First Citizens Wealth™

Making **Sense**

Quarterly Market Review – Q1 2025

Global Markets

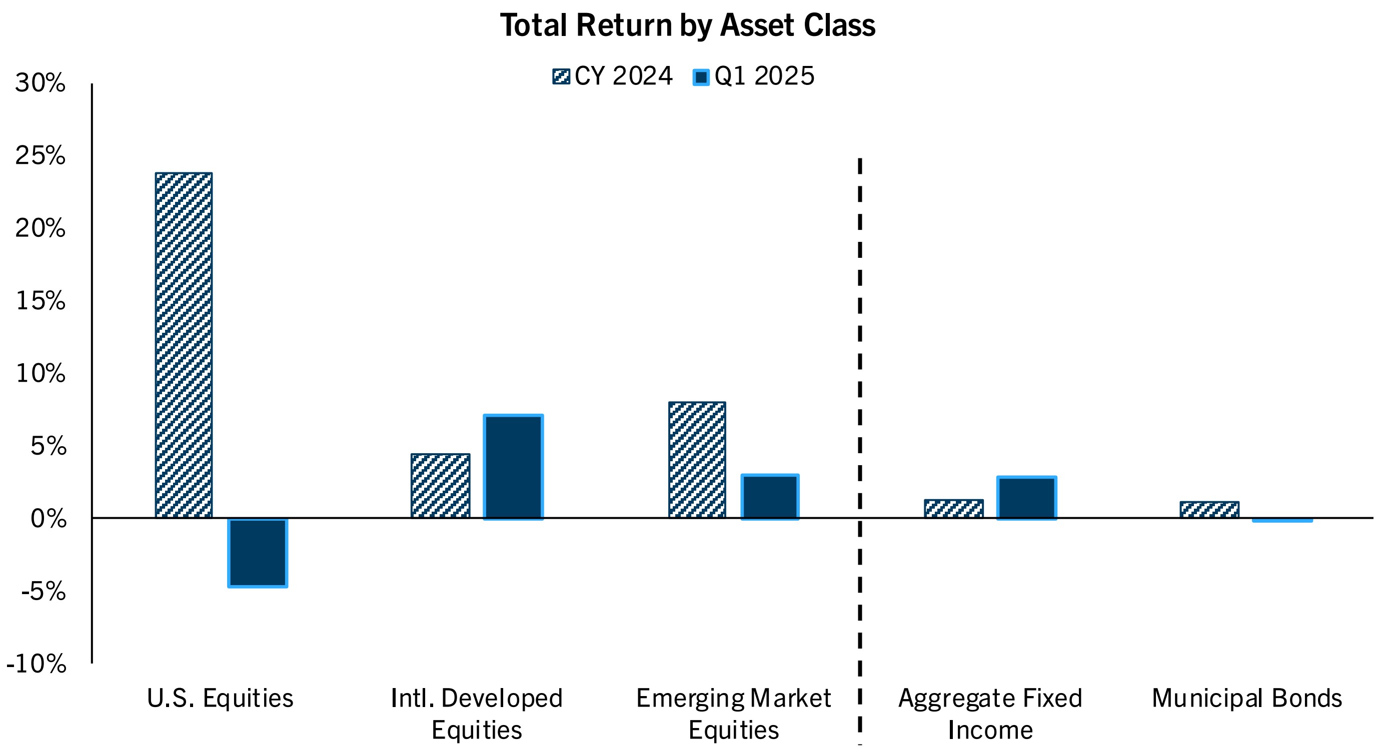
Market volatility returned in the first quarter as uncertainty was elevated, particularly around changes to US international trade. Changing headlines and competing narratives made it difficult for investors to price the potential impact of tariffs.

International equities outperformed the US index in Q1 by the most since 1988, with international developed and emerging market equities rallying 7.0% and 3.0%, respectively while the US equity market fell 4.7% during the quarter. This was in sharp contrast to 2024 in which US stocks substantially outperformed international markets.

