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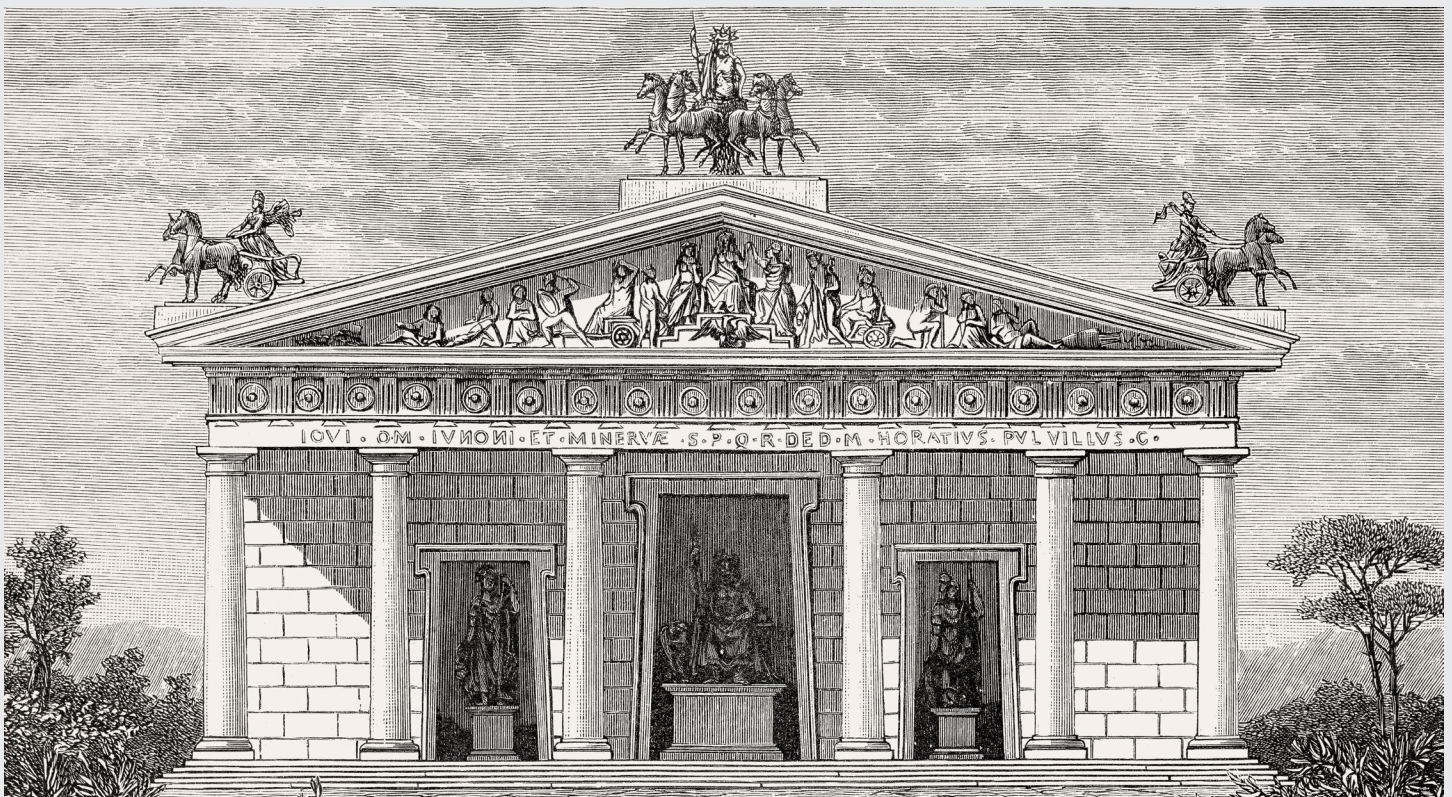
Will the Stock Market crumble like the Temple of Jupiter Maximus in Rome?

