

Synovus Market Update

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Goodbye to 2022 and hello to 2023

Chris Brown, CIMA®, CRPC™ Financial Advisor

The new year is upon us, as we wave goodbye to 2022 and the intense volatility that shook many investment portfolios throughout the year, let's recap the markets in 2022 and discuss the economic conditions for the beginning of 2023.

Looking back at the 2022 market

The S&P 500 set an all-time high on Jan. 3 closing at 4,796. The Federal Reserve started indicating their plans for quantitative tightening (QT). The geopolitical landscape started heating up, which escalated into a Russian invasion of Ukraine in February as well as tensions in Asia with China and Taiwan. The Dow and the S&P had their worst start to the year since 2008. Growth stock like Amazon, Netflix, and Google were down -20% at the end of Q1 2022 and down over -30% by the end of Q2 2022, while boring, dividend paying, value stocks were down only half as much as

growth stocks for the first half of the year. Oil went up over \$100 a barrel, the highest price for oil since 2014. Conservative bond investors experienced stock-like volatility with -10%+ declines in their portfolio due to a rapid rise in interest rates. The 10-year Treasury rate went from 1.50% in January to 4.20% in October 2022, a 186%+ increase. This increase in rates has now spilled over to the housing market where 30-year mortgage rates have doubled since late 2021 and home affordability has been cut drastically. The Crypto markets ... don't even get me started. Lastly, the U.S. political landscape faced uncertainty with mid-term elections, which resulted in a flutter of the expected red wave in Congress. The culmination of all these factors created the perfect storm for a 2022 bear market scenario. Honestly, it's amazing that the S&P 500 is not down over 30% YTD given all the negative market sentiment this past year.



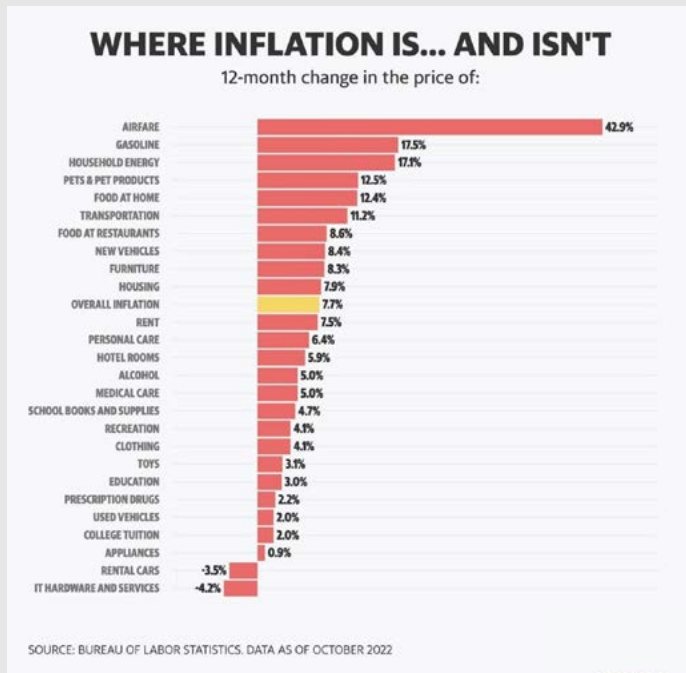


What's next for 2023?

The current market landscape for 2023 still has its uncertainties but, most of the pain in the market is in the rearview mirror. Let's review the important aspects for economic conditions and how this data may play out for first few months of 2023.