Aggregate fixed income rallied 2.8% in the first quarter as Treasury yields moved lower. Municipal bonds lagged the aggregate fixed income market with -0.2% total return.

We emphasized the importance of portfolio balance in our 2025 outlook, and Q1 was a reminder that diversification in portfolios is essential.

International Equities Outperformed US in Q1



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

US Equity Performance

In another reversal, US large-cap value stocks sharply outperformed in the first quarter as markets rotated generally from growth to value. Growth stocks fell across the market-cap spectrum in Q1. An index of the seven largest US mega-cap tech equities fell even more sharply, returning -14.8% in the quarter.

Equity-Market Returns: Rotation to Value

QTD US Equity Returns As of 03/31/2025

	Value	Blend	Growth
Large	4.5%	-4.8%	-10.1%
Mid	-2.1%	-3.4%	-7.1%
Small	-7.7%	-9.5%	-11.1%

CY 2024 US Equity Returns As of 12/31/2024

	Value	Blend	Growth
Large	15.1%	27.4%	35.2%
Mid	13.1%	15.3%	22.1%
Small	8.0%	11.5%	15.2%

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

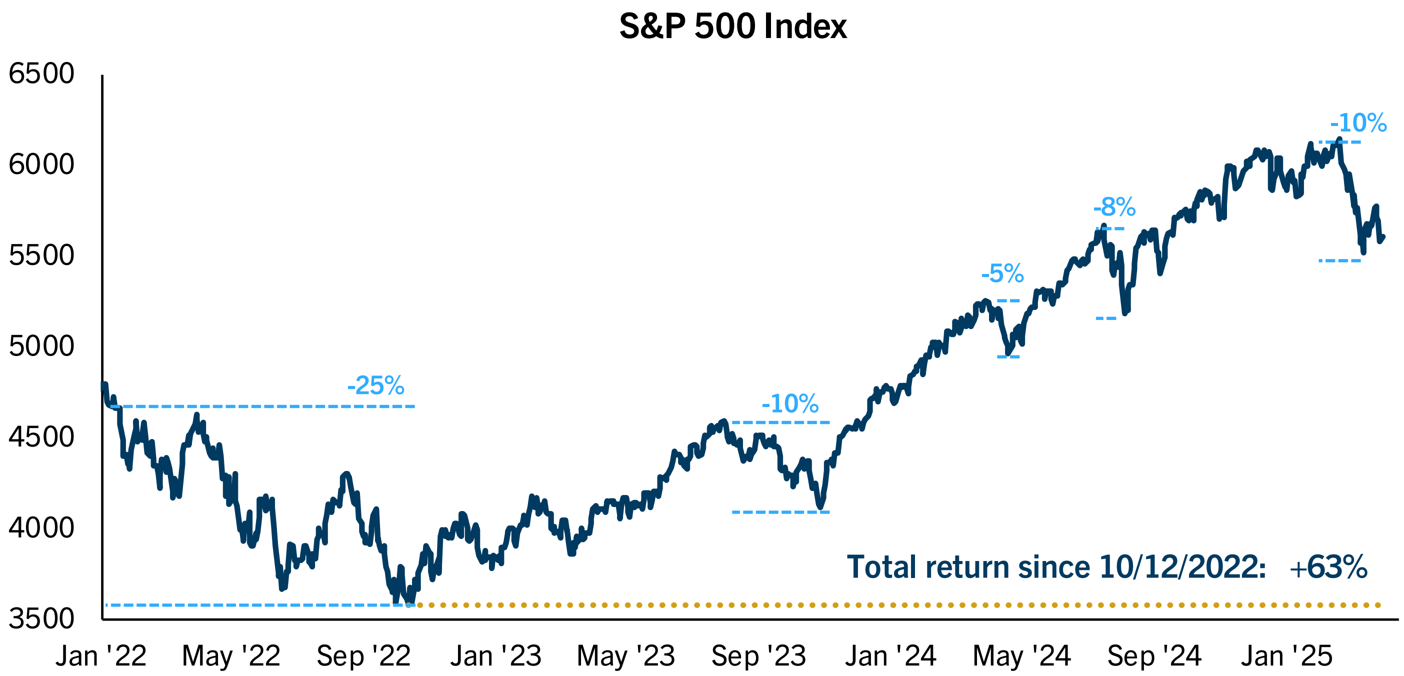
US Equity Performance

The S&P 500 gave back some of its extraordinary gains of the last two years. Despite selling off 10% peak-to-trough in Q1 and returning -4.3% YTD, the index has still returned an extraordinary +63% in the bull market starting in October 2022.

We wrote last quarter that investors had priced a significant amount of good news into US equity markets and that policy uncertainty and elevated valuations would likely drive market volatility, and we still think this is the case. We have been emphasizing to clients that drawdowns in the ballpark of 10% are a feature – not a bug – in risk assets like equity markets. We remain focused on fundamentals, which we currently see as still intact while acknowledging that risks appear elevated.

We slightly lowered our 12-month ahead S&P 500 base case price target to 6,300. However, if policy developments skew severely negative, then our bear case of 4,600 has a higher probability of materializing than our bull case of 6,900.