Daniel Morgan, Senior Portfolio Manager

There are many similarities between the Roman Empire that lasted more than 1,000 years and the American Empire that has been in existence for a mere 250 years. Many of the same economic challenges that the Romans confronted Americans are facing today: runaway inflation, food shortages, plagues, porous borders and a bloated bureaucratic government.

I thought it might be interesting to compare the Stock Market to the most revered of sacred spots in the Roman Forum the “Temple of Jupiter Maximus.” The

Temple of Jupiter Optimus Maximus, also known as the “Temple of Jupiter Capitolinus” or the “Temple of Jupiter, the Best and Greatest” was the most important temple in Ancient Rome, located on the Capitoline Hill. It was surrounded by the Area Capitolina, a precinct where numerous shrines, altars, statues and victory trophies were displayed. The temple, completed by the emperor Domitian, is thought to have lasted more or less intact for more than 300 years, until all pagan temples were closed by emperor Theodosius I in 392 during the Persecution of pagans in the late Roman Empire.





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The “Temple of Jupiter Maximus” has six columns that support the temple’s enormous roof and sculptors that adorn the entrance. But when these columns begin to crack, eventually the temple will collapse. Like the six columns that hold the temple’s roof in the air, the Stock Market has supporting columns that keep it upright too. When these key foundational pillars – Inflation, Market P/E Ratio, Interest Rates, Gross Domestic Product (GDP) Growth, Profit Growth, and Technical Support – propelling the market begin to crumble, the stock market will come down.



There are 6 foundational pillars to the Stock Market—Inflation, Market P/E, Interest Rates, GDP, Profit Growth and Technical Support.

First, we must understand the inverse relationship between inflation (column one) and the market P/E ratio (column two). Unlike in YR2000 when inflation was low, today the market is starting to come to grips that higher prices may be here to stay. In the past during periods of higher inflation (as seen during the 1970’s Stagflation cycle), and as indicated by the recent increase in the Consumer Price Index (CPI) (June’s CPI was +9.1% YoY), the market’s P/E ratio typically will compress. Conversely, during times of low inflation the market can tolerate higher P/E multiples (as seen during the late 1998-2000 period). Therefore, there is a negative correlation between Inflation and Market

P/E valuations. The S&P 500 Index P/E is 18x, which is above the long-term 50-year average. Therefore, with most growth stocks trading at high P/E multiples, sustained inflation causes a re-evaluation of their multiples.

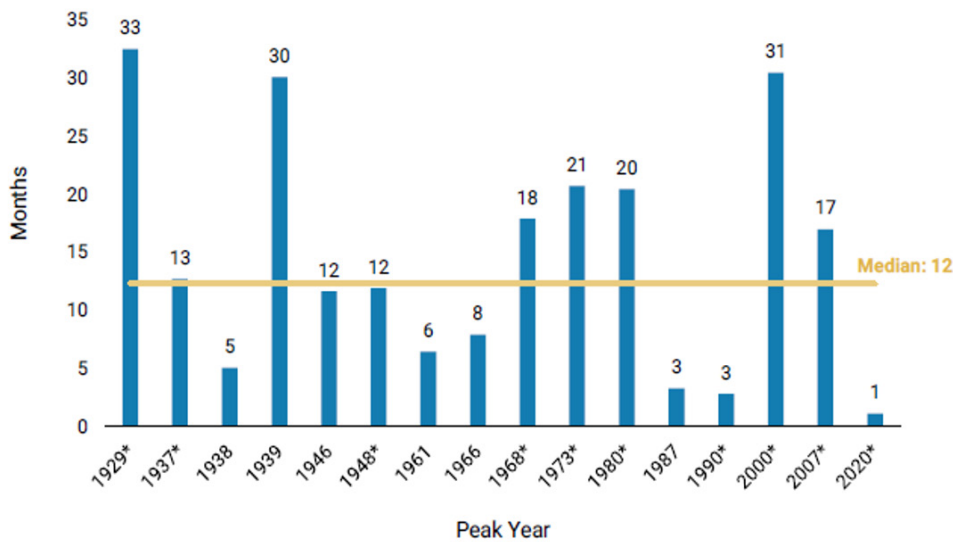
Second, the direction of interest rates (column three) is a key factor in determining whether the market goes up or goes down. The old saying “Don’t fight the Fed” comes into play here. “Don’t fight the Fed” is an old investor saying that cautions you to align your investments with the current monetary policies of the Fed rather than against them. The Fed was created in 1913 to make the financial system of the U.S. more safe, stable, and flexible. Advocates of the “Don’t fight the Fed” investing theory suggest working with the Fed’s policies by investing more aggressively when the Fed is lowering rates. Conversely, when the Fed raises rates, investors are cautioned to take a more defensive posture. The saying suggests that you should keep your money in stocks (up to your level of risk tolerance) when the Fed’s Federal Open Market Committee (FOMC) is actively lowering rates or keeping them low. Although the Fed cut might occur when the