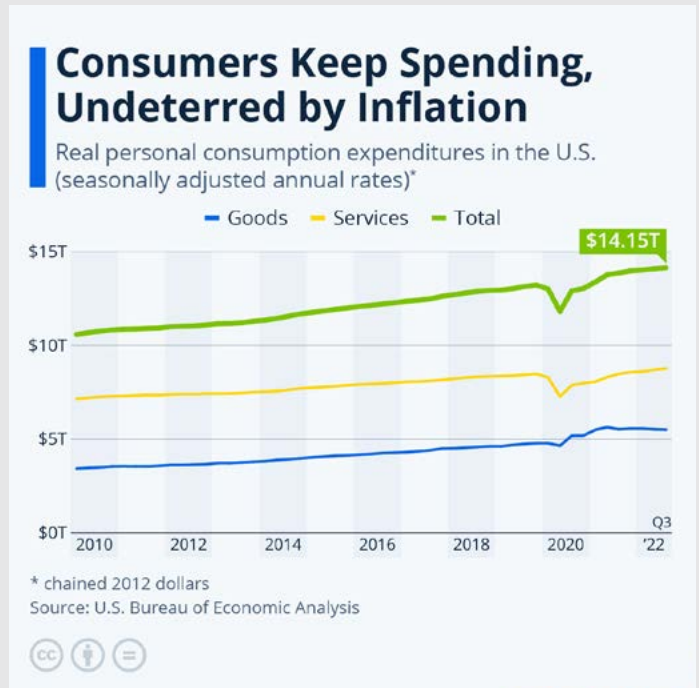
Inflation

Inflation is easing as supply chains have improved. Though, we have seen a decline in the inflation rate for goods, inflation remains sticky, especially in the services. Yahoo Finance published information last month from the Bureau of Labor Statistics showing where inflation is and isn't. The year over year (YOY) changes have shown that airfare leads the way with the highest YOY increase followed by gas at the pumps, energy, and pet products.



According to information provided by the World Economic Forum, consumer spending remains resilient in the face of surging inflation. Though, spending on goods such as food, beverages, and automobiles

decreased, spending on services such as restaurant, travel and leisure, and healthcare increased 2.8% in Q3 2022.¹ As long as the relatively tight labor market persists, U.S. consumers will continue their undeterred spending for 2023.



The consumer

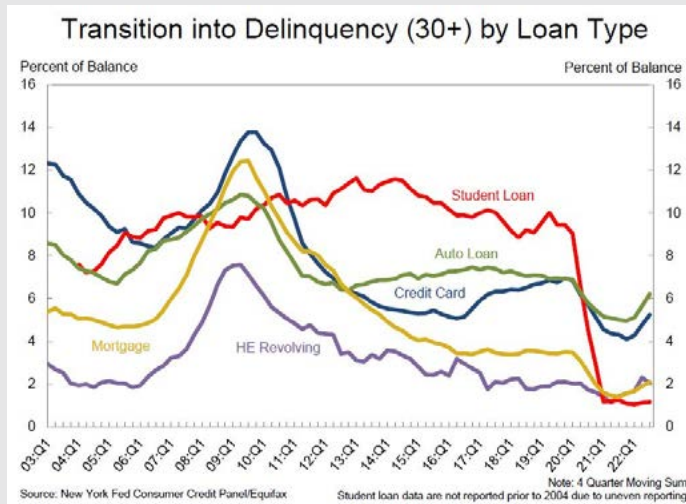
As noted, the U.S. consumer has been extremely resilient throughout 2022 while facing record inflation. Household savings rates has reduced dramatically over this year and the rate of credit card usage has increased. After taking a closer look at this data there is something very important being overlooked. Though, the rate at which the U.S. consumer is saving is going down, the actual amount of excess savings since February 2020 is still just under \$1 trillion. Thanks to stimulus checks and a hot labor market, the amount that U.S. households have in cash equivalent assets are still above pre-pandemic levels. As of Dec. 22, the Bureau of Economic Analysis showed that personal disposable income increased \$242.4b or 5.4% in Q3 2022, an upward revision of \$6.6b from the previous estimate.² This presents the argument that



consumers still have a war chest of cash to carry them through potential recessionary conditions in the new year.

The canary in the coal mine

An important area that we are watching that may tip the scales of a soft landing to a full-blown recession will be consumer credit delinquencies. U.S. consumption comprises of just over 2/3 of the U.S. gross domestic product (GDP.) If GDP weakens, we may spot cracks in the foundation of consumer strength through credit delinquencies. The NY Fed publishes a quarterly report on household debt and credit. One interesting chart is the 30+ day delinquencies by loan type. This reading still shows that consumer delinquencies are well below the 20-year average. If we see consumer delinquencies climb beyond the 2005-2007 levels then, this may indicate that consumers may not have the necessary cash on hand to maintain their lifestyle nor the ability to pay their debt obligations.



We remain cautiously optimistic for 2023 and know there are still many headwinds for the markets in the upcoming months. We are not making a claim that the bottom of the bear market is in but, given the heavy lifting of the Fed’s QT policy being in the rearview mirror, inflation starting to ease, and a strong U.S. consumer demand, we look to Q4 2022 corporate earnings to provide further direction for near term market performance in the first part of 2023.