The S&P 500 Sold Off in the First Quarter



Source: Bloomberg

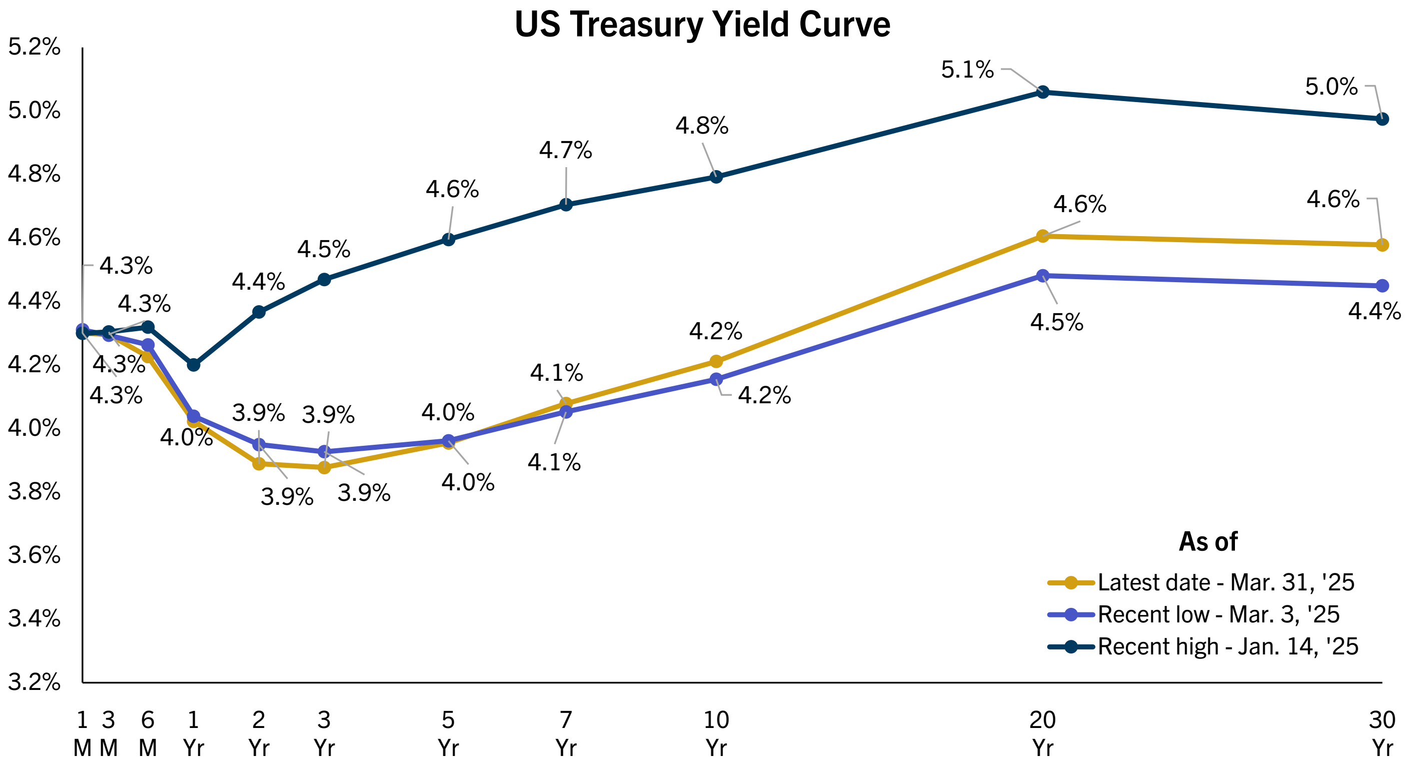
Fixed Income

US government bond yields moved lower in the first quarter as fixed income markets adjusted for modestly lower growth expectations and a few more interest-rate cuts from the Federal Reserve.

Over the quarter, both 2-year and 10-year Treasury yields declined by about 35 basis points, recovering some of the steep losses since the Federal Reserve started cutting interest rates last September.

These moves likely reflect an outlook that encourages the Federal Reserve to cut rates again this year. But if the economy remains more resilient than expected, or if inflation does not subside, then the three to four rate cuts the market expects over the next year will appear less likely.

US Yield Curve Moved Down a Bit in Q1



Source: Bloomberg

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Fixed Income

Fixed income returns were mixed in Q1. Bond yields declined for Treasuries, intermediate government/credit, and investment grade corporate bonds. But municipal bonds and high yield corporate bonds sold off in the quarter.

The yield on the US aggregate bond moved lower by 31 basis points to a still-decent 4.6%. Moves in Treasuries were similar, but IG corporate bond yields declined by less to 5.1%.

Municipal bond and high yield corporate bond indices declined in Q1. Yields for municipal bonds rose 11 basis points to 3.8% and high-yield corporate bond yields moved up 25 basis points to 7.7%.

Yield Levels Remain Attractive

US Fixed Income Indices	Yield-to-Worst
Index	3/31/2025
2-Year Treasury	3.9%
10-Year Treasury	4.2%
Aggregate Bond	4.6%
Intermediate Government/Credit	4.3%
Municipal Bond	3.8%
Investment Grade Corporate Bond	5.1%
High Yield Corporate Bond	7.7%

