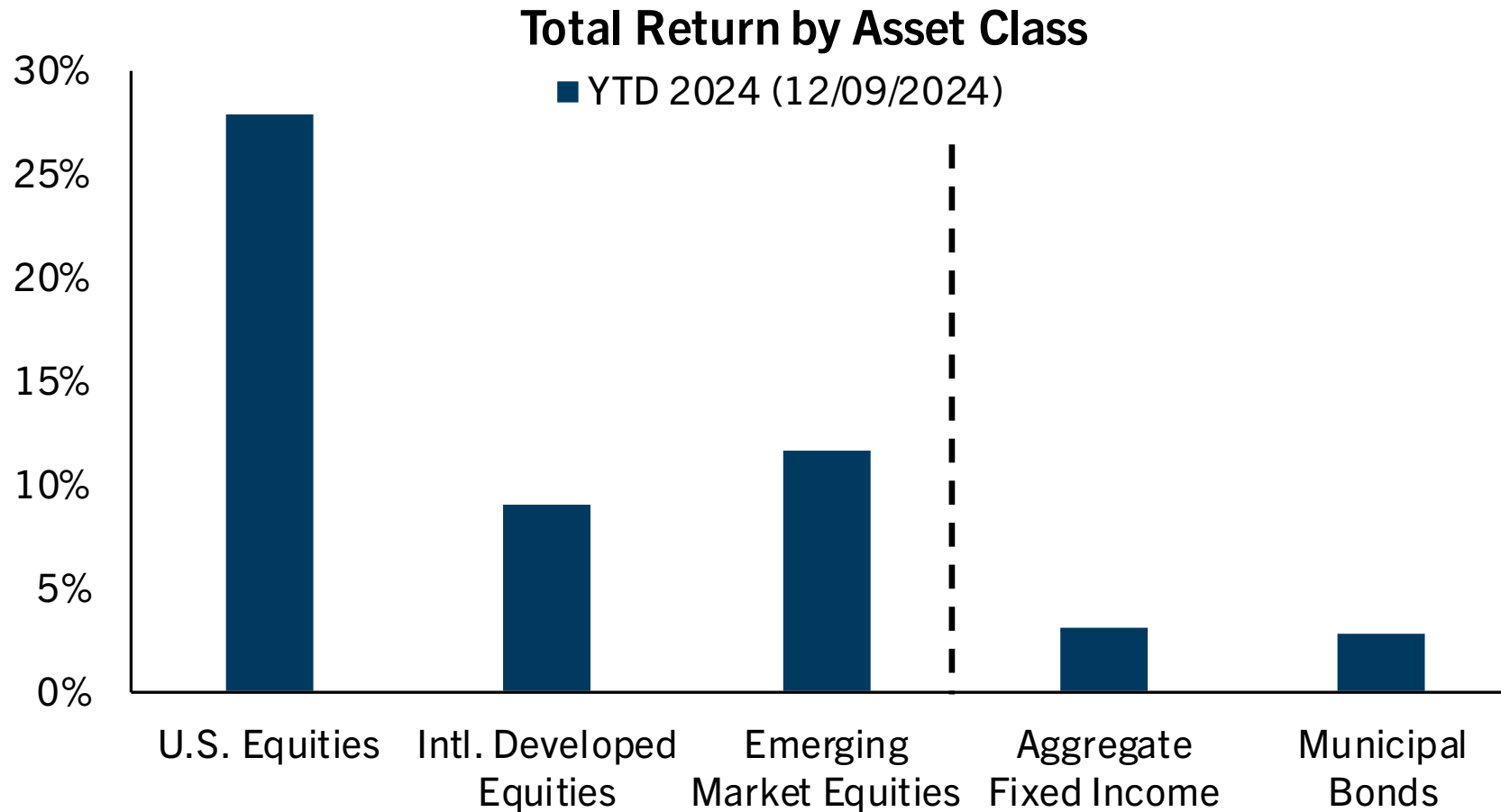
# But first ... a look back at 2024

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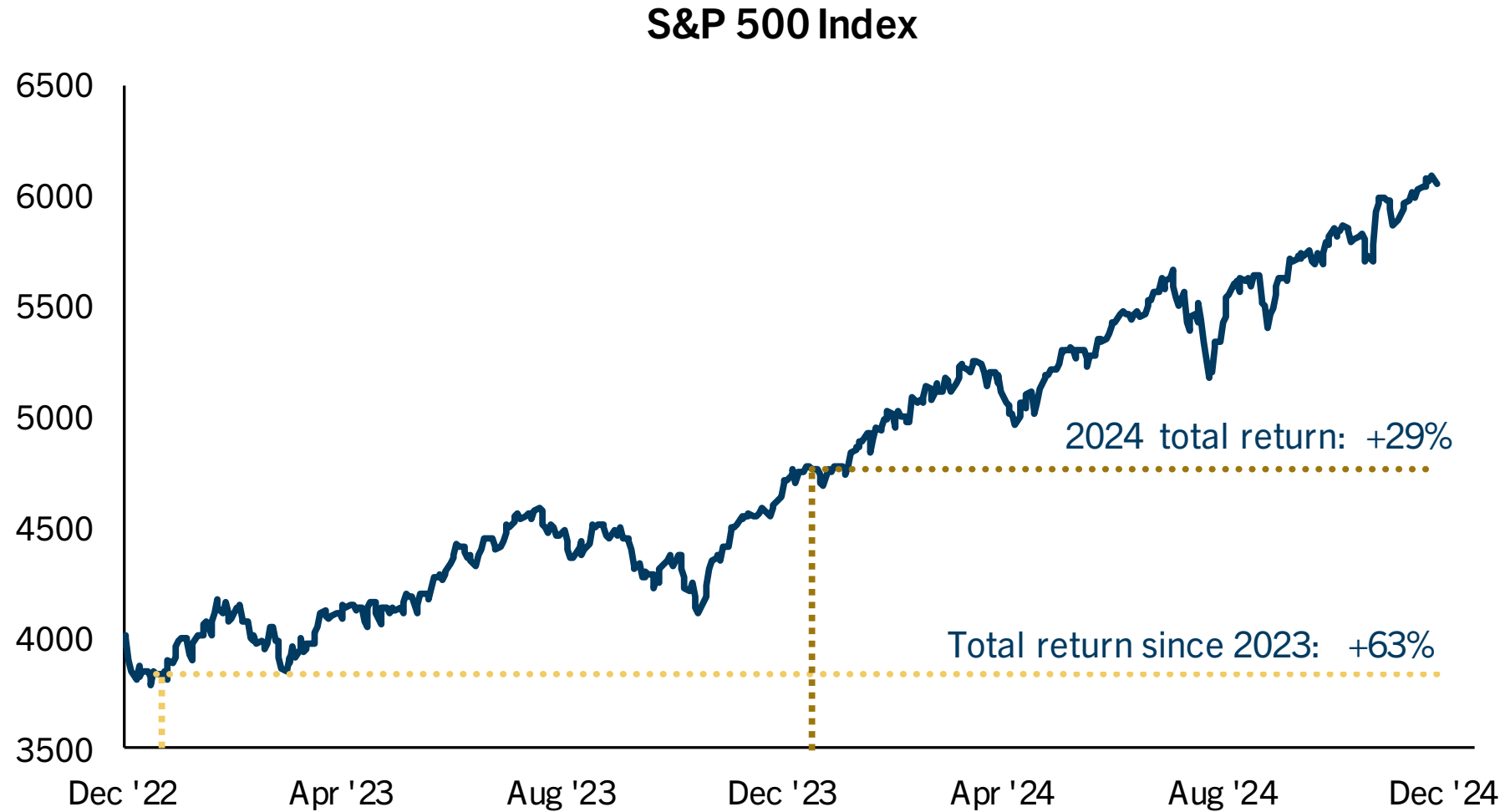
# 2024 Lookback: The US Economy Outperformed, but Inflation Persists



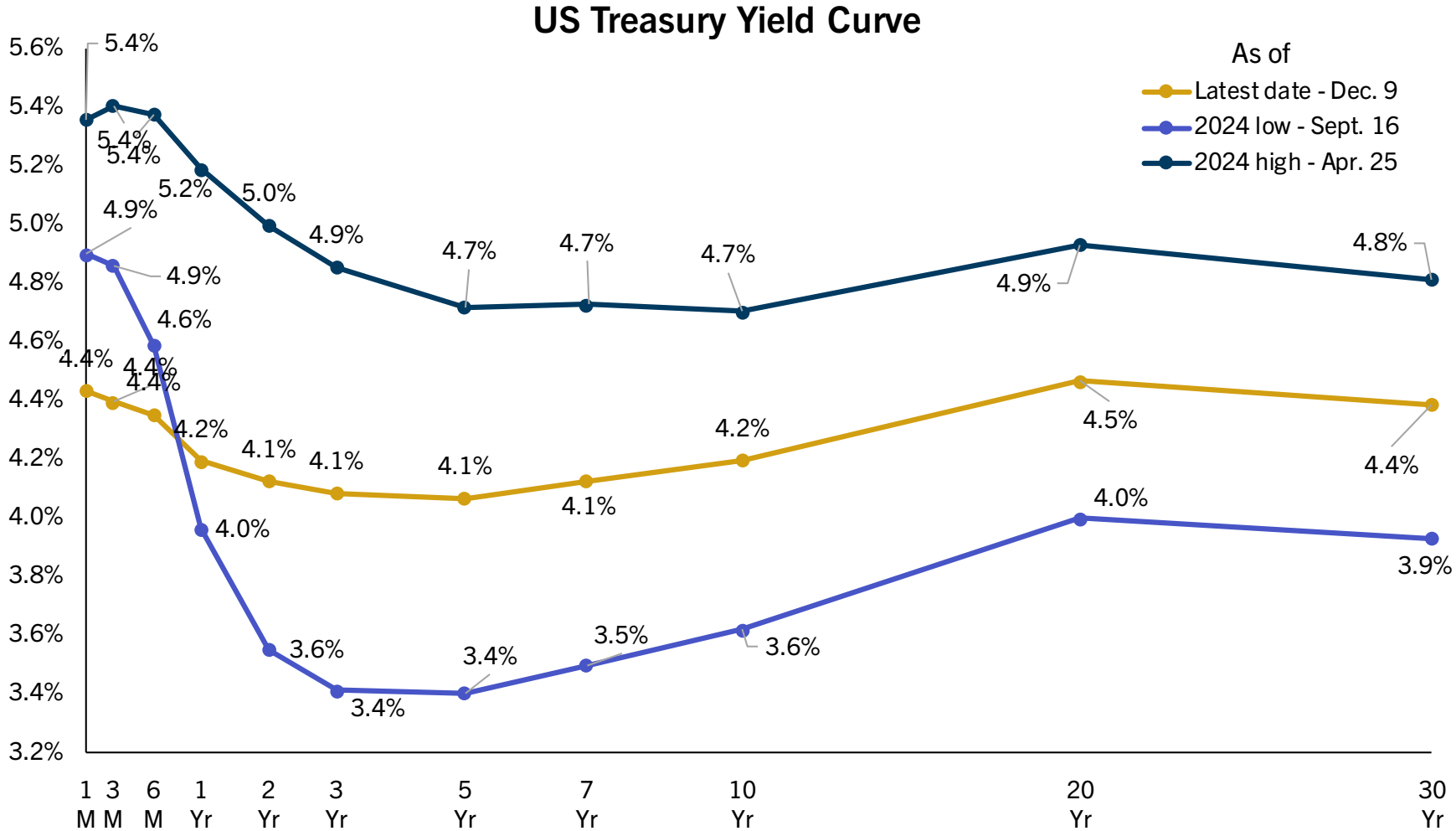
# 2024 Lookback: US Equities Led Other Asset Classes by a Mile



