

Navigating the Economy and Financial Markets

Insights from Synovus
Webinar Series
January 27, 2023

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Welcome

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Robert E. Nobles

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Dan Morgan

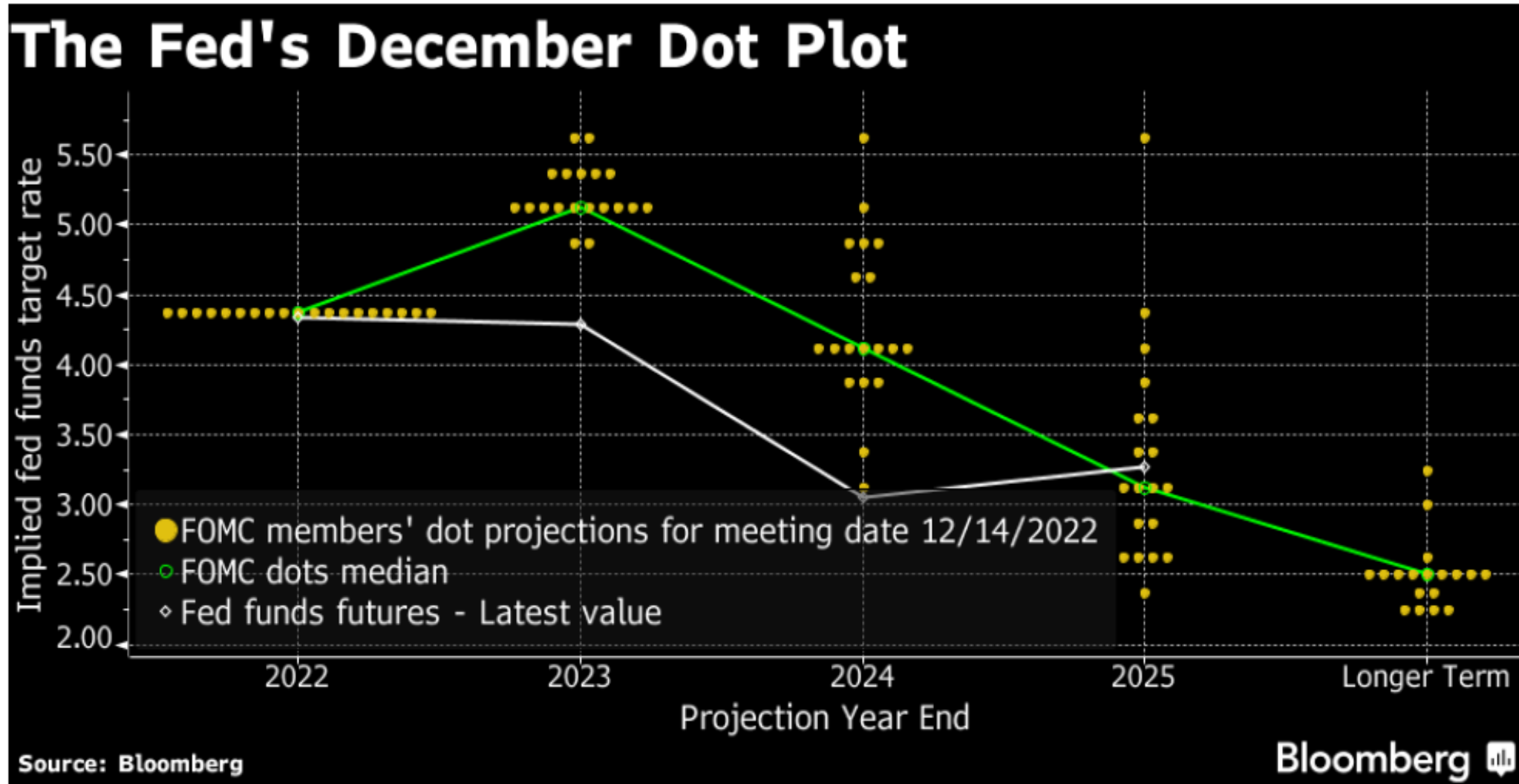
Vice President, Senior Portfolio Manager
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With the Central Bank in a full tightening cycle is the economy headed for a soft or hard landing?

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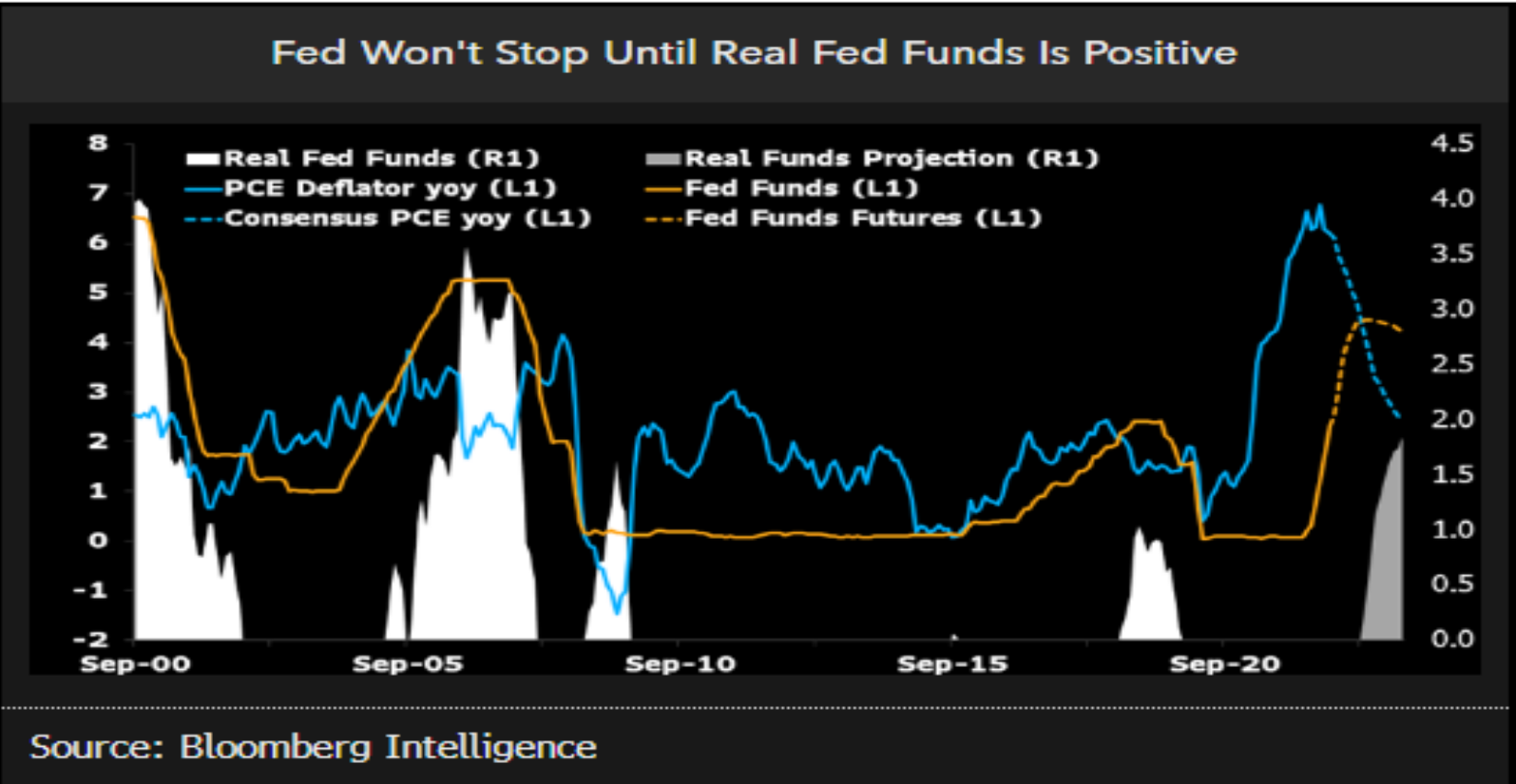



