

# Synovus Financial Wellness Economic and Market Outlook 2021

Featured Speaker:  
Daniel Morgan Senior Portfolio Manager  
Synovus Trust Company

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# Daniel Morgan



“For now, the market isn’t being held hostage by action, or lack of it, in Washington. The S&P 500 is just slightly below its all-time high of 2007. Can it go higher? From a market-multiple perspective, there is room.”

## **Barron's The Trader**

Friday's Surge Boasts Dow's 2013 Gain to 6%  
February 2, 2013

“The first quarter is typically weak for tech companies, and they aren’t immune to activity in the rest of the market. I’m not too concerned by the pullback. Is this another 2000 or 2001? I’d say no. Tech isn’t dead, it was just a tough quarter.”

## **Money.CNN**

Another Bear Market for Tech Stocks?  
May 2, 2016

“Tech is such a vibrant area that everyone looks to, but earnings weren’t as good as everyone hoped. I’m pleased that the week ended with encouraging earnings from Facebook and Amazon.com, but I’m not sure if it will be enough to stem the bleeding.”

## **Wall Street Journal**

Today's Market U.S. Stocks Slip as Tech Sectors Slumps  
April 29, 2016

Featured regularly as an expert Analyst on numerous financial outlets, Daniel Morgan’s deep understanding and innate curiosity about how the markets behave is the foundation for his insightful perspective on today’s investing environment.

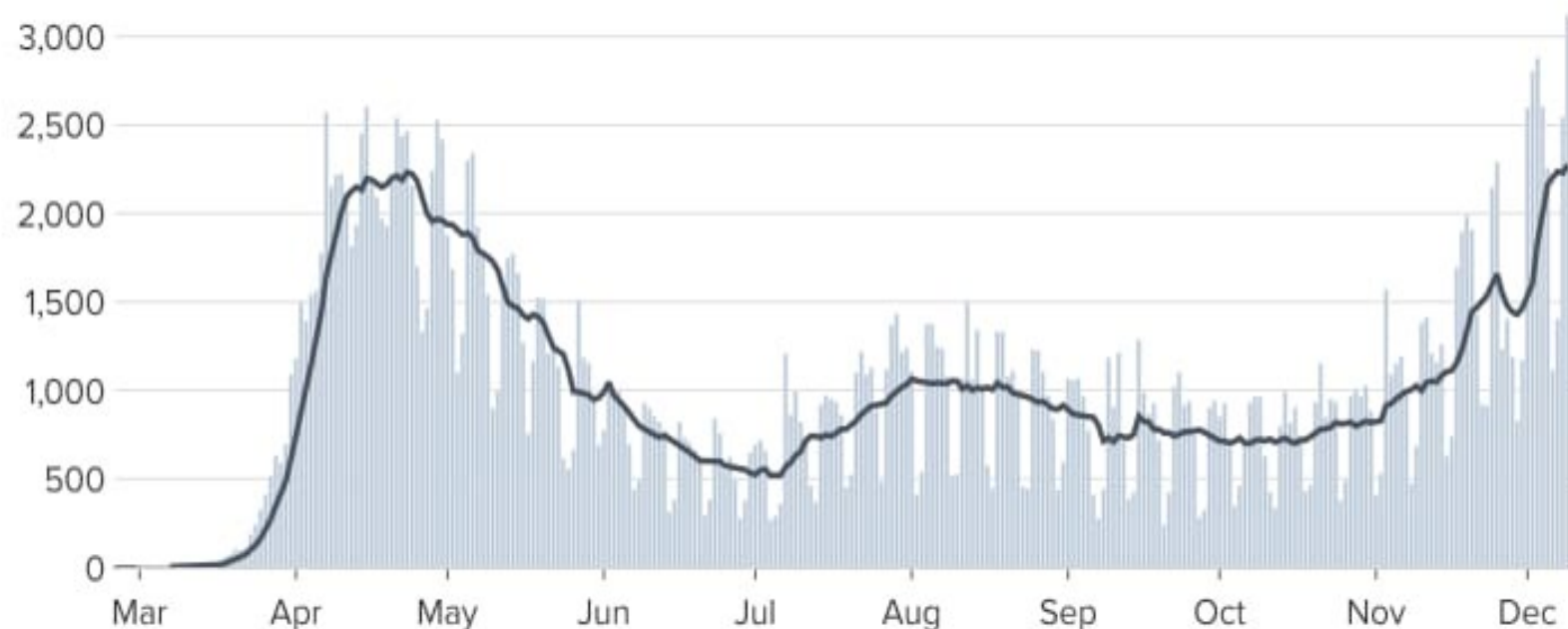




**Can the economy continue to recover  
despite rising Covid-19 cases  
worldwide?**

## Daily new coronavirus deaths in the U.S.

■ Daily New Reported Deaths — 7-Day Average\*

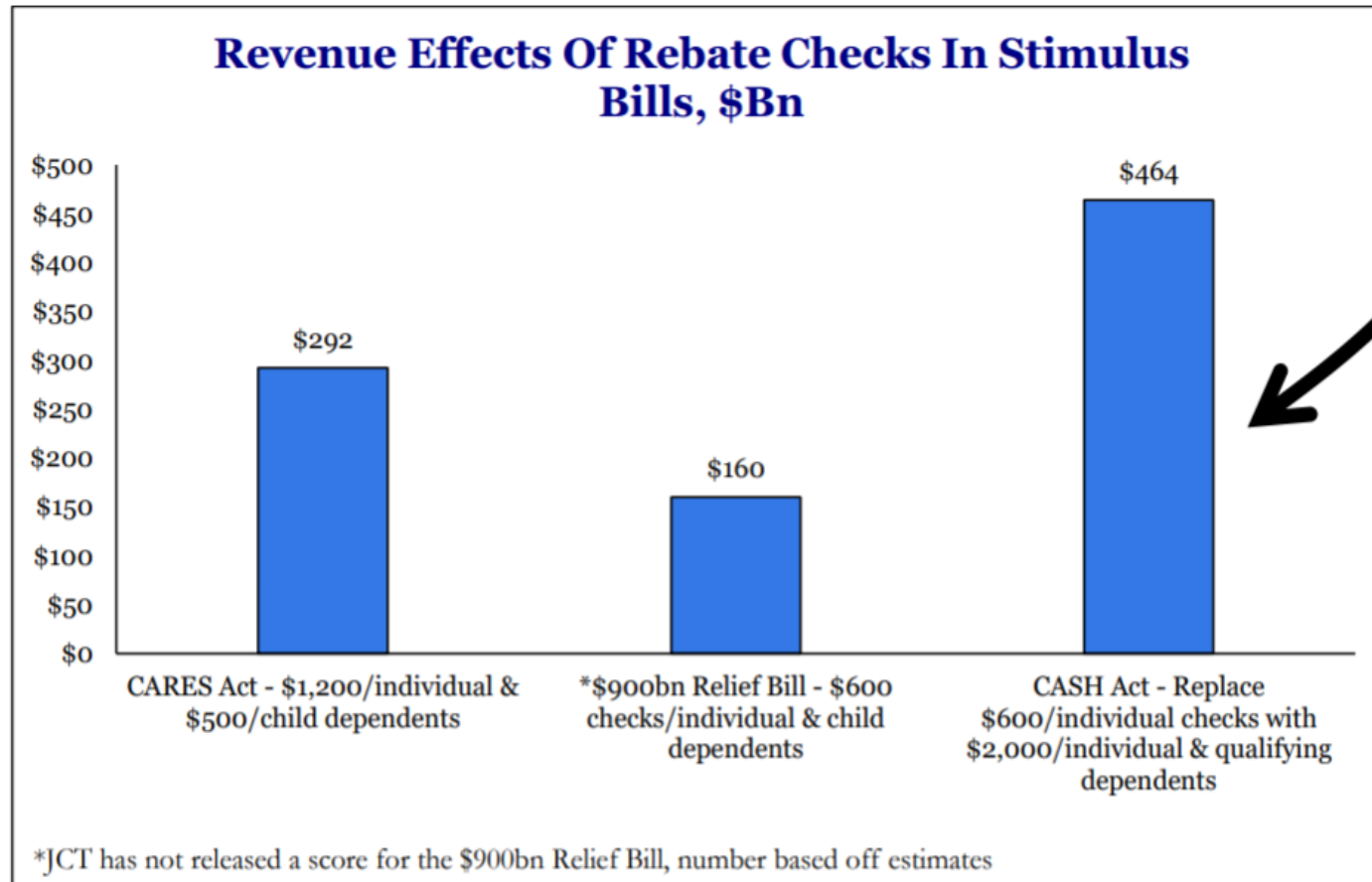


SOURCE: CNBC analysis of data from Johns Hopkins University. Data through December 9, 2020.

\*Reported death data is sometimes released in bulk and assigned to a single day, even when deaths may have occurred previously. To account for this, CNBC calculated an adjusted 7-day average of daily new deaths for the U.S. by removing death counts from the average when known instances of a bulk data release occurred.

