

Making Sense

Monthly Market Update

February 27, 2025



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What are we going to cover?

- 1. Economic Update:**
Growth Outlook | Inflation & Interest Rates | Labor Market & Consumer Spending
- 2. Market Update:**
Equity Markets | Investment Timing | Fixed Income

Economic Update

Growth Outlook | Inflation & Interest Rates | Labor Market and Consumer Spending

Pulse Check: The US Economy Today

Forecast for 2025 Median Professional Consensus

Economic Activity GDP Growth (2025)

+1.8%  +2.3%
Forecast from Oct 1 '24 Latest projection


Estimated "potential" growth rate: +2.0%

Labor Market New Jobs per Month

+121k  +130k
Forecast from Oct 1 '24 Latest projection

Estimated "breakeven" rate: 100-130k

Labor Market Unemployment Rate

4.4%  4.2%
Forecast from Oct 1 '24 Latest projection


Estimated "noncyclical" rate: 4.3%

Recession Risk Probability, next 12 months

30%  +23%
Forecast from Oct 1 '24 Latest projection

Long-term average: ~15%

Inflation Consumer Price Index ('25)

+2.2%  +2.8%
Forecast from Oct 1 '24 Latest projection

Latest: 3.0%; Fed target: 2%

Inflation Core PCE Index (2025)

+2.2%  +2.6%
Forecast from Oct 1 '24 Latest projection

Latest: 2.8%; Fed target: 2%

Interest Rates Fed. funds rate (End- '25)

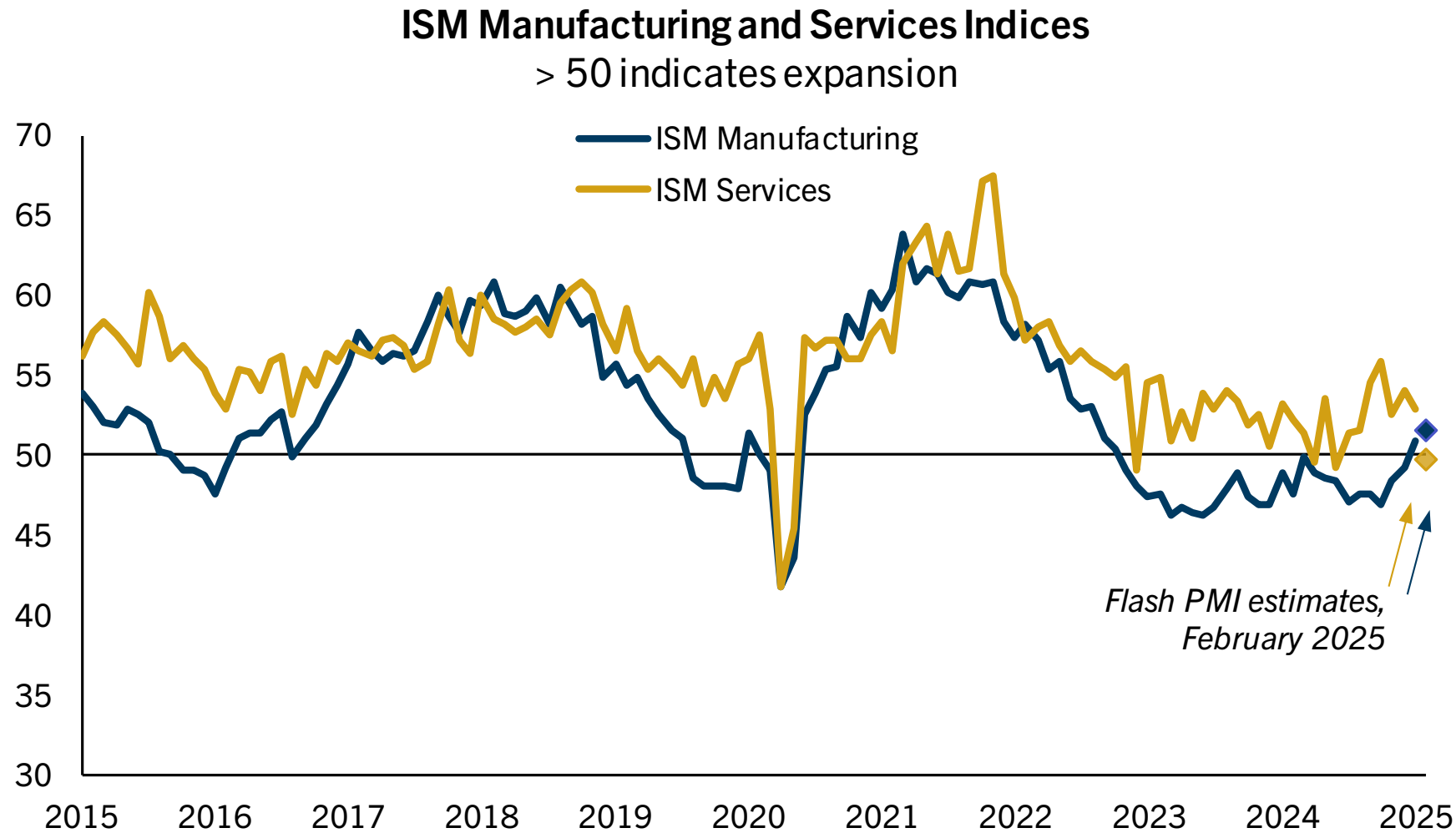
2.9%  +3.8%
Forecast from Oct 1 '24 Latest projection

Estimated "neutral" rate: 2.8% - 3.6%

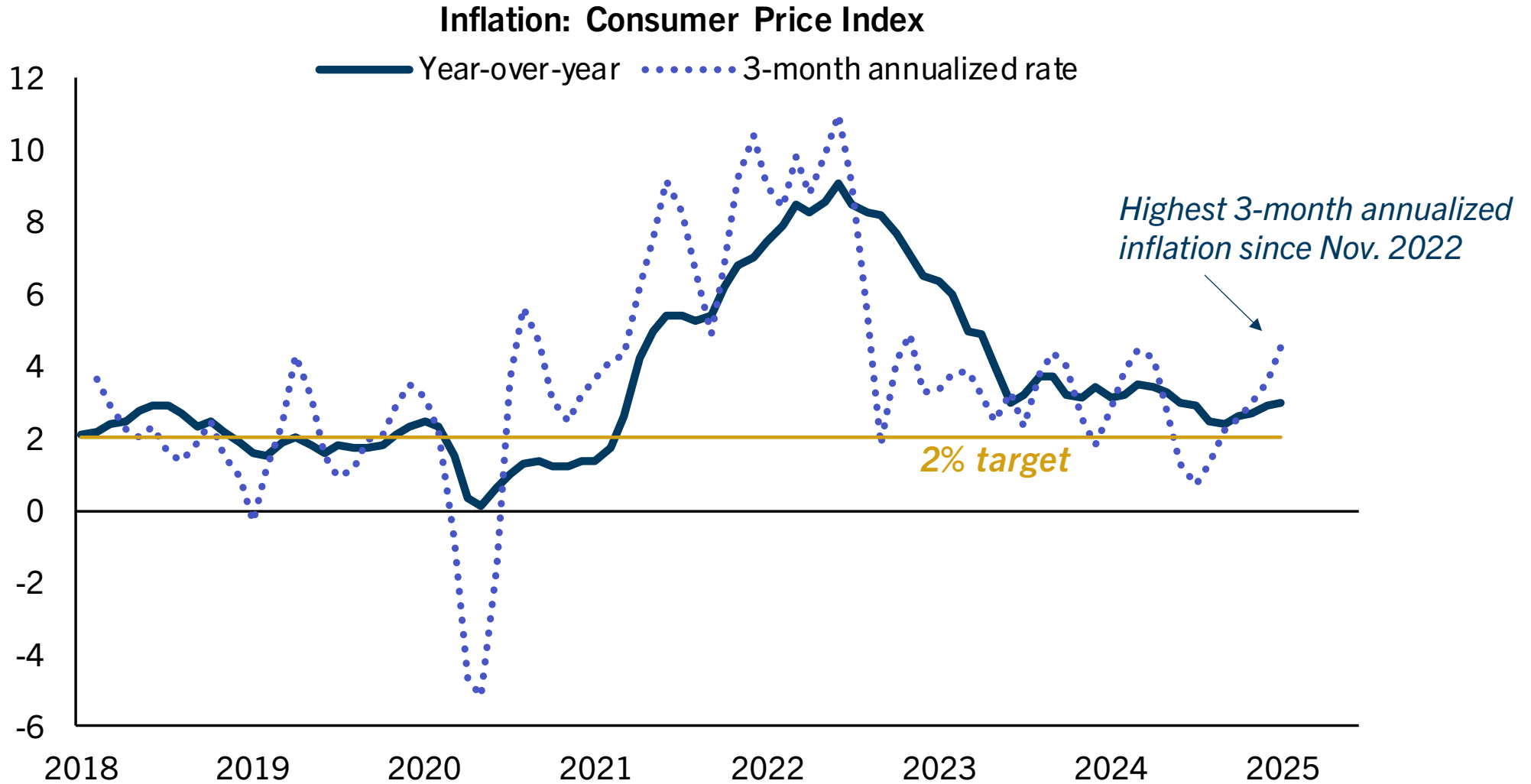
Forecasters Expect Growth to Stay at or Above the Trend Pace