Fed's Projected Rate is 5.1% in 2023



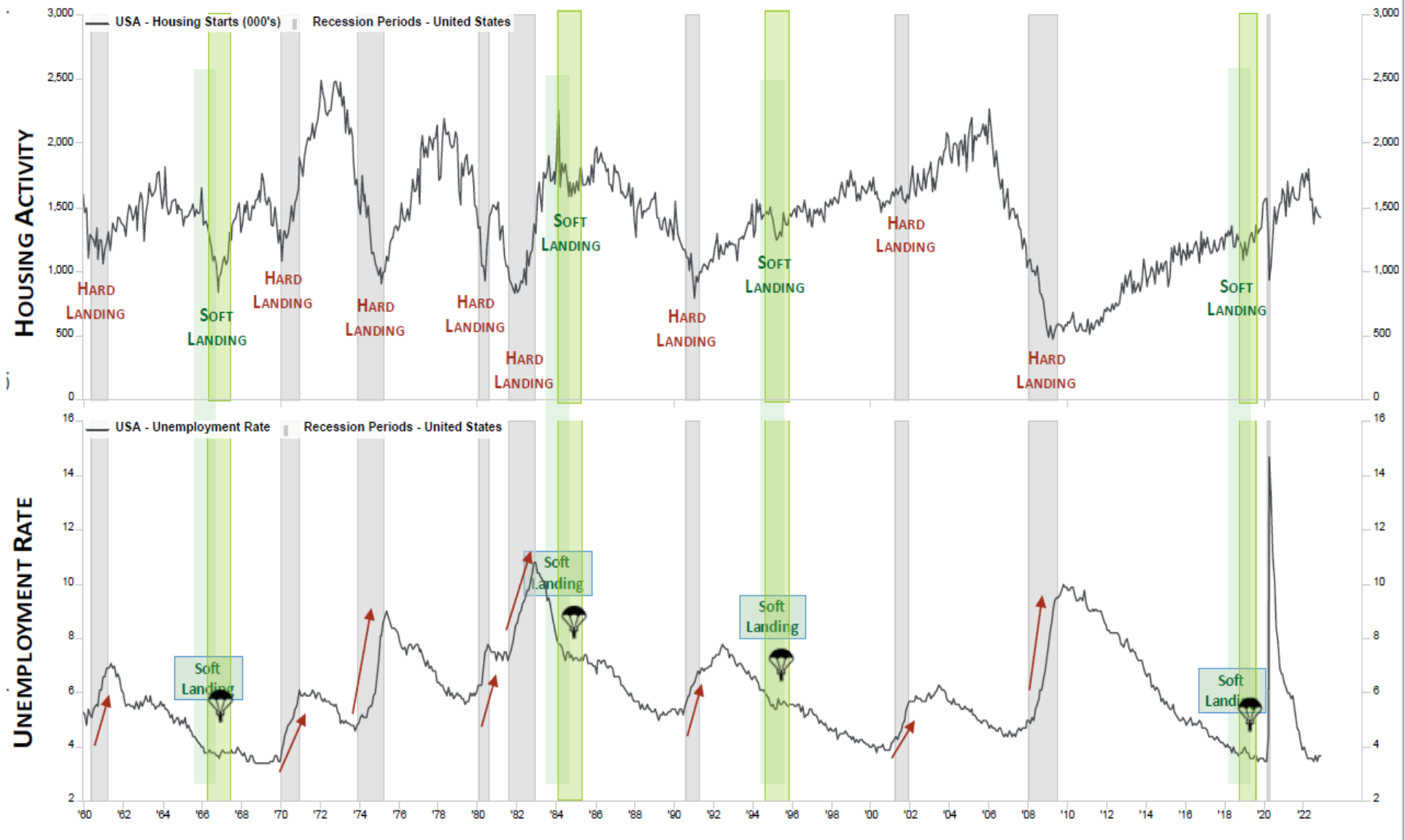
Source: Bloomberg

Fed will not stop tightening until the FFUND's rate = PCE deflator



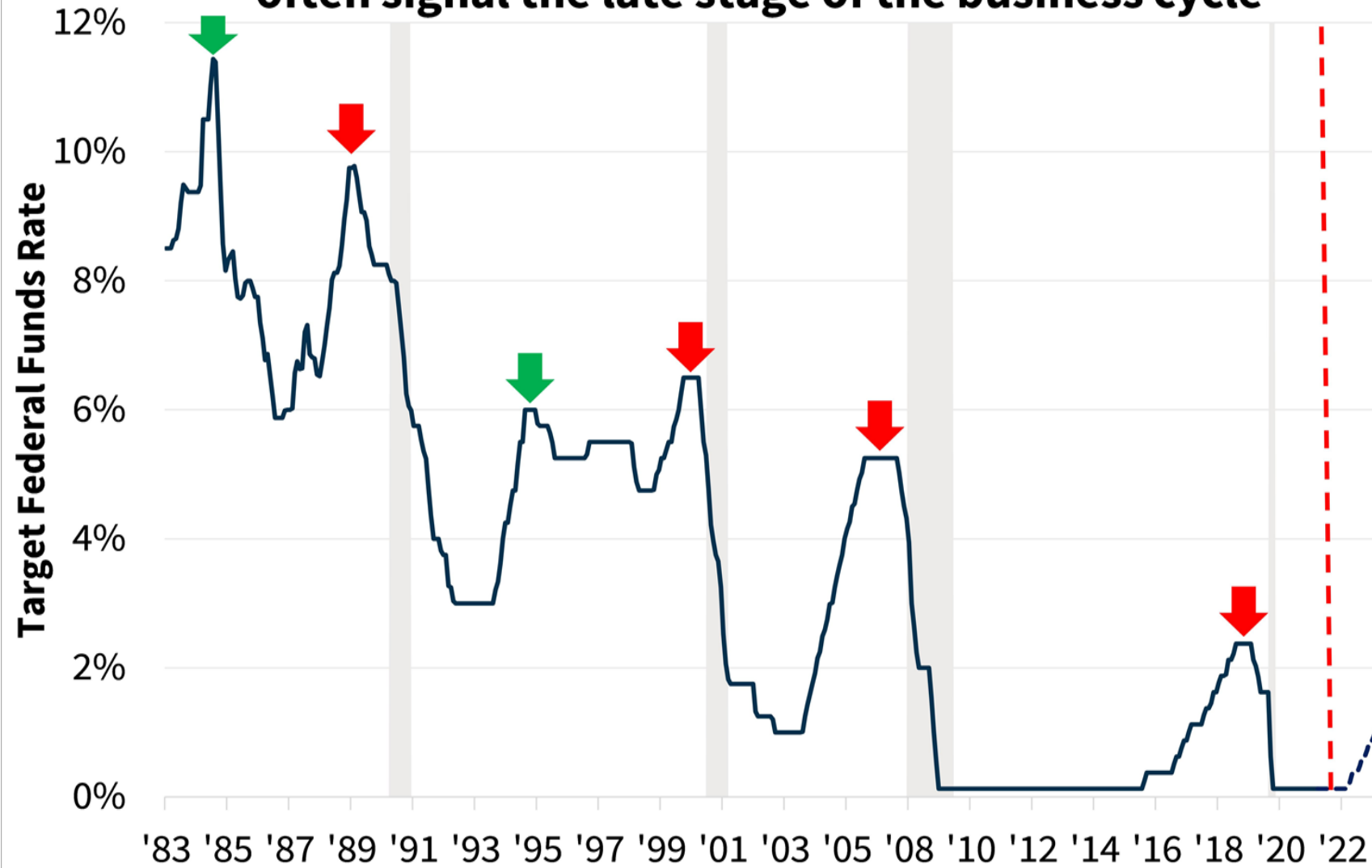
 United States	Browse	PCE Price Index (YoY%) ▾					● Yearly ● Quarterly		
Q2 22 Actual		6.6		Q2 22 Forecast			6.4		
		Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24
Median		6.3	5.6	4.6	3.4	2.9	2.6	2.4	
Mean		6.3	5.6	4.6	3.5	3.1	2.8	2.6	
Bloomberg Weighted Average		6.2	5.6	4.7	3.6	3.1	2.8	2.6	
High		7.0	7.0	7.0	6.2	5.5	5.5	5.5	
Low		5.7	3.9	3.1	2.0	1.2	1.4	1.2	
Responses		43	43	43	43	43	43	33	
Oct. Survey		6.3	5.6	4.6	3.4	2.9	2.6	2.4	
Sept. Survey		6.1	5.4	4.4	3.3	2.9	2.4	2.4	

Mapping Soft vs. Hard Landings Throughout History



Source: Piper Sandler

A soft landing is possible, but rate hike periods often signal the late stage of the business cycle



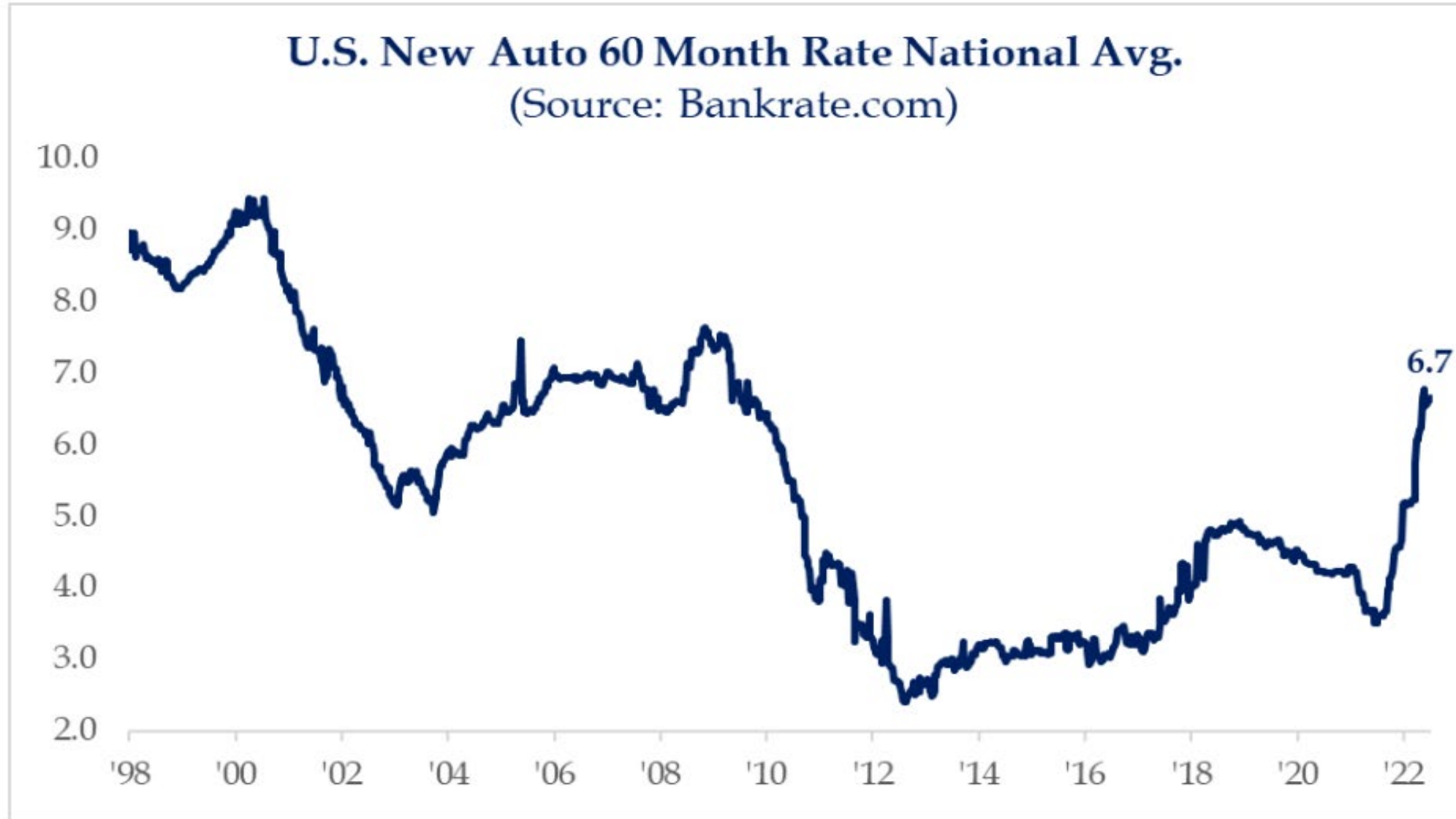
Source: FannieMae "Economic & Housing Outlook Fed Begins Taper with Inflation in Focus "