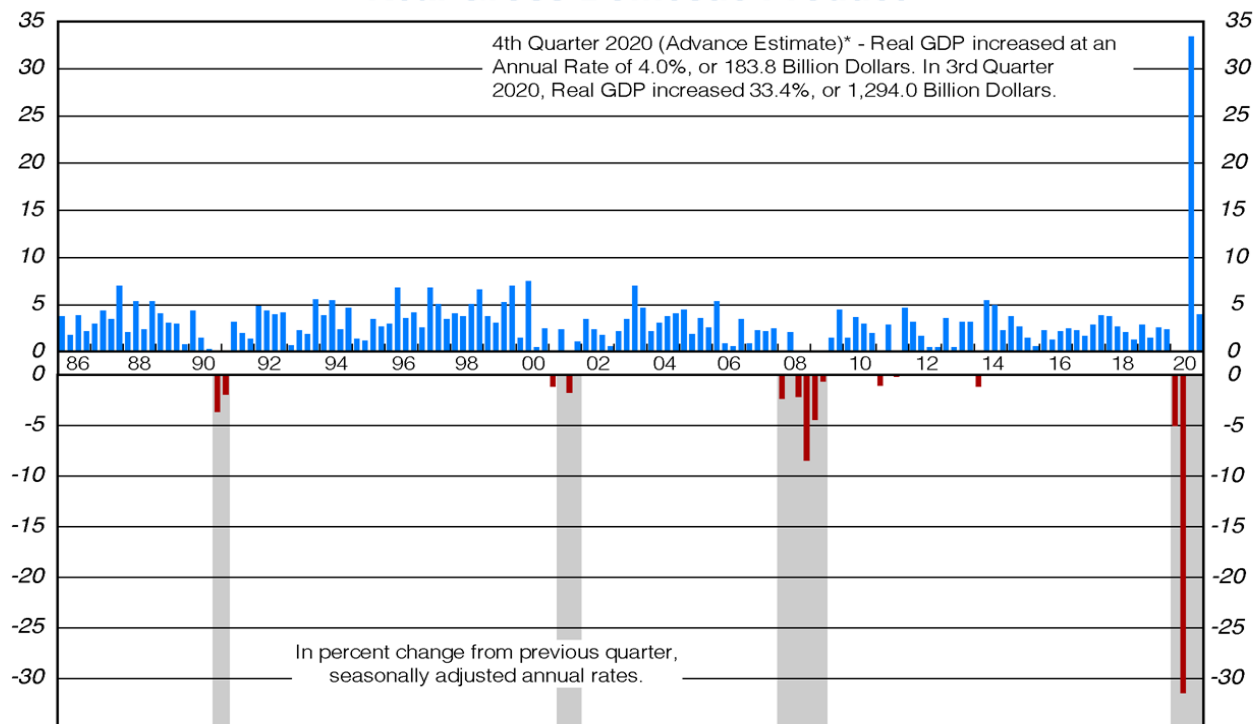


## VERY LIKELY THAT DEMOCRATS WILL QUICKLY MOVE ON NEW DIRECT PAYMENTS OF \$2,000...



Source: Strategas "Policy Outlook: Democrats Poised to Take Over The Senate" – Jan. 6<sup>th</sup>, 2021

## Real Gross Domestic Product

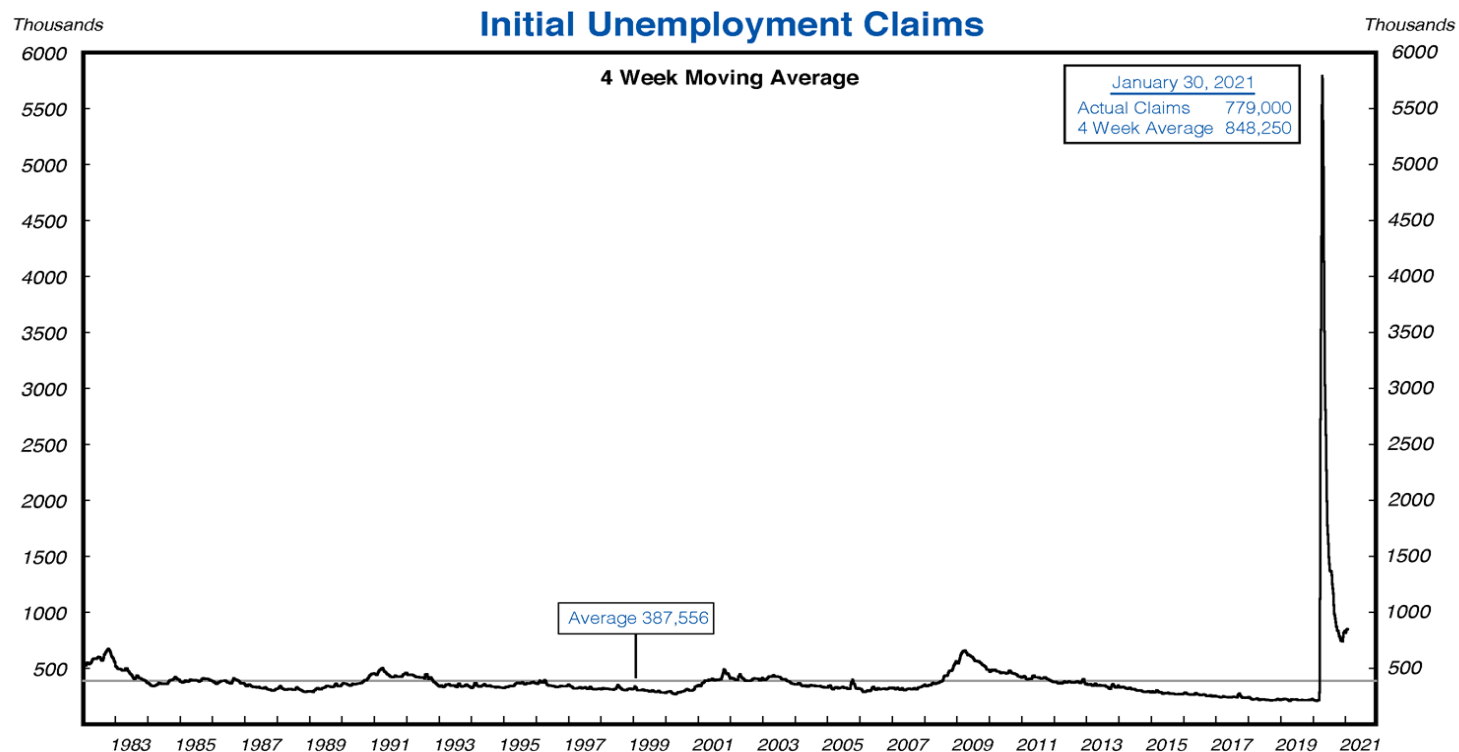


\*Data Released January 28, 2021

Shaded areas represent recessionary periods.

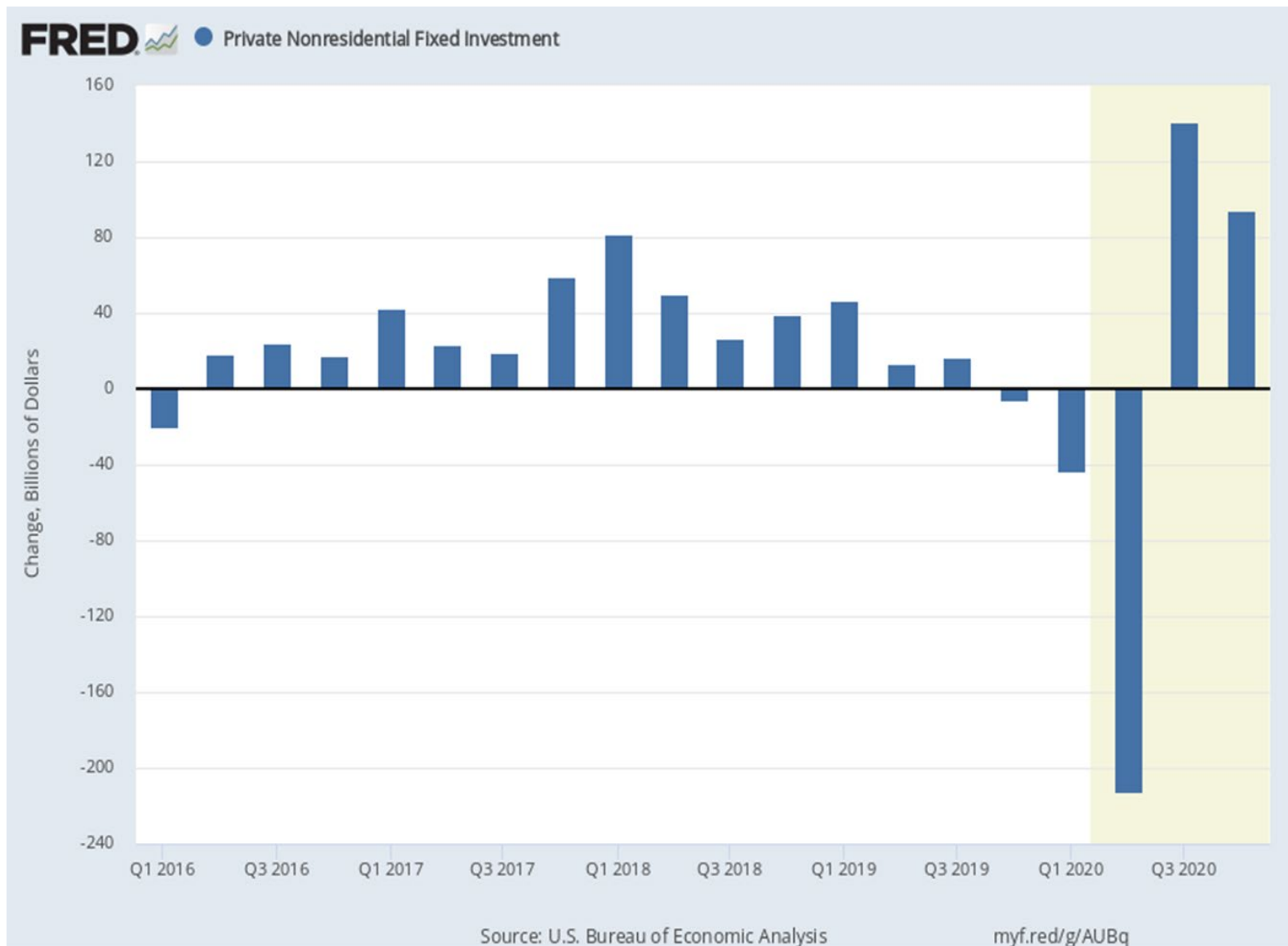
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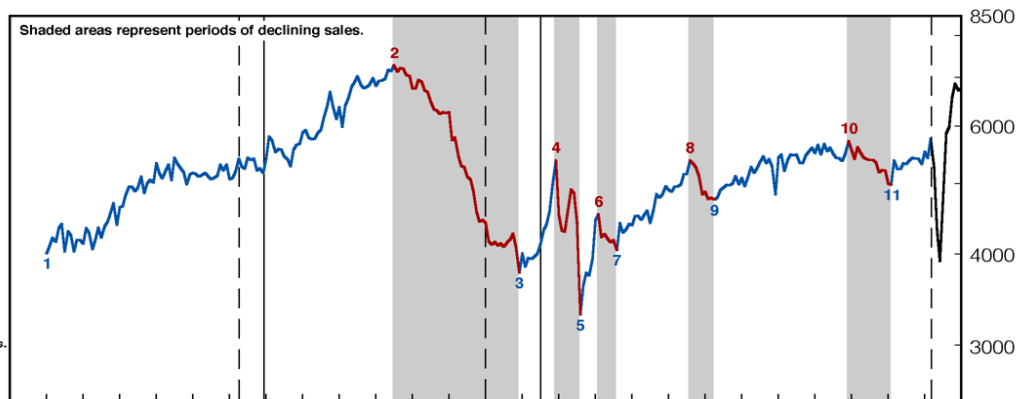
## Home Sales - Existing & New