# 2024 Lookback: The S&P 500 Has Hit 60 All-Time Highs, Returned 29%



# 2024 Lookback: Treasury Yields Swung Significantly in 2024

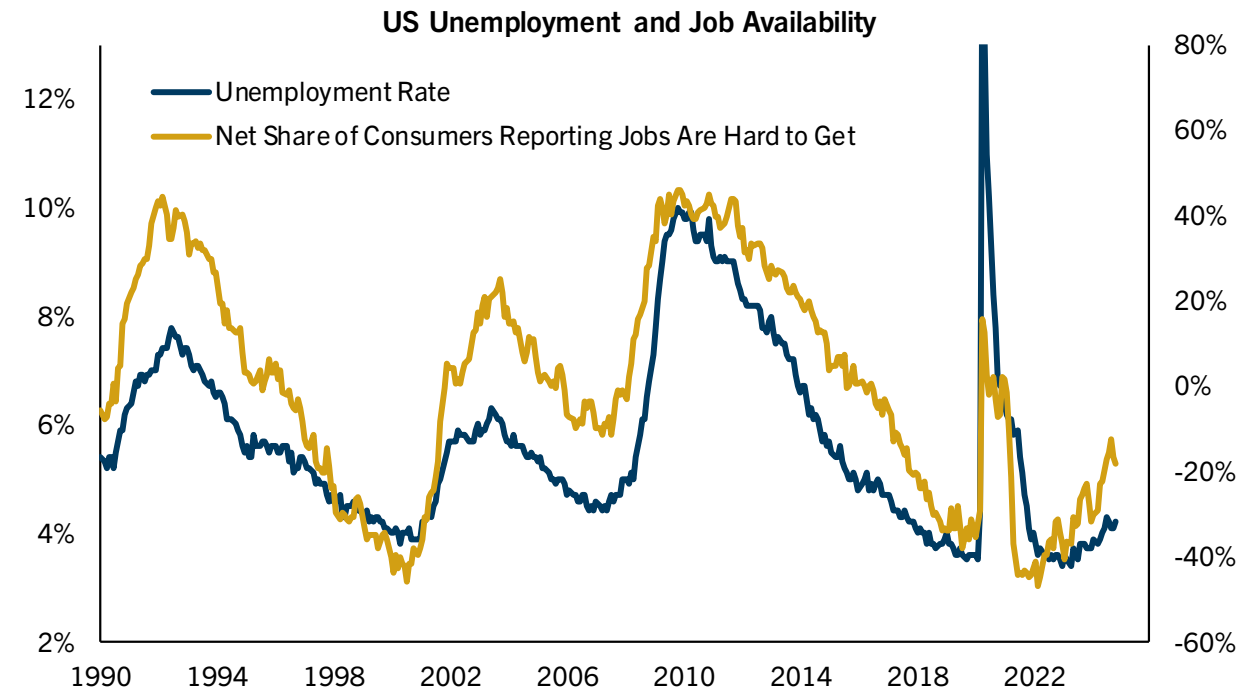
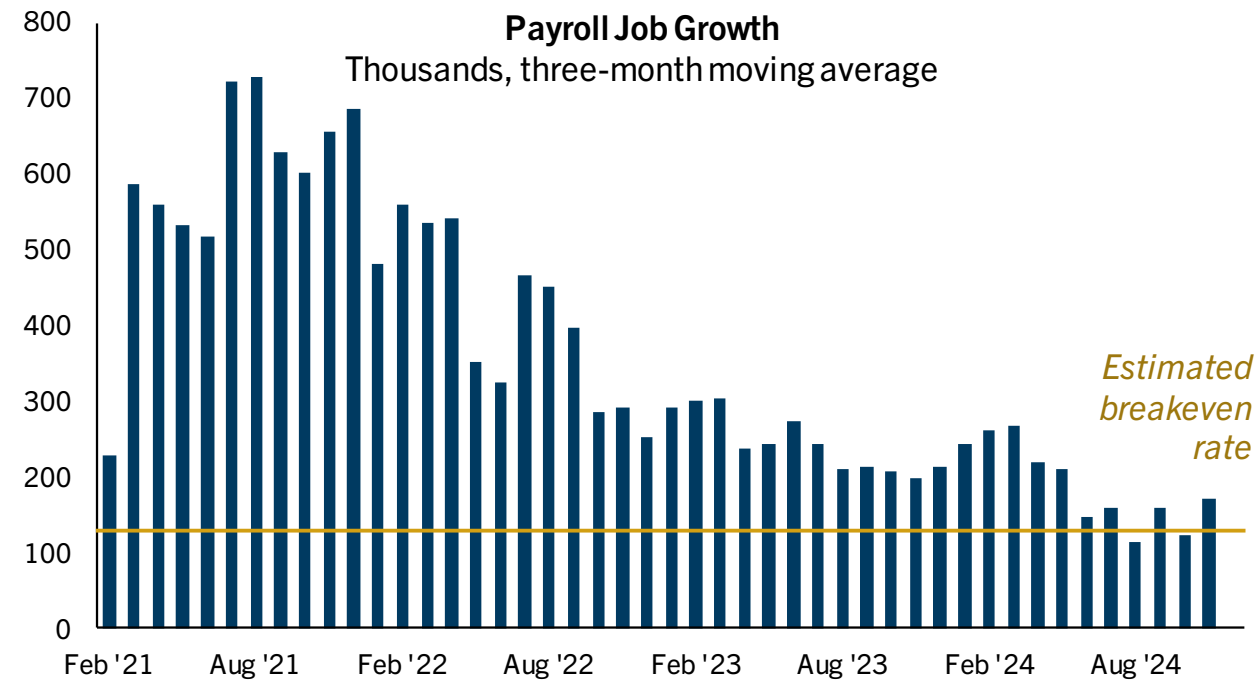


# 1. Fundamentals: Still in Place?

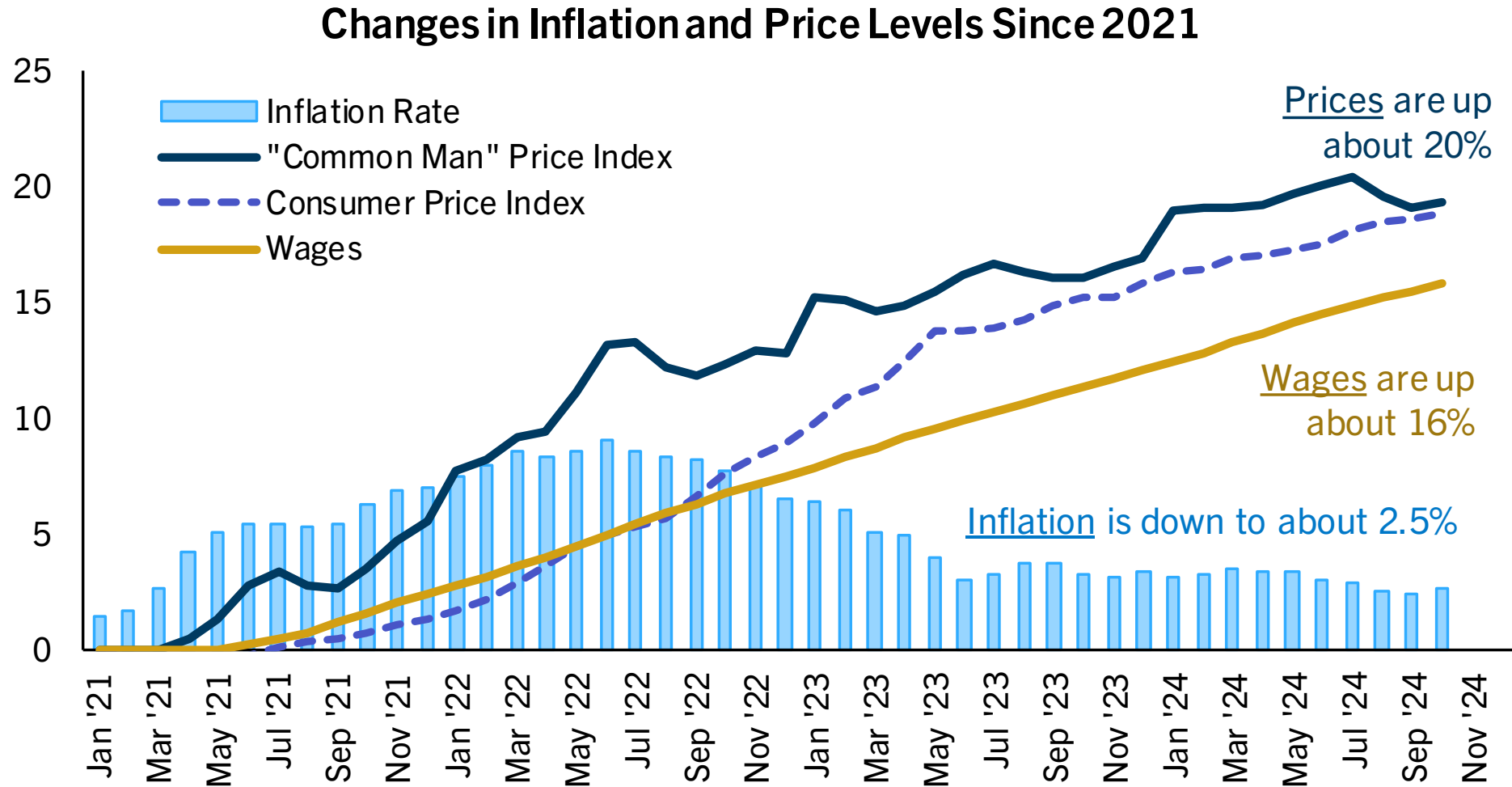
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# The Labor Market Is a Wild Card for 2025



