

Insights from Synovus  
**Economic Forecast**

Tuesday, November 15, 2022





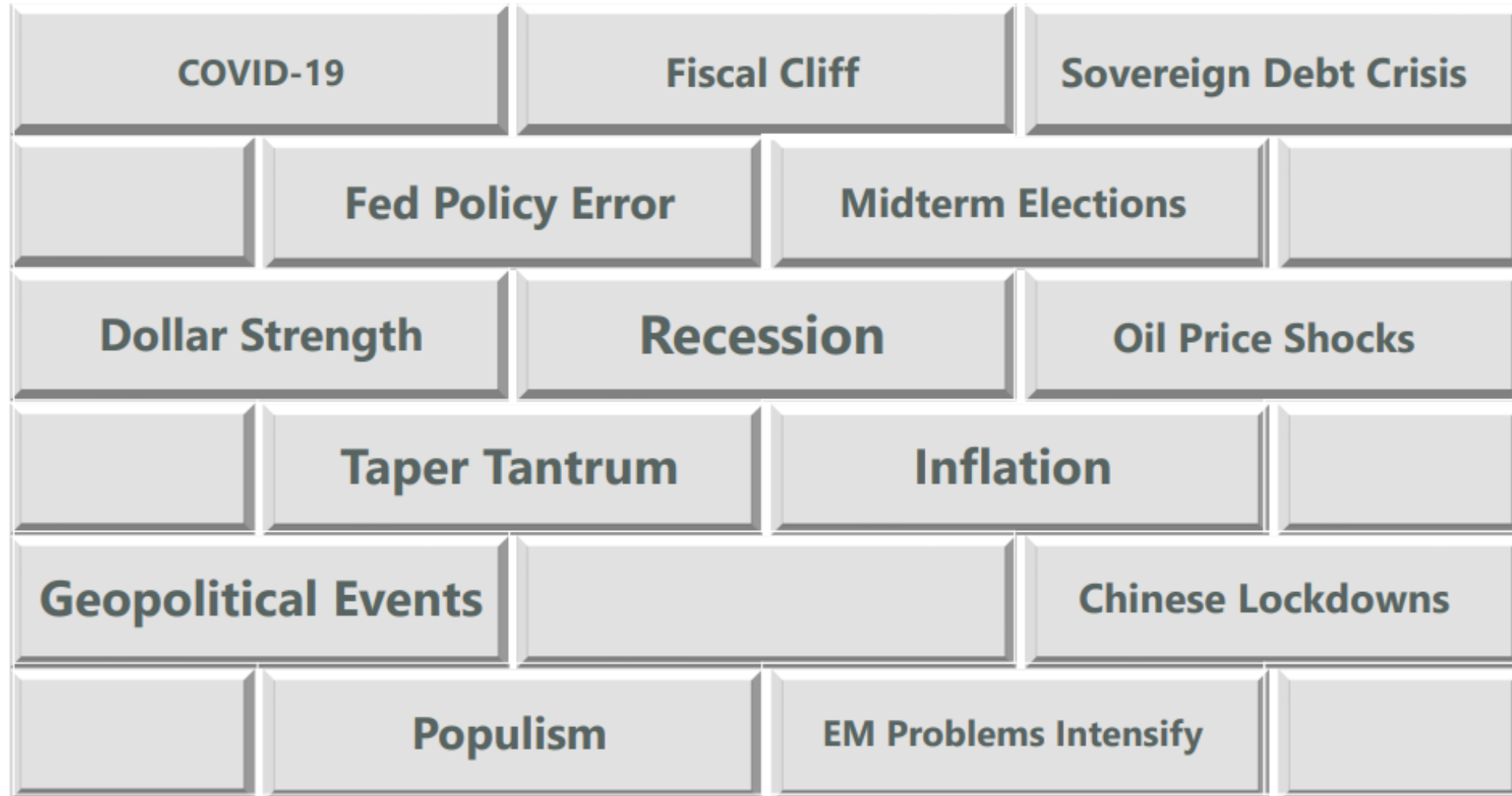
Robert Nobles  
Chief Investment Officer  
Synovus Trust