### 25 Years Ending December 2020

#### Existing Home Sales

	Beginning Date	Ending Date	Duration Years	Percent Change
1	12/1995	6/2005	9.50	81.30%
2	6/2005	11/2008	3.42	-48.14%
3	11/2008	11/2009	1.00	42.71%
4	11/2009	7/2010	0.67	-38.66%
5	7/2010	1/2011	0.50	37.58%
6	1/2011	7/2011	0.50	-10.79%
7	7/2011	7/2013	2.00	32.84%
8	7/2013	3/2014	0.67	-11.71%
9	3/2014	11/2017	3.67	20.42%
10	11/2017	1/2019	1.17	-12.94%
11	1/2019	2/2020	1.08	15.66%
Average Advance			2.96	38.42%
Average Decline			1.29	-24.45%

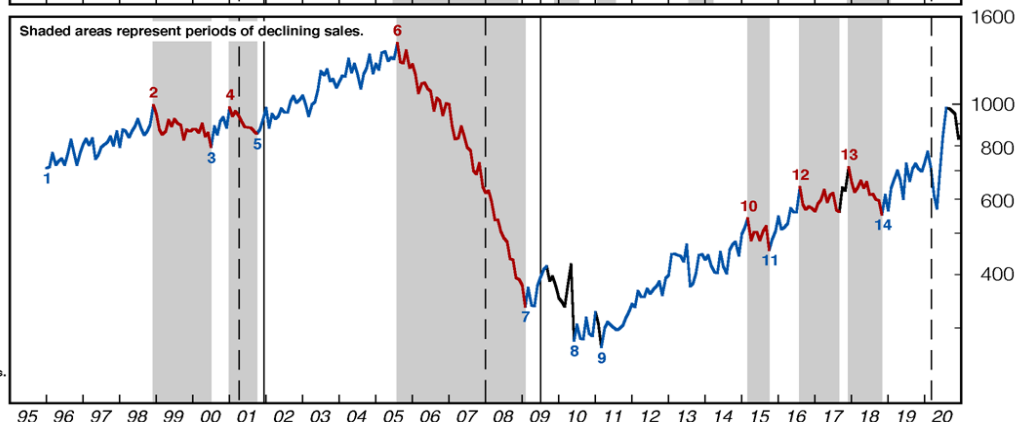
Trend Criteria - Minimum 10% (+/-) change over 6 months.



#### New Home Sales

	Beginning Date	Ending Date	Duration Years	Percent Change
1	12/1995	11/1998	2.92	40.34%
2	11/1998	6/2000	1.58	-20.30%
3	6/2000	12/2000	0.50	23.96%
4	12/2000	9/2001	0.75	-13.22%
5	9/2001	7/2005	3.83	62.84%
6	7/2005	1/2009	3.50	-75.81%
7	1/2009	8/2009	0.58	24.40%
8	5/2010	12/2010	0.58	16.43%
9	2/2011	2/2015	4.00	100.00%
10	2/2015	9/2015	0.58	-15.56%
11	9/2015	7/2016	0.83	40.13%
12	7/2016	8/2017	1.08	-12.36%
13	11/2017	10/2018	0.92	-22.47%
14	10/2018	7/2020	1.75	77.36%
Average Advance			1.87	48.18%
Average Decline			1.40	-26.62%

Trend Criteria - Minimum 10% (+/-) change over 6 months.



Data: Thousands of Homes (Annualized) • Black line segments indicate periods not meeting the trend criteria.

Vertical Lines: Recessions - Beginning (dashed line), End (solid line) - as defined by the National Bureau of Economic Research

Sources: National Association of Realtors; Bureau of the Census; National Bureau of Economic Research; Copyright © 2021 Crandall, Pierce & Company • All rights reserved.

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# Commodity Prices Rising



Source: Bloomberg CRB Commodity Index

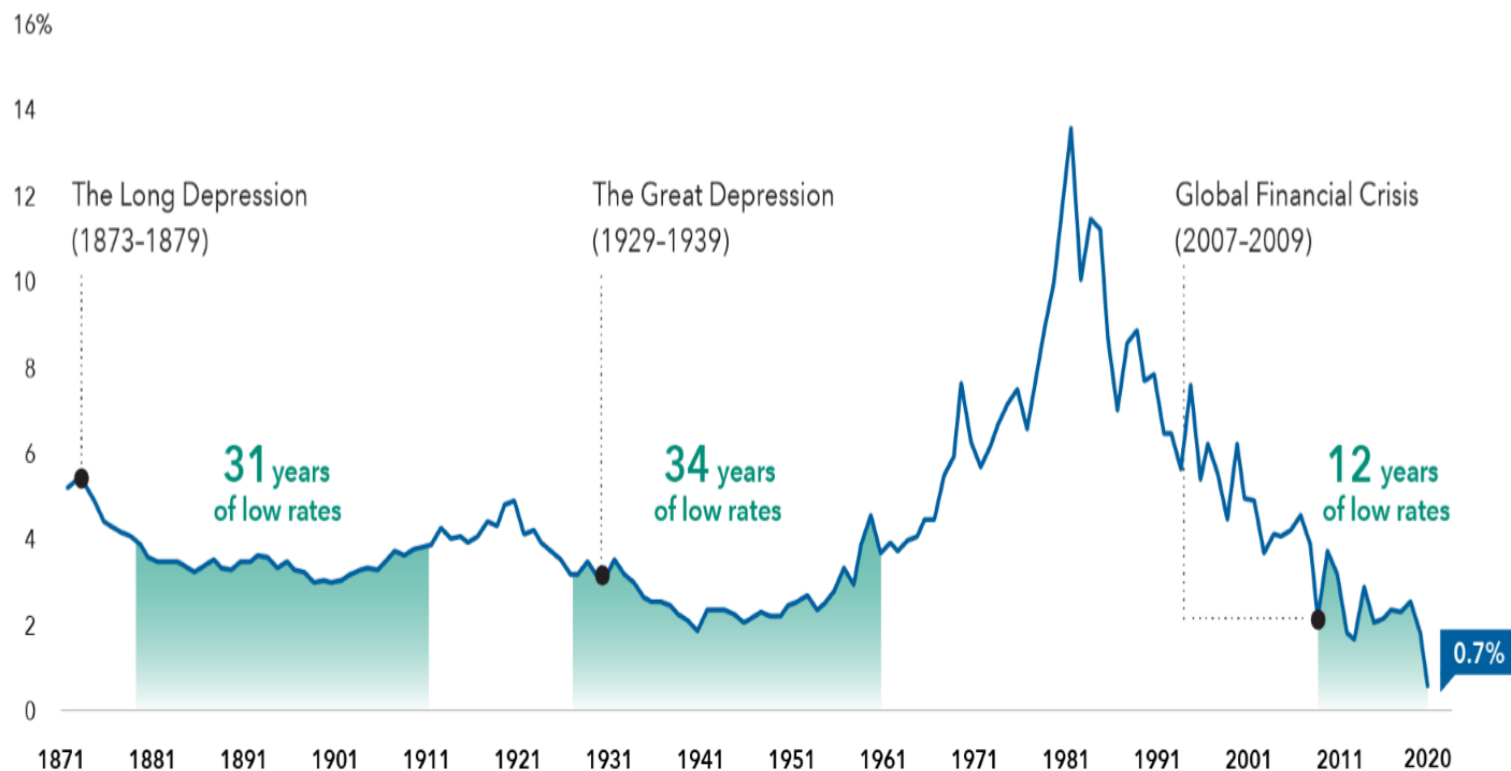


**Do you expect the Central Bank to continue to be accommodative and what is the future expectations for interest rates?**