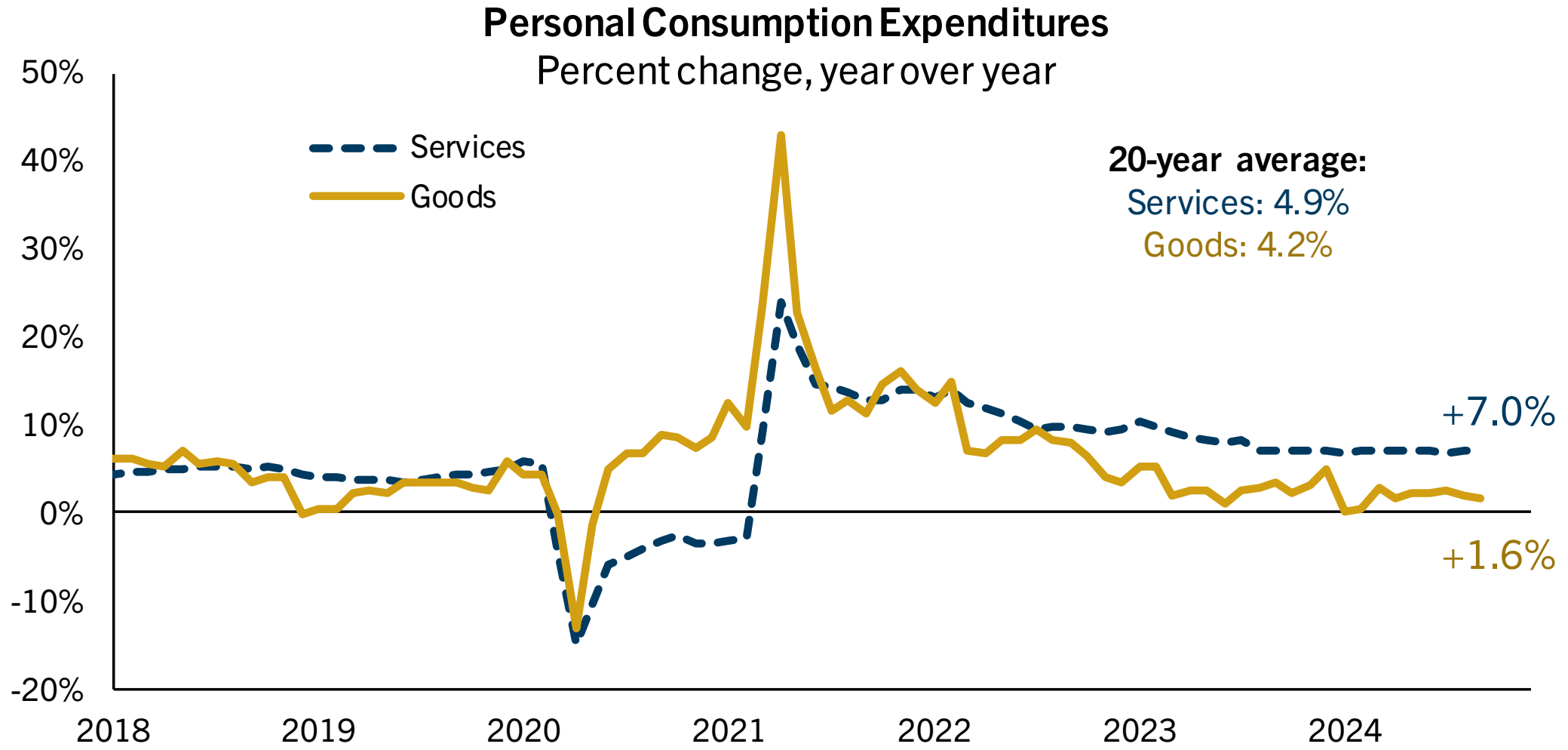
# Wages Are Up, But So Are Prices, Especially for Essential Spending



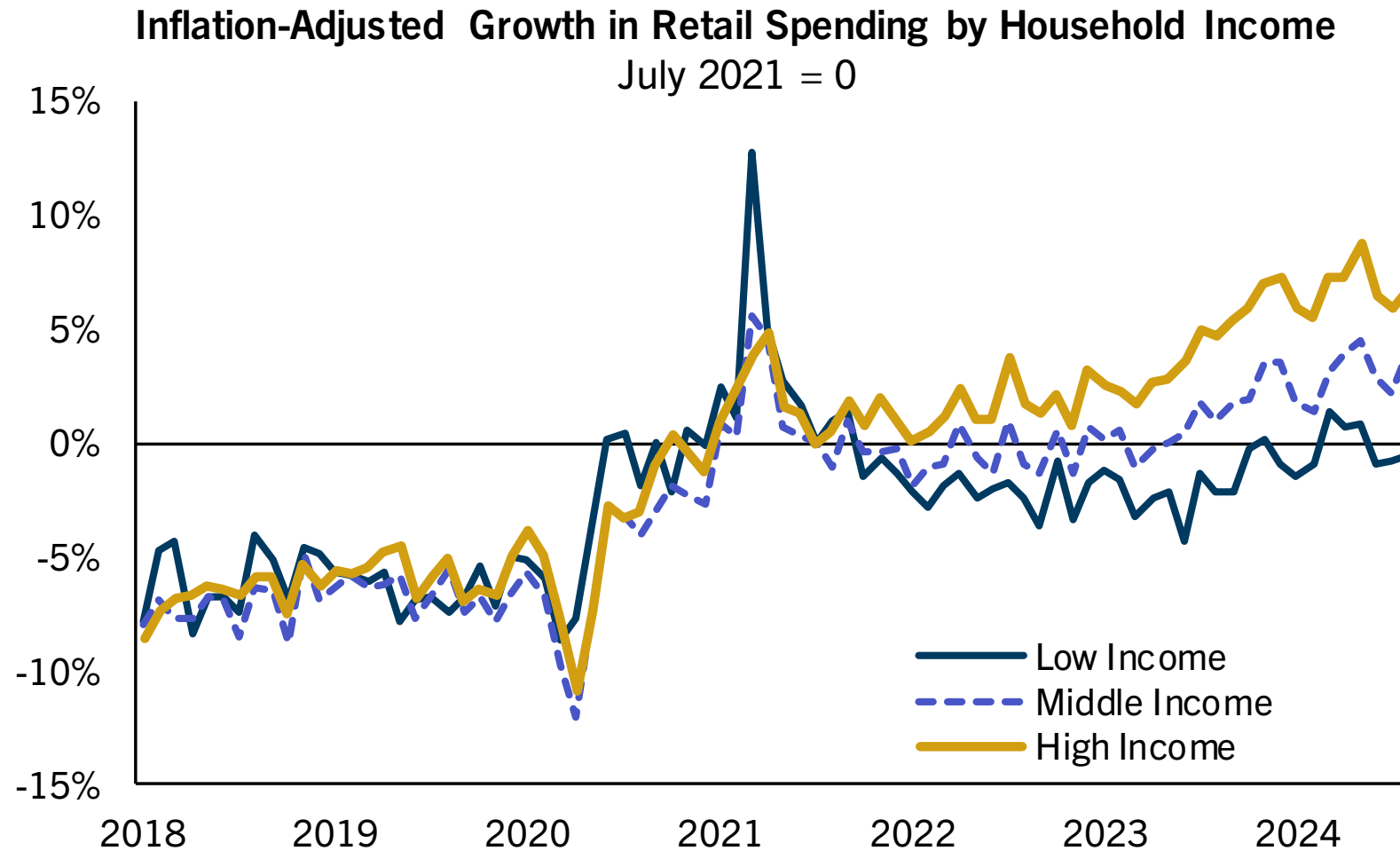
Source: Strategas, Bloomberg, First Citizens Wealth. Data through October 2024.

Note: The Strategas "Common Man" price index includes essential purchases such as food, energy, shelter, clothing, utilities, insurance, and so forth.

# Consumer Expenditures Are Holding Up



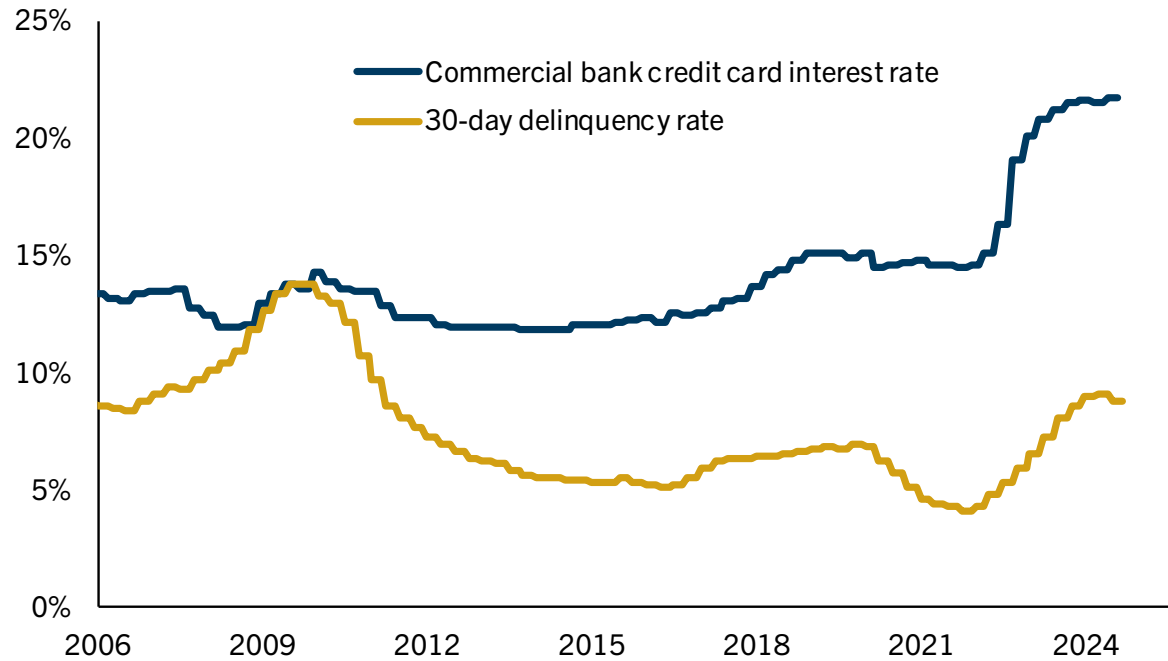
# Low-Income Household Spending Has Not Grown for Over Three Years