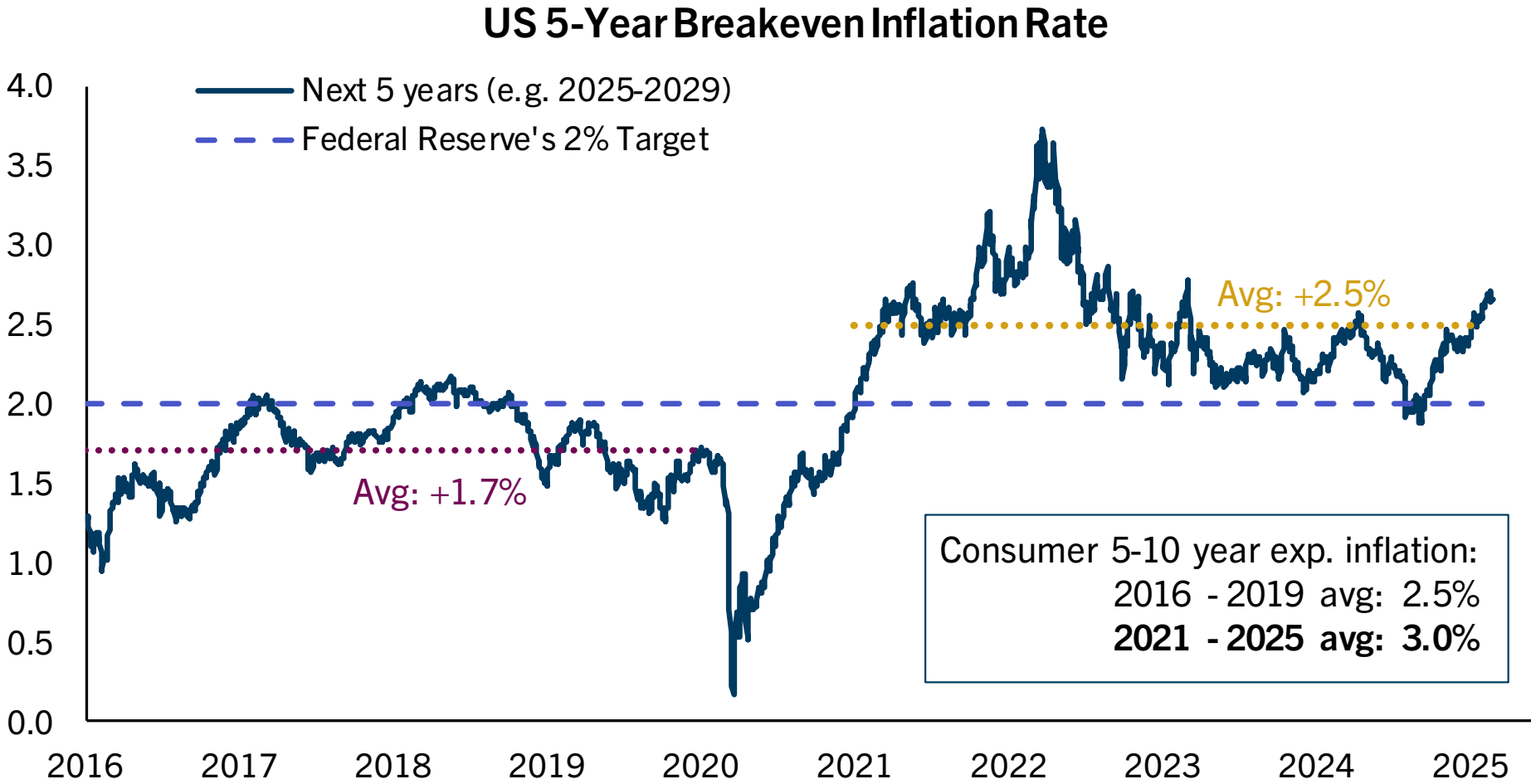
The Manufacturing Sector Has Improved, but Services May Be Slowing



Inflation Is No Longer Moving Closer to the 2% Target



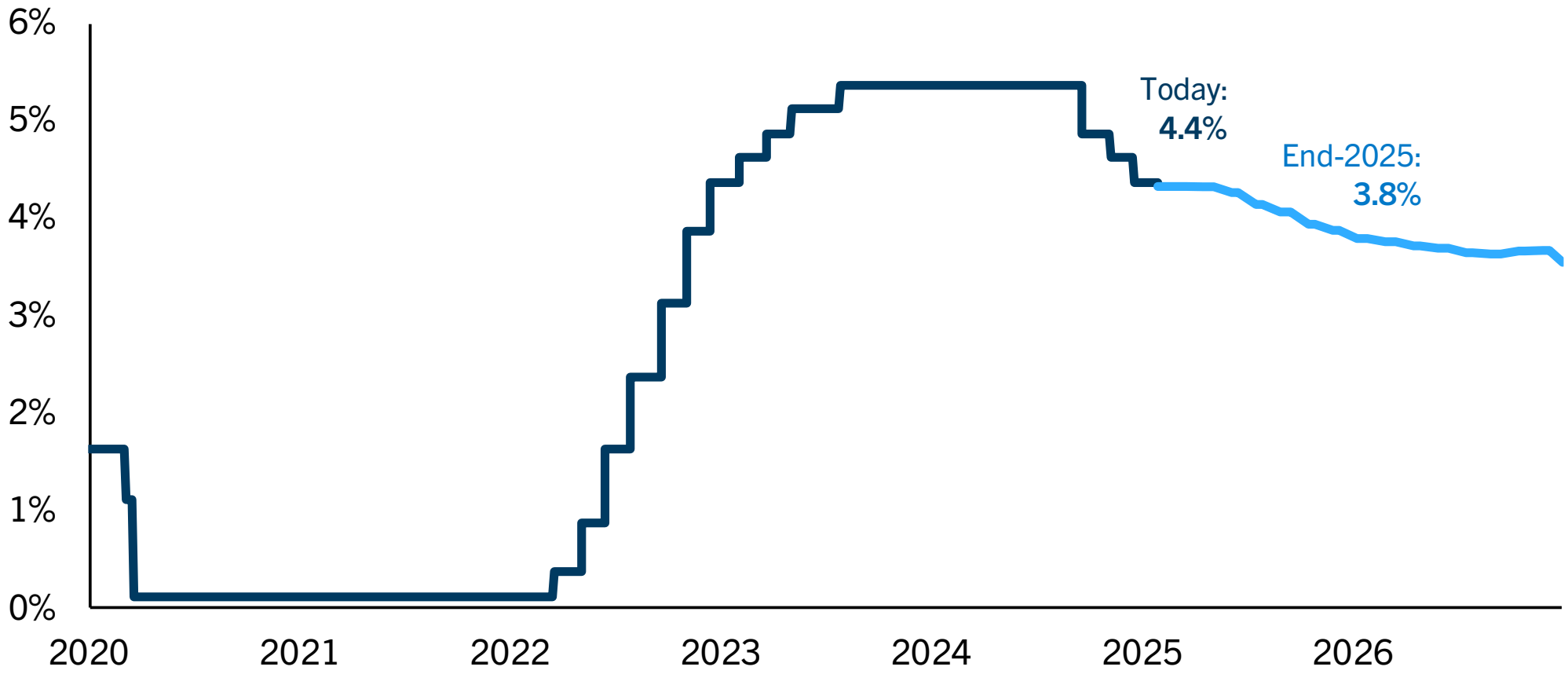
Markets Expect Inflation to Run Above 2% for the Foreseeable Future



Source: Bloomberg, University of Michigan

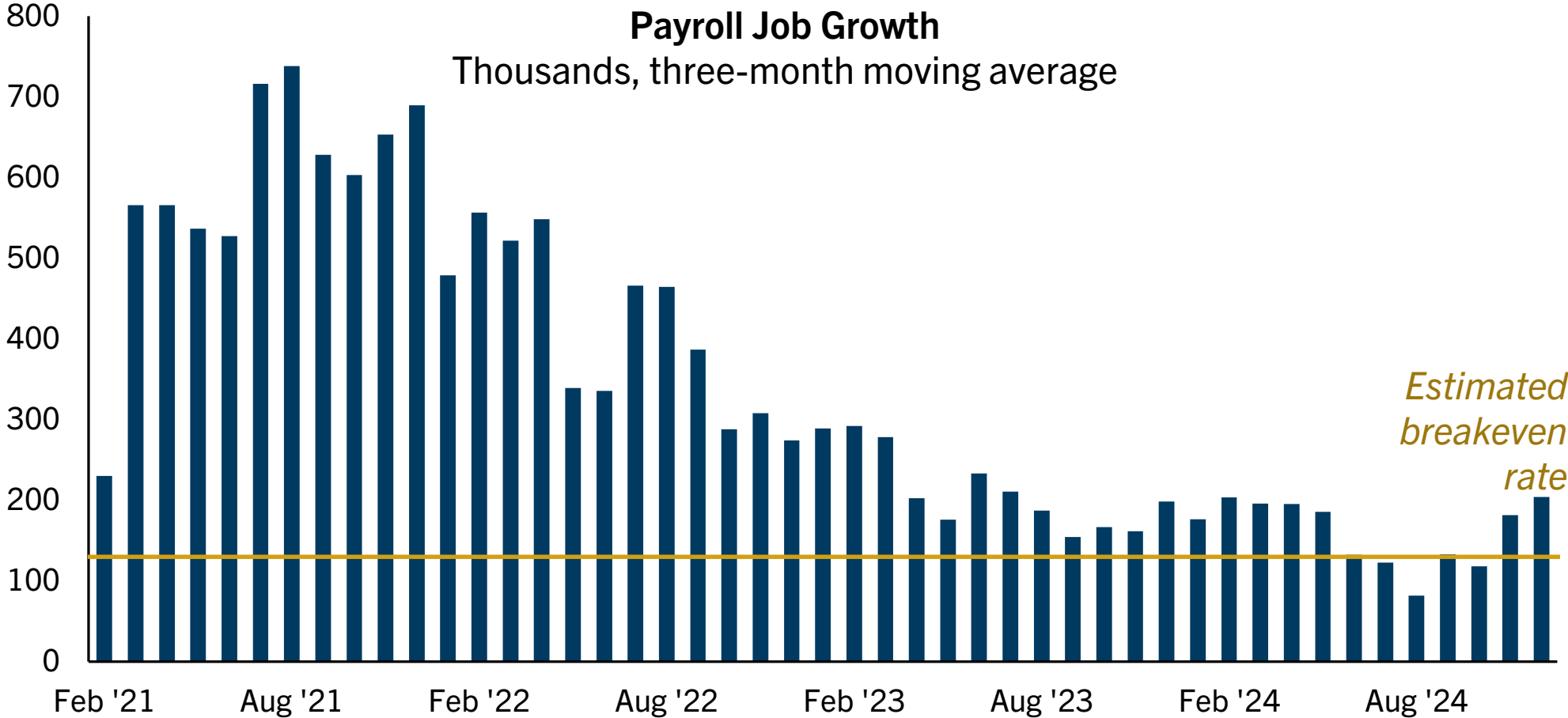
Markets See the Fed Cutting Rates by About 0.50% This Year