Currency Outlook First Quarter 2023

David Grimaldi, Synovus TM Foreign Exchange Sales Consultant

The last quarter of 2022 saw the major bull trend of the U.S. dollar reverse after 18 months. While the dollar may experience some short-term weakness, conditions are still unclear on whether the dollar will have a new bull trend in 2023. The Federal Reserve looks to continue hikes into 2023 but markets are not sure for how long. The war in Ukraine is in its 10th month and while Ukraine has reclaimed territories, the drone bombing campaign by the Russians has increased. Some of the dollar weakness has been attributed to these successes in Ukraine, but that can quickly reverse if conditions worsen. Fragility in the Eurozone currencies should continue during the winter months as energy continues to weigh on those currencies. Recession fears have had its effect on the bond market, which could see a continued rally into 2023 and impacting flight to safety currencies like the Yen and the Swiss Franc. Recessions for foreign exchange don’t necessarily mean trends, but almost always mean more volatility, which is a possibility next year.



EURUSD (Neutral/Bearish)



The bear trend for EUR/USD ended in October and the end of year markets have exaggerated the move higher with prices topping above 1.07. As we head into the new year, the conditions in the energy sector should continue to worsen and keep downward pressure on the Euro. Energy and food prices continue to rise and are impacting inflation in Europe even more than here in the U.S. Safe-haven status for the U.S. dollar should continue as we should experience increased periods of volatility. Euro has gained 10% in the fourth quarter after being down 18% since January, but this move is most likely near the end. The ECB seems to be committed to keeping rates higher to fight inflation. The Fed is also committed, and in addition Fed Chairman Jerome Powell will take steps toward reducing its balance sheet.

GBPUSD (Neutral/Bearish)



Like the EUR/USD move, GBP/USD fell 25% before recovering 11% in the fourth quarter. GBP collapse in September due to failures in policy by the U.K. government that resulted in the market losing faith in the U.K. Gilts and their currency. As we head into winter, the British economy will continue to be impacted by the Russian invasion of Ukraine and impact energy prices. The cost-of-living crisis will continue to impact British citizens into 2023. The U.S. dollar has sold off recently as bond yields continued to drop. I would expect these impacts will dissipate into 2023 and would expect more volatility as recession becomes reality. As markets pull out of risk assets across the globe, we should expect periods of flight to safety in U.S. dollars and other defensive currencies like Yen and Swiss.

AUDUSD (Neutral/Bullish)



AUD has bounced 11% despite the impacts their economy and exports had from China covid shutdowns. Australia's inflation and interest rates are running cooler than the U.S. The Aussie government is looking for a removal of export tariffs next year, which should prove more favorable for the economy. Growth is expected to slow but remain above global expectations at 3-4%. As China reopens and the Fed pivots as recession becomes more likely, we could see a continuation higher with more volatile markets.



USDJPY (Neutral/Bearish)



The Bank of Japan had been steadfast in keeping policy unchanged while the rest of the world has been hiking rates. That was until they surprised the market by “modifying the conduct of the yield curve control in order to improve functioning.” The result was a sharp selloff in US dollars of 4% overnight. The Bank of Japan will be increasing the amount of JGB purchase (bonds), which may be the first step towards tightening and ending a decade long policy of easy money. Governor Haruhiko Kuroda’s term ends in April 2023, and this latest move could trigger higher bond yields and losses in Japanese Government bonds and Japan equities. There also could be global implications on U.S. assets selling off in favor of Yen. The strong dollar move goes back to January 2021 when the U.S. 10-year treasury yield crossed 1%. The dollar finally saw relief due to Bank of Japan intervention above 150 Yen. The recent continuation of Yen strength is pricing in a U.S. recession, before the BoJ announced they would buy their own bonds. I wouldn’t be surprised another 4-5% move lower before prices stabilize.

Fed raises rates again in December

Daniel Morgan, Senior Portfolio Manager

The year-end rally in the stock market was fueled by a November Consumer Price Index (CPI) inflation

rate of 7.1%, which was below expectations. Suddenly all market pundits were predicting that the Fed would potentially pivot on rate policy next year and stop tightening.

However, the stock market rally was stamped out by the comments emanating from the Federal Reserve’s December meeting. During the recent Federal Reserve Policy meeting Chair Jerome Powell said the policymakers are not close to ending its anti-inflation campaign of interest-rate increases as officials signaled borrowing costs will head higher than investors expect next year. Powell remarked “We still have some ways to go!”

During December’s meeting the Federal Open Market Committee raised its benchmark rate by 50 basis points to a 4.25% to 4.5% target range. Based on the recent dot plot policymakers are now projecting rates would end next year at 5.1%, according to their median forecast, before being cut to 4.1% in 2024 — a higher level than previously indicated.