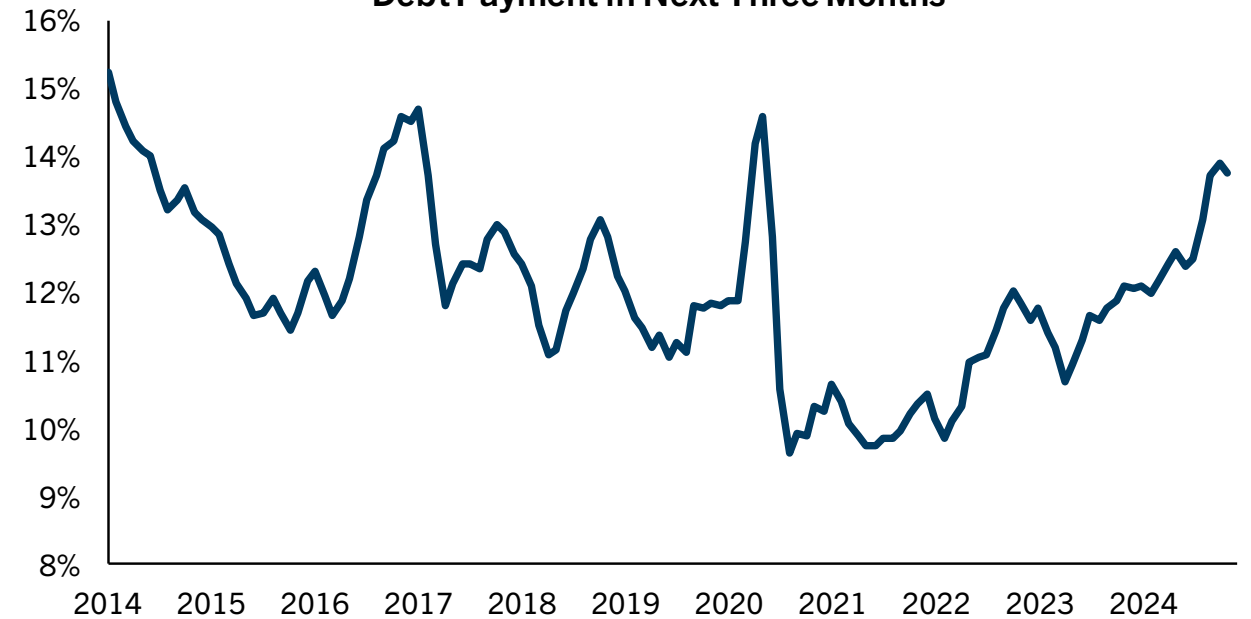
Note: Data are adjusted for inflation and seasonality. Low-income is \$0-60K in annual household income, middle-income is \$60K-100K, and high-income is \$100K+.  
Source: Hoke, Feler, and Chylak (2024): "A Better Way of Understanding the US Consumer: Decomposing Retail Spending by Household Income" Board of Governors of the Federal Reserve System; First Citizens Wealth.

# Consumers Are Missing Loan Payments

### US Credit Card Delinquency and Interest Rates

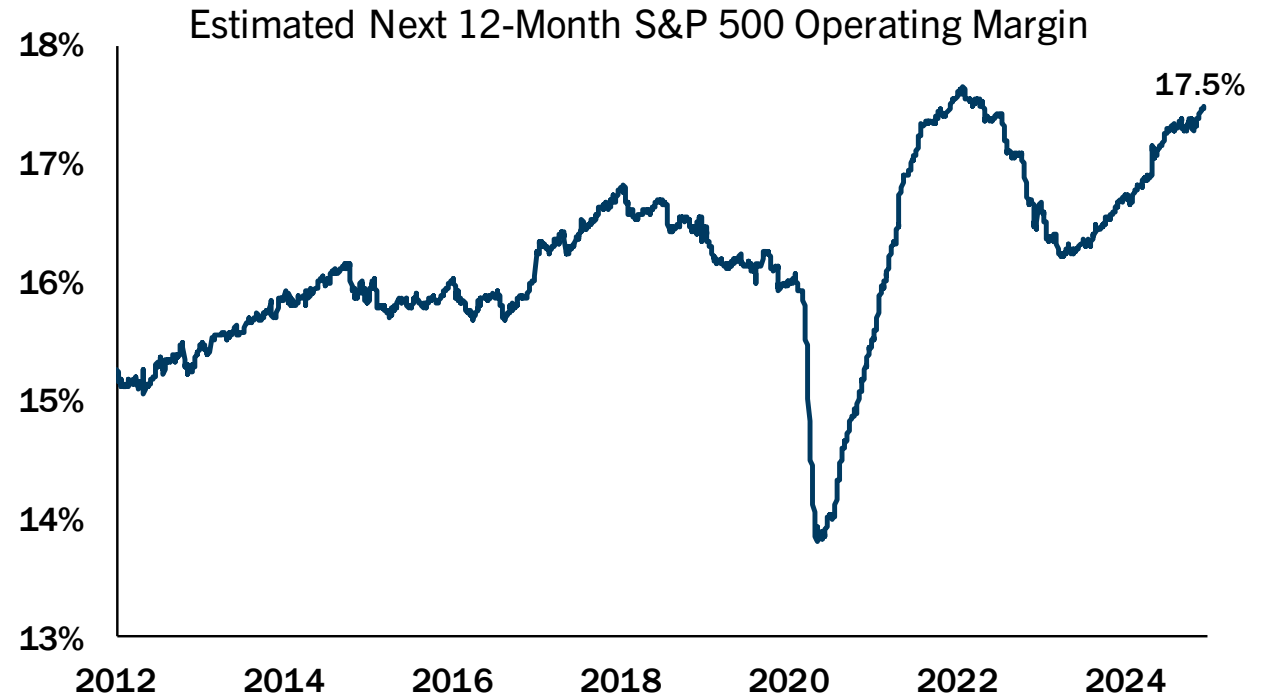


### Consumers Reporting Likely to Miss a Debt Payment in Next Three Months



# Corporate Earnings

- 2024 estimated growth is **9.6%**
- 2025 estimated growth is **15.0%**
- Average growth since 1950 is **7.6%**



## 2. The Fed May Slow the Pace of Rate Cuts

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# The Economy Is Giving Mixed Signals

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## Rationale for fewer rate cuts

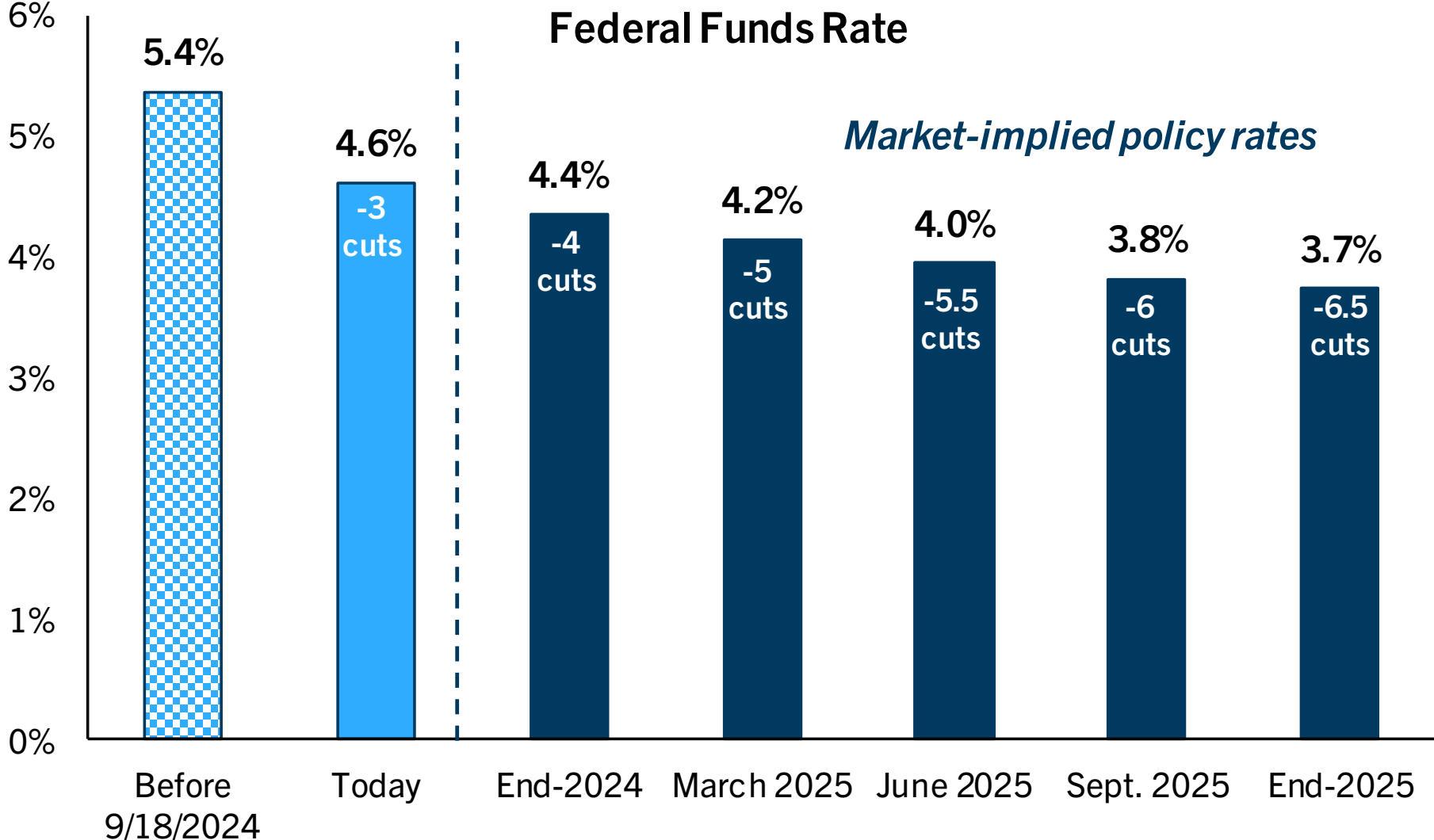
- US economy has been resilient
- Level of interest rates vs. L/T history
- Financial conditions are easy
- Spreads are very tight
- Inflation, while moderating, is sticky