Federal Funds Rate and Market-Implied Path



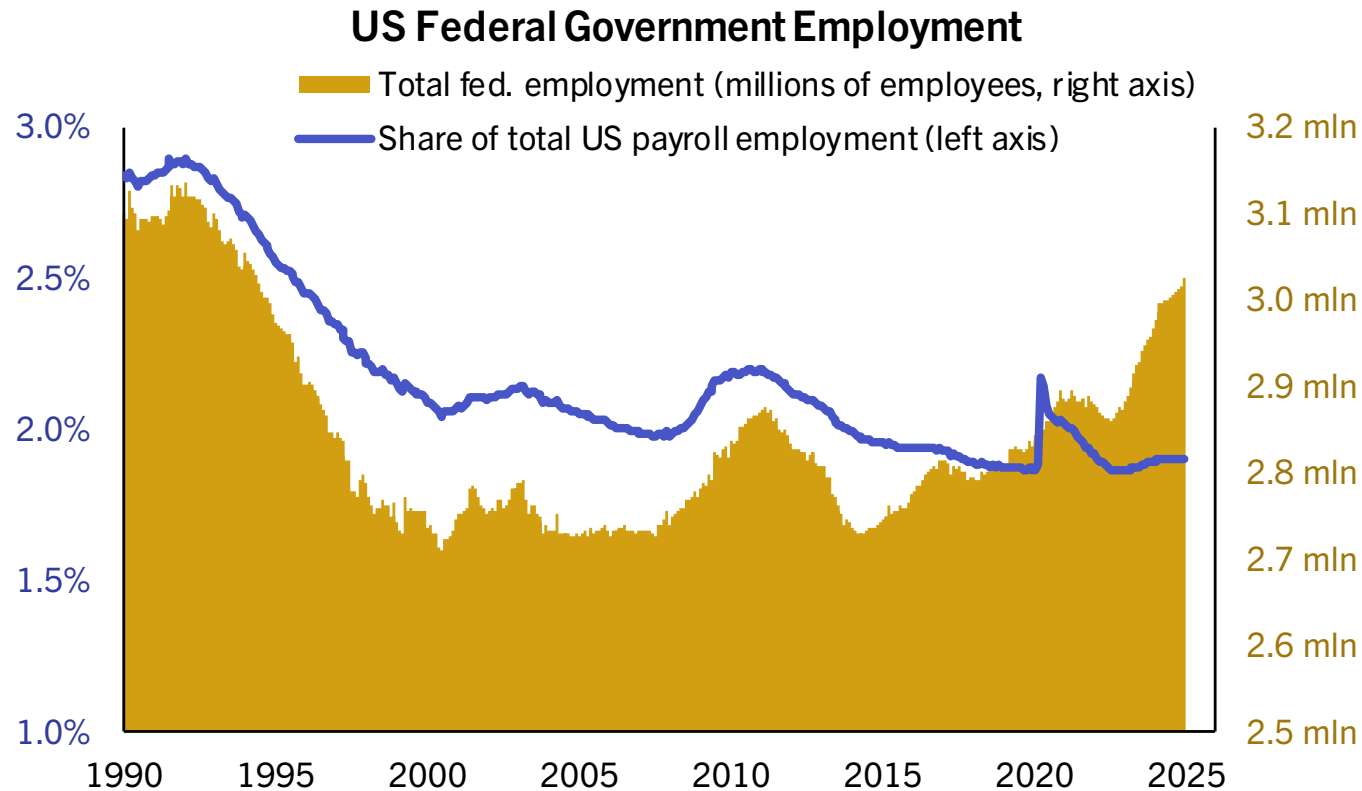
Source: Bloomberg, First Citizens Wealth. Data as of 2/25/2025.

Payroll Job Growth Has Picked Back Up Above the Breakeven Rate



Source: Department of Labor, Bloomberg, Federal Reserve Bank of San Francisco. Data through January 2025.

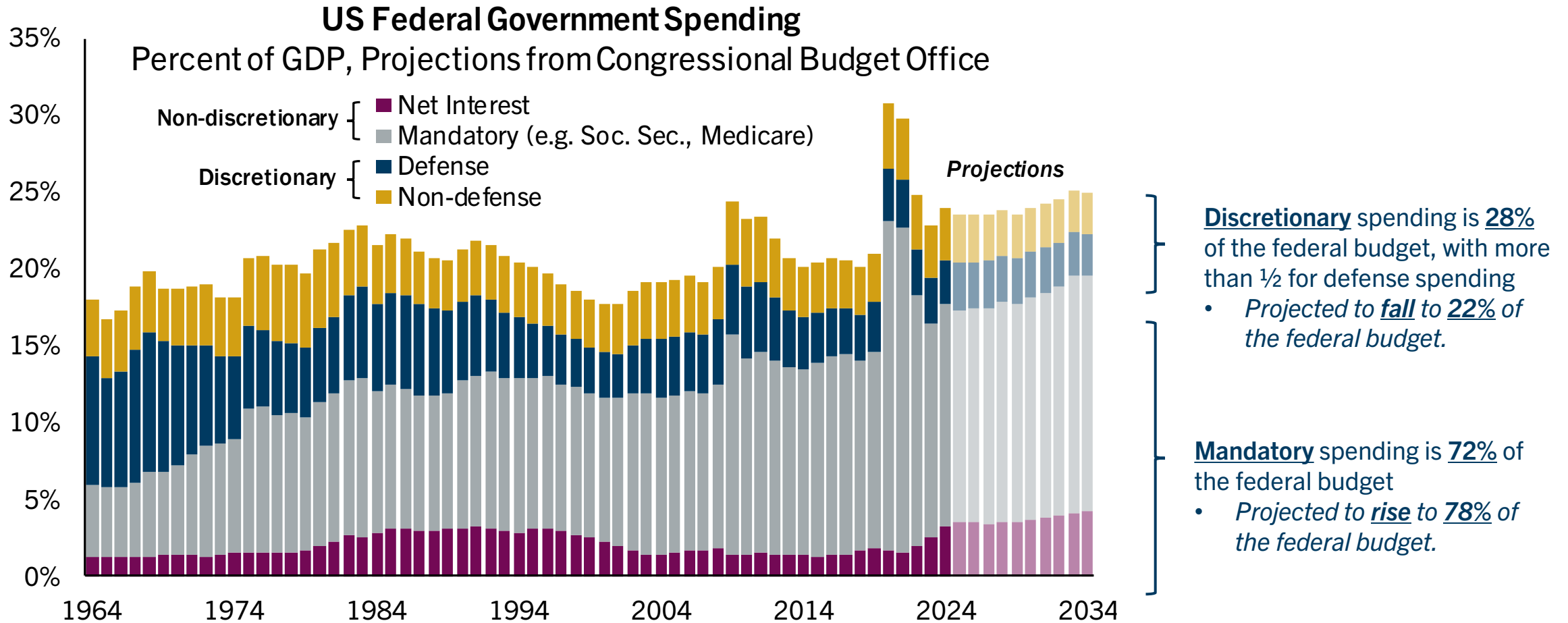
Government Job Cuts: Quantifying the Situation