Powell remarked that the size of the rate increase delivered on Feb. 1 at the Fed’s next meeting would depend on incoming data — leaving the door open to another half-percentage point move or a step down to a quarter point — and he pushed back against bets that the Fed would reverse course next year. The committee anticipates that ongoing increases in the target range are in order to attain a monetary policy that is sufficiently restrictive to move inflation to the previous 2% growth rate.

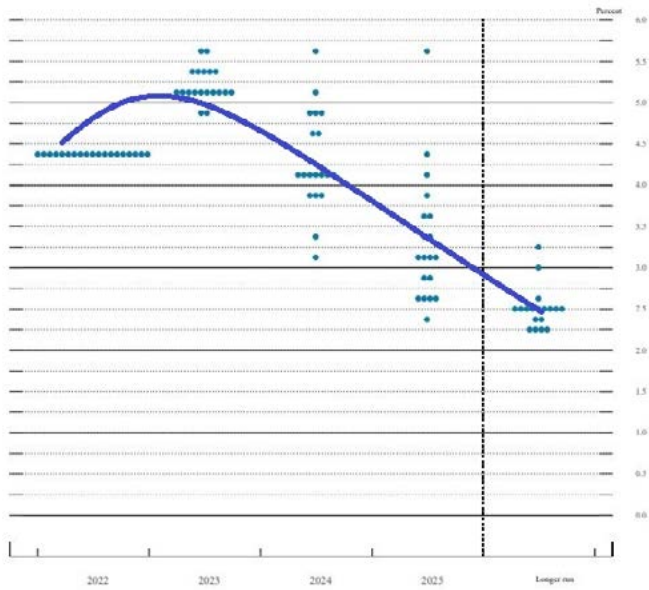
Fed officials raised their estimates for the main and core readings of their preferred inflation gauge, the index for personal consumption expenditures (PCE). They now see PCE at 3.1% in 2023 compared with



a September estimate of 2.8%, while core — which excludes food and energy — may be 3.5% for next year. During the 3Q22 the PCE stood at 6.3%.

Officials are seeking to slow growth to below its long-term trend to cool the labor market — with job openings still far above the number of unemployed Americans — and reduce pressure on prices that are running well above their 2% inflation target. Wage growth still stands at 5.1%, which creates more buying power for workers fueling inflation. Powell has stated that he is willing to allow for the economy to suffer some pain to lower inflation and avoid the mistakes of the 1970s when the Fed prematurely loosened monetary policy allowing inflation to flourish.

FOMC participants' assessments of appropriate monetary policy. Midpoint of target range or target level for the Federal funds rate.

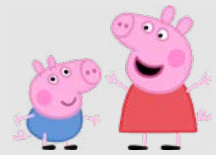


Source: TBD

The Fed and my daughter's Peppa Pig doll

Cal Evans, Senior Director Investor Relations & Market Intelligence

As I write this, it's three days before Christmas and I need to complete this article so I can go pick up my two-year-old daughter's Peppa Pig doll set from Target. If you have young children, you do not need an introduction to Peppa, but if you don't, she is a British piglet who helps entertain my daughter every morning as we get ready. Believe it or not she also, in toy form, can help explain some of the challenges the Federal Reserve face in their war on inflation as they fight what is primarily a supply-side problem with a demand-side solution.



How effective can they be in addressing the many factors contributing to the inflationary environment in which we find ourselves? Follow along with me and let's try to answer that question.

A Peppa pig toy can help explain some of the challenges the Fed faces in their war on inflation as they fight what is primarily a supply-side problem with a demand-side solution.

Although Peppa is British, she is manufactured in China and is most likely produced in and/or shipped from the cities of Shanghai and Shenzhen. Most of our readers will know Shanghai (population 25mm) but not necessarily Shenzhen (population 18mm), both major markets that have experienced repeated waves of shutdowns by the Chinese government. When these markets are offline in any capacity there are severe economic impacts. Note that the populations of these two MSAs are larger than the New York, Los Angeles, and Chicago MSAs combined; try to imagine the impact of those three U.S. markets being shut down. The shutdowns experienced in Chinese markets are not the loose southern U.S. COVID-19 quarantines we



know; they involve imprisonment and government monitored home door locks. Fortunately, China has very recently loosened its policies, but the bottom line is that these shutdowns are inflationary as the inability to produce or ship Peppa Pig dolls limits supply. Can the Fed loosen Chinese national policy to address these inflationary issues? No, they cannot, only Xi Jinping can.