# Guest Speaker

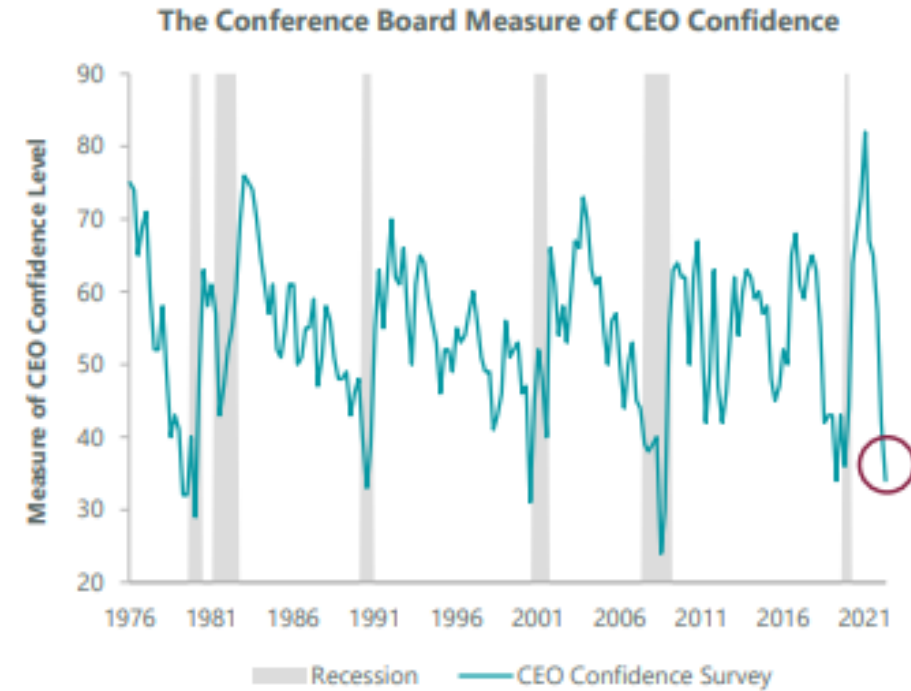
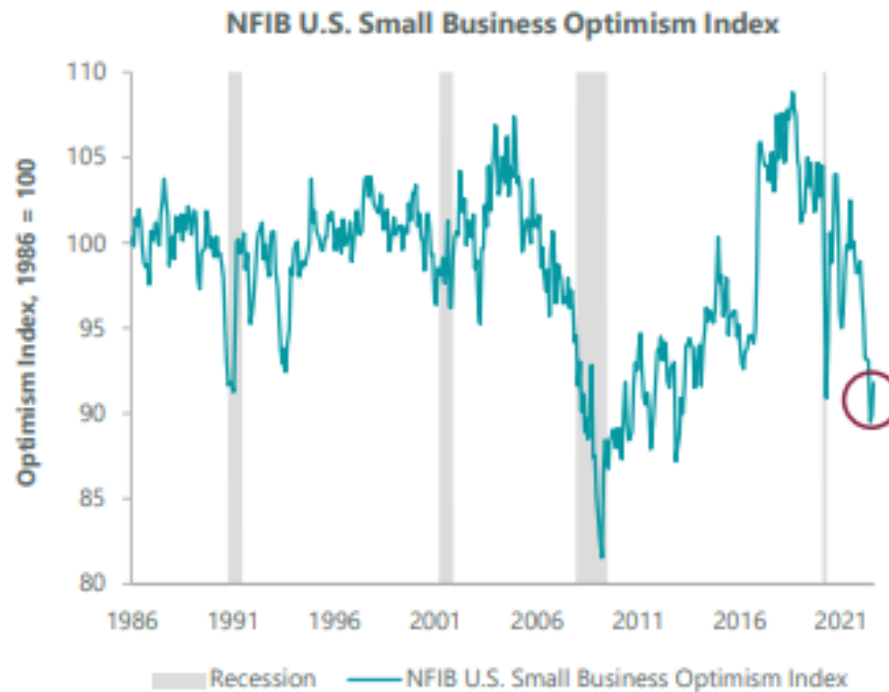


What is the health of today's economy  
and the level of confidence from  
consumers and businesses?

# Probabilities vs. Possibilities – The Wall of Worry

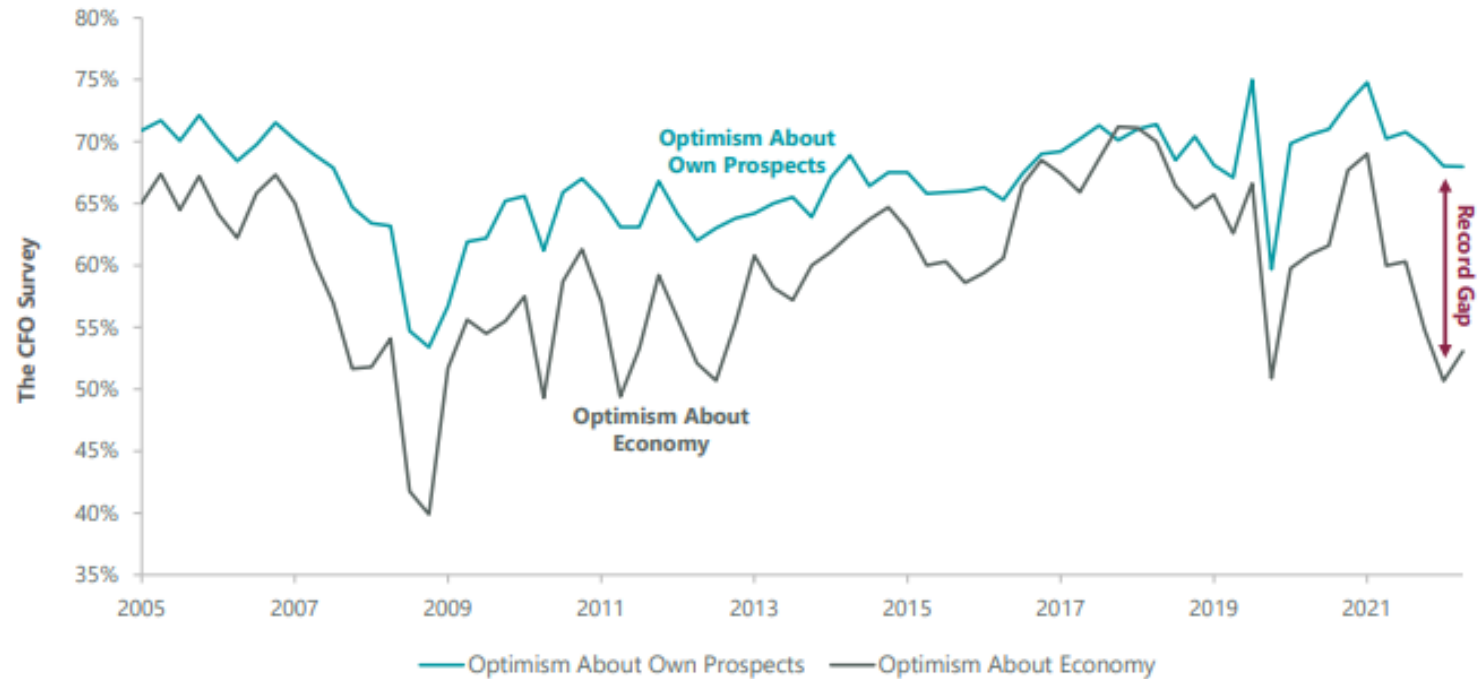


# Crisis of Confidence?



- ▶ **Similar to consumer confidence, business confidence has fallen rapidly in the face of higher inflation and tighter monetary policy.**
- ▶ **This could weigh on future hiring decisions and capital spending plans.**