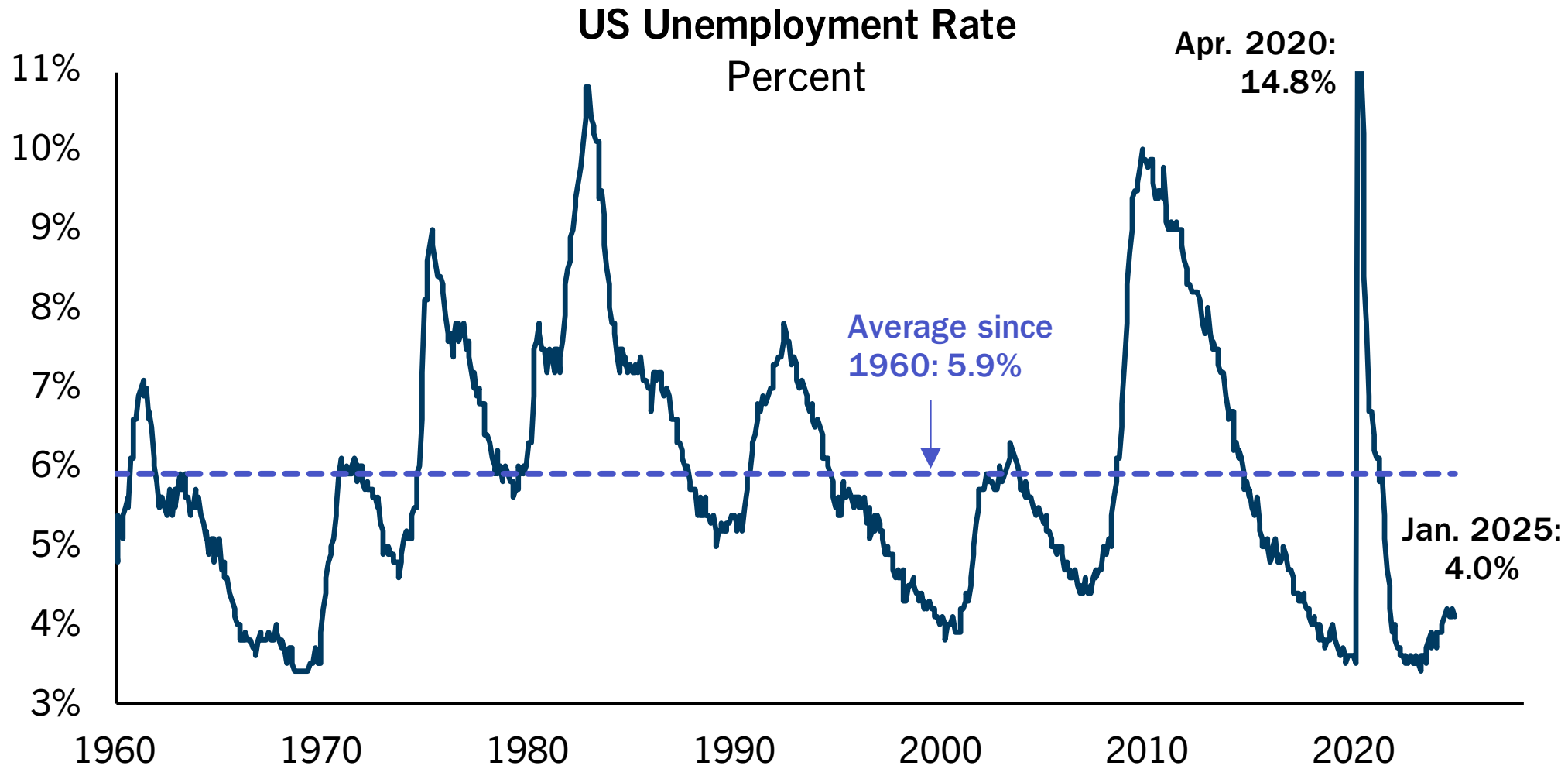
Executive Summary

- **160 million** total workers on US payrolls
- **3 million** federal government employees
 - **7 million** government contractors
- **\$300 billion** annual federal employee payroll (4% of the total federal fiscal budget)
- **Latest estimates of job cuts:**
 - **~100k** so far (maybe ~250k counting contractors)
 - Could rise to as high as **~500k**

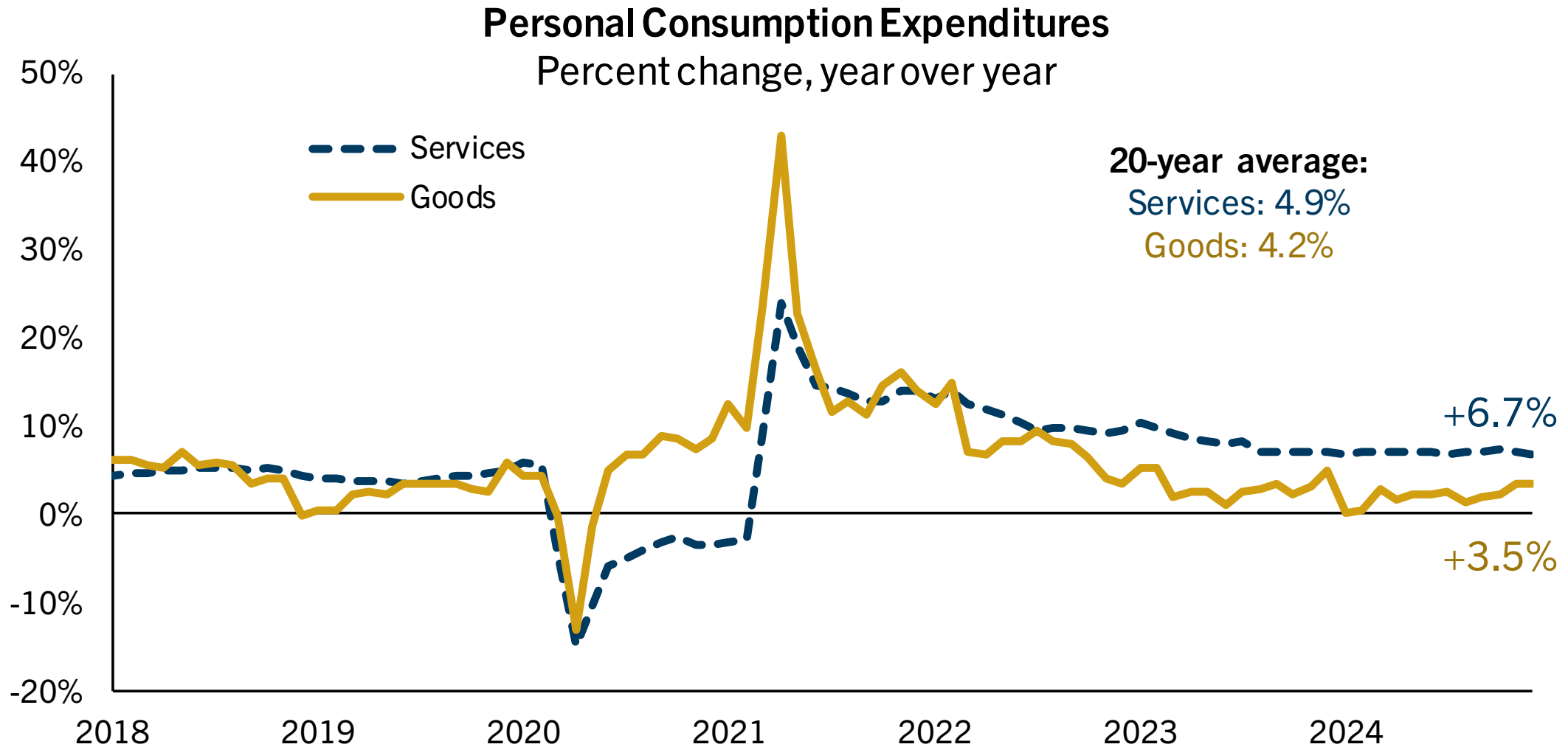
Greater Interest Expense Is Projected to Crowd Out Government Spending



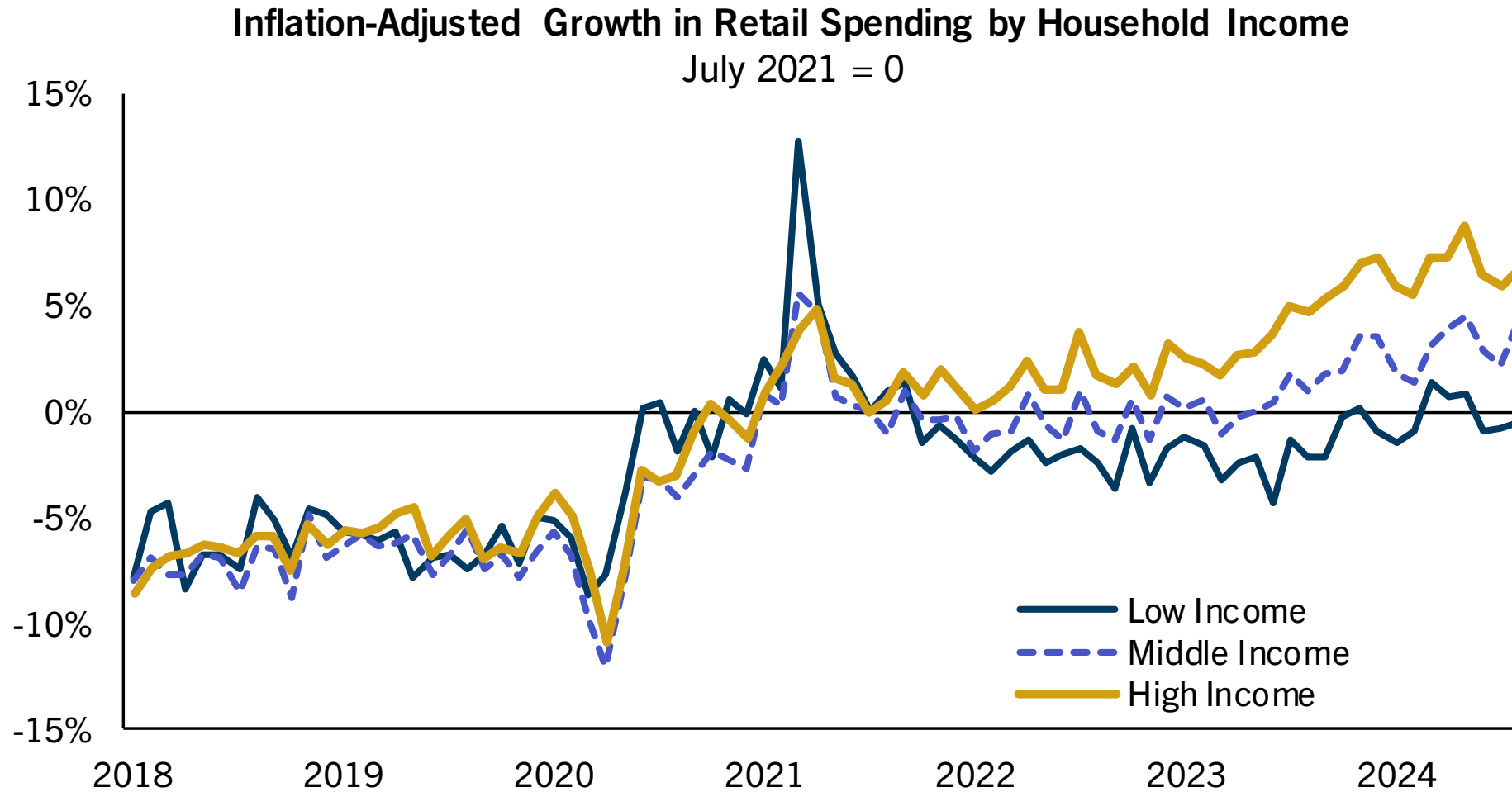
The Unemployment Rate Has Moved Up...Can It Hold Steady Near 4%?