Where are we seeing the rate hikes having an impact on the economy?

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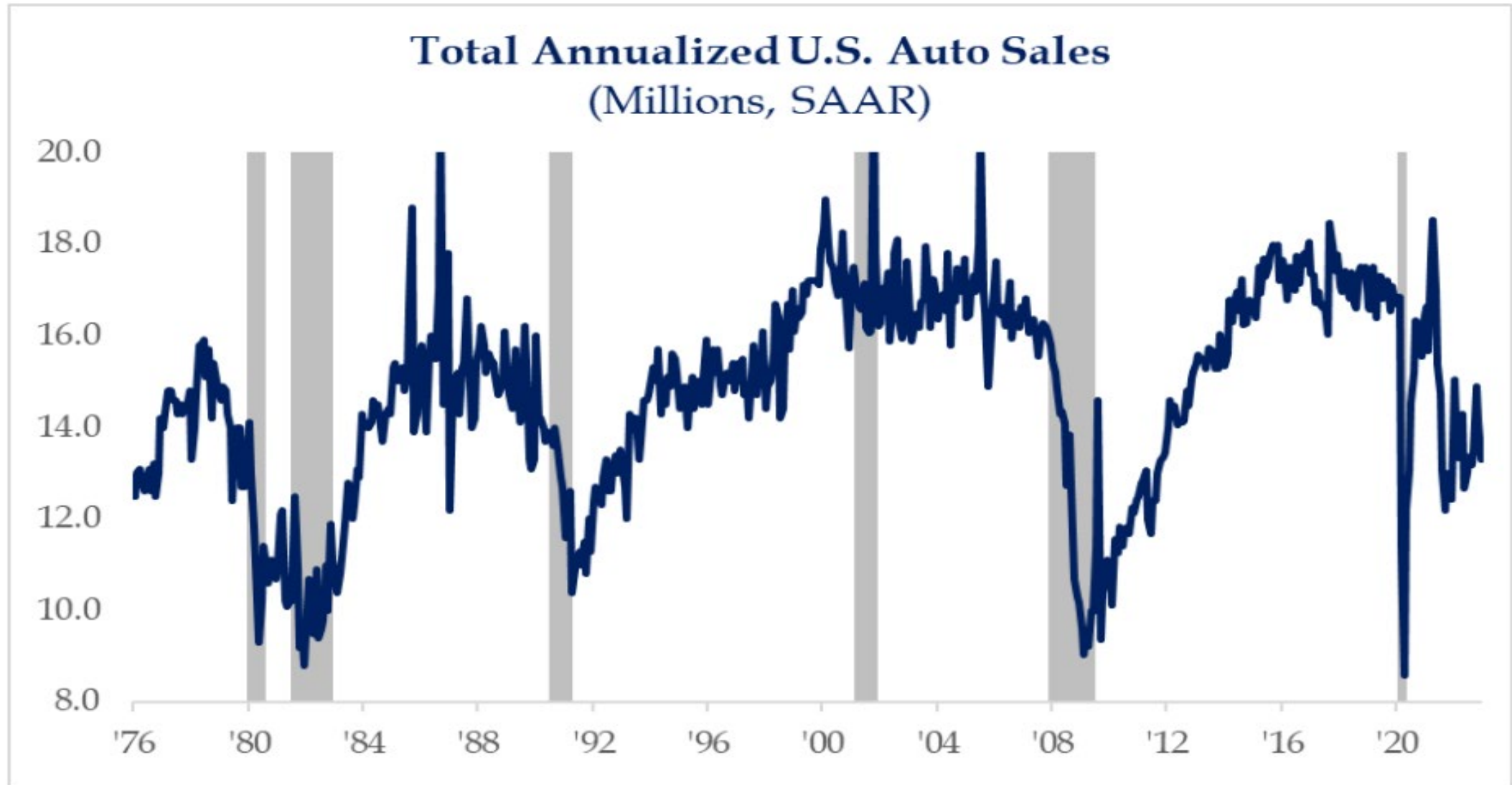