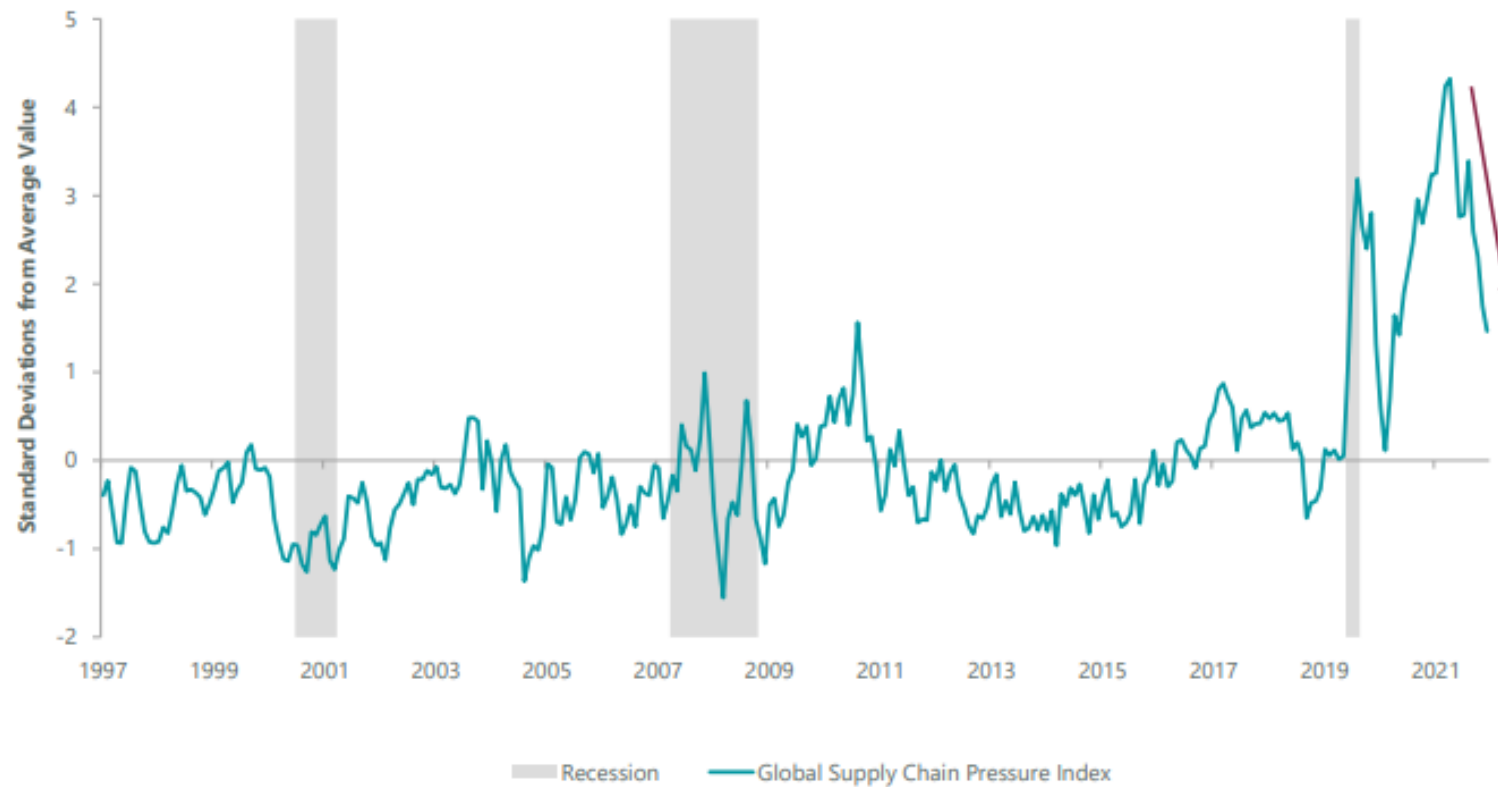
# CFO Confidence and Outlook



- ▶ **The Bad: CFO confidence about the economy is at near-recessionary levels.**
- ▶ **The Good: CFO confidence about their own businesses remains buoyant potentially signaling less belt tightening to come.**

Data as of Sept. 30, 2022. Source: FactSet, Duke University and the Federal Reserve Banks of Richmond and Atlanta, ClearBridge Investments