Consumer Expenditures Are Holding Up, Still Led by Services Spending



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



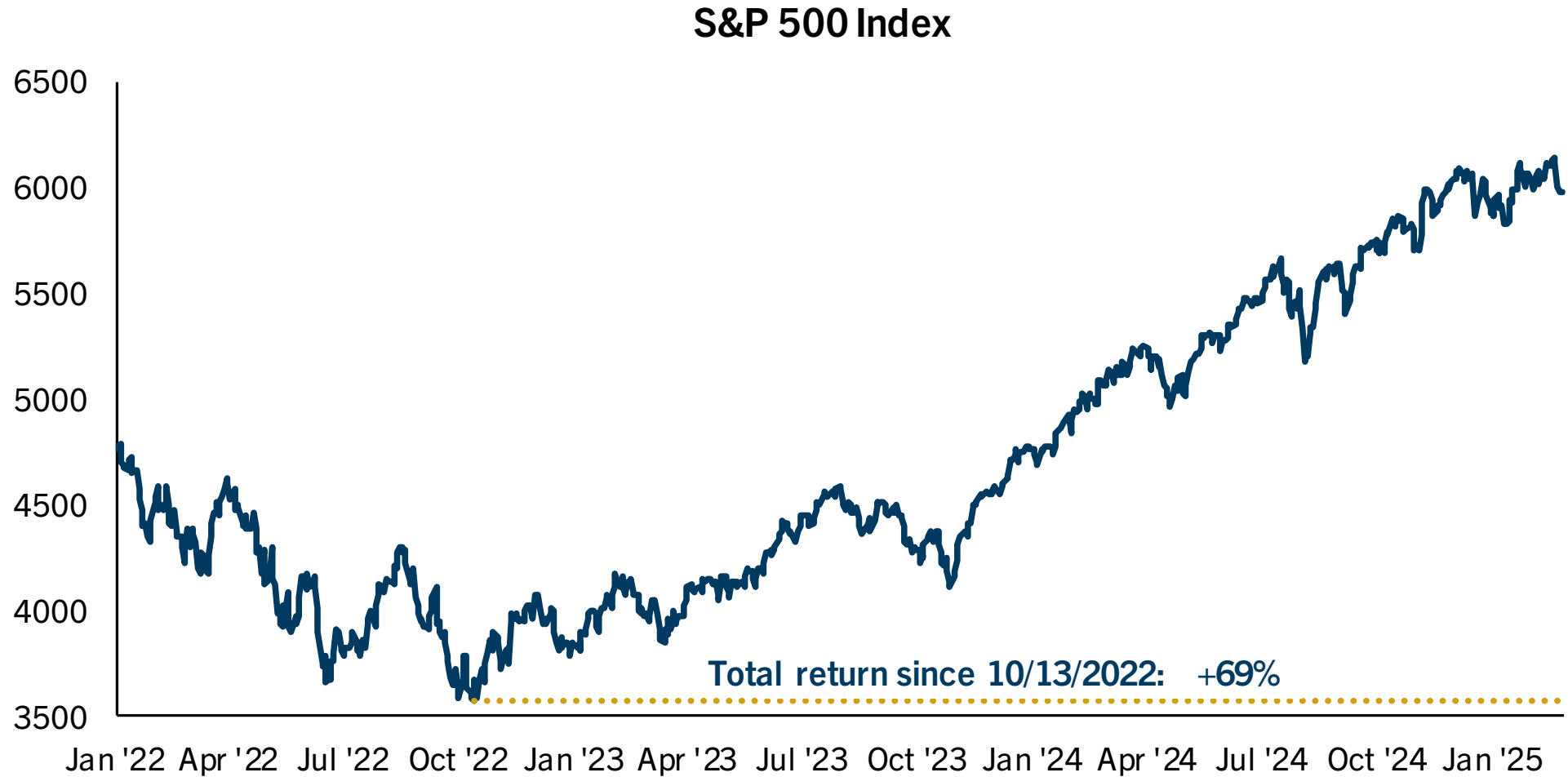
Note: Data are adjusted for inflation and seasonality. Low-income is \$0-60K in annual household income, middle-income is \$60K-100K, and high-income is \$100K+.

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.

Market Update

Equity Markets | Investment Timing | Fixed Income

Current Bull Market Run

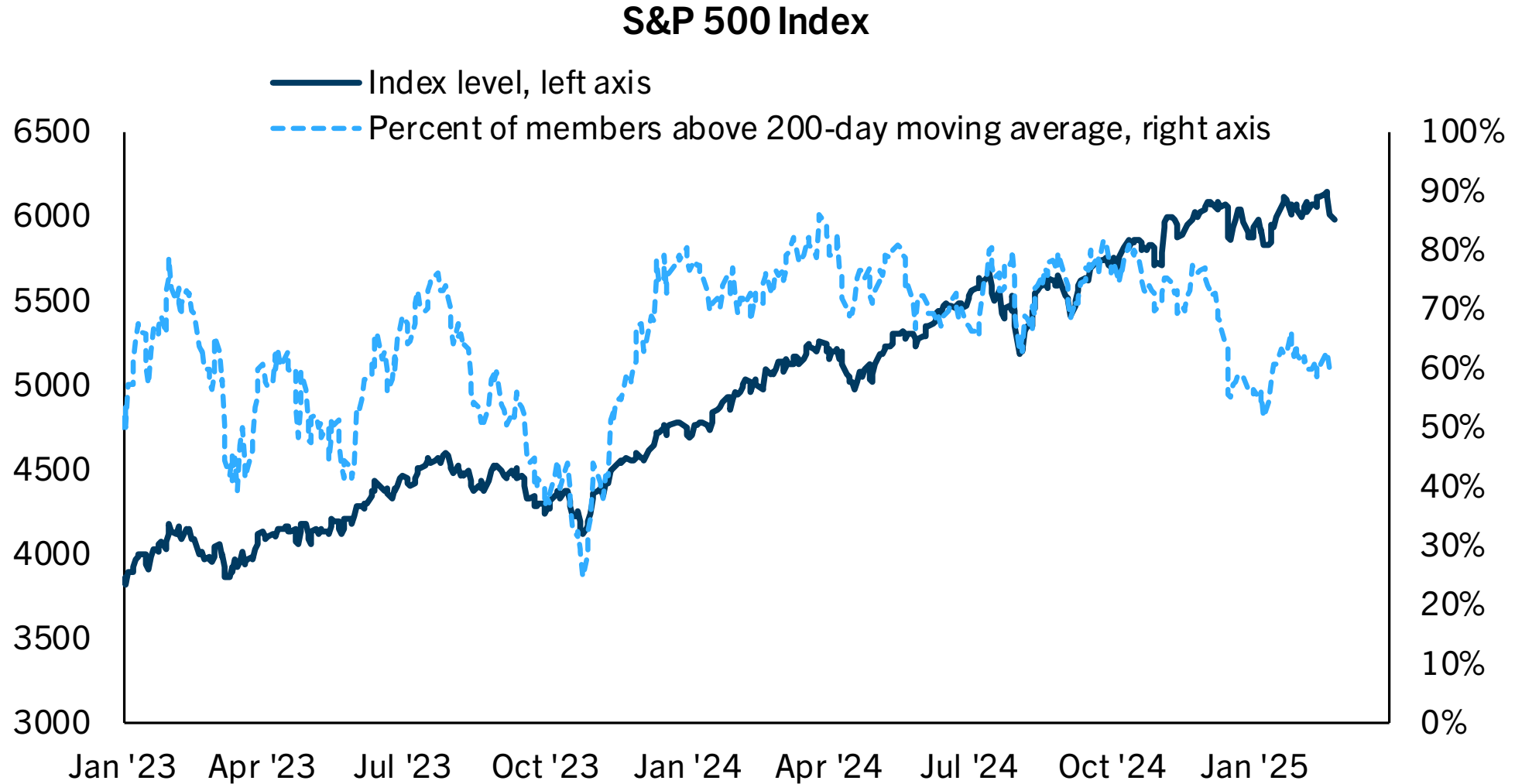


Global Markets Year-to-Date

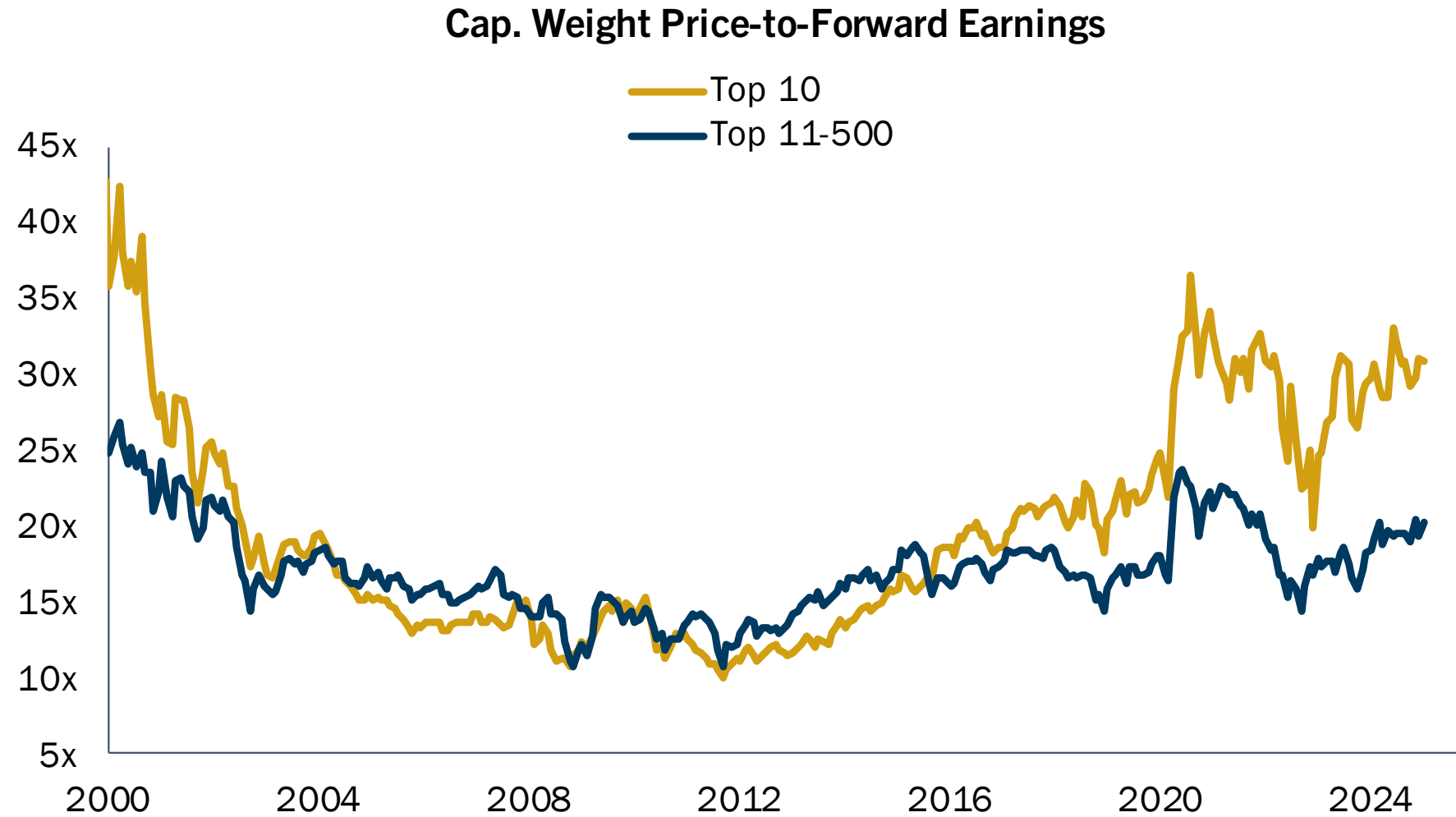
Total Market Returns As of 2/24/2025		
	YTD 2025	CY 2024
US Equities	1.7%	23.8%
Intl. Developed Equities	8.3%	4.4%
Emerging Market Equities	5.8%	8.0%
Aggregate Fixed Income	1.6%	1.3%
Municipal Bonds	1.0%	1.1%