Auto Loan Rates



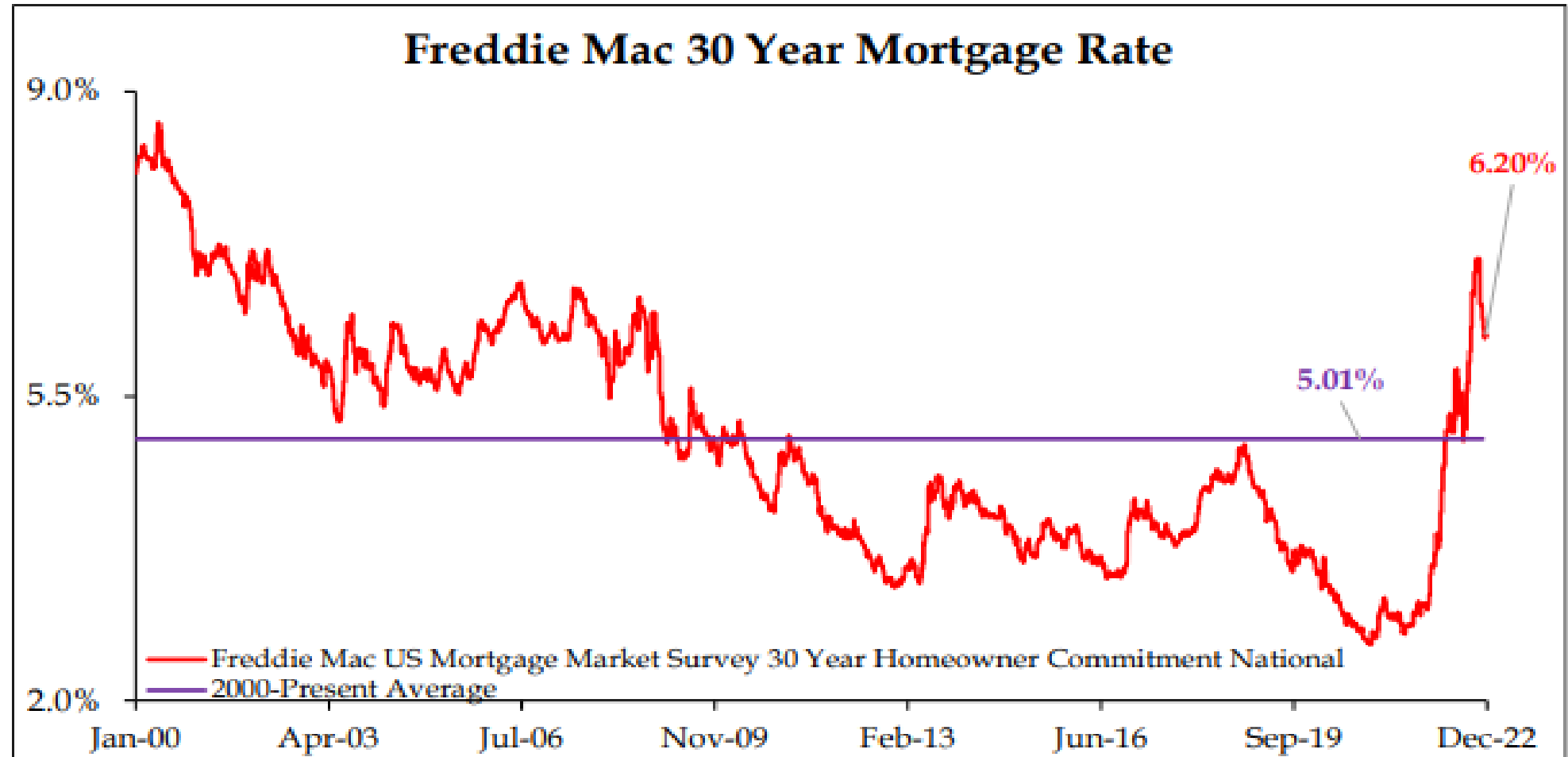
Source: Strategas Research Partners

U.S. Auto Sales



Source: Strategas Research Partners

30 YEAR MTG RATE STILL ABOVE HISTORICAL AVG



Housing

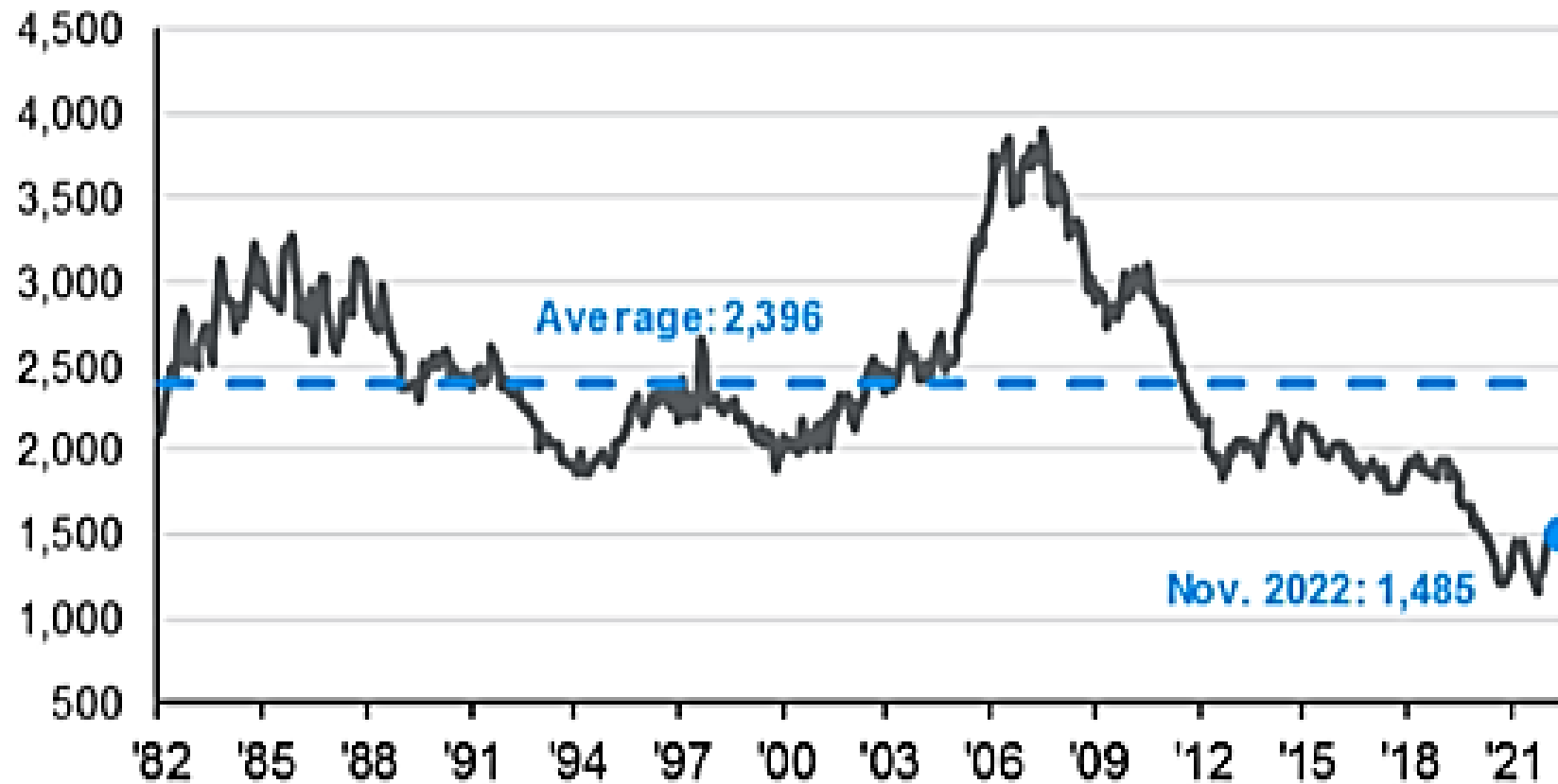
Housing affordability index*



Source: J.P. Morgan Asset Management. U.S. National Association of Realtors;

Housing inventories

Inventory of new and existing single family homes for sale, thous, SA*



Source: U.S. Census Bureau, U.S. National Association of Realtors, J.P. Morgan Asset Management.

Why The Federal Reserve's focus on the employment data?

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Monthly job creation in the U.S.