# Supply Chain Bottlenecks Abating



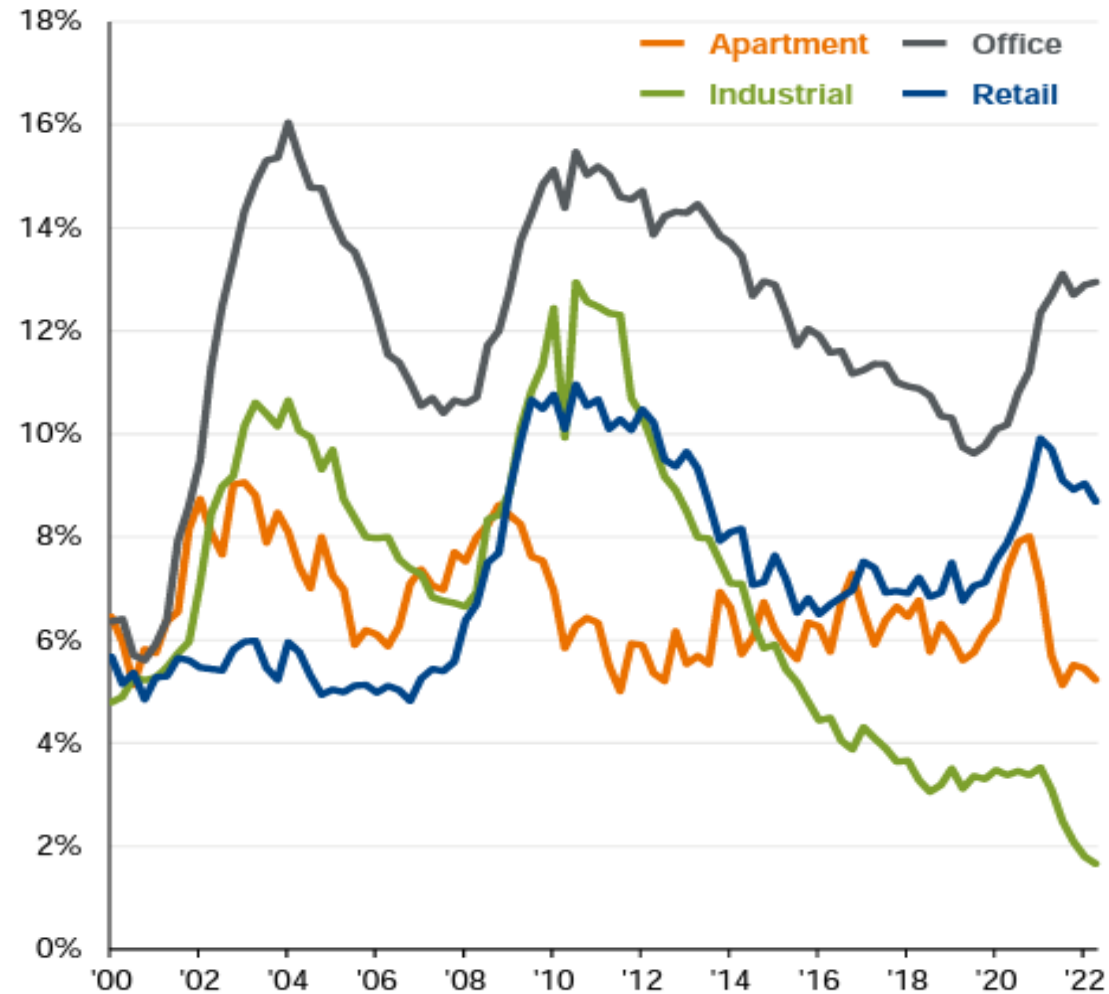
- ▶ **Following spikes during the initial pandemic and delta variant outbreaks, global supply chain pressures appear to be easing.**

Data as of Aug. 31, 2022, latest available as of Sept. 30, 2022. Source: Federal Reserve Bank of New York, FactSet, ClearBridge Investments.