Source: Bloomberg

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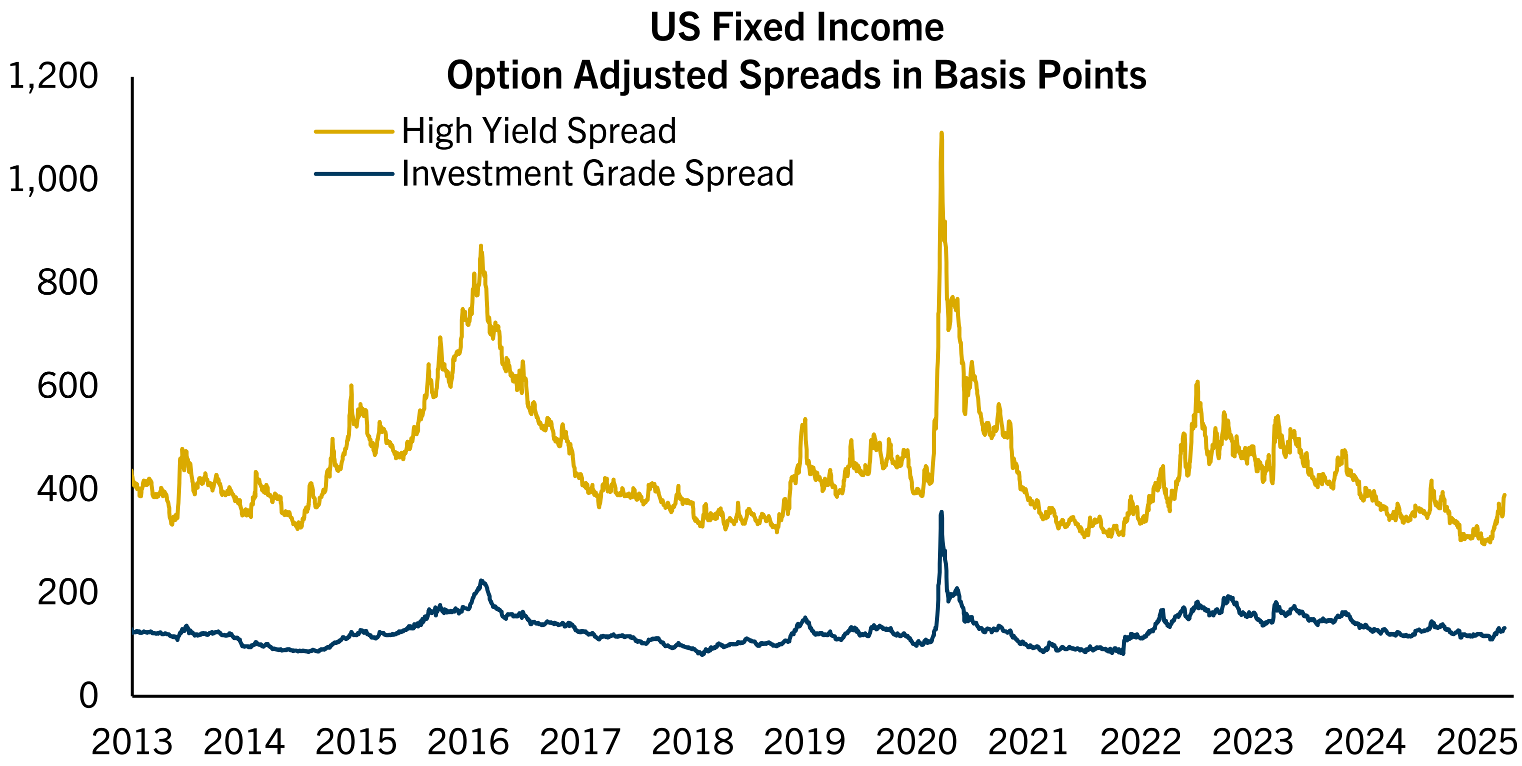
Fixed Income

After years of narrowing to very tight levels, credit spreads for investment grade and high yield corporate bonds inched higher in the last month of Q1 as market sentiment turned more cautious and the outlook for economic growth softened.

Credit spreads are a good proxy for perceived risk, and despite the modest move higher fixed income markets are still not pricing an imminent, severe dislocation. We would expect to see a further widening of spreads before any major economic downturn, and we will be watching these series closely this quarter.

Corporate Credit Spreads Started to Inch Higher in Q1



Source: Bloomberg

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Authors

Blake Taylor | VP, Market & Economic Research Analyst
Capital Management Group | First Citizens Bank
8540 Colonnade Center Drive| Raleigh, NC 27615
Blake.Taylor@firstcitizens.com | 919.716.7964

Phillip Neuhart | SVP, Director of Market & Economic Research
Capital Management Group | First Citizens Bank
8540 Colonnade Center Drive| Raleigh, NC 27615
Phillip.Neuhart@firstcitizens.com | 919.716.2403

Brent Ciliano, CFA | SVP, Chief Investment Officer
Capital Management Group | First Citizens Bank
8540 Colonnade Center Drive| Raleigh, NC 27615
Brent.Ciliano@firstcitizens.com | 919.716.2650

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