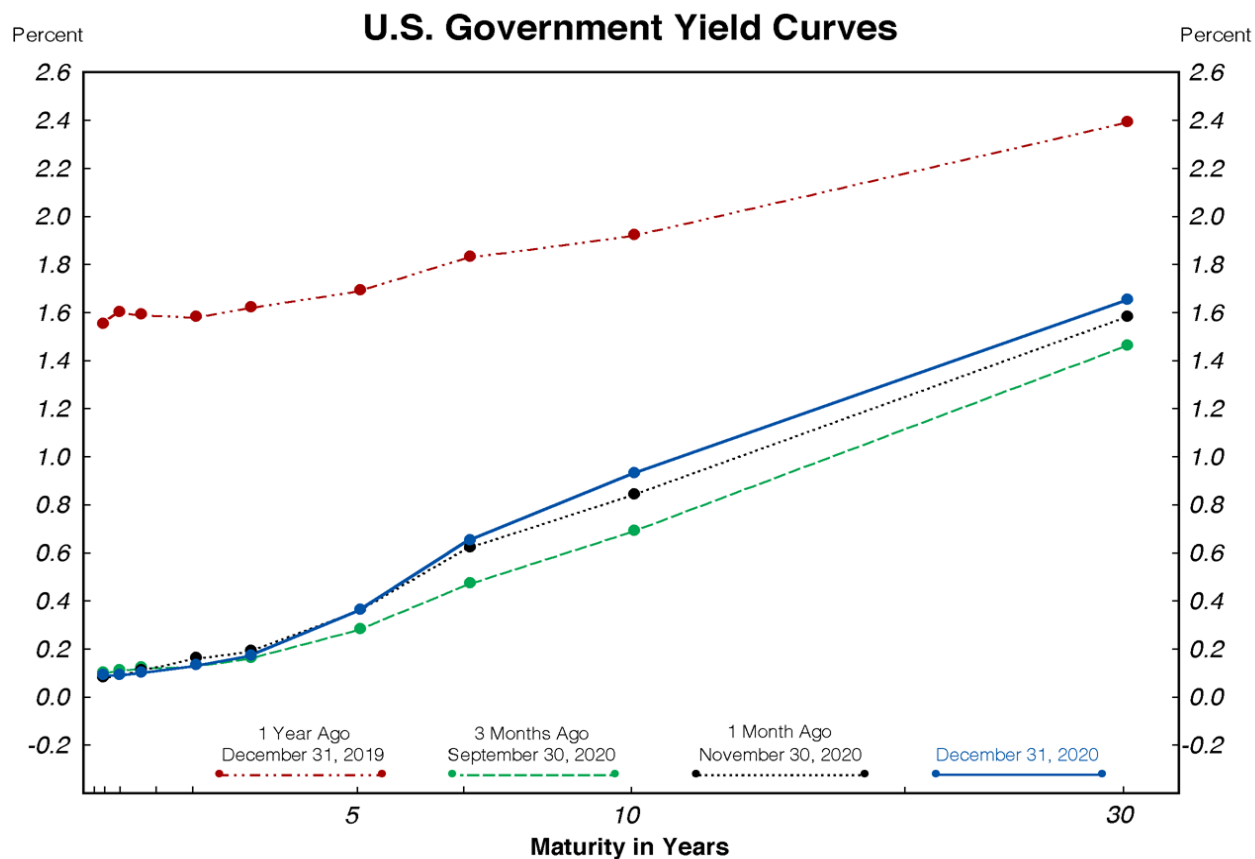
## Lower-for-longer interest rates extend the cycle

History shows that U.S. long-term rates can remain low for extended periods

### U.S. long-term government bond yields (1871–2020)



Sources: Federal Reserve, FactSet, Robert Shiller, Refinitiv Datastream. Data for 1871–1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962–2019 represents 10-year Treasury yields as of December 31 each year within the period. Data for 2020 as of June 30. Length of low rate periods above are consecutive years with rates below 4%.

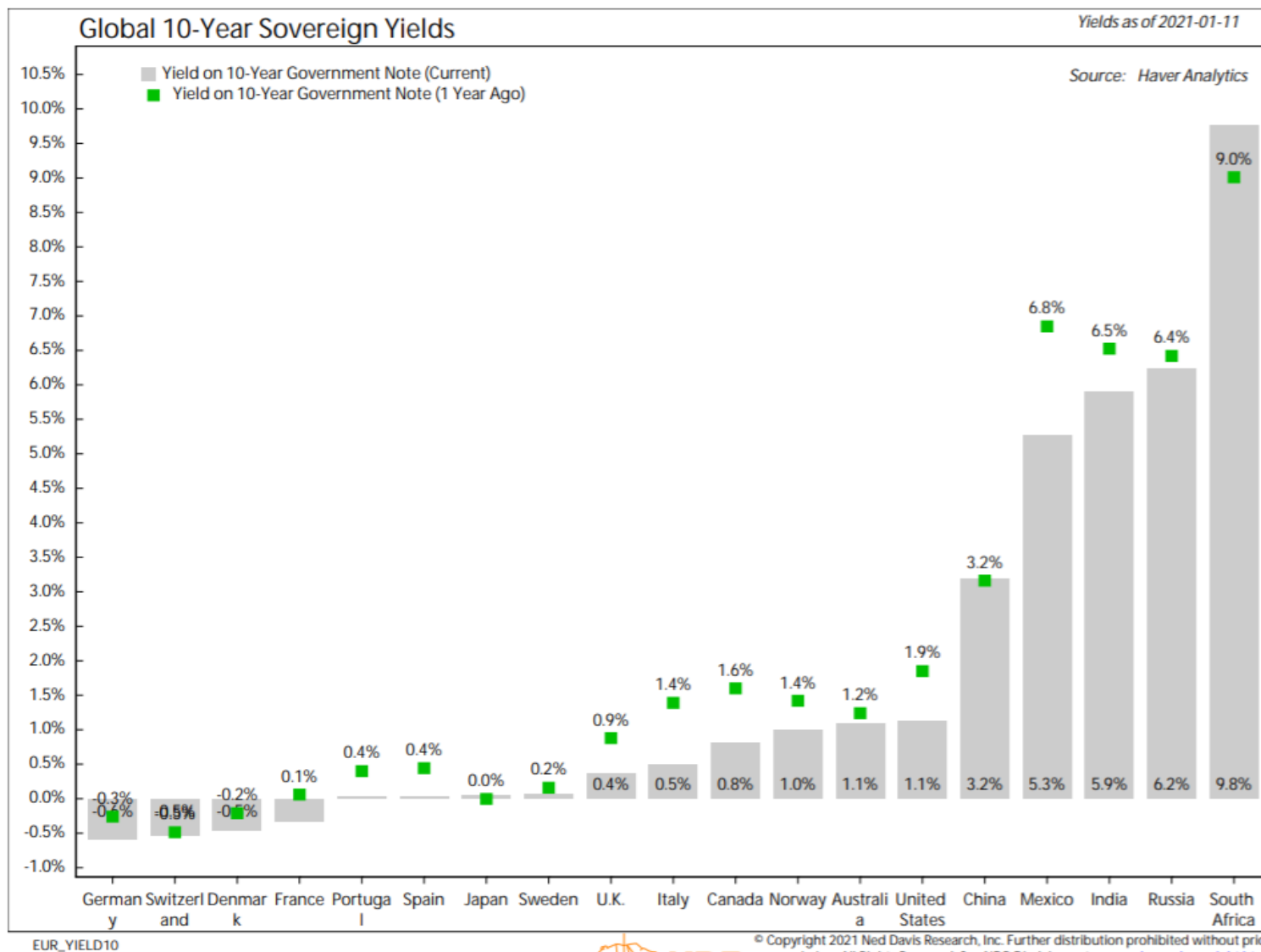


Month end observations: 3 months, 6 months, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 30 year

Yield Curves Represent the last Business Day of the Month

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**Is there a major disconnect between  
“Wall Street’s” recent market  
rebound and the actual health of  
“Main Street”?**

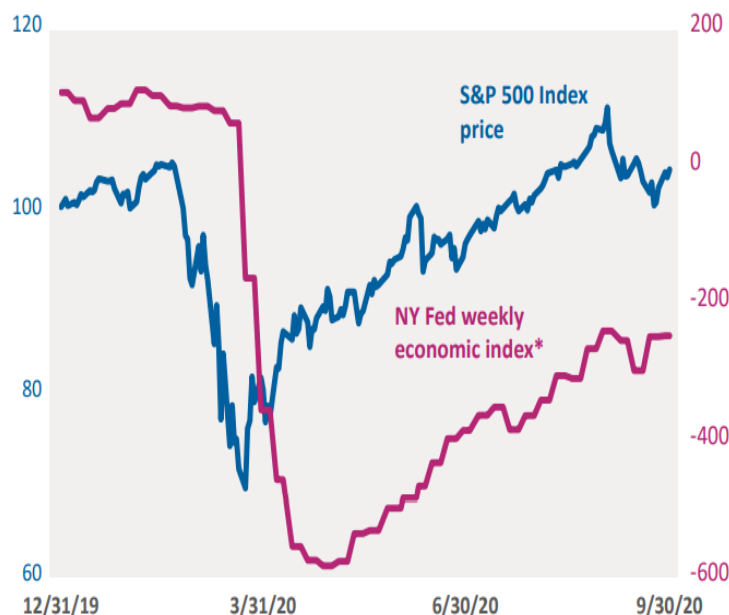
# The great divide between Wall Street and Main Street

## The great divide between Wall Street and Main Street

Stock market has recovered faster than the economy, especially small businesses

### Stock market versus the economy

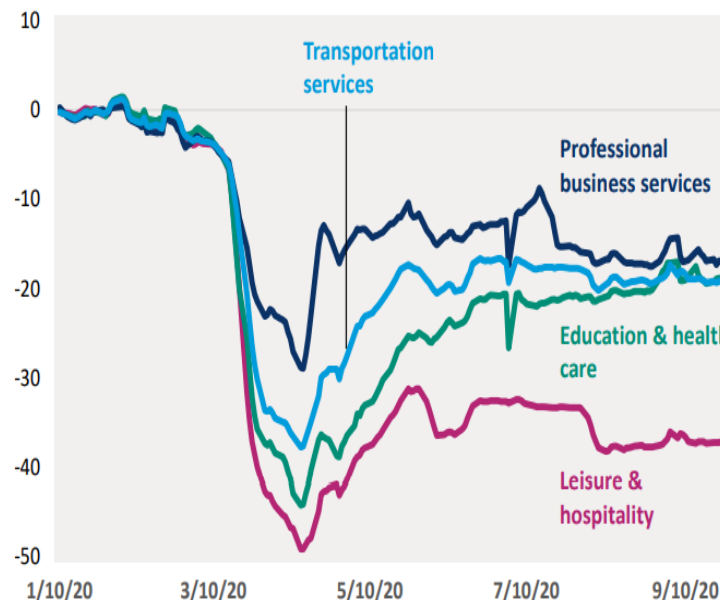
(Indexed to 100 at 12/31/19)



Sources: Bloomberg, Federal Reserve Bank of New York. As of September 30, 2020.