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Duration of Bear Markets



Source: Bloomberg, Morgan Stanley Research. Bear Markets defined as at least 20% corrections (closing price). *Bear markets associated with recessions.

they also feel wealthier when they see their portfolios rise in value. During bear markets, the economy is usually not doing as well and spending recedes. When consumers buy more, businesses that sell those goods and services choose to produce more and sell more, reaping the benefit in the form of increased revenues. Thus, this rise and fall in consumer spending directly impacts corporate revenues and profits, which ultimately drives stock prices.

economy is experiencing slow growth or in a recession, the accommodative or easy monetary policy would likely lift the economy out of its challenging period, which would spur more risk-taking and equity purchases.

Third, typically stock market and economic performance or GDP growth (column four) are aligned. Thus, when the stock market is performing well, it is usually a function of a growing economy. Economic growth can be measured in several ways, but one of the most prominent is by following GDP. Approximately two-thirds of GDP output is driven by consumer spending. For the 2Q22, GDP dropped -0.9%, while personal consumption rose just +1.0%. This is the second consecutive quarter that GDP has fallen (1Q22 GDP was down -1.6%) signaling that the economy is technically in recession. This came at a surprise after GDP rose 5.7% in FY2021. When GDP is growing, individual businesses are producing more and usually expanding. Expanding business activity usually increases valuations and leads to stock market gains. Often, consumers spend more during bull markets because they are making more income from the effects of a strong economy and

Fourth, S&P 500 Index profit growth (column five) is one of the biggest factors impacting stock price direction. Typically, when companies in the S&P 500 Index are increasing their profits this will propel stocks higher. Inversely, when profits are trending downward this puts a downdraft on S&P 500 stock prices. Often, strong earnings growth can allow S&P 500 companies stock prices to overcome even a Fed tightening cycle. However, profit expectations appear at risk with the likelihood of a recession growing. Expect downward revisions to consensus S&P 500 EPS estimates for 2022 that call for profit growth of +10.90%, to be followed by growth in 2023 of +9.31%. For now, S&P profit growth is still positive. However, if profits were to turn negative that would severely pressure the market's P/E multiple placing further downward pressure on stock prices.

Fifth, technical strength or weakness of the market (column six) has a direct impact on the direction of major market benchmarks. Technical analysis is a trading discipline employed to evaluate investments and identify trading opportunities in price trends and patterns seen on charts. Technical analysts



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believe past trading activity and price changes of a security can be valuable indicators of the security's future price movements. All the major benchmarks – Dow Jones Industrial Average, S&P 500 Index and NASDAQ Composite – are trading far below previous highs set in January 2022. Both the S&P 500 Index (-17% YTD) and NASDAQ Composite (-24% YTD) are currently down nearly 20% or more YTD, which technically speaking means these benchmarks are in a “Bear Market.” A Bear Market is when stocks on average, fall at least 20% off their highs. Typically, a Bear Market will last approximately 12 months, while this current Bear Market is about six months old. Unfortunately, at this point most of the market technical indicators are pointing negative and are simply illustrating all the investor worries – Fed hikes, Inflation and Recession – hovering over the market.