January through December 2022

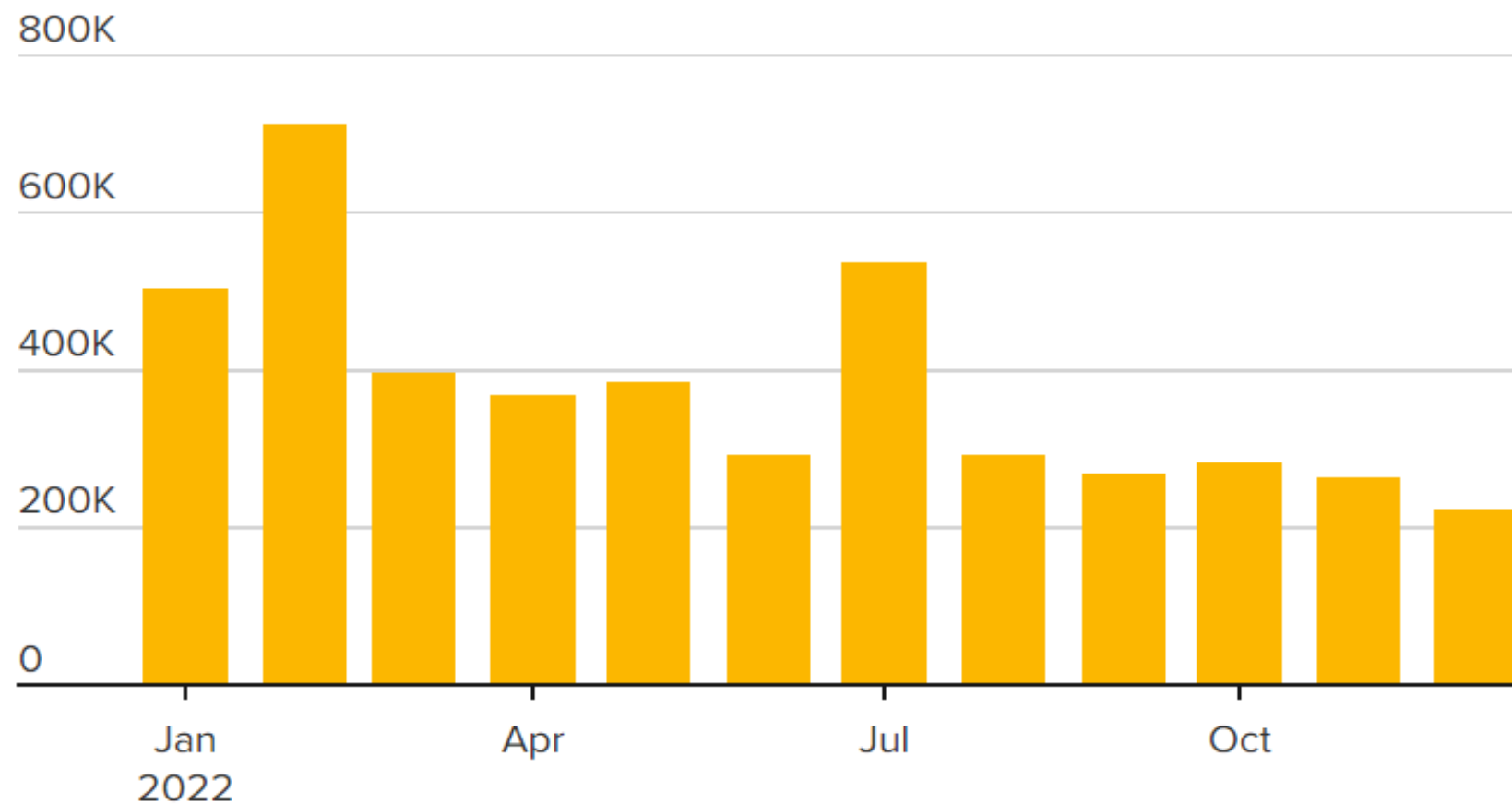


Chart: Gabriel Cortes / CNBC

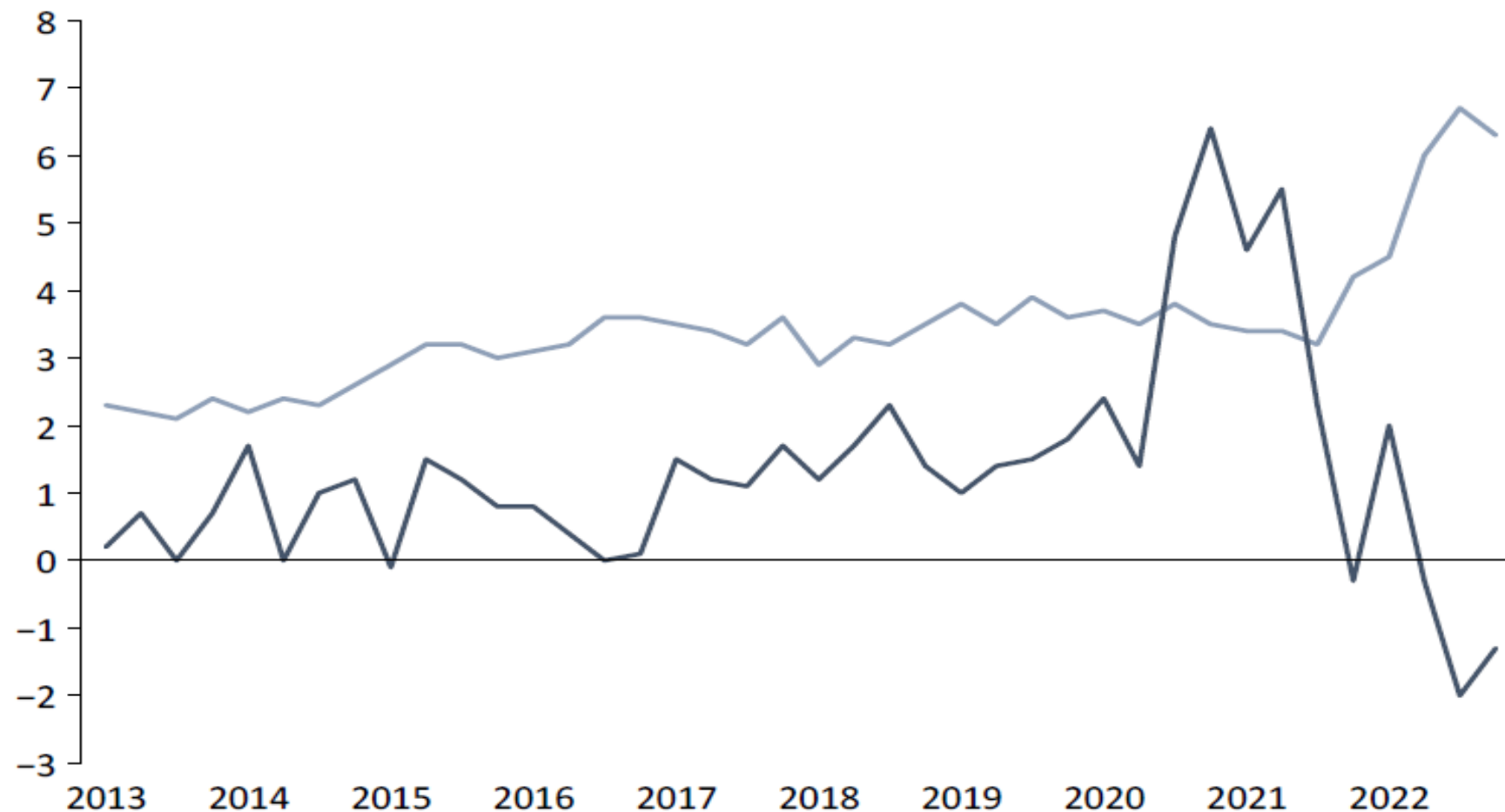
U.S. Jobless Claims, Initial, Total, SA



Strategas/BLS/Macrobond

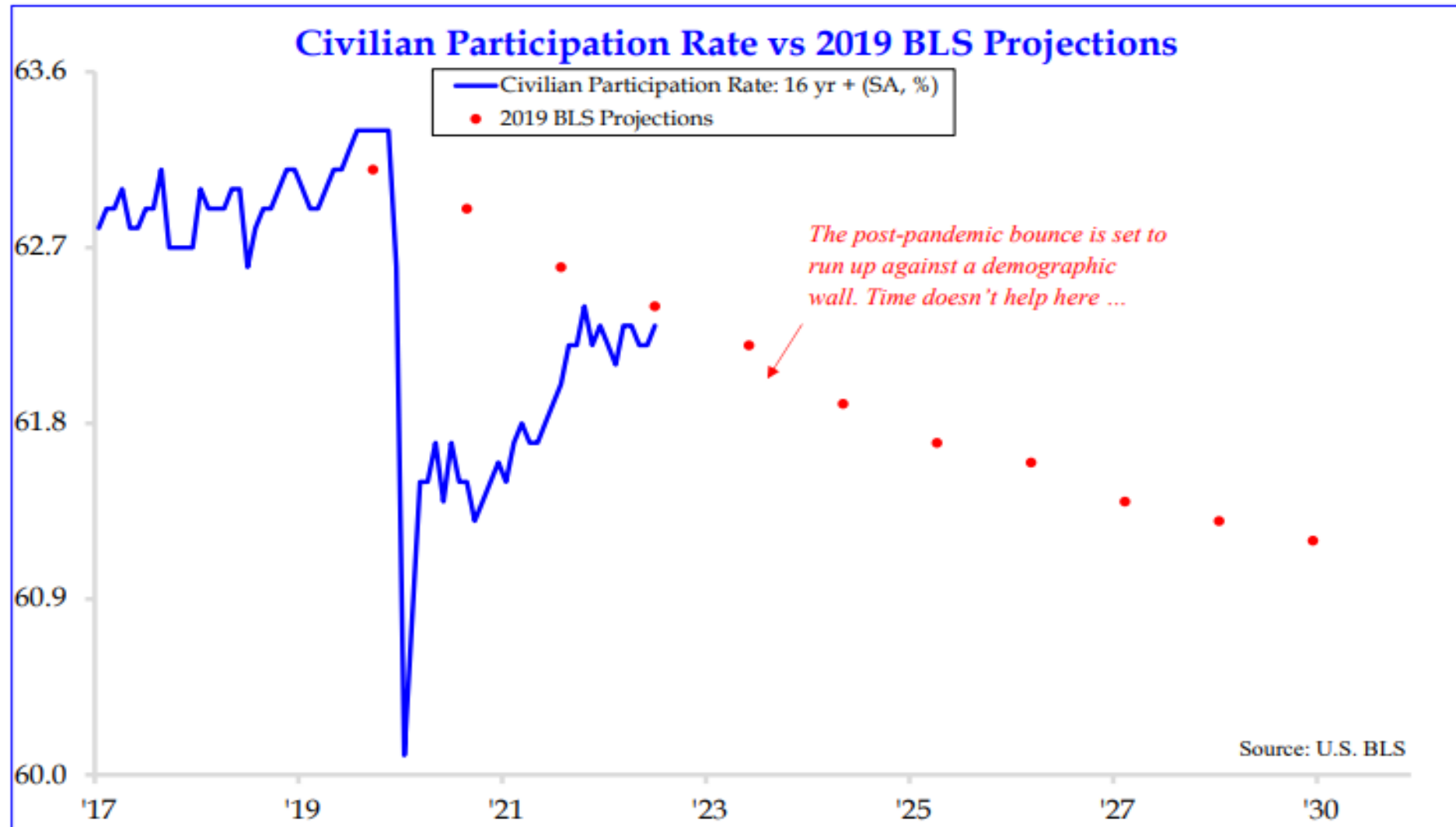
Workers are getting paid more and doing less

— Wage Growth — Productivity Growth



Source: Atlanta Federal Reserve, U.S. Bureau of Labor Statistics, as of December 23, 2022