### Percent of small businesses closed

(% difference from baseline)

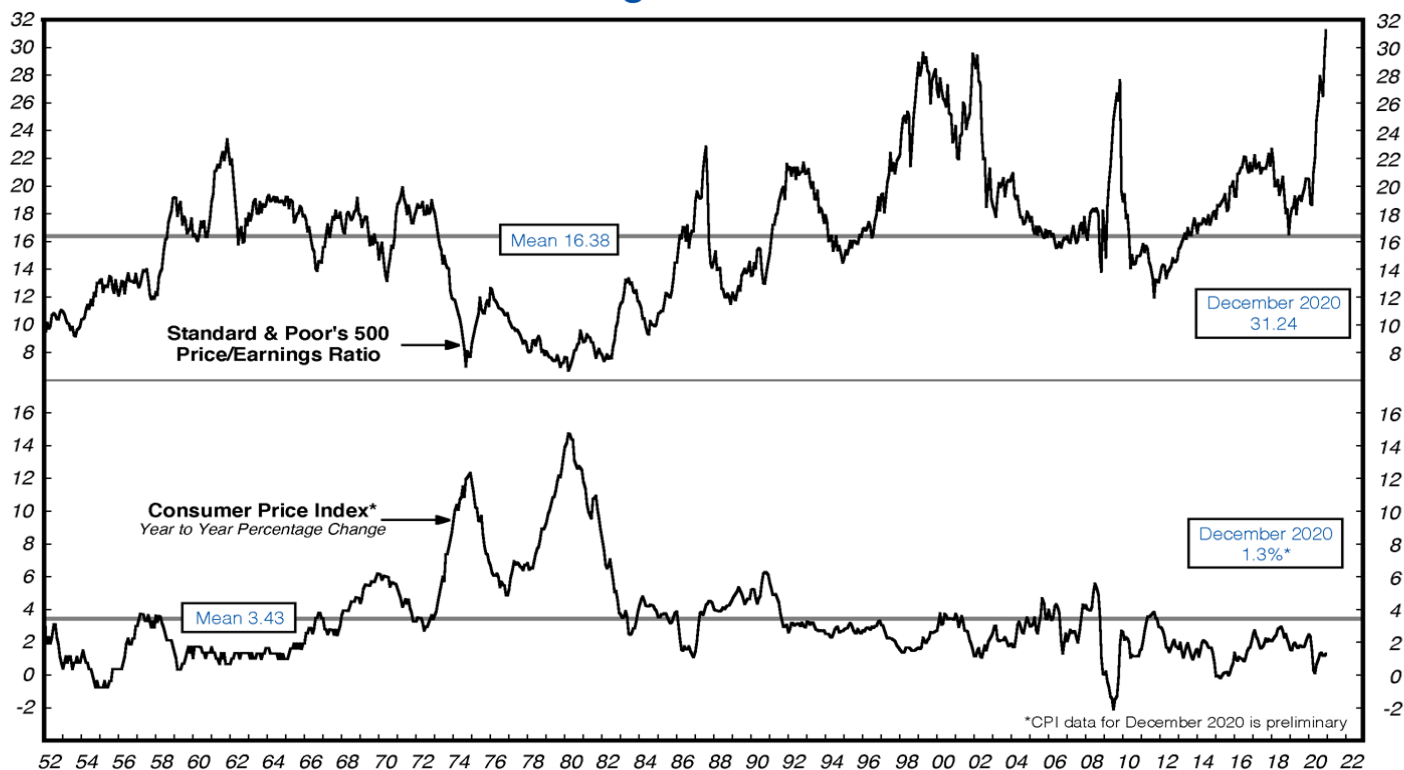


Sources: Capital Group, Opportunity Insights, Womply. As of September 30, 2020.

\*The New York Fed weekly economic index is an index of 10 indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. It represents the common component of series covering consumer behavior, the labor market and production. The index has demonstrated strong predictive power for GDP.



## Price / Earnings Ratios and Inflation



The P/E Ratios are calculated using Reported Earnings prior to 1988 and Operating Earnings from 1988 to the present.

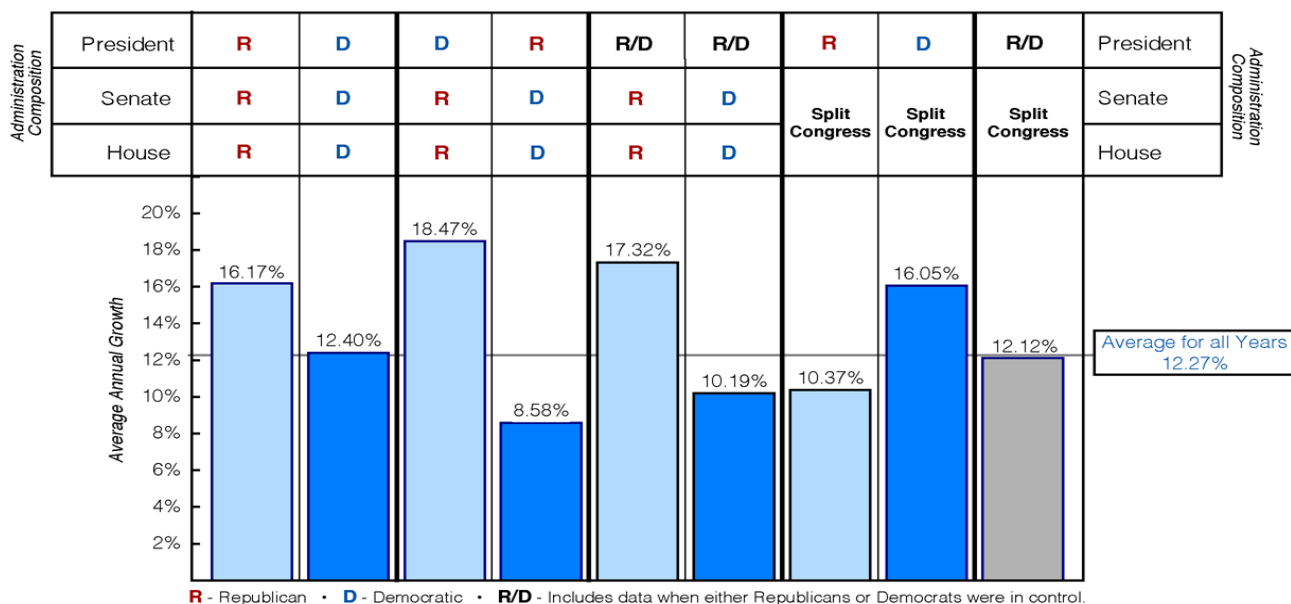
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## The Political Landscape - President & Congress