## Rationale for more rate cuts

- Fed funds rate looks elevated vs. 2.5% inflation
- Unemployment rate is up
- Delinquency rates are up
- Growth potentially moderating
- “Long and variable lags”



# Markets Expect the Fed Will Cut Rates 2-3 Times Next Year

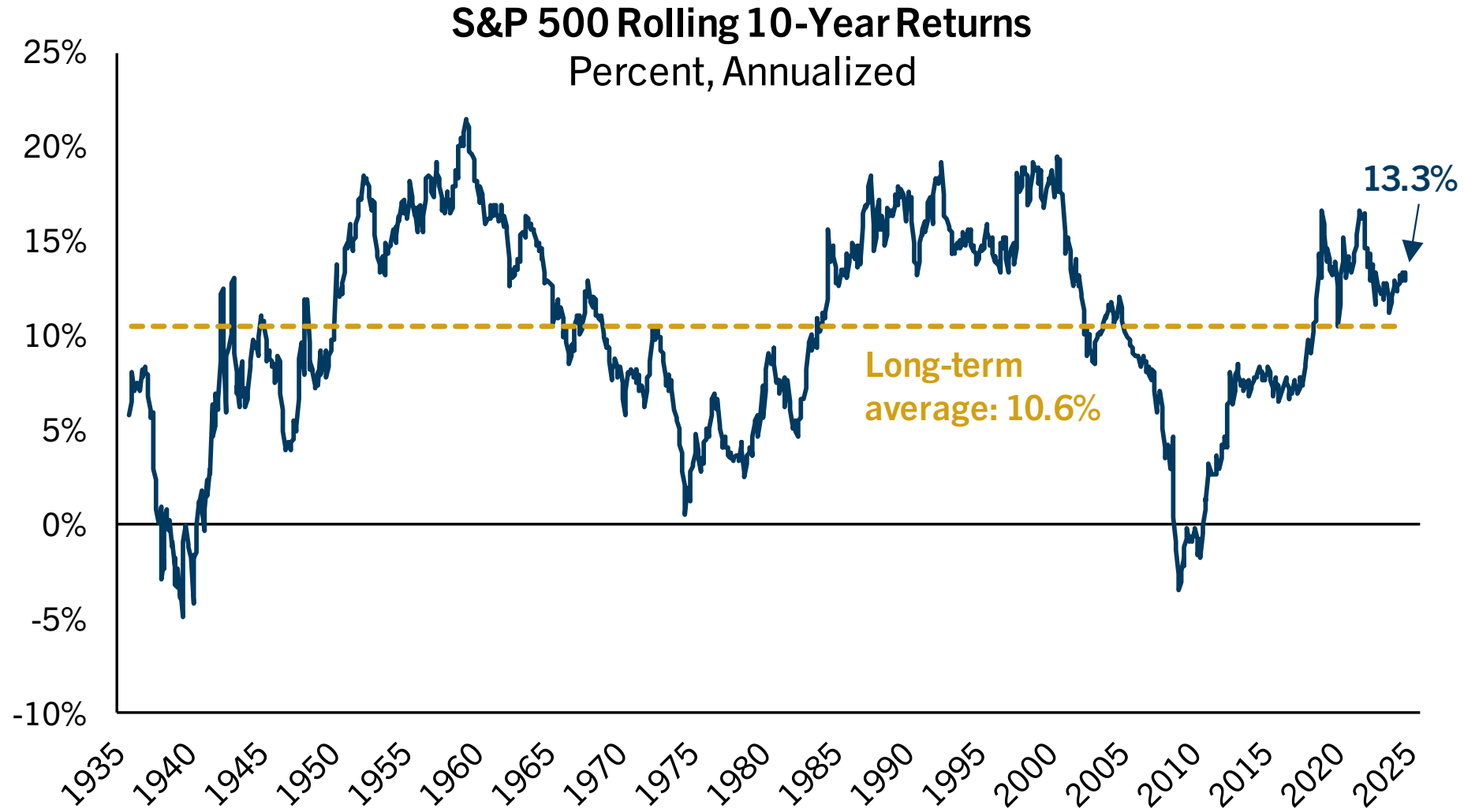


Source: Bloomberg, First Citizens Wealth. Data as of 12/10/2024.

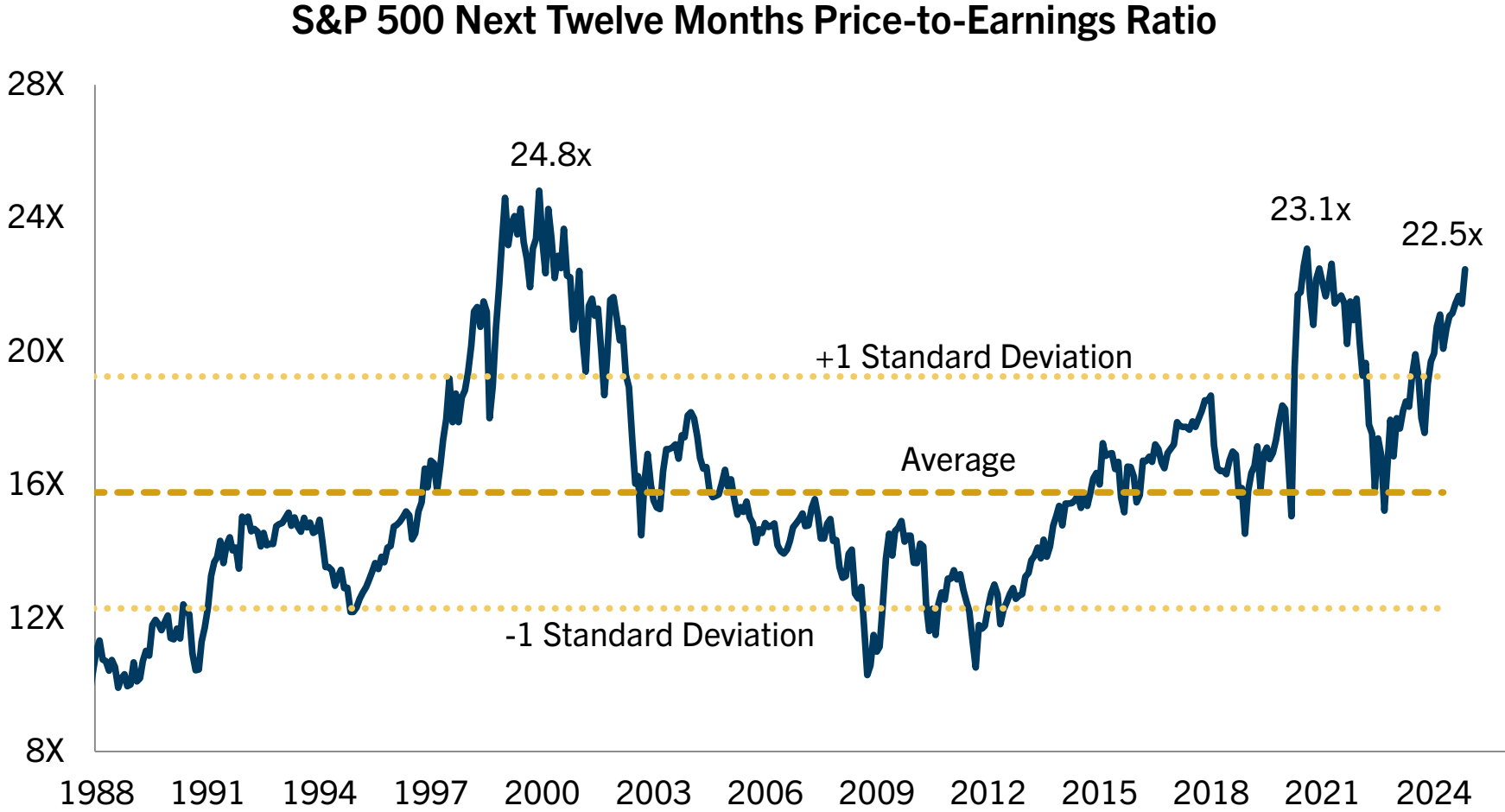
# 3. We Expect Lower Future Returns From Here

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# US Equity 10-year Rolling Returns Have Been Above Average