# U.S. Real Estate

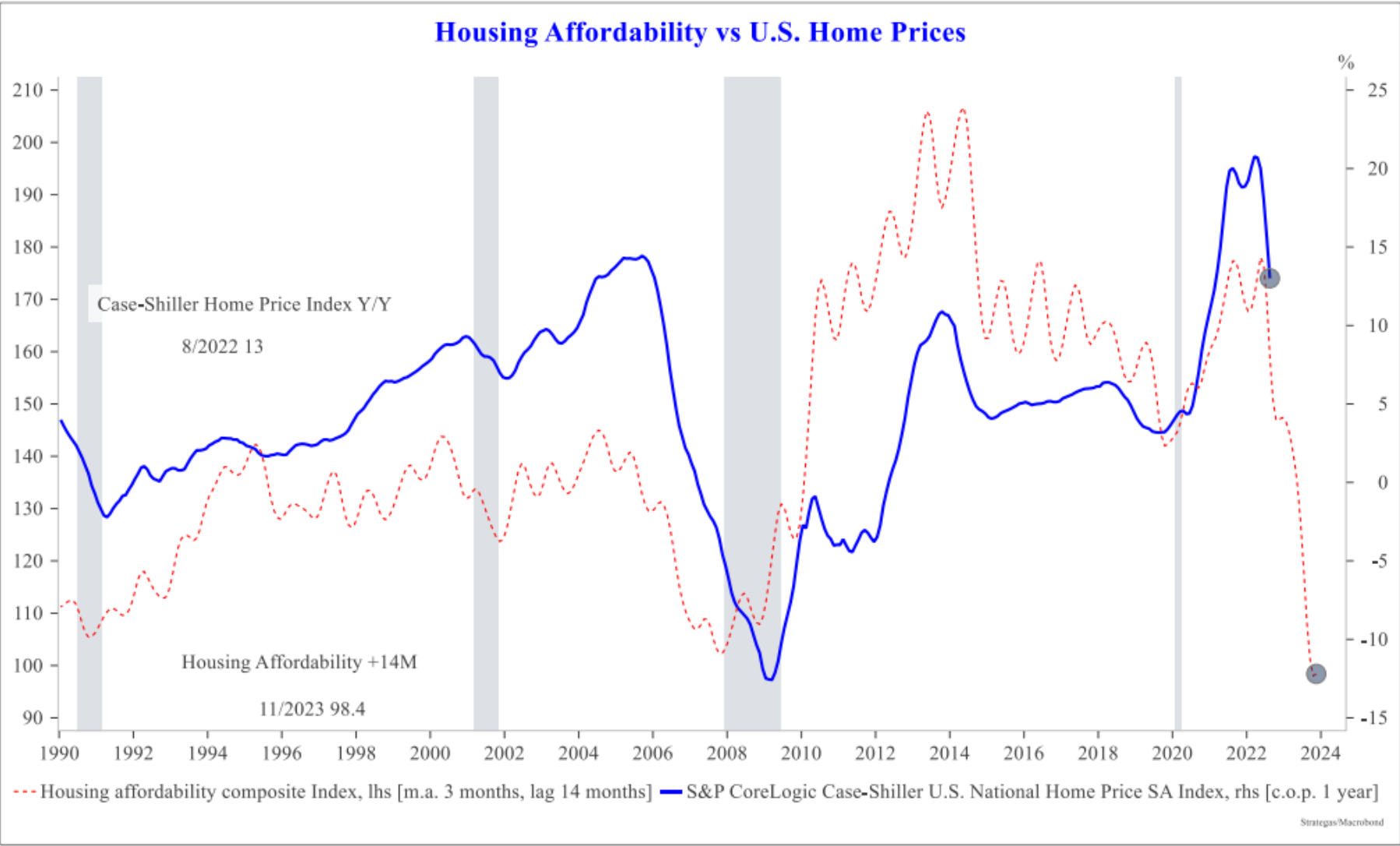
**U.S. vacancy rates by property type**

Percent

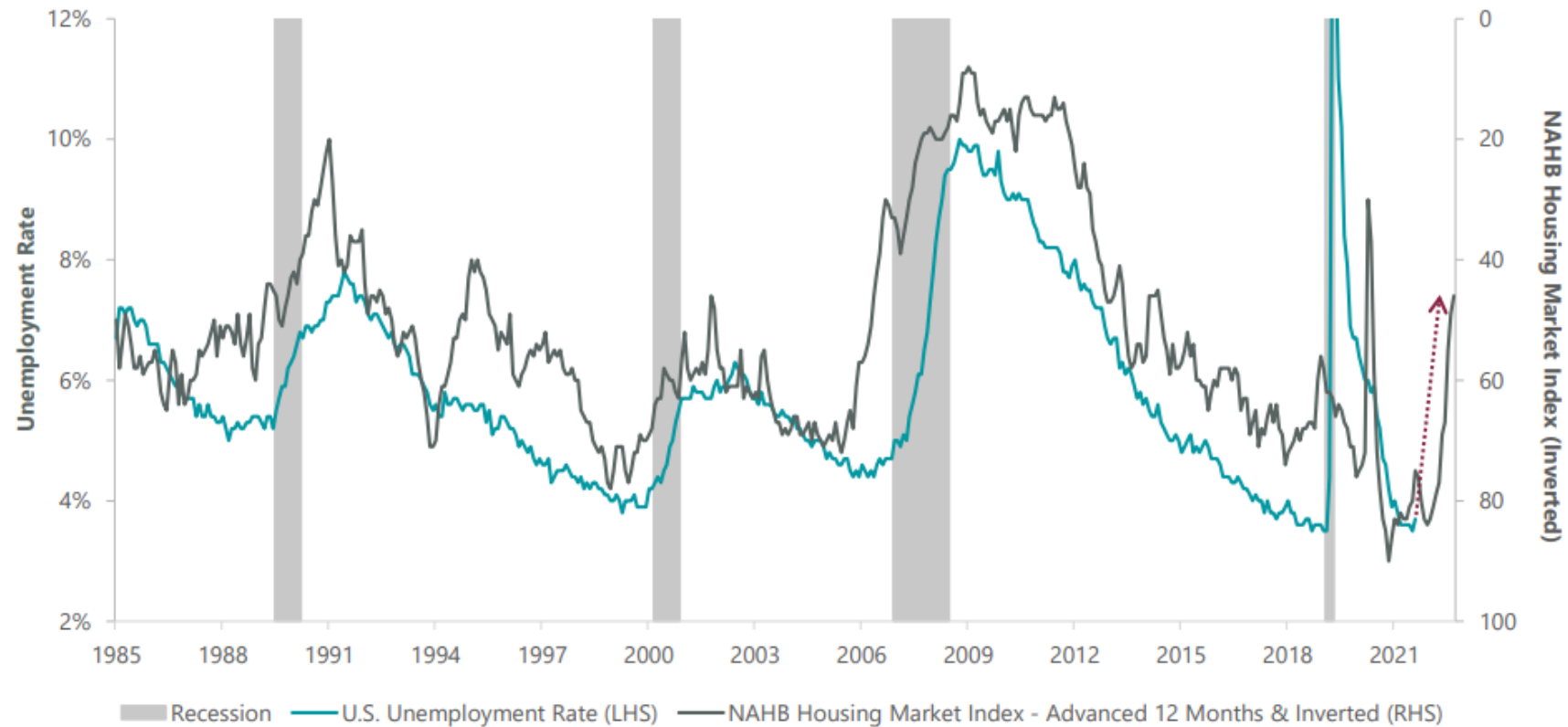




# U.S. HOUSING AFFORDABILITY PLUMMETING

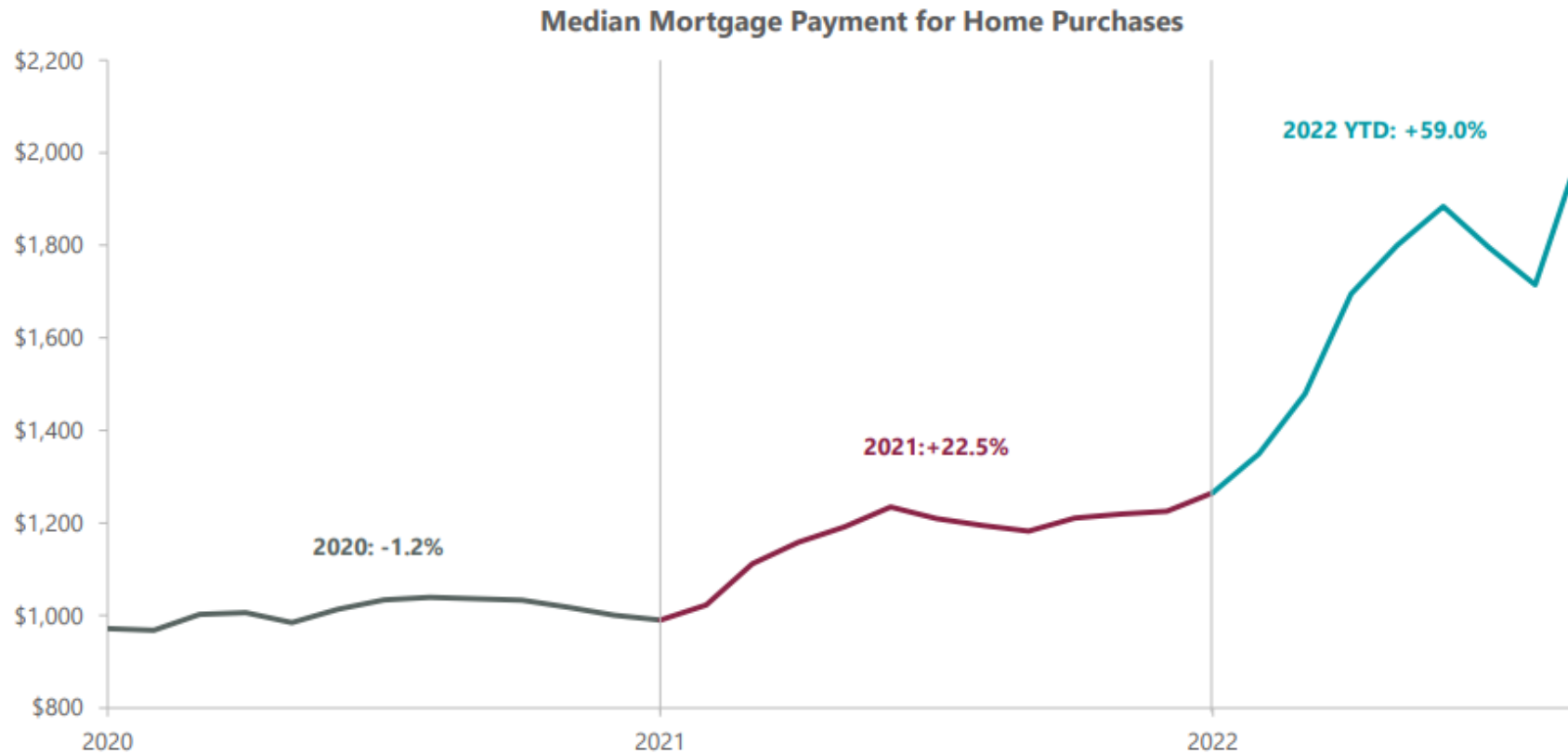


# Housing is the Business Cycle



- ▶ **The National Association of Home Builders (NAHB) survey tends to lead the unemployment rate by 12 months.**
- ▶ **Should the historical relationship hold, unemployment is likely to rise in the coming year.**