### Standard & Poor's 500 Stock Index

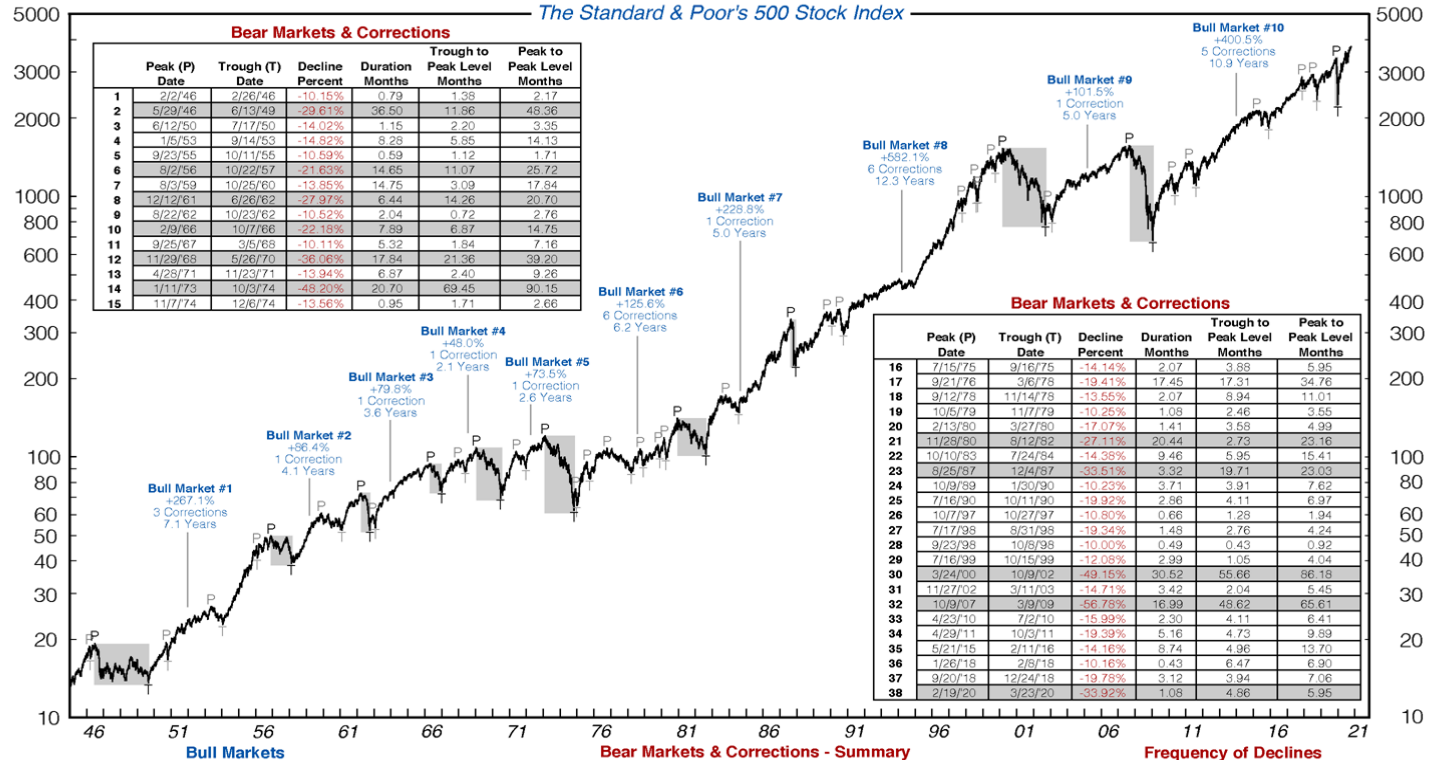


Data: Total Return; Administrations - 1953 Through December 2019  
 Sources: Standard & Poor's Corporation; Copyright © 2020 Crandall, Pierce & Company

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# Bulls, Bears & Corrections Frequency, Magnitude and Duration

The Standard & Poor's 500 Stock Index



Trough Date	Peak Date	Duration Years	Increase Percent	Compound Annual Rate	Number of Corrections
1 6/13/49	8/2/56	7.1	267.1%	19.98%	3
2 10/22/57	12/12/61	4.1	86.4%	16.23%	1
3 6/26/62	2/9/66	3.6	79.8%	17.56%	1
4 10/7/66	11/29/68	2.1	48.0%	20.06%	1
5 5/26/70	1/11/73	2.6	73.5%	23.31%	1
6 10/3/74	11/28/80	6.2	128.6%	14.13%	6
7 8/12/82	8/25/87	5.0	228.8%	26.67%	1
8 12/4/87	3/24/00	12.3	582.1%	16.89%	6
9 10/9/02	10/9/07	5.0	101.5%	15.04%	1
10 3/9/09	2/19/20	10.9	400.5%	15.85%	5
Average		5.9	199.3%		

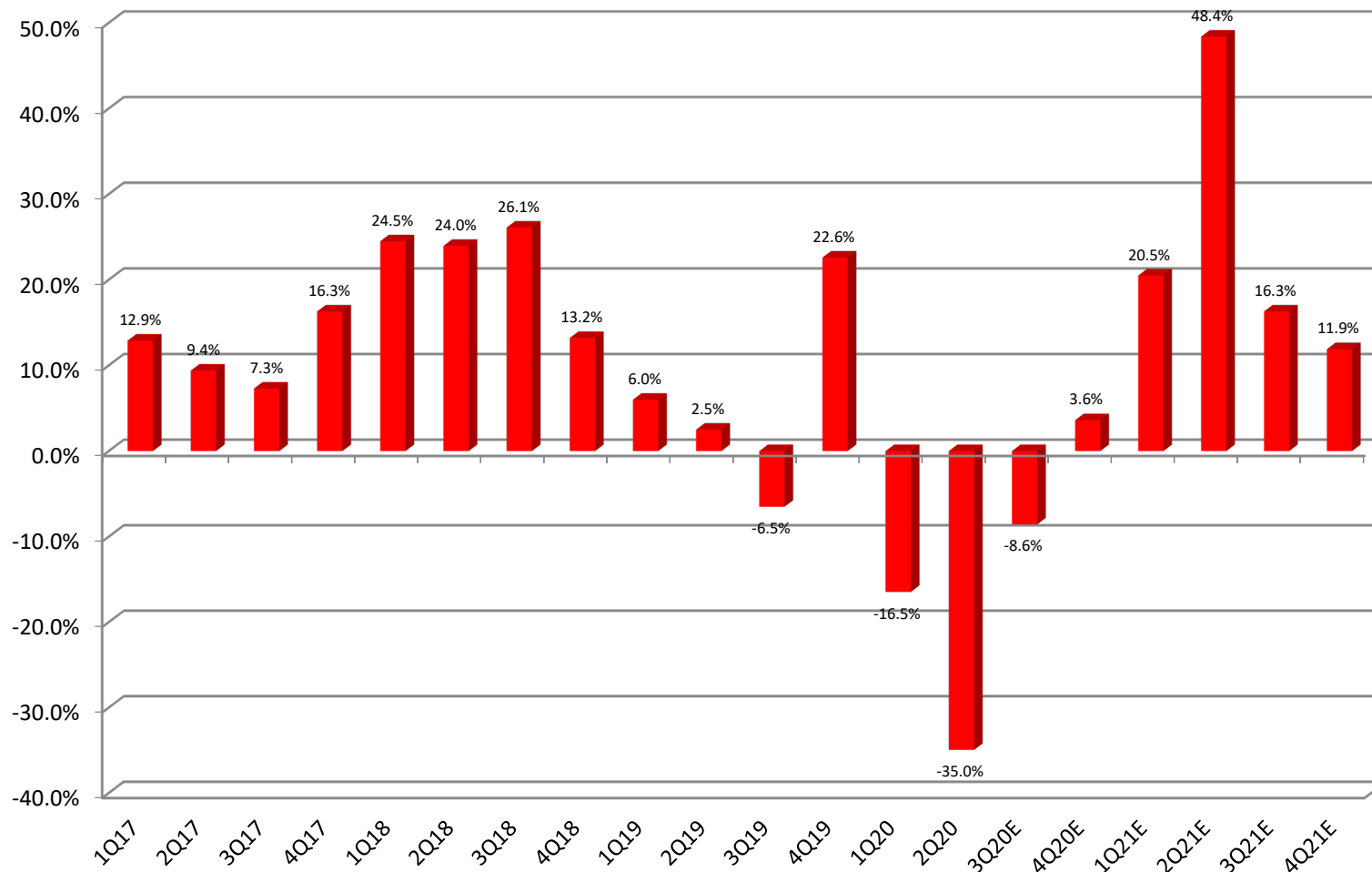
Bear Markets & Corrections - Summary			
Percentage Decline	Peak to Trough Months	Trough to Peak Level Months	Peak to Peak Level Months
Average - All Periods	-20.1%	7.5	9.7
Average - Correction	-14.0%	4.1	3.8
Average - Bear Market	-35.1%	16.0	24.2

Frequency of Declines	
Number	Average Frequency
Bear Markets and Corrections	38
Corrections	27
Bear Markets	11

The compound annual rate for the Standard & Poor's 500 Stock Index 1945 through December 31, 2020 (76.0 Years) was 7.71%.  
Definitions: Corrections - Minimum 10% decline but less than 20%, Bear Markets - Minimum 20% decline. • Shaded areas represent Bear Markets.  
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# S&P 500 Index Profit Growth

