Synovus Market Update

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SEC Approves Bitcoin ETF: A Buy the Rumor, Sell the News Event?

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On January 10 the U.S. Securities and Exchange Commission (SEC) approved a spot Bitcoin Exchange Traded Fund (ETF). Prior to this approval investors were limited owning Bitcoin (BTC) directly through an unregulated cryptocurrency exchange. Investors could access publicly traded firms whose business models worked directly with Bitcoin as a blockchain company or as a Bitcoin proxy in firms like Microstrategy (ticker: MSTR), Marathon Digital (MARA), or Riot Platforms (RIOT) where they hold large sums of Bitcoin as part of their corporate treasury. These companies were considered “Bitcoin adjacent” and did not represent direct ownership of Bitcoin, even though their market prices would rise and fall in the similar direction of BTC. This is similar to the way an oil refinery stock price would follow in a similar direction to the price of oil.

Grayscale Opened the Door

The top player in the cryptocurrency space that offered the closest access to Bitcoin directly to client brokerage accounts was Grayscale’s Bitcoin Investment Trust (GBTC). Though GBTC traded similarly to an ETF, you could only buy and sell GBTC through the “over-the-counter” exchanges (OTC). These exchanges are more opaque in their regulatory standards and often had lower trade volume, as well as liquidity in their stock and ETF offerings. If you have ever thrown caution to the wind and gambled on a “penny stock,” most likely it was traded on the over-the-counter bulletin board exchange (OTCBB), also known as the “pink sheet exchanges.” This was a market dedicated to investments that could not raise enough capital to trade on the prominent exchanges, carried high risk to retail investors and had lower audit standards compared to their larger counterparts at the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or NASDAQ.

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U.S. Fixed Income Update

Eric Krueger, Senior Trust Manager, Synovus Bank

This month's update focuses on the 2024 Fixed Income returns and the current bond market environment in the U.S. In 2023, Treasury yields (10 year) experienced significant volatility, starting and ending around 3.8%. However, credit spreads remained historically low, with attractive overall yields. Municipal bonds, on the other hand, became relatively expensive after substantial returns in November and December. However, there may be better opportunities to enter the municipal bond market later in the quarter. With a downward trend in inflation and the likelihood of the Federal Reserve lowering rates a few times in 2024, conservative fixed income investors can find a favorable opportunity.