# Housing: Bend or Break?



- ▶ **Mortgage payments have skyrocketed due to the combination of rapid home price appreciation and a near-doubling in mortgage rates.**
- ▶ **However, constrained housing supply should cushion downward pressure from more limited affordability.**

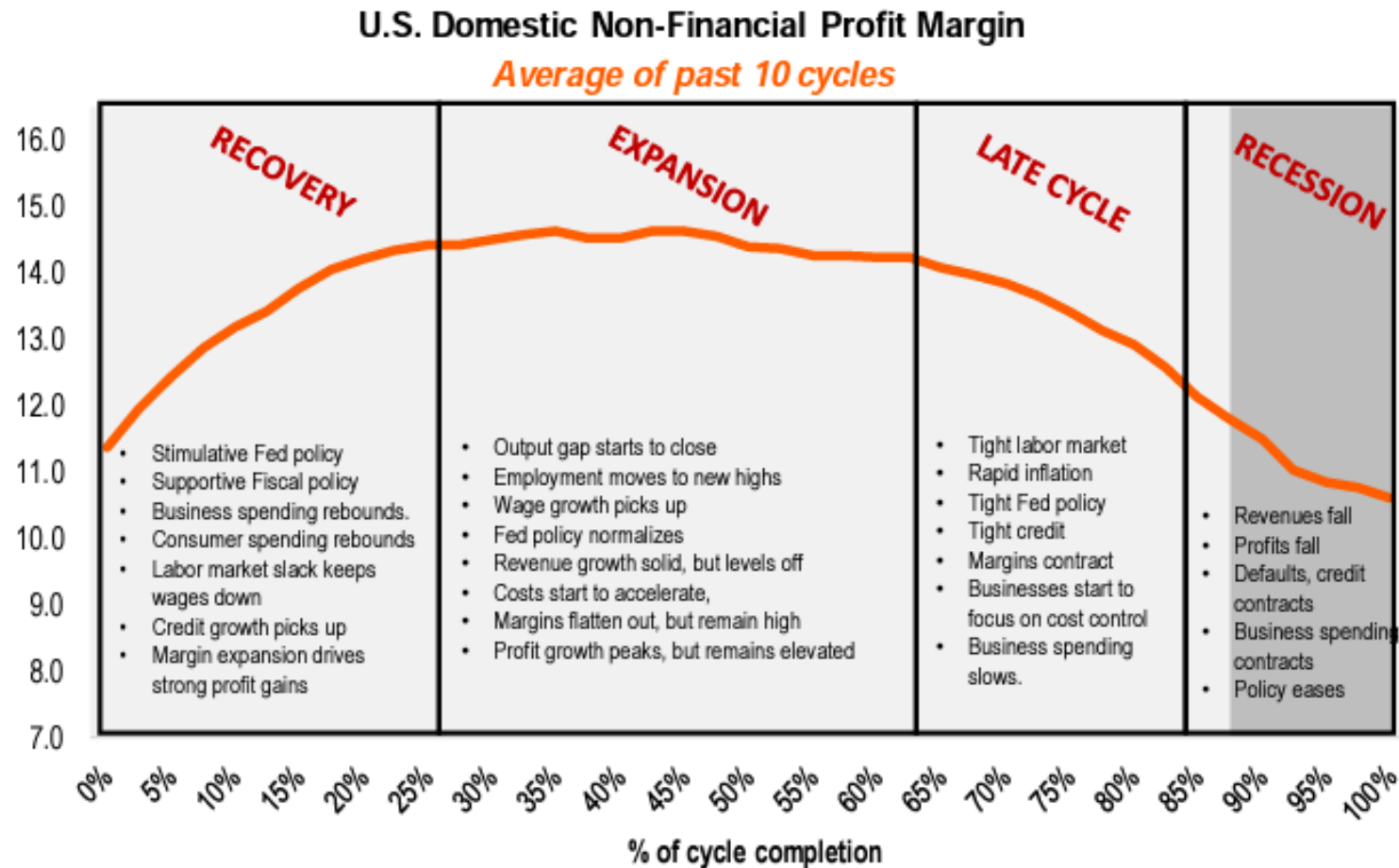
Data as of Sept. 30, 2022. Source: FactSet, U.S. National Association of Realtors, and Freddie Mac.