U.S. LABOR FORCE PARTICIPATION STILL UNDER DEMOGRAPHIC PRESSURE

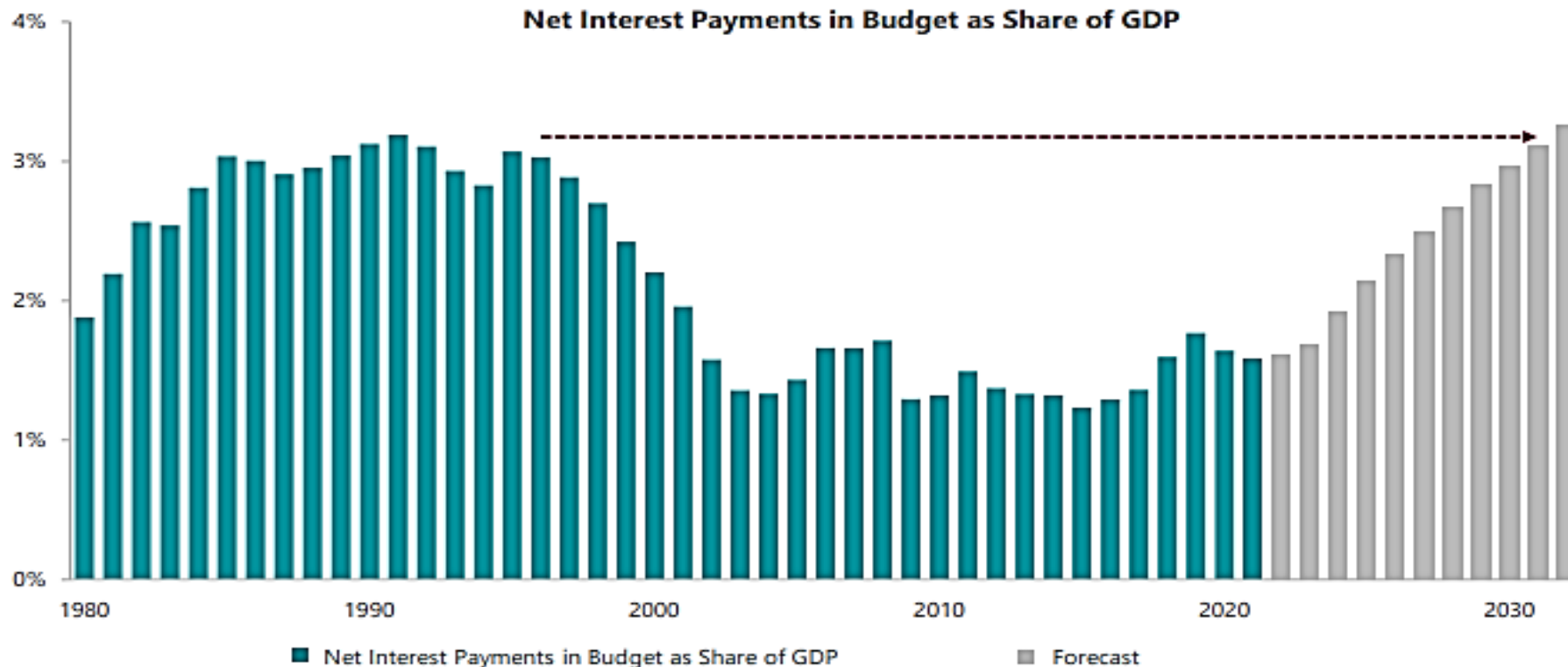


Why has there been high media attention on the U.S. Government debt?

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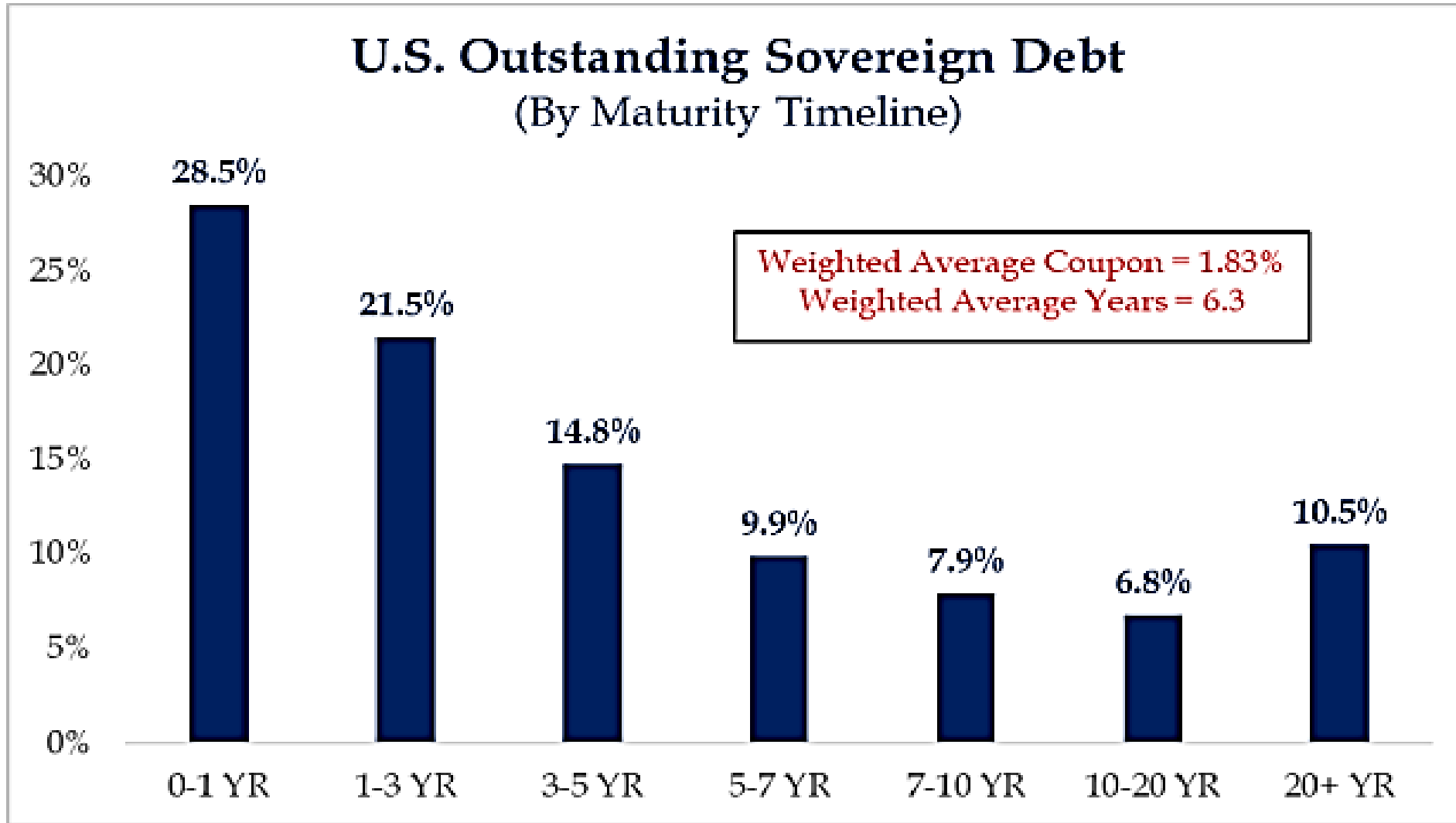
When Will U.S. Debt Be An Issue?



- ▶ **Despite a dramatic increase in government debt outstanding, total debt servicing costs as a percent of GDP have declined due to falling rates.**
- ▶ **While this could become a risk in the next decade, the intermediate-term outlook appears less troubling.**
- ▶ **Current CBO projections show the interest burden returning to early 1990's levels over the next decade.**

ClearBridge Investments

Interest Expense Will Be Rising Quickly



Source: Strategas Research Partners

Is the Stock Market in a
Bear Market Rally or the
Beginning of a new Bull
Market?

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We Saw Many Bear Market Rallies In 2022 And Expect More In 2023

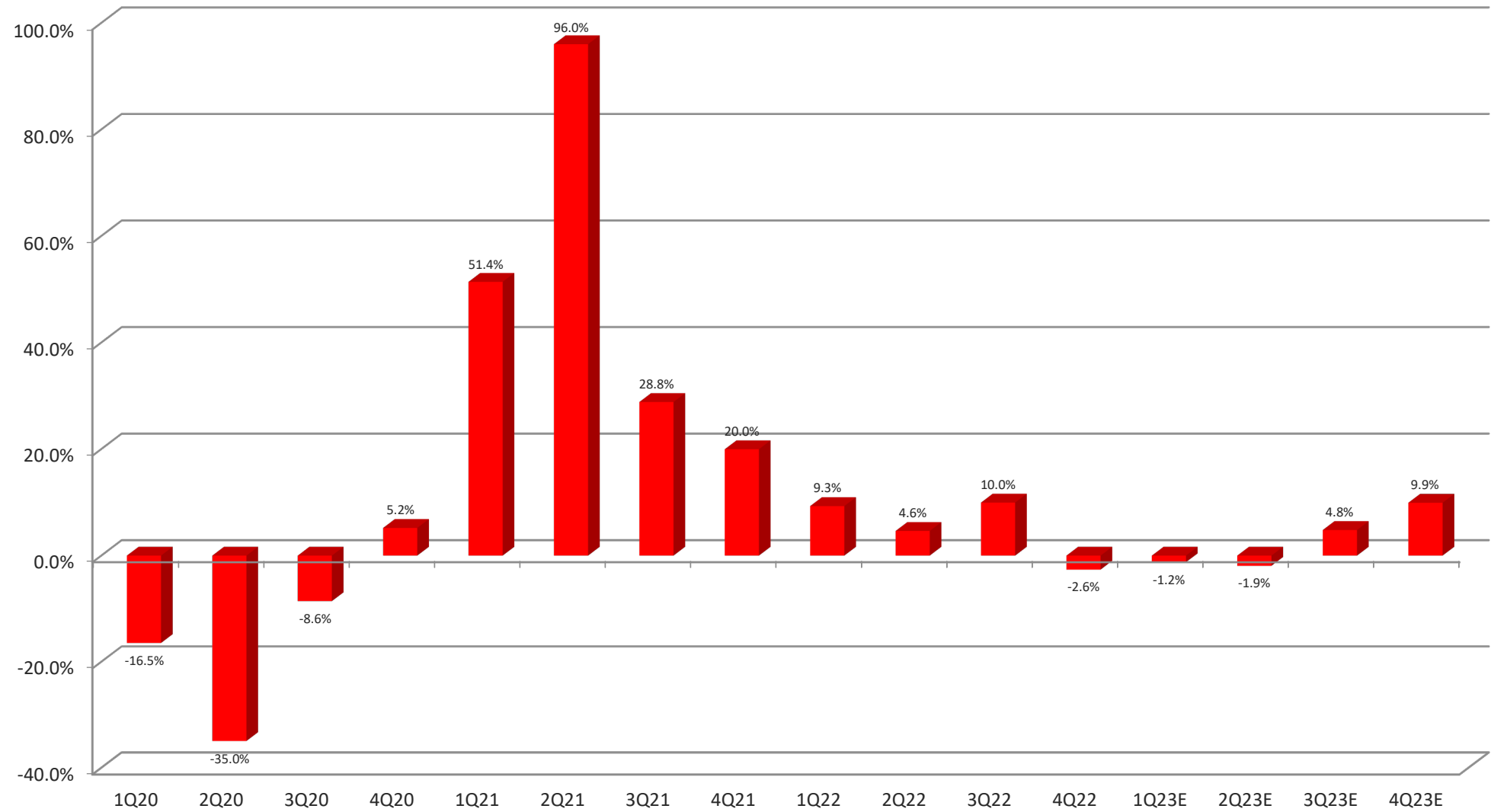


Potential List Of Bear Market Rally Catalysts

- Lower Gasoline/Oil Prices ✓
- Softer Inflation ✓
- Weak Employment Data? ← Up Next??
- Actual Fed Pivot?
- End Of Russia-Ukraine War?
- Global CB Currency Coordination (\$)?