2025 YTD US Equity Returns As of 02/24/2025			
	Value	Blend	Growth
Large	5.8%	2.0%	-0.4%
	1.4%	1.5%	1.8%
Mid			
Small	-1.8%	-2.2%	-2.6%

S&P 500 Breadth Worsened in Q4 but Has Improved Modestly This Year

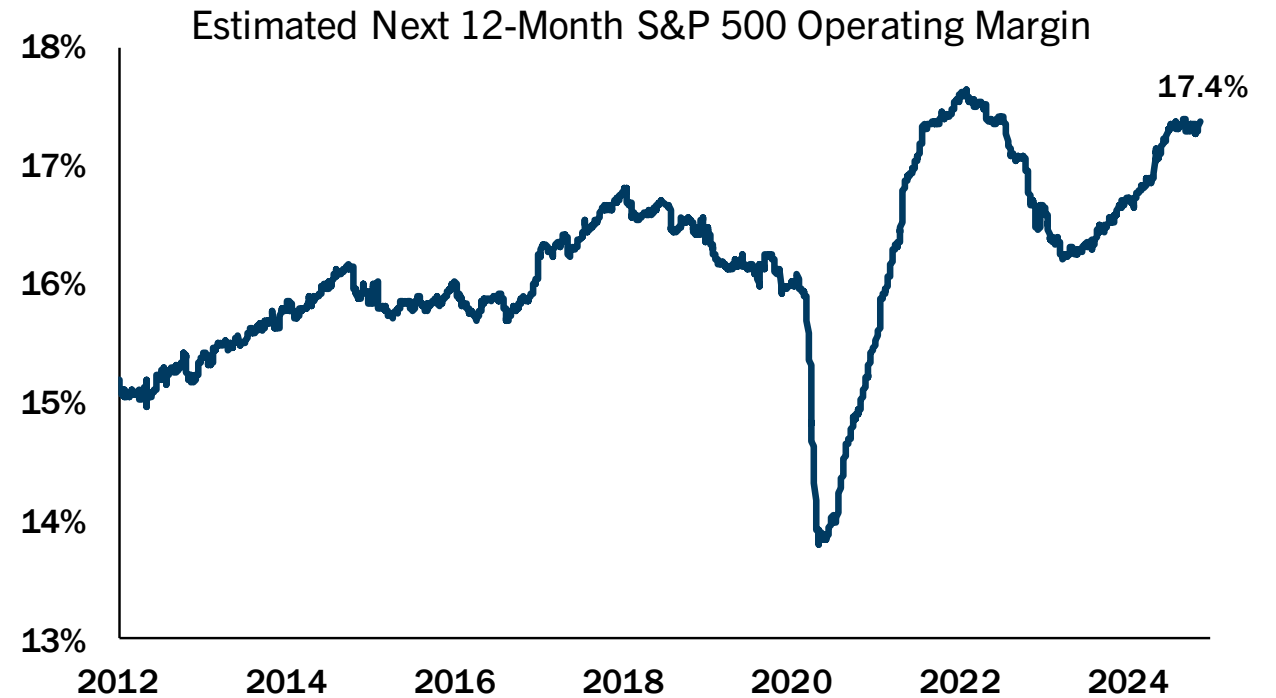


Stocks Outside the Top 10 Are Less Expensive



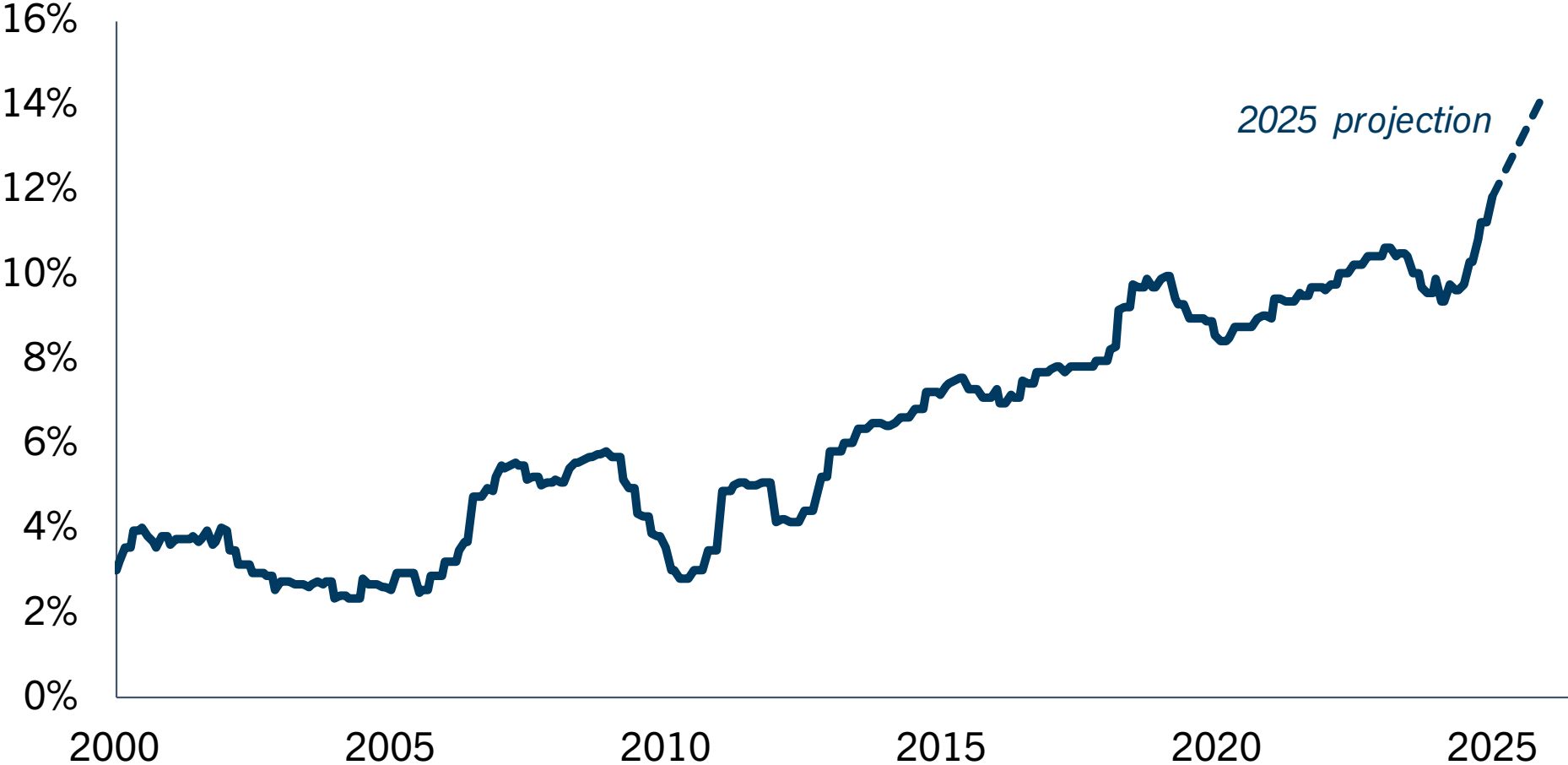
Corporate Earnings

- 2024 estimated growth is **9.5%**
 - Q4 2024: **16.9%**
- 2025 estimated growth is **12.7%**
- 2026 estimated growth is **13.9%**
- Average growth since 1950 is **7.6%**