In summary, what conclusions can we make from this comparative



A Bear Market is when stocks on average, fall at least 20% off their highs.

analysis of the “Temple of Jupiter Maximus” versus the Stock Market. At this time it appears that five pillars – Market P/E Ratio, Interest Rates, Inflation, GDP and Technical Support – are under heavy pressure. While just one of the pillars, Profit Growth, is still standing strong. Can this sturdy pillar withstand all the negative sentiment in the marketplace, or will it succumb to the downdraft? Will one or two of the five pillars that are negative turn positive and create additional support for the markets? For example, if inflation starts to peter out or the Fed pivots and decides to begin to lower interest rates. Only time will tell!

Financial Planning Corner

Jarrett E. Hindrew, CFP®, ChFC®, Financial Advisor

There is an ever-growing risk that the U.S. economy will officially slip into a recession during the second half of 2022. The highest reported yearly increase in the Consumer Price Index (CPI) in over four decades combined with the end of pandemic era stimulus programs (e.g., stimulus checks, enhanced unemployment and child tax credits, PPP loans, etc.) provides the backdrop for the current Bear Market



to which the U.S. equity market currently finds itself. After two years of FANG stocks, “meme” stocks, and the crypto rally, investors are encouraged to follow the sage advice of Peter Lynch, “Know what you own and why you own it.”

As a financial planner, I remind my clients that recessions, while a normal and unavoidable part of the business cycle, do create planning opportunities that they may wish to consider.

Roth Conversions

Completing Roth conversions after a market decline can be advantageous due to the conversion value essentially being “on sale” or at a discount. It’s important to remember that the cash earmarked to pay the taxes on such a conversion should come from outside the IRA as to not create additional tax liability.



Recessions are a normal part of the business cycle and create planning opportunities.

Tax Loss Harvesting and Diversifying Concentrated Positions

Tax loss harvesting entails selling one fund or security and investing in another one that is similar. The strategy allows the investor to realize a tax loss to offset tax gains while staying invested for future growth. Keep in mind that the wash-sale rule states that after an investor sells a security at a loss, they cannot buy a “substantially identical” security within 30 days before or after the sale date.

Bear Markets also offer a great opportunity to diversify from concentrated positions with reduced capital gains tax liability. Losses can be harvested from elsewhere in the portfolio to offset capital gains from diversifying.

Estate Planning

Clients who find themselves with potential estate tax liability may want to take advantage of the market decline to either gift or “freeze” the value of their assets today to shift the future appreciation outside of their taxable estate.

Update Financial Plan

The comprehensive financial planning that we do for our clients includes an analysis of stressful market conditions like the one we are experiencing today. Being able to see your portfolio balances in the context of your long-term financial goals offers perspective on what is in your control (i.e., how much you spend, save, how your investments are allocated) and what is left to policy makers and “animal spirits.” Consider updating your current financial plan or creating an initial plan to take control of your financial future in these uncertain times.

Third Quarter 2022 Currency Outlook

David Grimaldi, Foreign Exchange Sales Consultant

Despite weakening demand from a cyclical slowdown, Central Banks are aggressively attempting to curb inflation by hiking rates. The Federal Reserve changed course from 50 basis points (bp) to 75bp in June after inflation came in hotter than expected. The Swiss National Bank and the Reserve Bank of Australia also raised rates higher than expected at 50 bp. The European Central Bank (ECB) not to be outdone looks to be joining the party as the



The market now will focus on GDP growth (or negative growth) along with inflation for clues on what the Fed will do going forward.