Source: Piper Sandler

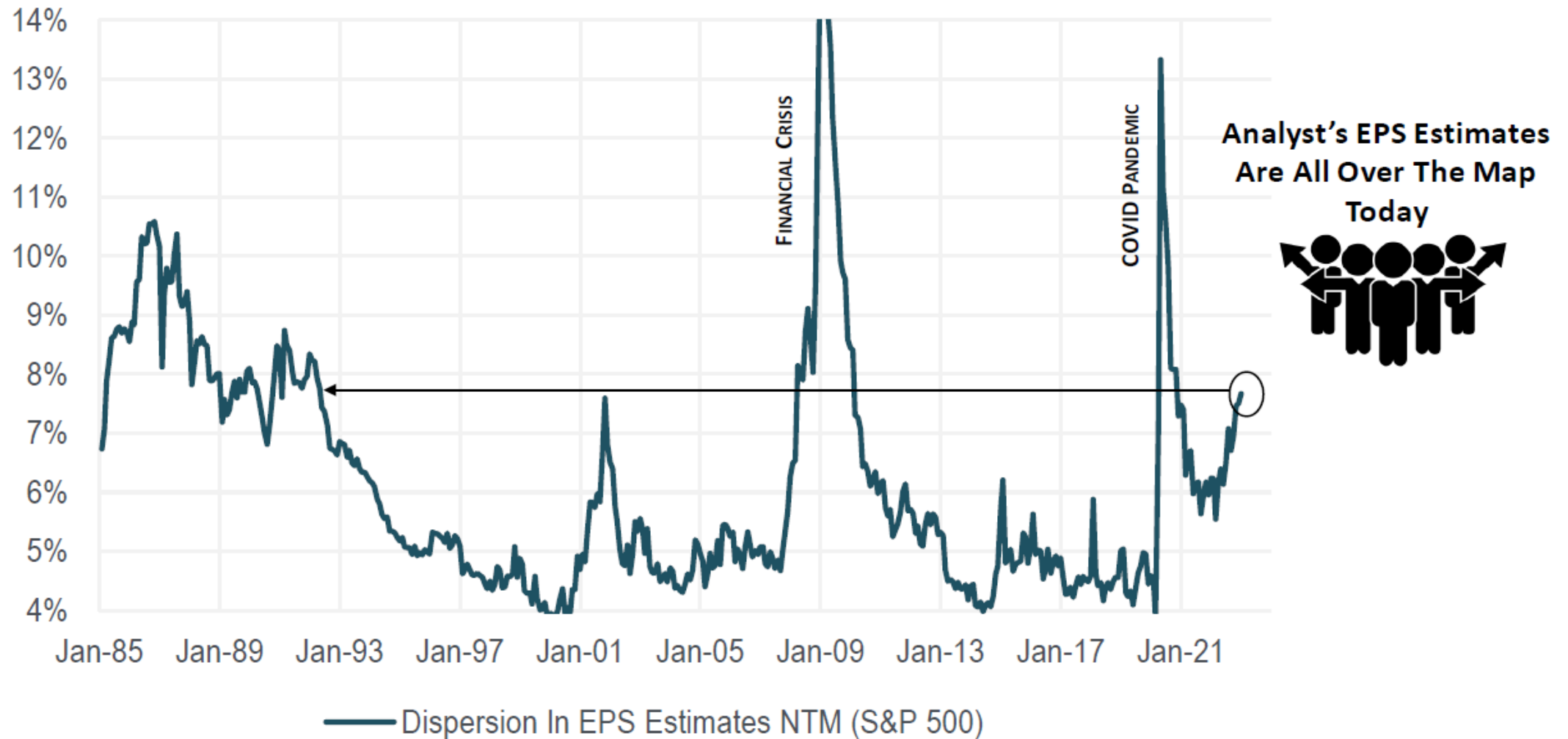
S&P 500 Index Profit Growth Estimates Maybe Overly Optimistic!



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

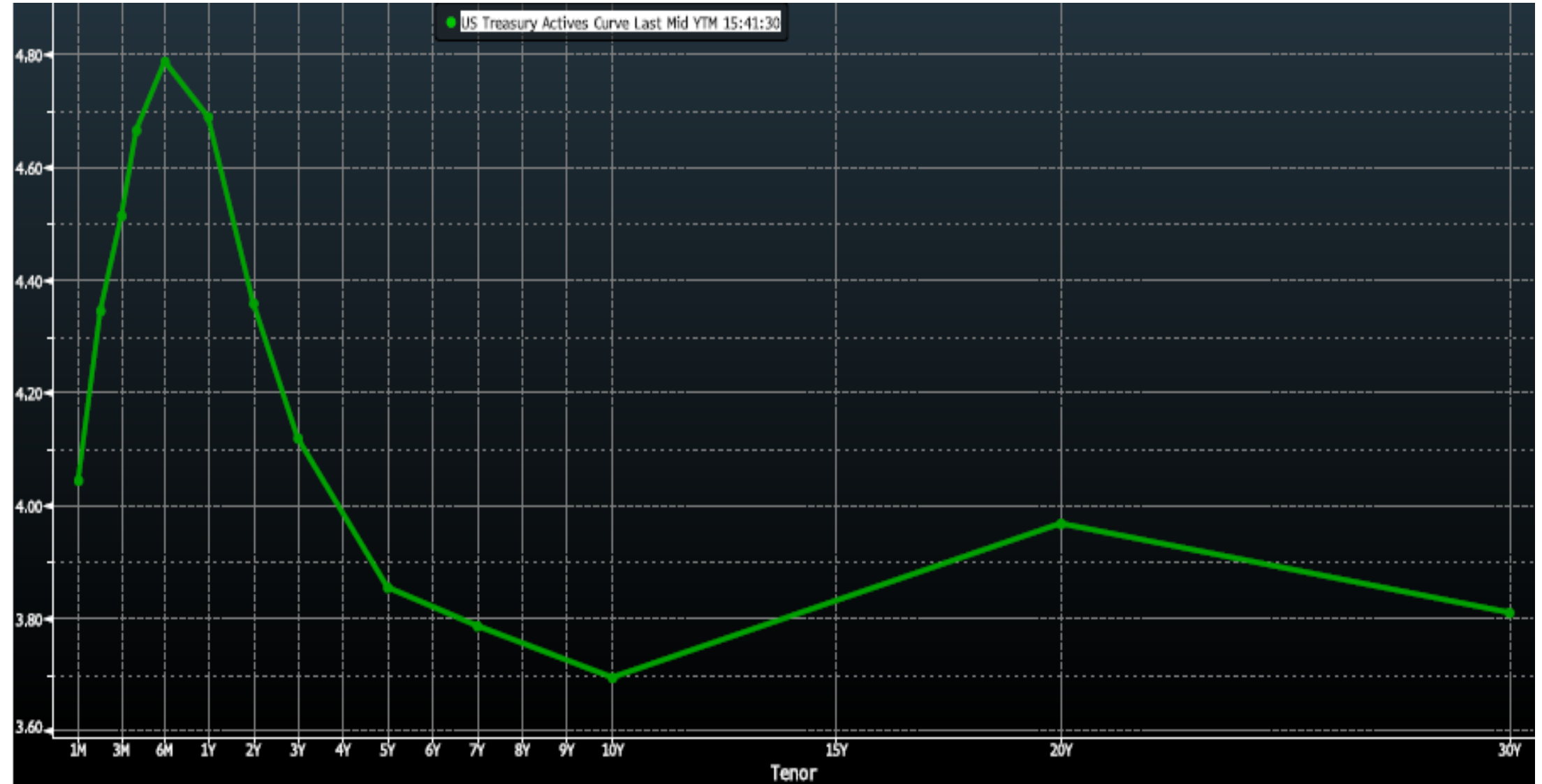
Where Are EPS Estimates Headed?

