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➔ Top 10 predictions for 2023

Daniel Morgan, Senior Portfolio Manager

A recent wave of positive data metrics on the health of the economy has prompted some market pundits to predict the beginning of a new “Bull Market,” and that we should not concern ourselves with talk of a recession. The economy showed resilience in the 4Q posting growth of 2.9% after growing 3.2% in the 3Q. The closely watched Personal Consumption Expenditures (PCE) deflator came in at 5.5%. In the 4Q22 personal consumption gained 2.1%, after posting growth of 1.4% in the 3Q22. For FY23, the Fed is projecting GDP growth of 0.5% year-over-year (YoY.) The probability of a recession in late FY23 now stands at 65%.

The U.S. jobless recovery continues to be very buoyant; in January, non-farm payrolls added 513,000 new hires compared to December’s additions of 223,000 new workers. However, hourly wage growth (+4.4%) has not kept up with the monthly Consumer Price Index (CPI) (+6.4% in January) compressing consumer spending. The labor participation rate has fallen to 62.4%, compared to 66% during last major recession/recovery cycle.

In response to the recent strong data points, the Federal Reserve at their Federal Open Market Committee meeting in February decided to raise the target range for the federal funds rate to 4.5% to 4.75%. The Committee anticipates that ongoing increases in the target range will be appropriate to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. This leaves the door open for another hike at upcoming March meeting.

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➔ Risk-Free Returns is the soup du jour...at least for now

Chris Brown, Vice President — Investments, Synovus Securities, Inc.

A risk-free rate of return is just as it sounds. An investment instrument that provides no risk, principal protection, and, often, a higher fixed rate of return when compared to standard checking and savings accounts. There are three main places an investor can find a virtually risk-free rate:

1. Money Market accounts,
2. Certificate of Deposits,
3. U.S. Treasury Bills, Notes and Bonds.

For the purpose of this market update, we will focus more on Certificate of Deposits (CDs) and U.S. Treasury Bills.

We are all familiar with how CDs work. Give your money to the bank, find the best interest rate and time horizon that allows your cash to accumulate interest until maturity. CDs are normally FDIC insured by your chartered bank or NCUA by a local credit union. You can also purchase CDs from a broker dealer who has access to institutional offerings of additional nationally chartered banks who are also FDIC insured. This can be a helpful tool for those clients looking for higher amounts of FDIC insurance with multiple bank charters if they are concerned with the \$250,000 FDIC insurance limitations.

U.S. Treasury Bills (T-Bills), on the other hand, are offered by Treasury Direct as well as broker dealers. T-Bills range from 30 days to 12 months in their maturities. They are purchased in \$1,000 increments at a discount to par or slightly below 100 cents on the dollar. For example, an investor wanting to buy a 12-month T-Bill that pays 4.80% APY may buy 100 T-Bills at \$95,420.00 and in 12 months their T-Bill will mature at par (100 cents on the dollar) or \$100,000.00 ($\$100,000/\$95,420 = 4.7998\%$).



Now that we got the definitions and how to acquire a risk-free rate of return, let's get into the why or why now questions.

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Continued from previous page

➔ How concerning is the office segment in the Southeast?

Cal Evans, Senior Director, Synovus Investor Relations & Market Intelligence

I have read several financial news pieces lately in national publications that forecast poor performance of commercial real estate in a post-pandemic world, and it has prompted me to dig deeper into the numbers to try to make some sense of an extremely volatile property market. In general, these articles have focused on two topics, potential oversupply in the multifamily housing sector leading to losses in rents and values, and potential value loss in office properties as hybrid work has negatively impacted demand from office-using companies. In this article, I am going to focus on the latter topic and we will address multifamily in next month's newsletter.

Many of these articles look back to the Great Financial Crisis of 2008 (GFC) to see how office could perform in a recessionary environment. I was a CRE appraiser back in 2008, and the situation was frankly dire. I recall office values in Atlanta dropping 50%, and fears of a repeat of that degree of value loss have generated a feeling of fear in the market. However, the current economic environment (is it a recession?) is nothing at all like the GFC as long as you live in the southeastern US, and the impact on commercial office values from economic pressures will be far different than what we saw in the region from 2008-2010.

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