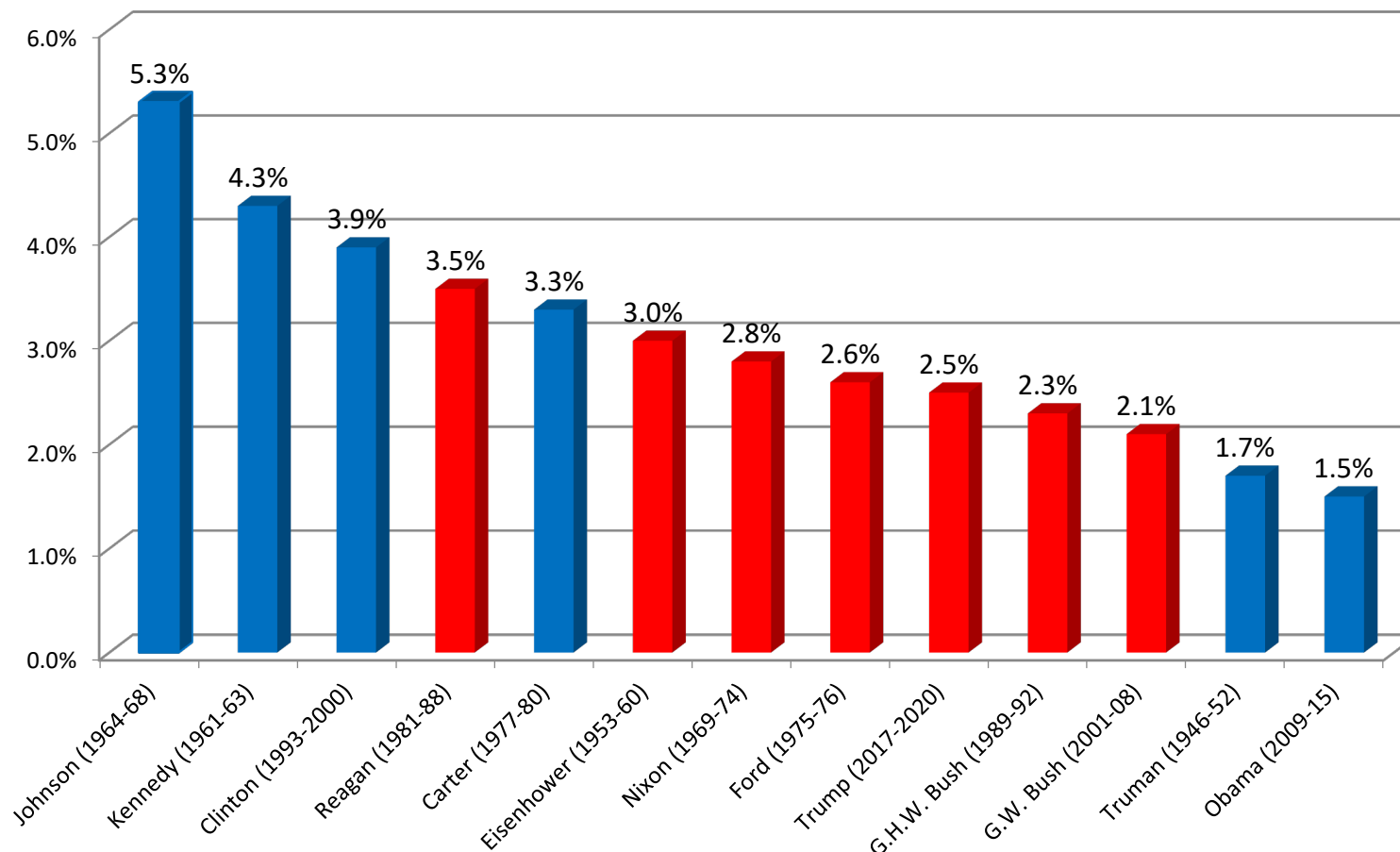


Source: S&P 500 Earnings Growth Chart Economic Outlook 1Q2018



**How will policies of a Biden  
Presidency and a Democrat  
controlled Senate and House impact  
the stock market and the economy?**

# Economic Growth by President



Source: Economic Growth by President – Hudson Institute

# Investment Impact from Democrat Senate

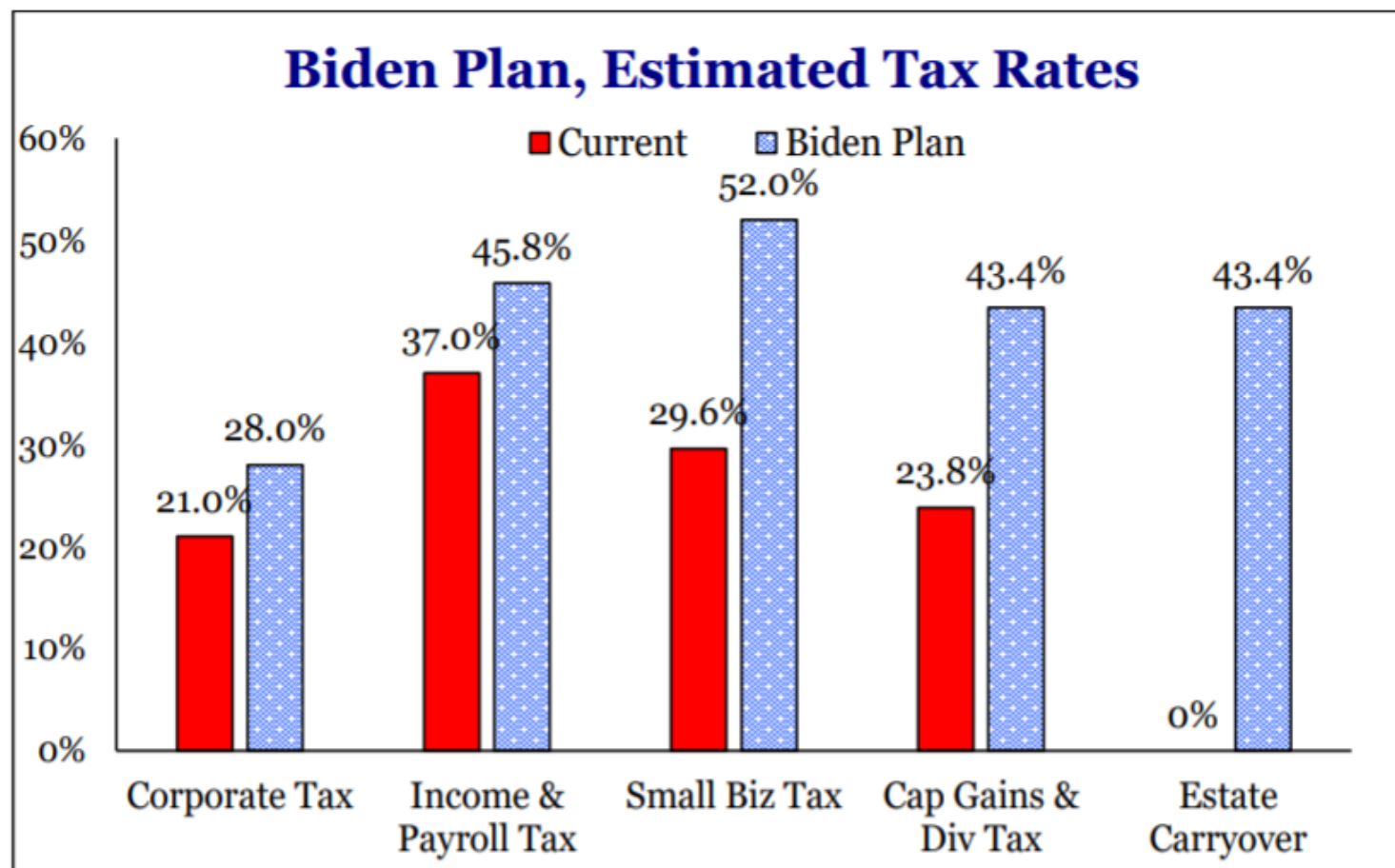
- **Tax Hike Likely!** Expecting a tax hike on companies, individual's income, capital gain and dividend rates. Higher taxes will reduce S&P corporate profits and CAPEX lowering economic growth. Small Biz tax increases may result in greater bankruptcies.
- **Biden corporate tax plan could reduce S&P 500 earnings by 7%!** Growth-oriented sectors would be hit the hardest: Technology (-9.2%); Health Care (-8.4%); Communication Services (-8.2%); Consumer Discretionary (-7.5%); and Financials (-6.5%), according to recent estimate from Bank of America Securities.
- **Reconciliation process can only be used once a year!** Democrats will need to pick their battles – climate, immigration reform, infrastructure, tax hikes, health care reform, or state government aid!
- **A Big Stimulus will not be easy to pass!** Expecting a stimulus bill that would be south of the \$900 billion bill passed December. Proposed stimulus payment of \$2,000 per individual would be a priority. More stimulus could put pressure on bond yields.
- **Winners/Losers:**
  - **Renewable Energy/Infrastructure** - Looking for a “whole government” approach that implies climate regulation across the American landscape.
  - **Pharmaceuticals** - May see a cut in pharmaceutical reimbursements in Medicare D, drug pricing regulations and a boost to ACA.
  - **Big Tech** - Higher tax rates, more regulation and more strict oversight on antitrust issues.
- **“America First” is Over!** US stocks gained 40% since Trump's Tariffs were enacted in 2018, while foreign stocks only gained 8%. The S&P 500 Index rose 82.36% since the Trump win in November, 2016!

## BIDEN'S \$1.9 TRILLION STIMULUS PLAN (\$BN)

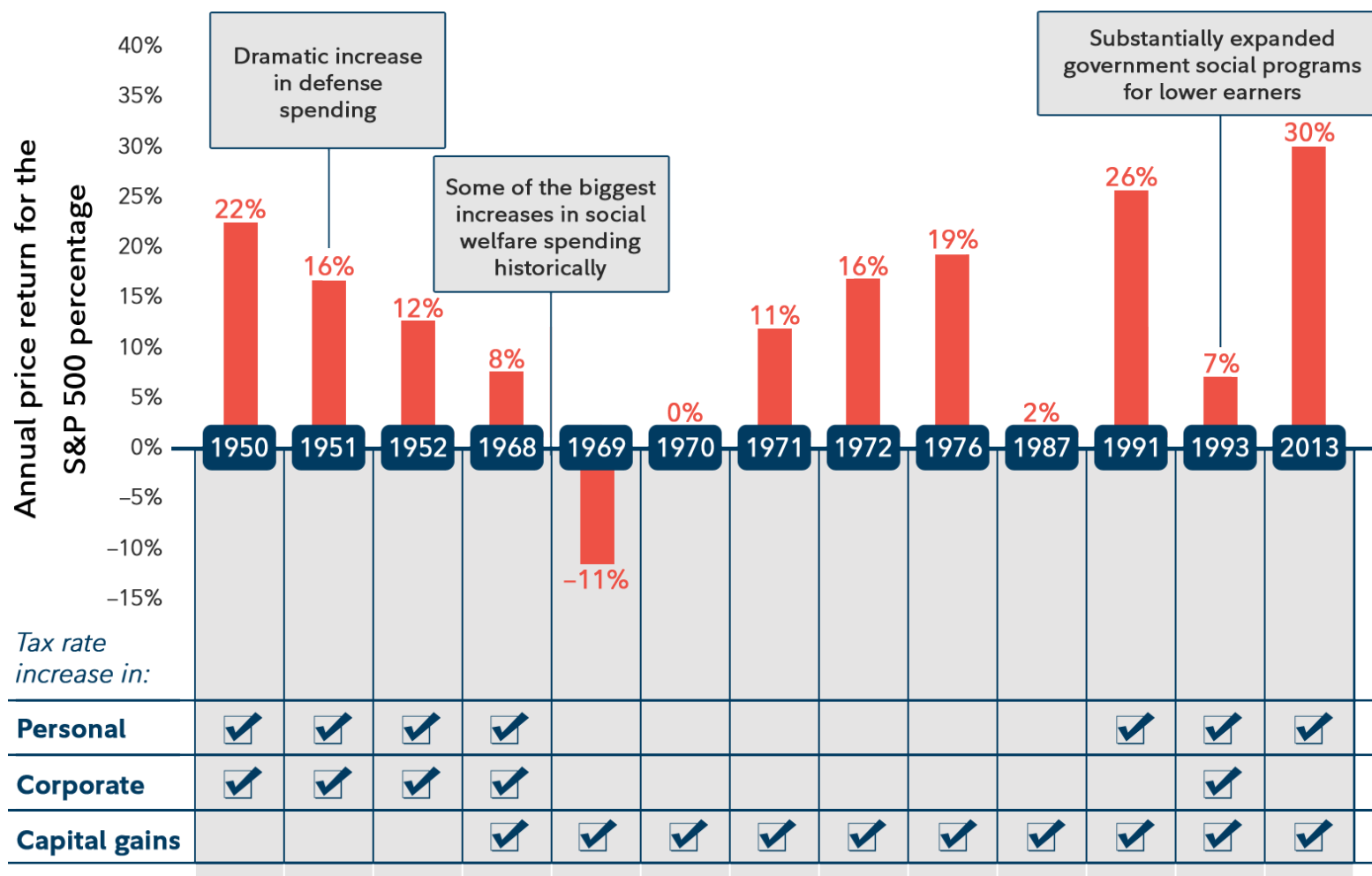
	Cost
\$1400 Rebates	465
State and Local Govt	350
\$400/week UI thru Sept.	350
Schools & Colleges	170
Vaccines, Testing / Other	160
Child Tax Credit	120
Child Care	40
Small Business	40
Housing	35
Public Transit	20
\$15/hr Minimum Wage	0
Paid Leave & Other	150
<b>TOTAL</b>	<b>\$1,900</b>