EPS Are Headed Lower But It's Hard To Predict A Level With Conviction



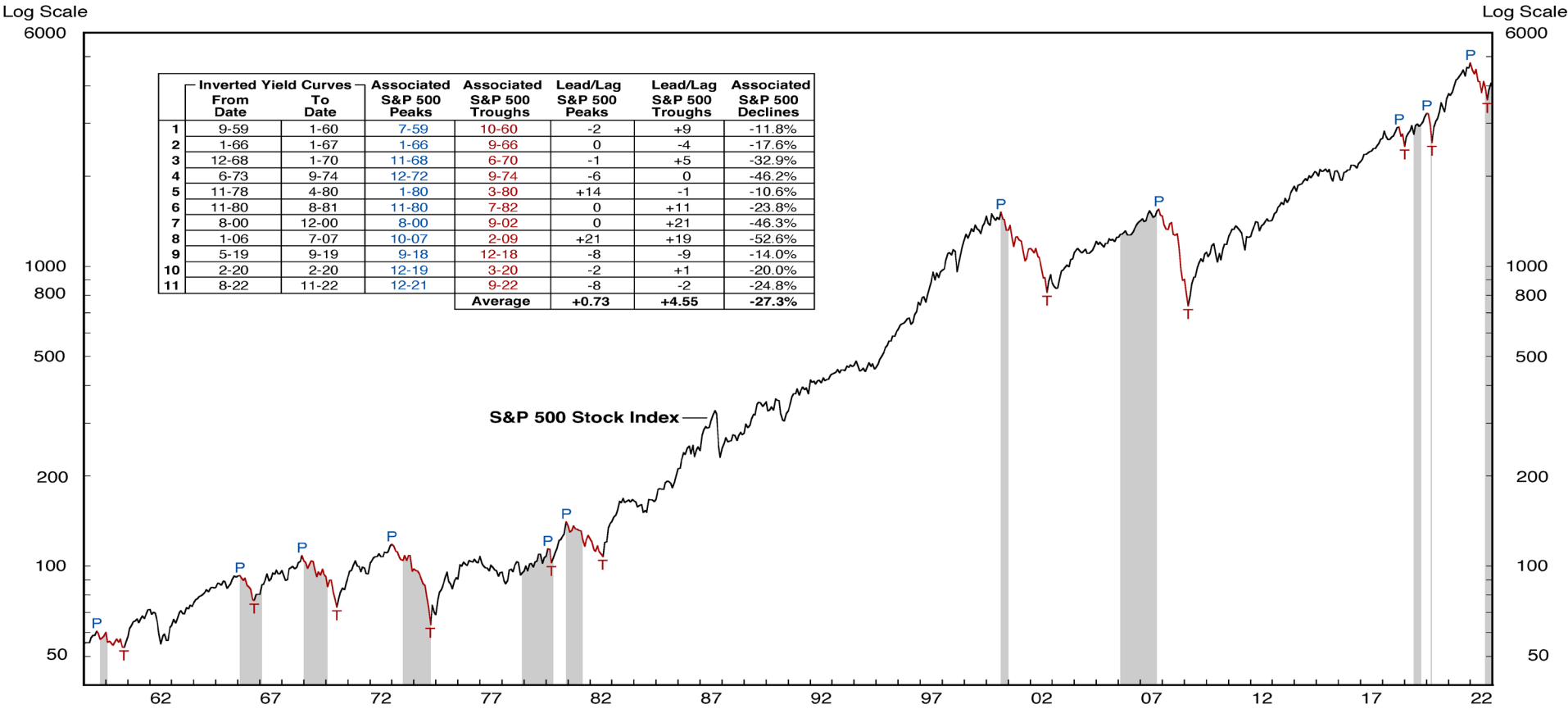
Source: Piper Sandler

UST Active Curve is Inverted



Source: Bloomberg

Inverted Yield Curves and the Stock Market



Data: Monthly; Last Observation November 2022

Shaded areas represent periods of inverted yield curves (Monthly Averages, 3 Month Treasury Bill Yields and/or 6 Month Treasury Bill Yields were greater than those of the 10 Year Treasury Bond).

P or T signifies the peak or trough for the S&P 500 Stock Index associated with periods of inverted yield curves.

"Lead/Lag" column in the table: Negative (-) numbers signify months prior to the beginning or end of periods of inverted yield curves.

Positive (+) numbers signify months after the beginning or end of periods of inverted yield curves.

Sources: Standard & Poor's Corporation; Federal Reserve Board • Copyright © 2022 Crandall, Pierce & Company • All rights reserved.

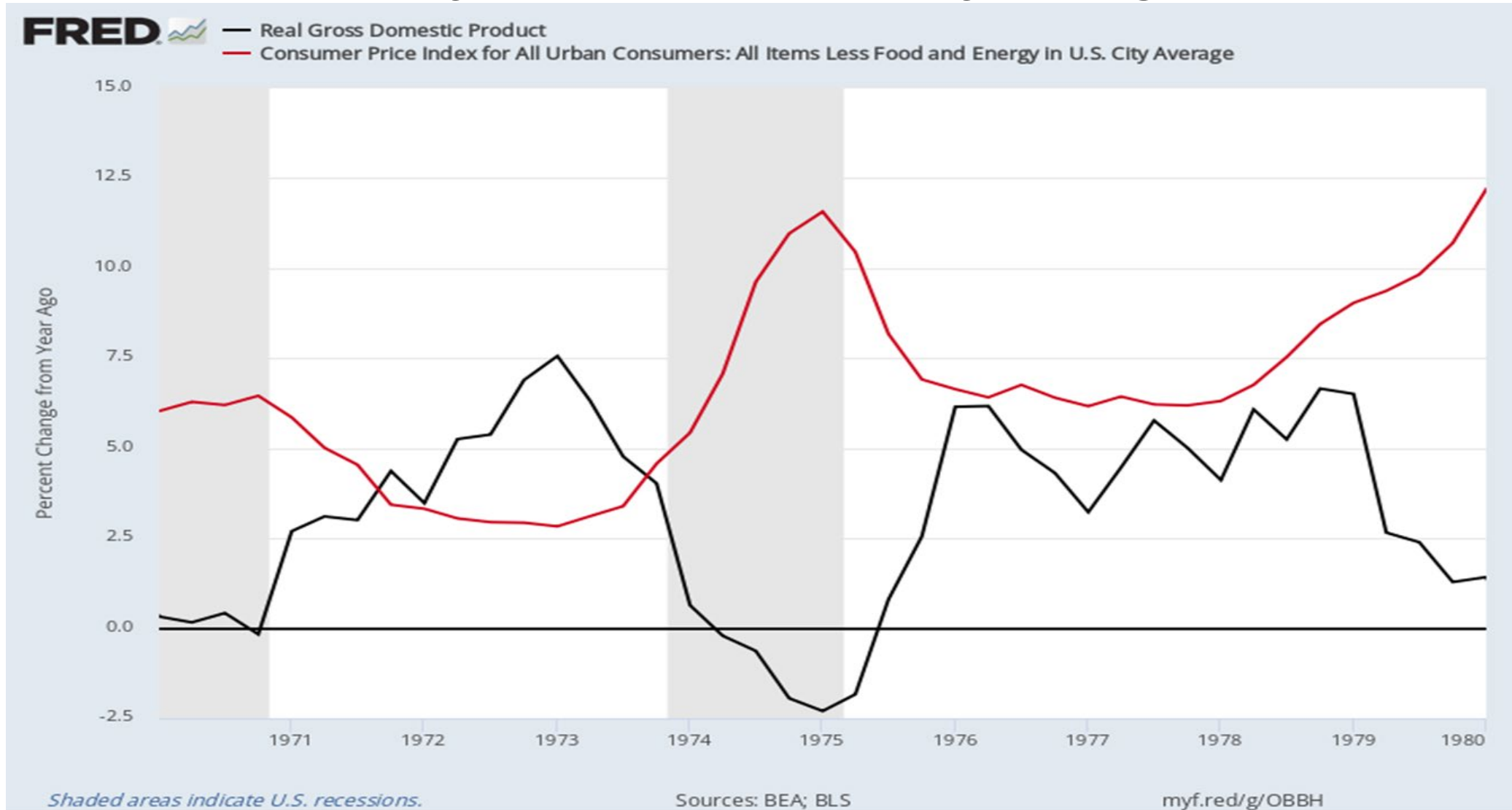
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With inflation on the rise
and slower expected GDP
growth is the economy
heading for a period of
stagflation?

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Is the US Economy Headed for '70s-Style Stagflation?



Source: The Bureau of Economic Analysis & Bureau of Labor Statistics

Ten Market Predictions for 2023

- **Inflation will be stickier than predicted...remember Wall Street's favorite slogan - "Transitory"?**
- **Higher Oil/Food Prices will continue to Squeeze Consumer Spending...Retarding GDP Growth.**
- **Fed will pivot once the FFUND's rate intersects the PCE Index...but not as soon as the market is predicting!**
- **The Bear Market in Bonds should stabilize.**
- **S&P 500 Analyst Earnings Estimates are overly optimistic leading to downward revisions.**
- **Neither a Hard or Soft Landing is Priced in the Market...so Pick your Poison!**
- **Stocks will not Bottom until Housing Data and Fed Policy Reverses.**
- **An unexpected event like an escalation in Ukraine/Russia or Taiwan/N. Korea conflicts could ambush the markets.**
- **Expect little Stimulus out of Washington with a Spilt Congress.**
- **The Three I's will continue to incumber the market:**
 - **Interest Rates ("Don't Fight the Fed")**
 - **Inflation (Highest since 1982)**
 - **Inverted UST Yield Curve**

Disclosure

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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.

Thank you for joining us

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A link to today's recording will be sent via email.

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