Is a recession definitely occurring in  
2023?

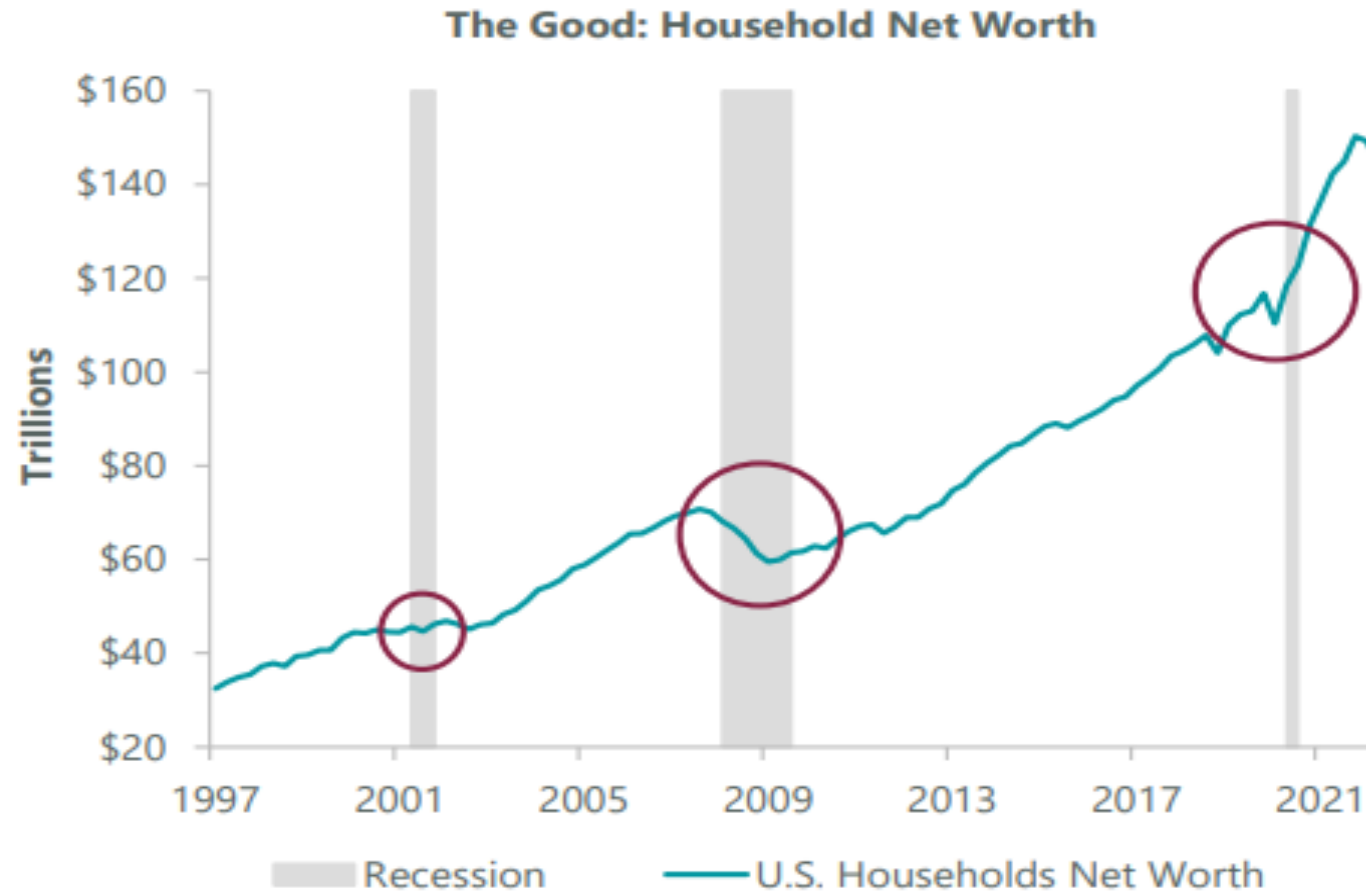


## THE BUSINESS CYCLE IS REALLY A PROFIT MARGIN CYCLE.

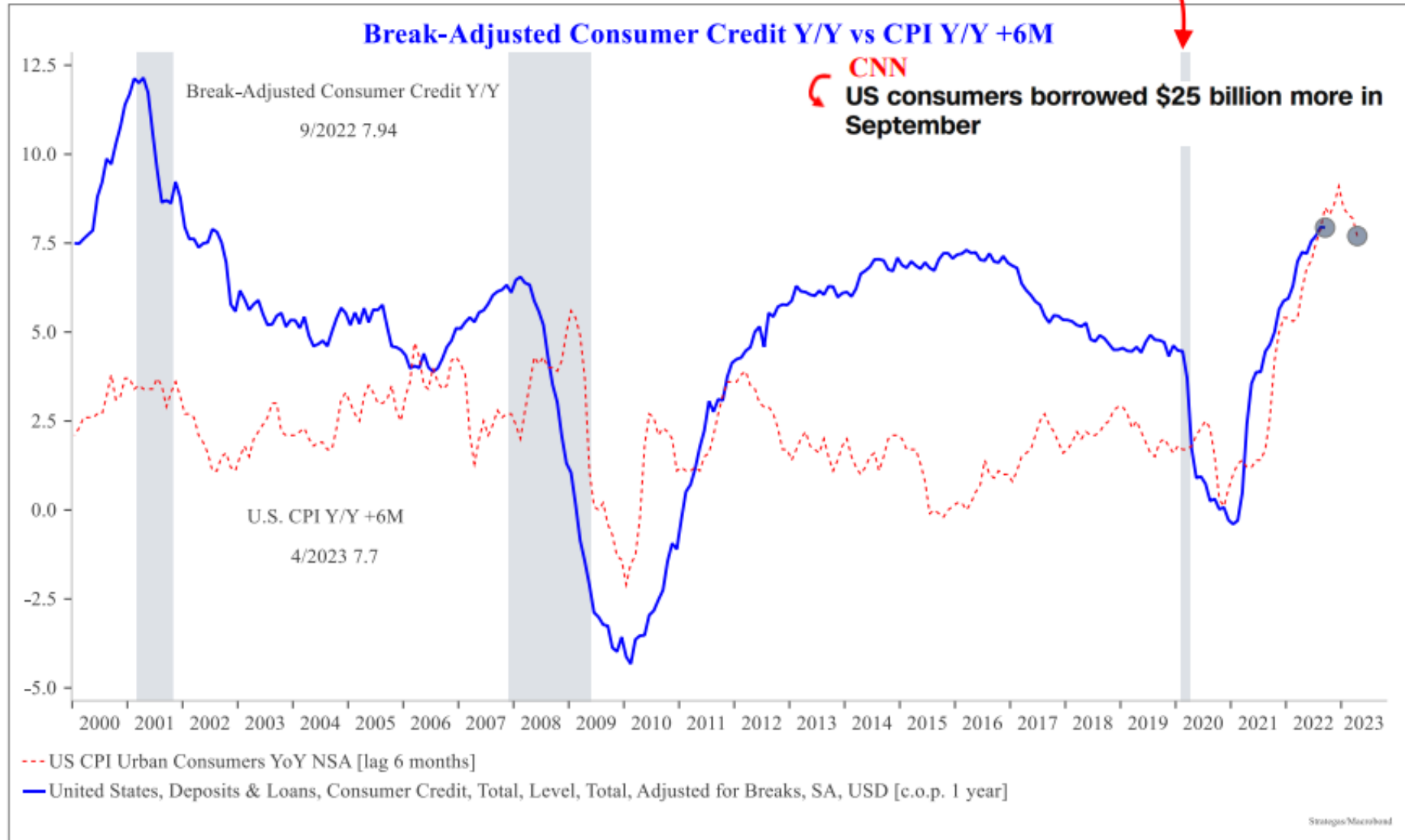


Source: Piper Sandler