# Market Valuation Is Looking Increasingly Stretched

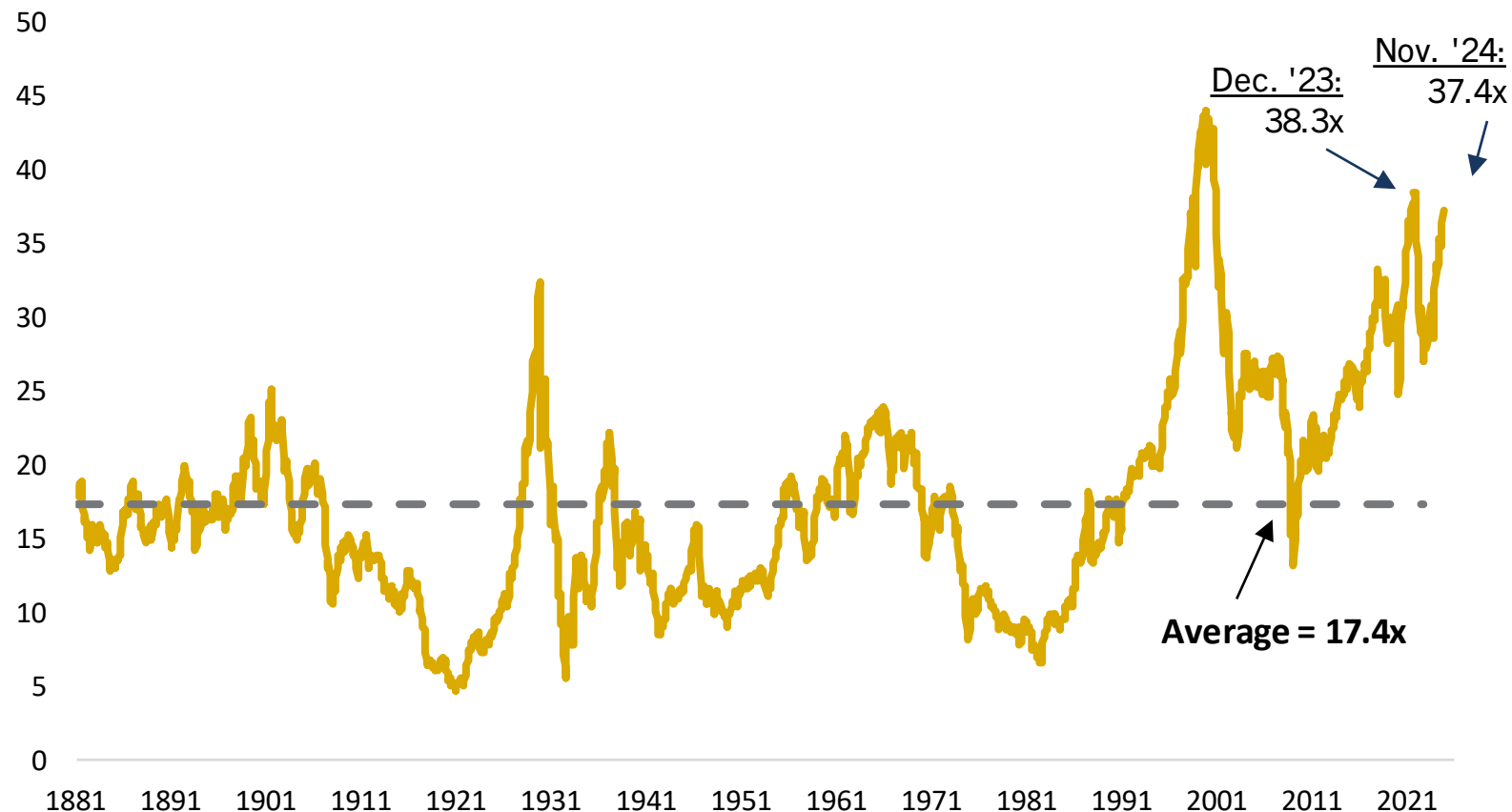


Source: Bloomberg, Strategas. Data as of 11/30/2024.

# Valuations Below Peak, Above Average

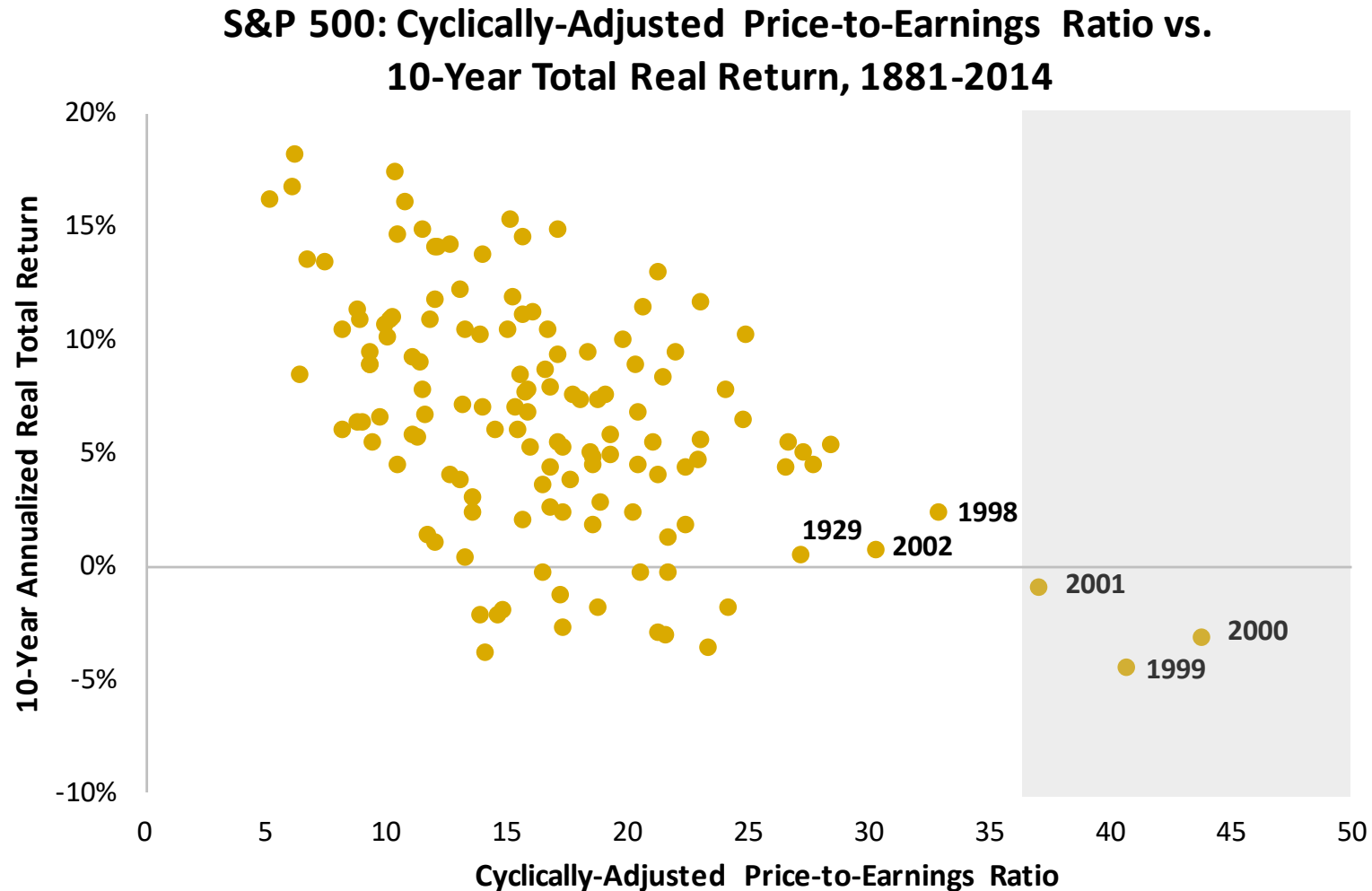
- While the Cyclically-Adjusted P/E ratio (CAPE) has been a **bad predictor of shorter-term performance...**

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



# Valuations Significantly Elevated

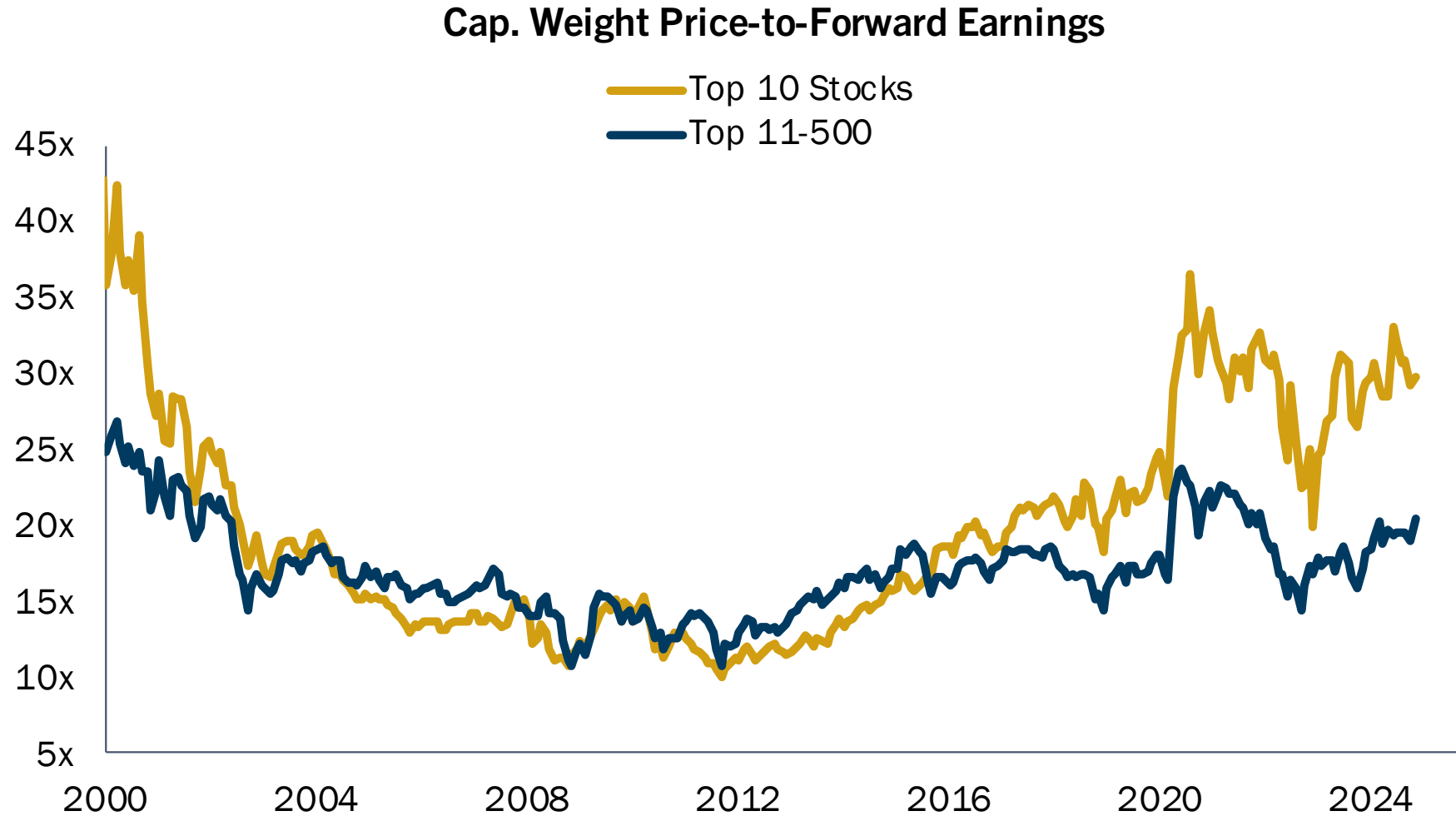
- ...it has been a **very accurate predictor of longer-term (decade) performance.**