Source: Cornerstone Research





Source: Strategas "Policy Outlook: Democrats Poised to Take Over The Senate" – Jan. 6<sup>th</sup>, 2021



Source: Haver/FMR

## SECTOR SPECIFIC POLICY OPTIONS IN 2021 & 2022

Policy Changes	Narrow Dem Sweep	Policy Changes	Narrow Dem Sweep
<b>Tax</b>	Most of what Biden wants on individual side (but no payroll and less on cap gains), carried interest, 25% corporate rate & double GILTI. No TCJA extensions.	<b>Traditional Energy</b>	Targeted energy tax hikes (~\$20bn) & regulatory actions to limit drilling, methane emissions, rejoin Paris, strict fuel efficiency standards.
<b>Labor</b>	Biden's broader labor agenda not possible. May seek bipartisan minimum wage deal. Executive actions for fed contracts, overtime & joint employer rules, etc.	<b>Green Energy</b>	Generous subsidies for green energy production, transportation, and homes. Carbon pricing considered.
<b>Health Care</b>	Expand ACA, & onshoring drugs / PPE. No real chance of public option, but major drug price controls possible.	<b>Infrastructure</b>	Roughly \$1 trillion infrastructure package done in reconciliation (like HR 2).
<b>Antitrust</b>	No changes in law, tech still under microscope from FTC & DOJ. More aggressive regulators confirmed.	<b>Safety Net</b>	Federalize UI & boost automatic stabilizers, create paid leave program, big refundable credit expansions (CTC/EITC).
<b>Tech</b>	Potential sec. 230 reforms (Twitter, Facebook, Google) and federal tech privacy law.	<b>Education</b>	Executive action to forgive student loans. More funds for HBCUs and public schools.

Source: Cornerstone Research



**What is the outlook for the economy and what is the likelihood of slipping back into a recession?**

# Tailwinds vs Headwinds

## ■ Tailwinds

- Fiscal Stimulus Pending
- COVID-19 Vaccine
- Don't Fight the Fed
- Housing Market Strength
- Low Energy Prices

## ■ Headwinds

- Tax Hikes Imminent
- Covid-19 Cases Rise /Vaccine Roll-out Delay
- Unemployment Stays Elevated Negatively Impacting Consumer Spending
- Rising Evictions & Foreclosures
- Small Biz Bankruptcies Filings Rise
- P/E valuations stay elevated

# Economic & Market Takeaways

## Economy Rebounding

- 4Q real GDP increased 4.0% QoQ, a touch softer than consensus' 4.2%. Investment was robust, helping offset virus-dampened consumer spending +2.5% QoQ. Residential Investment surged 33.5%, with capex up 13.8%, led by equipment +24.9%.
- U.S. Jobless market appears to be worsening. In December, for the first time in eight months, hiring fell with non-farm payrolls dropping a revised -227,000 to be followed by a January slight increase of +49,000. Moving the jobless rate to 6.7%.

## Stock Market appears priced to perfection

- Market is feeding off more stimulus checks... while ignoring the weakening payroll picture and higher taxes!
- Profit expectations are soaring through the roof! Consensus S&P 500 EPS estimates now stand at -15.2% (\$138) for FY2020, +21.8% (\$168) in FY2021 and +16.1% (\$195) for FY2022.
- Based on a market multiple of 20x the consensus earning forecast for FY2022 the implied market value for the S&P 500 Index is 3,900. At best, creating a projected market return in the low single digit range.

## Federal Reserve guns still blazing

- Fed lowered the FFUND's rate to ZERO...leaving less Conventional Options on the Table!
- Fed is providing support and liquidity in the Repo, MM, Comm Paper, Municipal and Corporate Bond markets. Containing credit spreads from widening.
- Members of the Fed maybe embracing a Yield Curve Control Strategy on ST end of the curve (2-3 Yrs), but not explicitly preventing the 2s-10s curve from steepening!

## Could Deficit Spending cause future inflation

- The US Treasury will be under pressure to finance stimulus posting record \$3.13 Trillion deficits!
- The link between rising US Treasury Supply to Fund Deficits and Rising Rates is Broken as Foreign Demand for UST's Remains Strong as International Rates Stay Low.
- As long as Nominal GDP (Real GDP Est. of 1.5%-2.0% and future Inflation of 1.5%) stays at a projected 3.5% and if debt service payments are 2.5% of GDP the government has room to continue to borrow.

Source: Commerce Board, Dept of Commerce, Bloomberg, U.S. Bureau of Economic Analysis

# U.S. Macroeconomic Outlook

	21Q1	21Q2	21Q3	21Q4	2021	2022
Gross Domestic Product bcw\$	18,902	18,994	19,071	19,164	19,033	19,061
Change %AR	2.2	2.0	1.6	2.0	3.3	1.5
Consumer Spending %YoY	1.6	3.3	4.2	3.3	3.9	2.8
Unemployment Rate %	7.0	7.1	7.1	7.0	6.8	6.3
Consumer Price Index %AR	1.1	1.2	1.7	1.9	2.1	2.2
Federal Funds Rate %	0.10	0.10	0.10	0.10	0.10	0.25
Treasury Yield 10-Yr Bond %	1.05	1.15	1.20	1.25	1.16	1.25
Corporate Profits %YA	18.4	30.9	2.9	0.2	11.8	3.3
Private Fixed Investment %QoQ	3.5	3.5	3.9	4.0	3.9	3.5

Source: Bloomberg and Moody's Analytics

# Slower-Trend Growth Assumptions

## ■ GDP and Consumer Spending Growth Below Consensus

- Federal fiscal stimulus measures buys time supporting the economy but does not fix the structural negative effects of a COVID-19. Federal assistance and forbearance can not make up for a lost job.
- Spending by households, particularly on air travel, hospitality and retail, is indefinitely more restrained than expected.
- A Return to Obama Era Economic Growth! Despite starting from the low point created by the “Housing Bubble” the Obama administration’s average annual rate of GDP growth was just 1.5% lowest since WWI.

## ■ Employment Recovery Stalls

- Non-farm payroll growth continues to flat-line and 10 Million workers still remain unemployed.
- Strength in Housing/Construction, Technology and Healthcare struggles to offset weakness in Retail, Manufacturing, Finance/banking!

## ■ Fed Keeps Interest Rates Low

- The Fed keeps the federal funds rate near 0% through mid-2023. Fed has signaled that rates will stay low for at least the next 2 ½ years.
- The Fed manages the long-term Treasury curve keeping the 10YR/30YR rates between 1% to 2%.
- Expected earnings recovery does not fully materialize! S&P 500 Index P/E valuation stays elevated at 30x trailing EPS and 22x FY2021 EPS estimates.



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**Standard & Poor's Index (S&P 500)** – A market capitalization weighted equity index maintained by Standard and Poors that seeks to be a benchmark of the large Cap U.S. stock market. The index covers 400 industrial, 40 utility, 20 transportation, and 40 financial companies of the US markets (mostly NYSE issues). These 500 companies are spread across 10 economic sectors: Technology, Financials, Health Care, Energy, Consumer Discretionary, Consumer Staples, Industrials, Materials, Utilities, and Telecommunications.

**Russell 3000 Index** – A market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S. The index is further divided by market capitalization and investment style. Russell 1000 Value, Russell 1000 Growth, Russell Mid Cap Value, Russell Mid Cap Growth, Russell 2000 Value, and Russell 2000 Growth.

**MSCI EAFE Index** – An index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. The index is further divided into 4 major regions: the U.K., Europe ex-U.K., Japan, Pacific ex-Japan.

**MSCI Emerging Markets Index** – An index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**Barclays Capital Aggregate Bond Index** – An index maintained by Barclay's Capital that includes all publicly issued, non-convertible domestic debt of the US Government and all its agencies, all investment-grade corporate debt and all mortgage-backed securities. The minimum maturity is one year, but there is no maximum maturity. The bonds must have at least \$250 million par amount outstanding.