	FIXED INCOME	WEIGHT	YTD	1-MONTH	3-MONTH	6-MONTH	1-YEAR	3-YEAR	5-YEAR	10-YEAR
	Cash		5.1%	0.5%	1.4%	2.7%	5.1%	2.2%	1.9%	1.2%
	U.S. TIPS		3.9%	2.7%	4.7%	2.0%	3.9%	-1.0%	3.2%	2.4%
	U.S. Investment Grade		5.5%	3.8%	6.8%	3.4%	5.5%	-3.3%	1.1%	1.8%
Sector	Securitized	28.7%	5.1%	4.2%	7.3%	3.2%	5.1%	-2.0%	0.4%	1.4%
	U.S. Treasury	41.6%	4.1%	3.4%	5.7%	2.4%	4.1%	-3.0%	0.5%	1.3%
	Corporate	24.9%	8.5%	4.3%	8.5%	5.1%	8.5%	-3.3%	2.6%	3.0%
	Agency	3.2%	5.1%	1.9%	3.7%	3.4%	5.1%	-1.5%	1.3%	1.6%
	Government-Related	1.6%	5.8%	3.0%	5.5%	3.4%	5.8%	-2.4%	1.4%	2.0%
Rating	AAA	3.6%	4.4%	2.6%	4.7%	2.6%	4.4%	-3.4%	0.5%	1.3%
	AA	72.2%	5.8%	3.7%	6.4%	3.0%	5.8%	-3.0%	1.1%	2.0%
	A	11.7%	7.7%	4.2%	8.1%	4.6%	7.7%	-3.5%	2.2%	2.7%
	BBB	12.5%	9.4%	4.5%	8.8%	5.7%	9.4%	-2.9%	3.1%	3.3%
	Credit			4.2%	8.2%	4.9%	8.2%	-3.2%	2.4%	2.8%
	Corporate	83.9%	8.5%	4.3%	8.5%	5.1%	8.5%	-3.3%	2.6%	3.0%
Sector	*Industrial*	48.9%	8.9%	4.5%	9.0%	5.0%	8.9%	-3.5%	2.6%	3.0%
	Utility	7.3%	8.0%	5.6%	9.7%	5.3%	8.0%	-4.9%	2.0%	2.9%
	Financial Institutions	27.7%	8.1%	3.7%	7.3%	5.4%	8.1%	-2.4%	2.8%	2.9%
	Non Corporate	13.0%	6.0%	3.3%	6.9%	3.3%	6.0%	-2.0%	1.4%	2.2%
	U.S. High Yield		13.4%	3.7%	7.2%	7.7%	13.4%	2.0%	5.4%	4.6%
Rating	Ba	46.1%	11.6%	3.2%	7.4%	6.9%	11.6%	1.4%	5.8%	5.0%
	B	41.1%	13.8%	3.6%	7.0%	7.9%	13.8%	2.3%	5.1%	4.2%
	Caa	11.7%	19.8%	5.9%	6.9%	9.6%	19.8%	2.9%	4.1%	4.0%
	Municipals		6.4%	2.3%	7.9%	3.6%	6.4%	-0.4%	2.3%	3.0%
	Emerging Market Debt (local)		12.7%	3.2%	8.1%	4.6%	12.7%	-3.2%	1.1%	0.1%
	Emerging Market Debt (hard)		11.1%	4.7%	9.2%	6.7%	11.1%	-3.6%	1.7%	3.2%

As shown in the chart above, the bulk of fixed income returns occurred in the final three months of 2023. Most high-quality sectors had negative returns up until October, but the strong performance in the fourth quarter helped them achieve relatively "average" returns for the year.

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Continued from previous page

Top Ten Market Predictions for 2024

Daniel Morgan, Senior Trust Portfolio Manager,
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1. Real GDP growth in 2024 will likely contract to a rate of just +1.0% to +1.5%, with housing being the weakest component. Inflation should fall amid full employment, leaving consumption resilient, while business investment spending weakens.

2. Strength in personal consumption, which represents 67% of overall gross domestic product (GDP), overshadows weakness in housing (3%), investment (13%) and slower government spending (17%). Risks include: Big private and government debt loads, economic supports fading or reversing like child tax credit and auto production.

3. Indicators underscore that core Inflation remains sticky through 2024 giving the Federal Open Market Committee (FOMC) room to keep rates "higher for longer." Secular inflation drivers: Low housing affordability, auto "sticker shock" and solid wage growth/low unemployment.

4. Financial conditions will tighten as the economy slows. With the 10-year Treasury average yield settling between 3.75% to 4.25%, expect the rate to fall in late 2024 as the economy weakens and settles below the 4% level.

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Mega Backdoor Roth Strategy

Jarrett E. Hindrew, CFP®, ChFC®, CLU®Financial Advisor,
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High-income investors may be overlooking a powerful savings and tax strategy that is available through their retirement savings plan. After-tax contributions to a 401(k) plan can be a valuable strategy to consider for individuals looking to save additional funds for retirement. One potential benefit of making after-tax contributions is the ability to perform a "mega backdoor Roth conversion." This strategy involves rolling over the after-tax contributions and their earnings into a Roth IRA, allowing for tax-free growth and withdrawals in retirement. However, not all 401(k) plans allow for this conversion, so it's essential to check with your plan administrator.

Here are some key points to understand about after-tax contributions to a 401(k):

1. Contribution Limits: The overall contribution limit for a 401(k) in 2024 is $23,000 for individuals under 50 years old and $30,500 for those aged 50 and above. However, this limit only applies to pre-tax and Roth contributions. After-tax contributions can be made on top of these limits.

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We're here if you have questions.

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