market is now priced in 100bp of hikes into year-end. The Bank of England was more measured at 25bp but warned of more dramatic hikes if necessary. The Bank of Canada raised rates 100bp in July. Only the Bank of Japan is maintaining “extremely low interest rates.” Currencies have recovered against the U.S. Dollar as a result. Calls for 100bp hike in July followed the strong June U.S. jobs report, Consumer Price Index (CPI) at 9.1%, and comments by the Federal Reserve that believes that a tight job market can withstand additional hikes. Regardless, the medium-term trend for U.S. Dollar strength is intact, and could continue after the Fed meets in July and decides to raise another 75bp or 100bp. During the editing of this outlook, EUR/USD was 1.0600 and sunk 5.6%, requiring an entire re-write to my view. The market now will focus on GDP growth (or negative growth) along with inflation for clues on what the Fed will do going forward. Even a small negative GDP number may be enough to keep the Fed on track to be more aggressive in fighting inflation. Another negative quarter of growth would be a recession and may ultimately lead to political pressure to decrease hikes. Vladimir Putin is taking a more measured approach to the Ukraine War and has begun a new bombing campaign of Kiev. Russia has lost so many generals during the conflict that Putin has pulled one off the retirement bench to lead the conflict. The “media talking heads” think Putin will be satisfied with annexing only the Donbas region, his actions seem to indicate he is dug in for the long haul. Putin is facing very little pressure from citizens, and oil is still very affordable there, unlike the rest of the world. This should keep downward pressure on EUR for the foreseeable future.

EURUSD (Bearish)



EUR/USD has broken support now 1.0325-50 and traded to parity on July 12. The summer months are normally very quiet for FX activity, but these are not normal times. After a good U.S. Labor report the market seems convinced of a more aggressive Fed, and recession in Europe. The technical bearish call I have held to since September 2021 is still performing well and should continue unless the U.S. goes into a recession. Pricing is getting further from moving average, which should provide good selling opportunities on rallies. I would expect 1.0800 now to hold this year on rallies. The break below 1.0300 brought more selling pressure and as will a break of 1.0000. Downside target now is .9325 and .8900 channel support. The Ukraine War is far from over, and we should not underestimate the atrocities Putin will inflict to capture areas they retreated from earlier this year.



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USD JPY (Neutral/Bullish)



The Bank of Japan (BoJ) seems to be the only Central Bank that feels inflation is transitory. While they remain extremely accommodative on interest rates every other major economy is hiking rates. The BoJ has not intervened in the market to-date to protect the Japanese Yen, but they are aggressively defending their implicit 0.25% cap for the 10-Year bond (JGB's) yield target with bond purchases. For an economy that is heavily dependent on oil and raw materials, the weak Yen policy has a negative impact on their businesses. Historically, the Central Bank will usually intervene above 140.00 USD/JPY, levels we have not seen since the 1990's. The last time we saw a defense of their currency was back in 2011 during the Fukushima nuclear disaster, and that was when they were selling JPY. The defense of 75.00 USD/JPY lasted more than two years and was eventually successful. If the Central Bank does have a level to defend, I would expect the same kind of all in defense, and historically the BoJ never loses this battle. USD/JPY will be bullish unless U.S. policy changes on rates and we are heading into a recession. If the U.S. is still raising rates and the Japanese central bank starts defending the Yen, I

would expect the upward climb to stop and volatility to drop for an extended period. As I finish writing this, USD/JPY has seen some pull back to 135.80 level after the BoJ policy announcement, so some pricing in of a possible U.S. recession could be the justification for this move.

GBPUSD (Bearish)



Inflation in the United Kingdom headed toward 10% as the oil crunch and supply chain woes make a costly impact. The Bank of England (BoE) raised rates for the fifth time and now some of the more hawkish members want faster rate hikes. At the last policy meeting in June, the BoE is prepared to act more forcefully to tame inflation. Prime Minister Boris Johnson has resigned as PM and will step down once a replacement is found. Investors are betting on a rate hike of 50bp in August to 1.25%. That could change now that the Bank of Canada has hiked 100bp and the Fed is rumored to do likewise. From a technical standpoint, GBP prices have now broken down since April and are starting to make some separation from the moving averages. On the monthly chart it looks like a close below 1.2160 would accelerate prices to the downside and could target 1.1300 area that held during Brexit in 2015 and COVID in March 2020.