Big Tech Capex Spending Is on the Rise

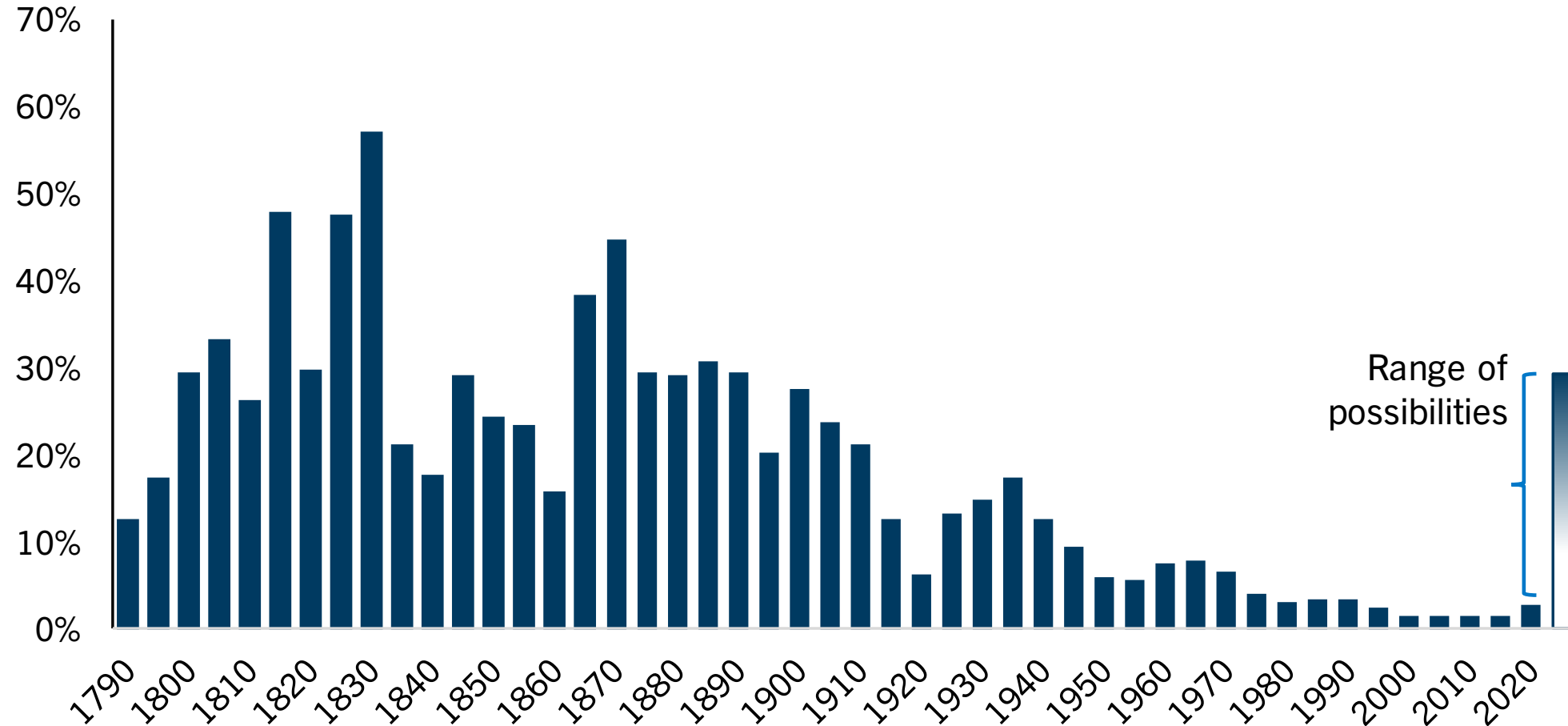
Dollar-Weighted Capex-to-Sales of Magnificent 7



Source: Trivariate Research.

The New Administration Has Floated the Steepest Tariffs in 100 Years

US Weighted Average Effective Tariff Rate

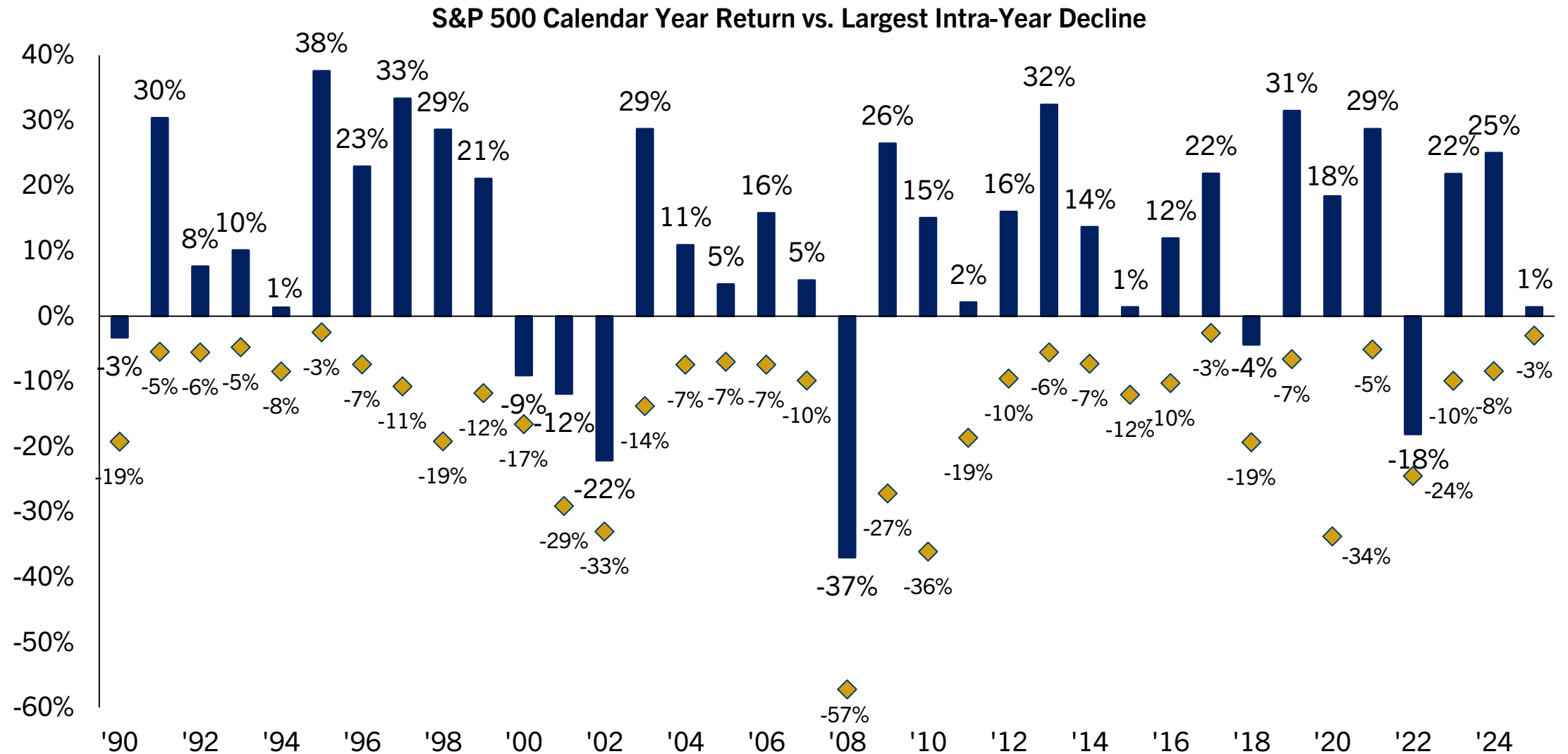


S&P 500 Price Target

Next Twelve-Month S&P 500 Price Target

	NTM Price Level	Percent Change from 2/25/25
Bear	4,600	-23.1%
Base	6,400	7.0%
Bull	6,900	15.4%

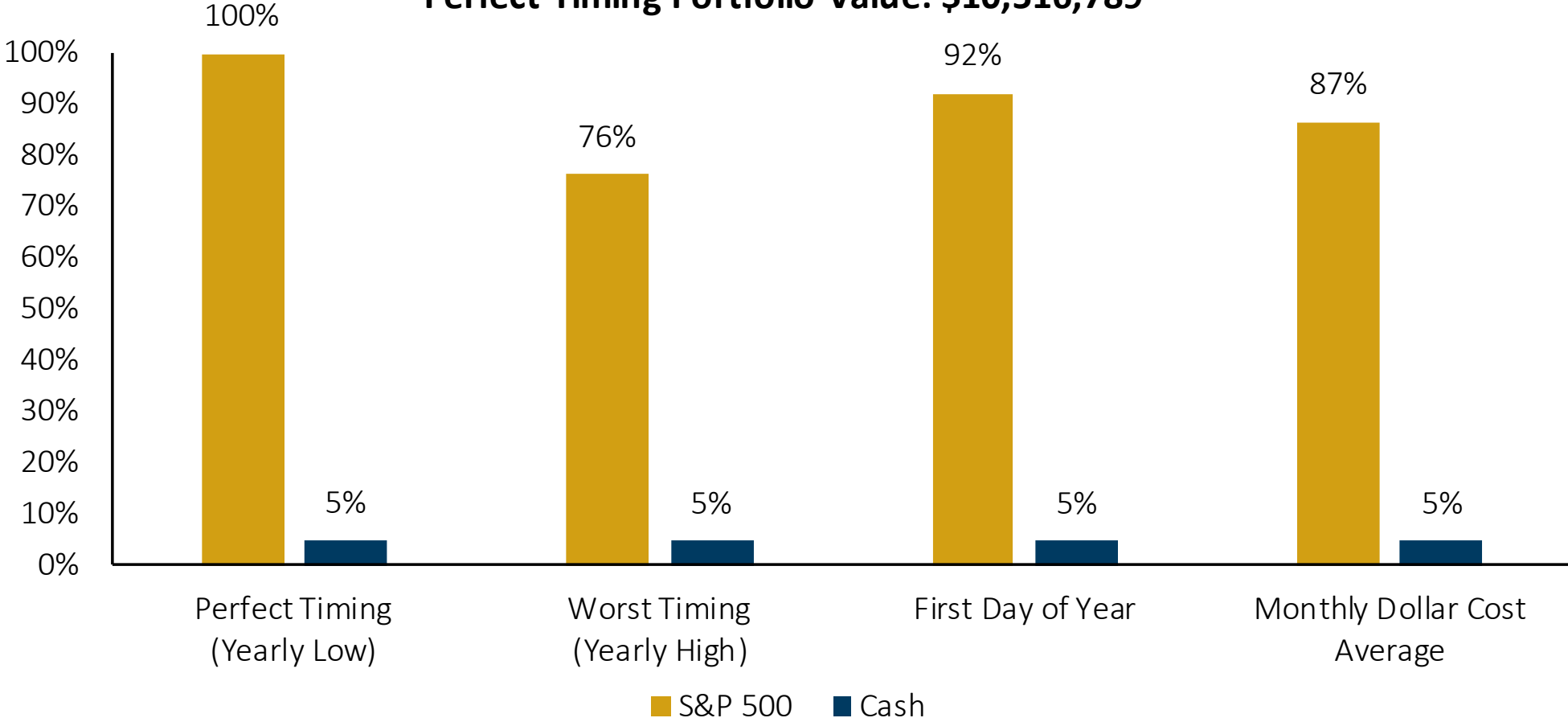
The S&P 500 Often Delivers Positive Returns After Significant Drawdowns