# Get Out of Stocks? No, Diversify

<b>"The Lost Decade" (12/31/1999 through 12/31/2009)</b>		
<b>Index</b>	<b>Cumulative Return</b>	<b>Annualized Return</b>
S&P 500 Large Cap	-9.1%	-1.0%
S&P 400 Mid Cap	85.2%	6.4%
S&P 400 Mid Cap Value	134.4%	8.9%
S&P 600 Small Cap	85.0%	6.3%
S&P 600 Small Cap Value	109.3%	7.7%
Global Equity (non-US)	37.2%	3.2%
U.S. Aggregate Bond	84.8%	6.3%
Consumer Price Index	28.8%	2.6%

# P/E Ratios Suggest There is Room For Broadening





# S&P 500 Price Target

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

	NTM Price Level	Percent Change from 12/9/24
Bear	4,600	-24.0%
Base	6,400	5.7%
Bull	6,900	14.0%

# 4. Portfolio Balance Remains Essential

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# The Next 10 Years Could Be in Stark Contrast to the Last 10 Years

US Asset Class Returns				
	10 years ended Nov. 2024	Next 10 years*	Annualized difference	Percent differential
US Large Cap Stocks	13.3%	6.5%	-6.8%	-51%
US Core Taxable Bonds	1.5%	4.9%	3.4%	227%
Annualized Spread	11.8%	1.6%		

# What Might That Mean for Portfolios?

<b>Hypothetical Two-Security Portfolios</b>		
	<b>10 years ended Nov. 2024</b>	<b>Next 10 years*</b>
<b>80:20% US Portfolio</b>	11.0%	6.2%
<b>50:50% US Portfolio</b>	7.4%	5.7%
<b>Annualized Spread</b>	<b>3.6%</b>	<b>0.5%</b>

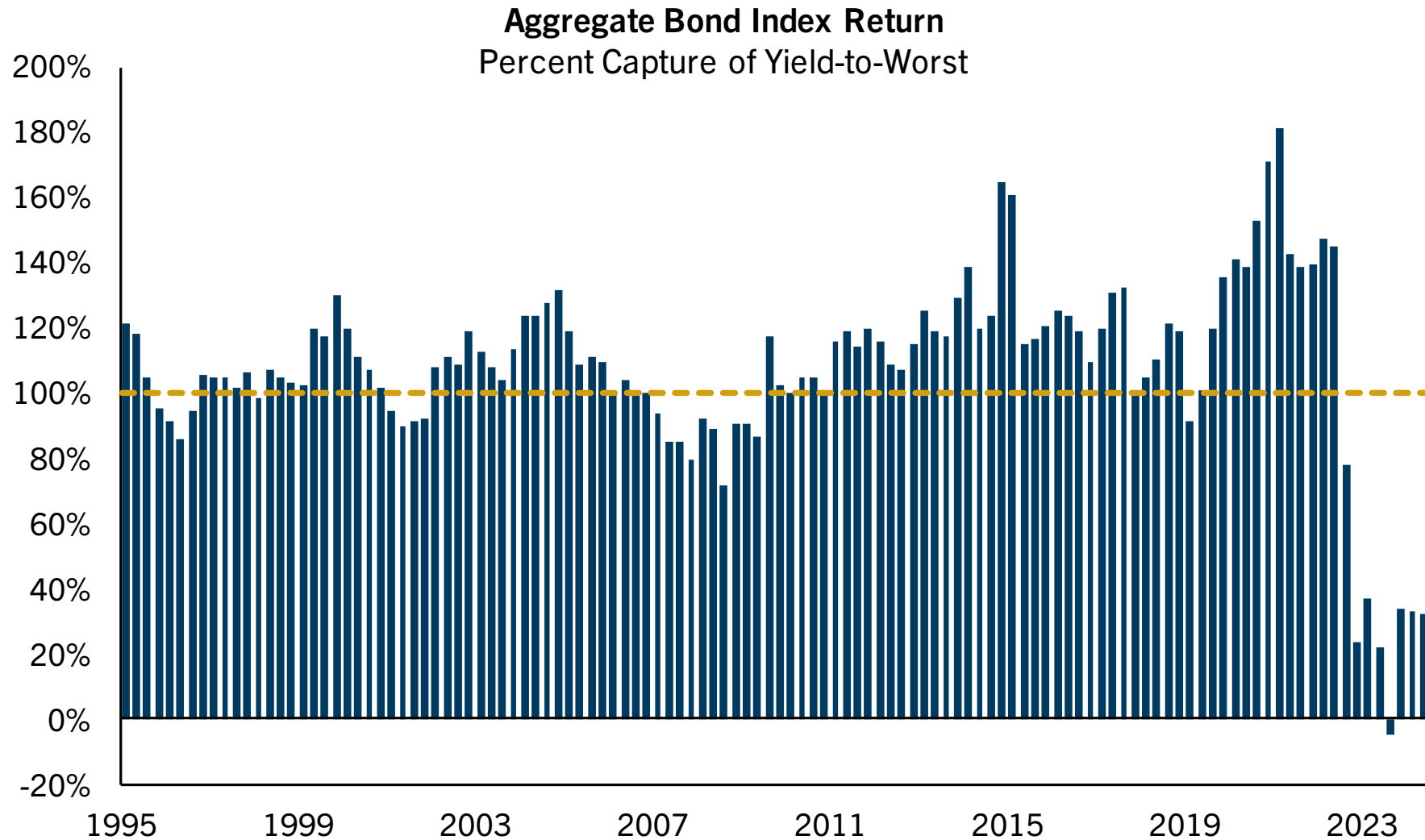
Source: Horizon Actuarial Services Annual Capital Market Assumptions Survey 2024, Bloomberg. Portfolios above are a hypothetical blend of S&P 500 for equities and Bloomberg US Aggregate Bond Index for fixed income

# Fixed Income Is Offering a Robust Starting Point

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US Fixed Income Indices	
	Yield-to-Worst
Index	As of 12/09/2024
2-Year Treasury	4.1%
10-Year Treasury	4.2%
Aggregate Bond	4.6%
Intermediate Government/Credit	4.4%
Municipal Bond	3.4%
Investment Grade Corporate Bond	5.0%
High Yield Corporate Bond	7.1%

# Yield-to-Worst Is a Relatively Good Approximation of Total Return

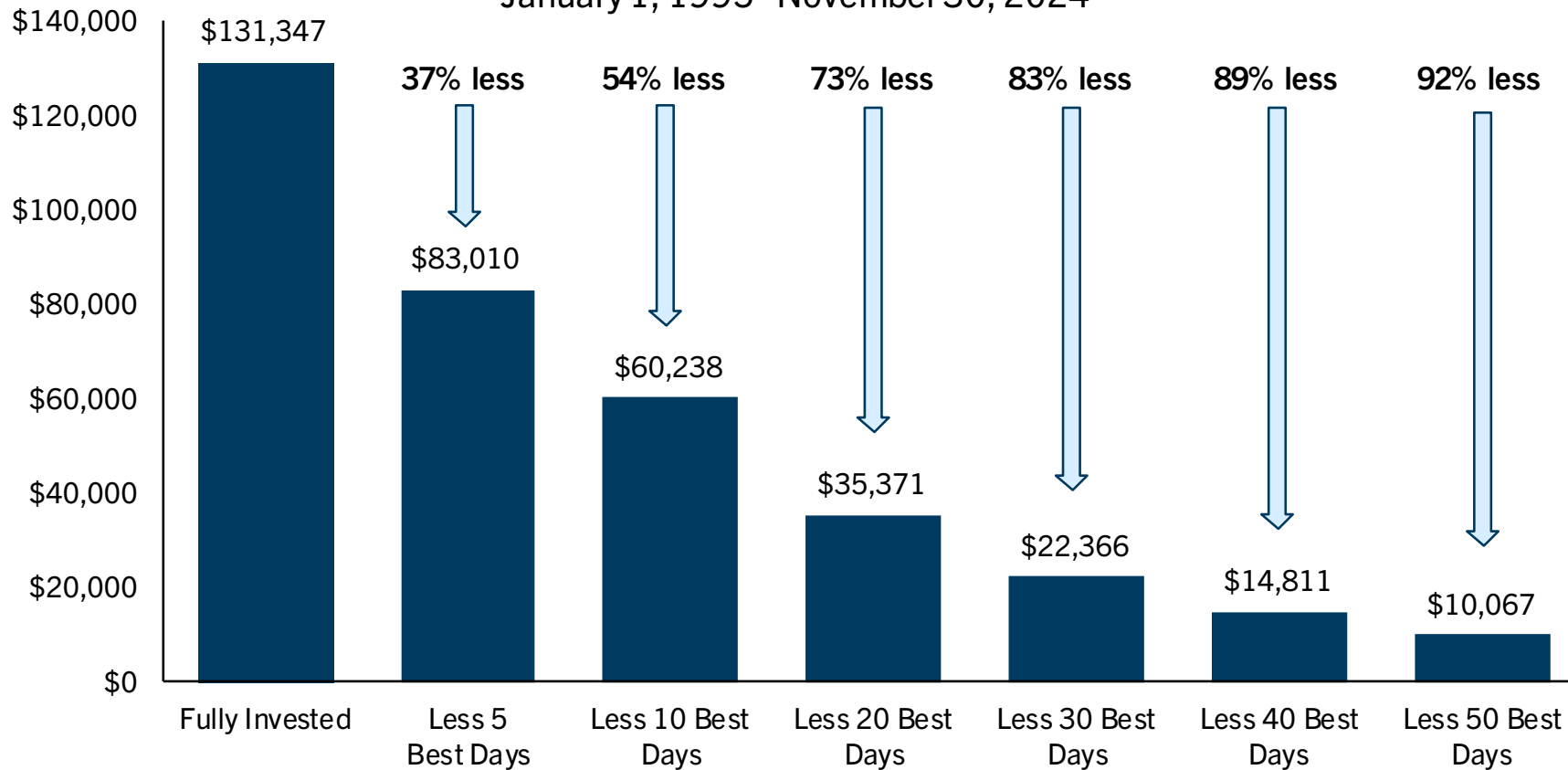


# 5. Market Tenets to Remember

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# Market Timing Is a Dangerous Game

Growth of \$10,000, S&P 500 Compounded Total Returns  
January 1, 1995 - November 30, 2024