Assuming that my Peppa Pig Playground Playset can get out of China, it most likely will be shipped to a West Coast port like LA/Long Beach on a tanker powered by diesel fuel, which is produced from petroleum products. Before Russia's invasion of Ukraine, the U.S. imported 20% of its petroleum inputs from the aggressor state, and many of these are used in the manufacture of diesel fuel. The solution to this inflationary quandary would be to withdraw Russian troops from the Ukraine and lift sanctions on Russia, which unfortunately the Fed cannot do.

The Fed also is powerless to affect labor negotiations domestically, and a constant fear of strikes and shutdowns at West Coast ports like Los Angeles and San Francisco have forced more shipments to East Coast ports in 2022. Someone has to take Peppa off of the boat and without longshoremen, she isn't going anywhere! Provided she can get to the next stage of the supply chain, domestic delivery, Peppa runs into roadblocks presented by a shortage of trucks

and truck drivers, a combination of a lack of inputs (microchips) and labor shortages (truck drivers). As with labor issues, the Federal Reserve is powerless to produce more chips or make trucking hires stickier. One alternative is to utilize rail for transport, but even that has become a national labor crisis, narrowly avoided in December by Congressional intervention.

This leads us to the point where my child's toy arrives at Target for curbside pickup, and that is where the Federal Reserve can impact inflation-by reducing my demand for the product overall. Perhaps I was going to buy my child an equally expensive set of Legos, but I did not because the mortgage rate I am paying on the house I purchased in October is roughly twice the rate I was paying at my old house. By eroding my purchasing power via higher residential mortgage rates, the Fed has impacted demand and set in motion a chain reaction that will negatively impact anyone who gets paid to facilitate the exchange of residential real estate. Odds are appraisers, real estate agents, and property inspectors will be tightening up their budgets in 2023 as their compensation moves downward and Christmas presents will be affected accordingly. The big question is when will the various supply chain issues the Federal Reserve cannot affect resolve themselves, releasing inflationary pressures and potentially setting up a scenario where we see an overcorrection. The timing of this and the extent to which the Fed moves will determine exactly how soft our economic landing is in 2023.





Are the FAAMG stocks a buy today?

Daniel Morgan, Senior Portfolio Manager

With 2023 kicking off a new year many investors are wondering if this is a good time to place some fresh bets on the FAAMG stocks? Many of the FAAMG stocks are bouncing off mid-October lows and appear to be regaining their footing. Will 2023 be a better investing climate for the Technology sector, opposed to the recent challenges facing the group during this post COVID/Fed tightening environment?

For some investors, this year's rout in high-flying technology stocks is more than a bear market: It's the end of an era for a handful of giant companies such as Facebook parent Meta Platforms Inc. and Amazon.com Inc. Those companies — known along with Apple Inc., Microsoft and Google parent Alphabet Inc. as the FAAMGs — led the move to a digital world and helped power a 13-year bull run.

Many of the large FAAMG stocks have exhibited a substantial slowdown in profit growth and in some cases growth has simply evaporated -- like in the instance of Meta. Meta's net income is projected to drop by 32.6% in 2022 compared to a year ago. While the sheer size of companies like Amazon, Apple, Microsoft and Alphabet may make it difficult to deliver strong future top and bottom line growth. Should investors consider these Tech giants as simple mature growth companies possessing little of a catalyst to generate above market returns?

The answer is that each company operates in distinct segments within the Technology landscape and their businesses are impacted in different ways. For example, both Amazon and Microsoft compete in the fast-growing IaaS cloud data center segment

(Amazon's AWS and Microsoft's Azure), yet Amazon's core E-Commerce Market Place and Microsoft's desktop operating software business could not be more different. Microsoft and Amazon lead the total cloud

market with a combined 30% share, with Microsoft gaining an edge with its Microsoft 365 suite and above-market cloud-infrastructure product growth. Though Amazon generates most of its cloud sales (over 95%) from cloud-based infrastructure products (IaaS), while Microsoft's breakdown is split more evenly between applications (57% of cloud sales) and infrastructure (43%). Total Cloud spending was \$418 Bn in 2021 and is expected to grow to \$530 Bn in 2022 resulting in a projected CAGR from 2021-2026 of 21.3% (according to data collected by IDC.)