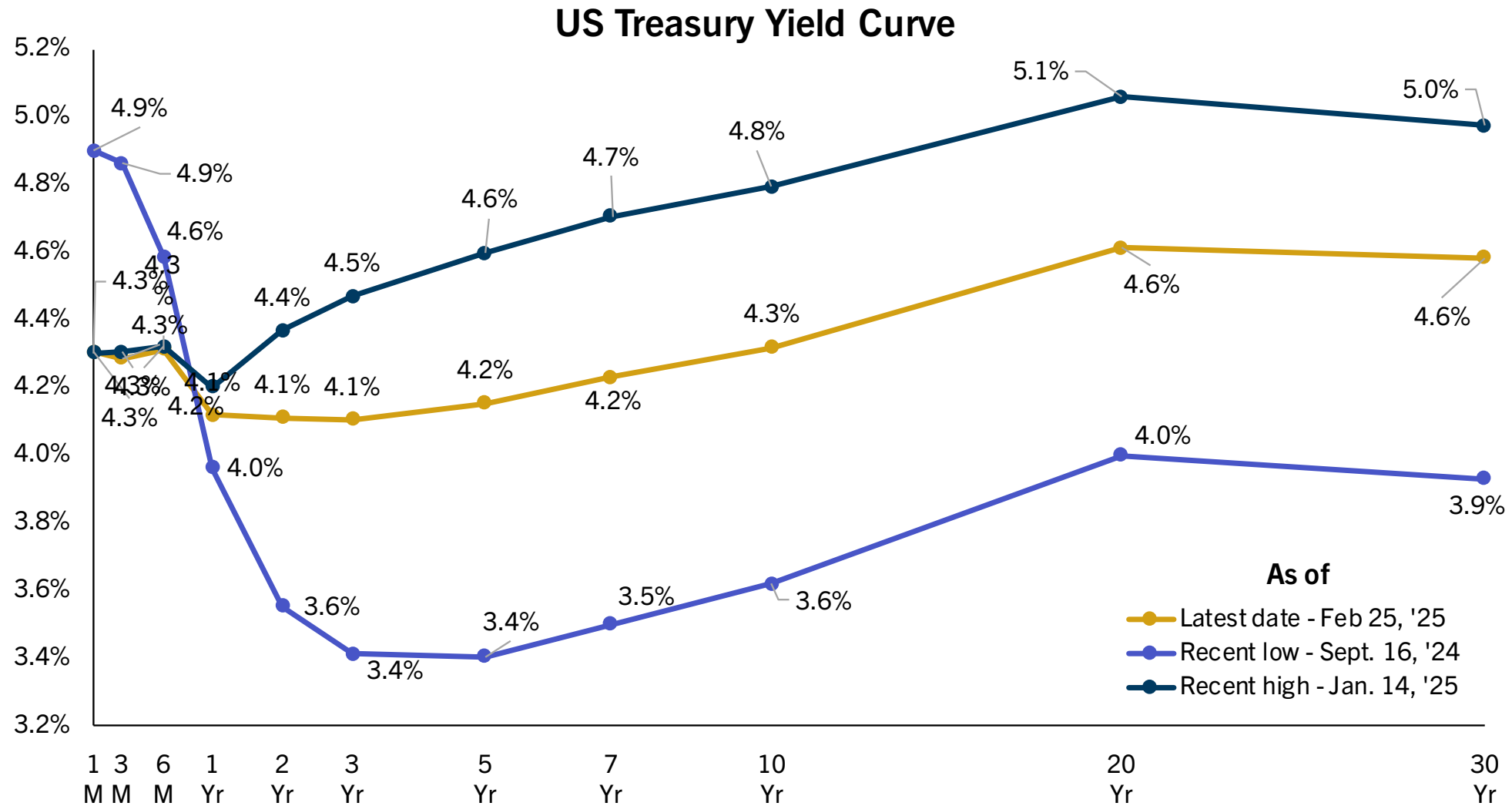
Market Timing, Anyone?

Percent Capture of Perfect Timing with \$12,000 Annual Contribution 1980-2023

Perfect Timing Portfolio Value: \$10,516,789



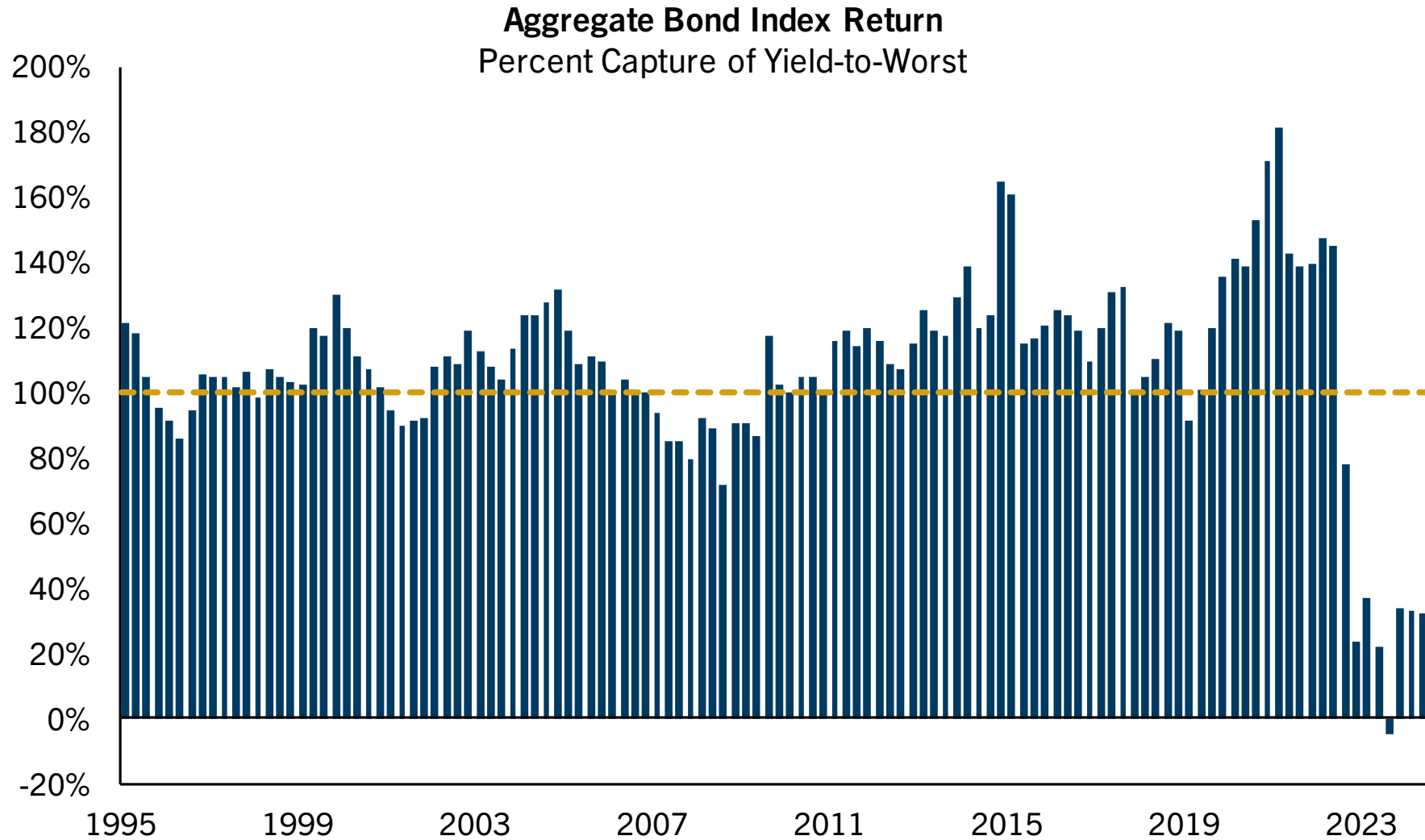
The US Treasury Curve: Continued Rates Volatility



Bond Yields Have Had a Long Journey



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



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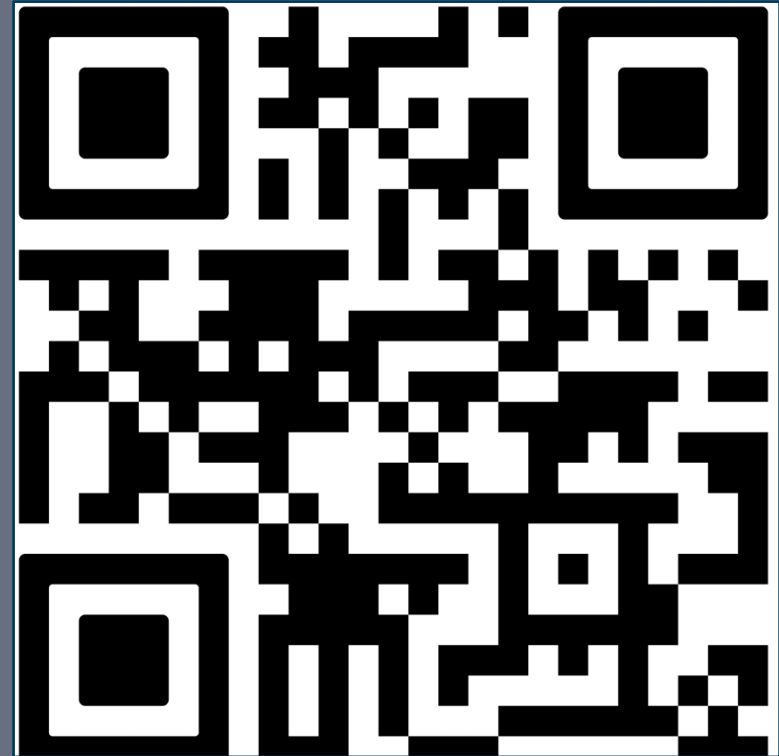
Making Sense

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