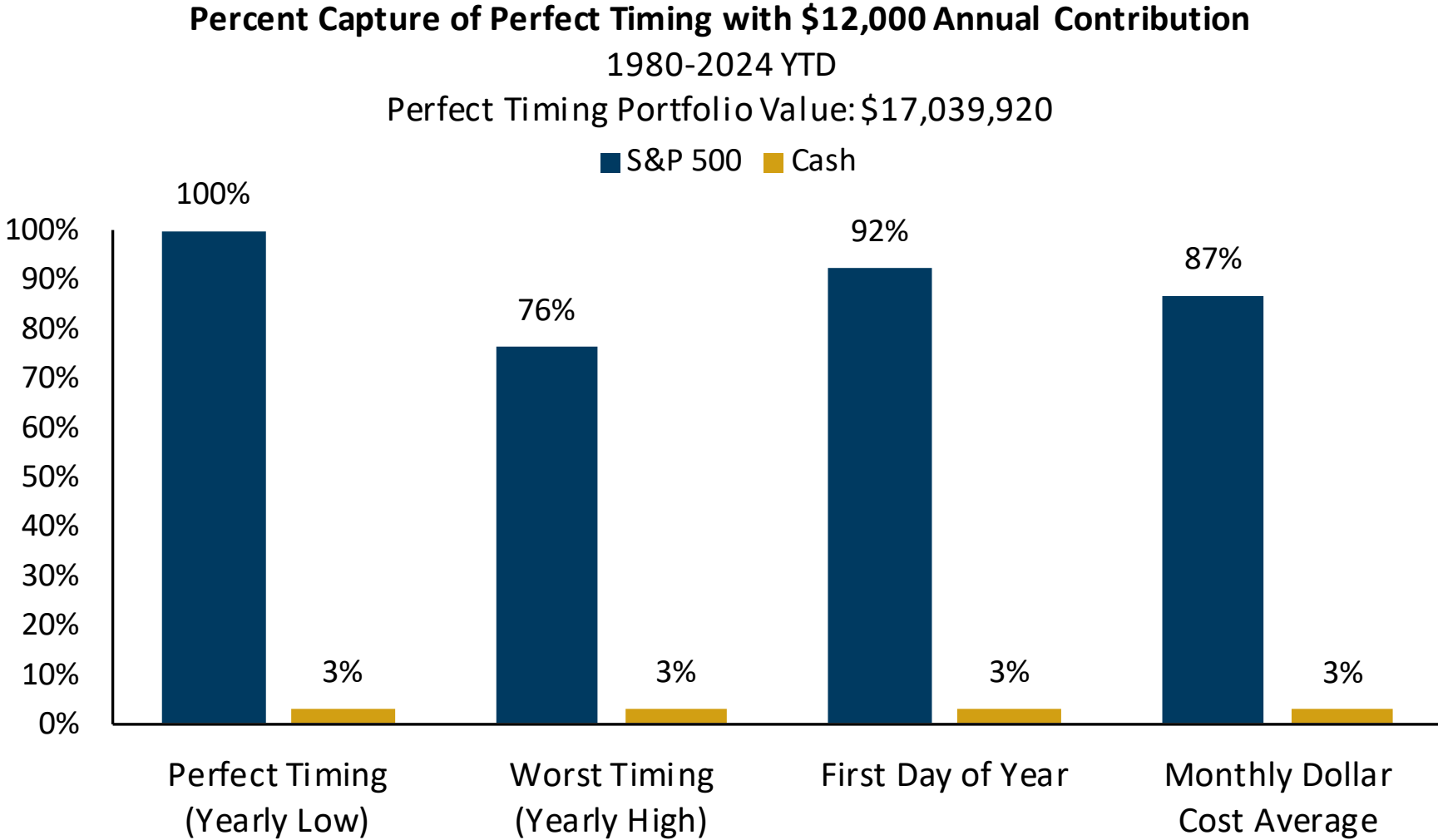
- **Nearly half (48%) of the S&P 500 Index's strongest days occurred during a bear market.\***
- **Another 28% of the market's best days took place in the first two months of a bull market—before it was clear a bull market had begun.\***



# Keeping Drawdowns in Perspective

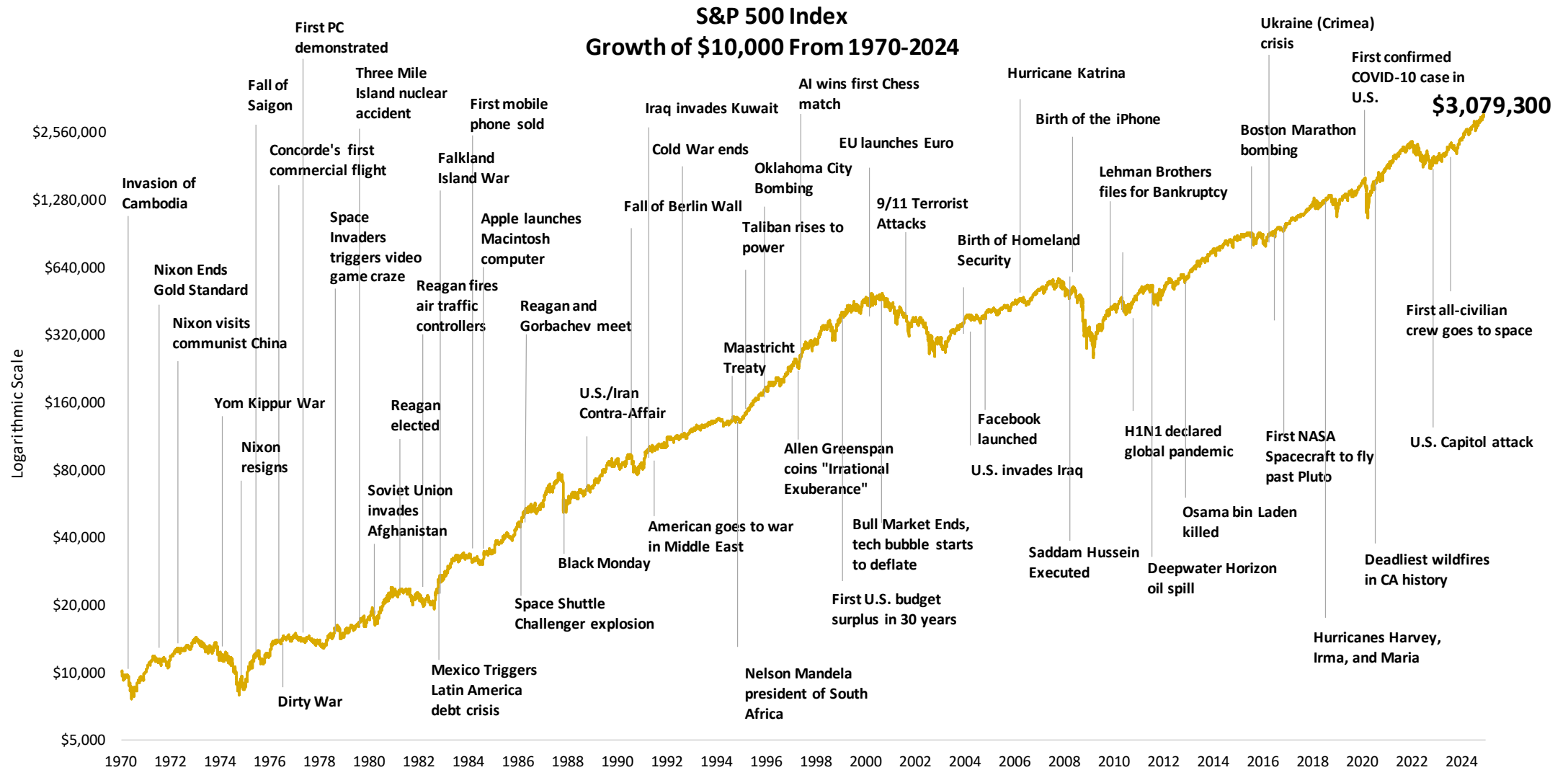
Major S&P 500 Declines - 1950 to Present						
Start Date	End Date	Months Peak-to-Trough	% Decline	1-year Post Low	1-year % Recovery of Previous High	Months Peak-to-Full Recovery
1/3/2022	10/12/2022	9	-24.5%	23.6%	93.3%	24
2/19/2020	3/23/2020	1	-33.8%	79.1%	118.6%	6
9/20/2018	12/24/2018	3	-19.4%	39.9%	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>17.7</b>
	<b>Median</b>	<b>7.1</b>	<b>-18.9%</b>	<b>37.8%</b>	<b>105.1%</b>	<b>12.3</b>

# Being Invested Is What Matters



Source: First Citizens Wealth, Bloomberg.

# Time IN Markets Matters



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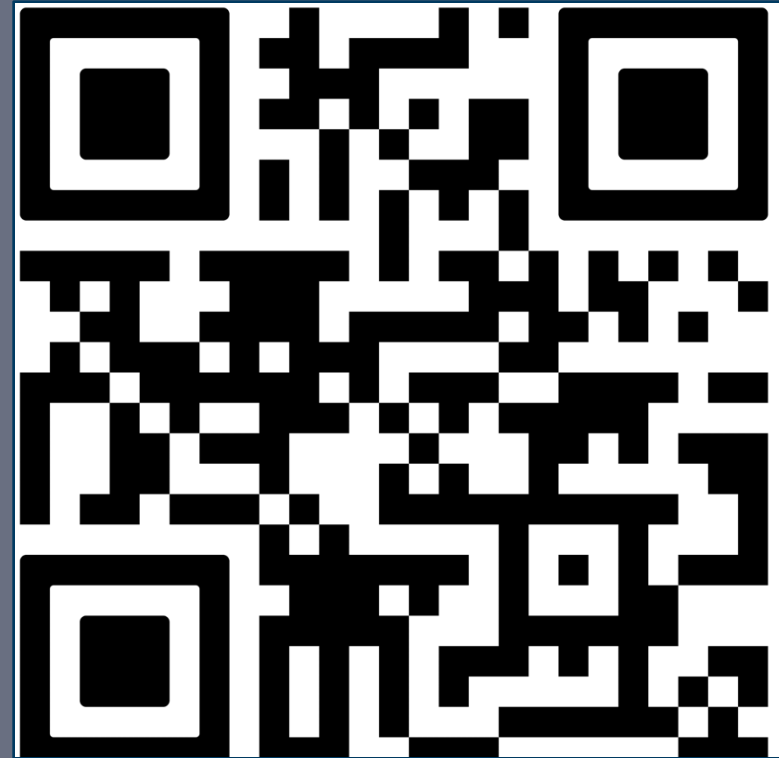
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