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AUDUSD (Neutral/Bearish)



Growth prospects for late 2022 and 2023 took a hit with China lockdowns and a more aggressive policy stance by the Royal Bank of Australia. Growth predictions have been lowered from GDP at 4.7% to 3.5% and 2.1% in 2023. Expectations are for another half point increase this summer to 1.35%, with the rate heading to 2.1% at year-end. The inflation rate is expected to peak at 6.25%, far below other western countries due to the harsh lockdown policies, and dependence on China trade and commodities. AUD/USD technicals are starting to look more bearish, as I have been more neutral with this pair in 2022. There is some separation in prices from the moving average, but the caveat is there is no bearish cross in the averages and no downward slope. A monthly close below .6650 may see a further breakdown in prices. My preference would be short, but the weekly chart is not the best setup for that position.

USDCAD (Neutral/Bullish)



The Canadian inflation rate ballooned to 7.7% in May from 6.8% in April. The Bank of Canada pledged to be “more forceful” in the fight to curb inflation. They raised rates 50bp in June, and surprised markets with 100bp hike in July to 2.5%. “With the economy clearly in excess demand, inflation high and broadening, and more businesses and consumers expecting high inflation to persist for longer, the Governing Council decided to front-load the path to higher interest rates,” officials said in the policy statement. The Bank of Canada, like the Federal Reserve Bank, has not acted despite inflation tracking above the central banks 2% inflation target for 15 months. Some are calling for rates above 3.75% by year-end to slow down inflation, which should in turn slow economic activity. On the technical front, USD/CAD is bullish due to risk off environment with the Ukraine War and equities. I would like to see a weekly close above 1.3030 on the month to get me off neutral. Canada’s main export is oil, so with increasing oil prices, CAD gets stronger. As global oil demand has slowed due to additional lockdowns in China, oil prices have slipped, and the U.S. dollar has gained versus CAD. If the U.S. goes into recession, we could see a reversal of U.S. dollar bullishness. Also, the moving averages are not sloping upward, they are mostly flat, keeping my view neutral for now.



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USD/RUB (Bearish)



I thought it was worth looking at this chart because what you see on the news does not reflect what is really going on in Russia. Russians are paying \$3.54 per gallon for gas compared to \$5.00 in the U.S.¹ China and India are happy to take Russian gas and pay in rubles. India has received 34 million barrels of discounted Russian oil since Moscow invaded Ukraine on Feb. 24, according to Refinitiv Eikon data,

more than tripling the value of total imports from Russia, including other products, compared with the same period of 2021.² Ruble has risen as the Russians have been more methodical (and violent) in Ukraine and look like they will fulfill early predictions of victory, despite how much money we dangerously dump to support Ukraine. The ruble has fallen below levels from 2018. Banks are forbidden to speculate in Rubles, so the price reflects only the demand side for purchasing oil. The Russian citizens are not suffering from all the boycotts from Western companies, and public opinion has majority support in Putin. SWIFT sanctions never had any teeth as transactions continue to take place between Western and Russian banks. European leaders pledge to end Russian gas purchases this year, which looks to do more harm to Europe than Russia. Putin is now delivering low gas prices to its citizens, a strong ruble, and selling oil at inflated prices to the rest of the world.

We're here if you have questions.

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

*Past Economic Insights newsletters are available at:

<https://www.synovus.com/personal/plan-and-invest/economic-insights/>

¹https://www.globalpetrolprices.com/Russia/gasoline_prices/

²<https://www.reuters.com/business/energy/indias-imports-cheap-russian-crude-surge-since-ukraine-invasion-2022-05-30/>

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