Both Meta and Alphabet dominate the social media space with their trademark sites like Meta's Instagram and WhatsApp. Alphabet's Google Search and advertising marketplace are the gold standard in matching advertisers with available space. Together they dominate 70% of the overall on-line ad market. Internet ad spend rates continue to be impacted by the Ukraine conflict, macroenvironment headwinds and increasing competition for advertising dollars that are now growing more slowly -- for Alphabet and Meta -- that is creating an overall smaller advertising pool. According to a recent study from PSC Research the Digital Advertising Global CAGR over the next 10 years is projected to be 13%. In 2021 Digital Advertising Spending was \$432 Bn, which is projected to grow to \$490 Bn in 2022 (+13 YoY) and \$532 Bn in 2023 (+8.5% YoY).



Each company operates in distinct segments within the Technology landscape and their businesses are impacted in different ways.



Faced with a higher cost of borrowing and rising inflation, investors are becoming more exacting in terms of which companies they are willing to back. Big capital projects on unproven technologies, such as Meta's bet on the metaverse, haven't gone down well. Many investors are not sure if the metaverse, along with the virtual reality (VR) headsets is going to ever become profitable. Further, these fledgling businesses along with a struggling core advertising business may make future profit growth more challenging.

Apple continues to be the "Mercedes Benz" of the mobile phone market commanding some of the highest margins in the cell phone space. Apple is highly reliant on strong consumer spending on electronics like iPhones, iPads, Watches, and Mac PCs to drive growth. With world economic growth slowing and consumer spending waning many investors are concerned that demand for Apple's key products will be sluggish. But, many analysts do not think the iPhone cycle is over just yet. Strong iPhone performance was notable in recent quarters in light of the supply constraints, as well as the lack of a form factor change on iPhone. In 2020 sales were constrained because of lockdowns, and in 2021 sales were affected by component shortages. For that reason, expect there's a good chance the 5G upgrade cycle could

get extended, since Apple wasn't able to reach the entire market. Coupled with what is likely to be a more significant iPhone form factor change next year, gives ample reasons to stay constructive.

Some of today's FAAMG stocks may end up being unseated by a new set of Tech high flyers. Much like how Wall Street no longer is consumed over the "Four Horseman" – Cisco, Dell, Intel and Microsoft – of the late 1990's! During the late 1990's the "Four Horseman" combined market value accounted for nearly 14% of the S&P 500's capitalization. Microsoft is the only remaining member of the original "Four Horseman" that still grabs some of the spotlight. Former "Four Horseman" Cisco Systems and Intel, leaders in networking and PC chip space during the "Dot.com" boom of the late 1990s, have not seen their stock prices climb back to the highs they reached in 2000. While it took the NASDAQ 100 Index 15 years to surpass its former 2000 peak.

But investors are reassessing their longer-term potential now that societies have reopened and higher interest rates around the world have damped risk appetites. One of the biggest draws for investors has been the super-charged growth rates that



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technology companies offered. Now the growth looks more pedestrian. For example, the “Super Charged” pandemic profit growth rates for the Information Technology sector are now expected to slow to just 11.2% in FY23 and 13.1% in FY24.

With market technicals now favoring the bears, there seems to be a flight to value within the technology sector, as lower multiple, more mature growth names are out-performing their once high multiple, fast-growth brethren. For example, the once high-flying darlings Netflix (-52% year-to-date), Meta (-65% year-to-date), Amazon (-48% year-to-date) and Alphabet (-38% year-to-date) have gone through a drastic reevaluation of expectations for their future profit growth. In contrast, more mature technology names like IBM (+5% year-to-date), ADP (+1.5% year-to-date), and Oracle

(-6.9% year-to-date) have posted respectable returns so far this year. To that end, these mature growth companies, IBM, ADP, and Oracle have strong cash-flow, healthy share repurchase programs, and pay a decent dividend yield.

Two years ago, investors could have thrown a dart at a FAAMG dart board and would have pretty much come up a winner. Should investors just blindly throw money into an ETF that just buys only FAAMG stocks? That’s probably not going to work anymore! Understanding the different trends impacting each sector within the tech space that each FAAMG stock operates in and how those companies stack up against the competition will provide the clues to investors to determine future winners and losers!

We’re here if you have questions.

If you have questions or want to talk with a Synovus financial advisor to learn more, go to **Synovus.com** or call us at **1-888-SYNOVUS (1-888-796-6887)**.

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¹<https://www.weforum.org/agenda/2022/11/inflation-consumer-spending-us-economic/>

²<https://www.bea.gov/news/2022/gross-domestic-product-third-estimate-gdp-industry-and-corporate-profits-revised-third>

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