# Higher Household Net Worth

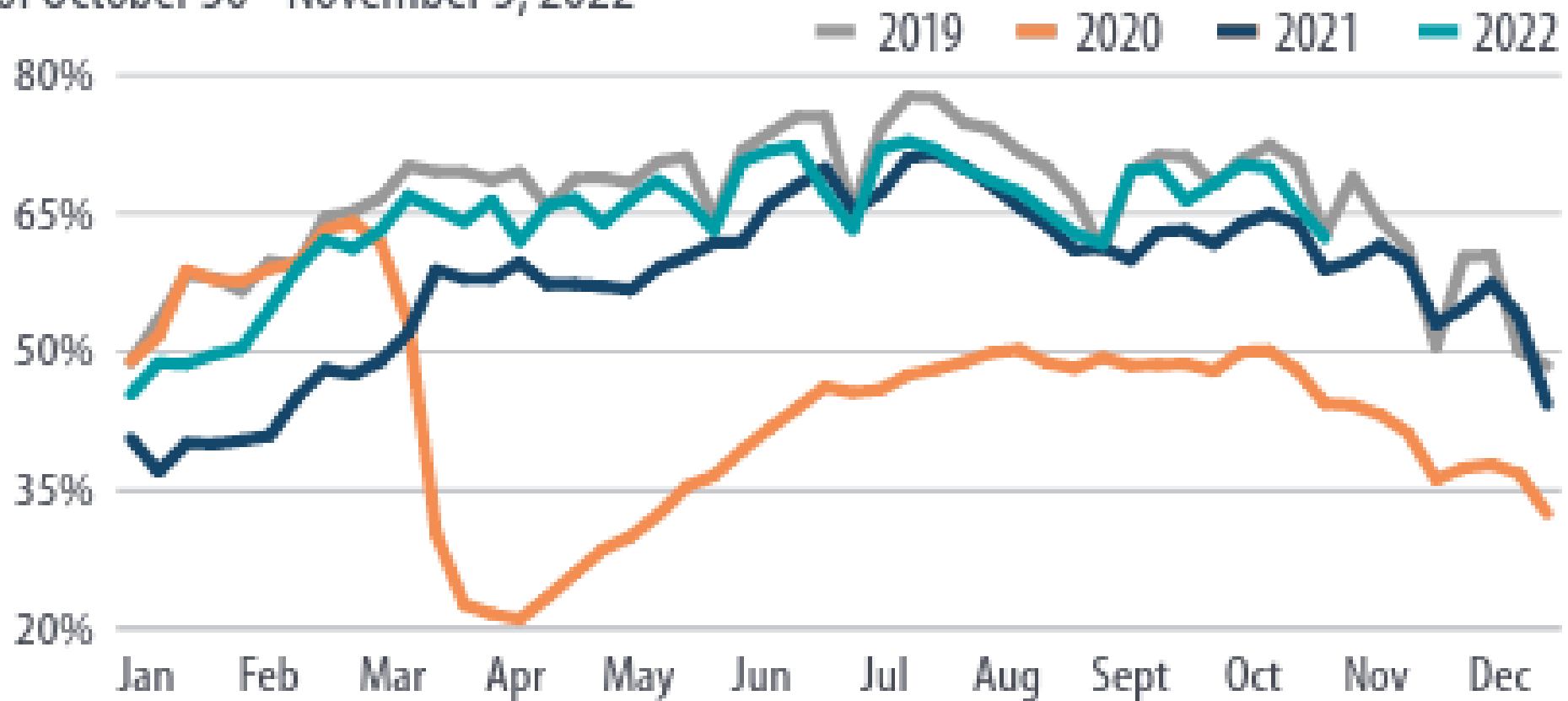


## U.S. CONSUMERS REMAIN PRESSURED, RESORTING TO CREDIT TO HANDLE INFLATION



# HOTEL OCCUPANCY

As of October 30 - November 5, 2022





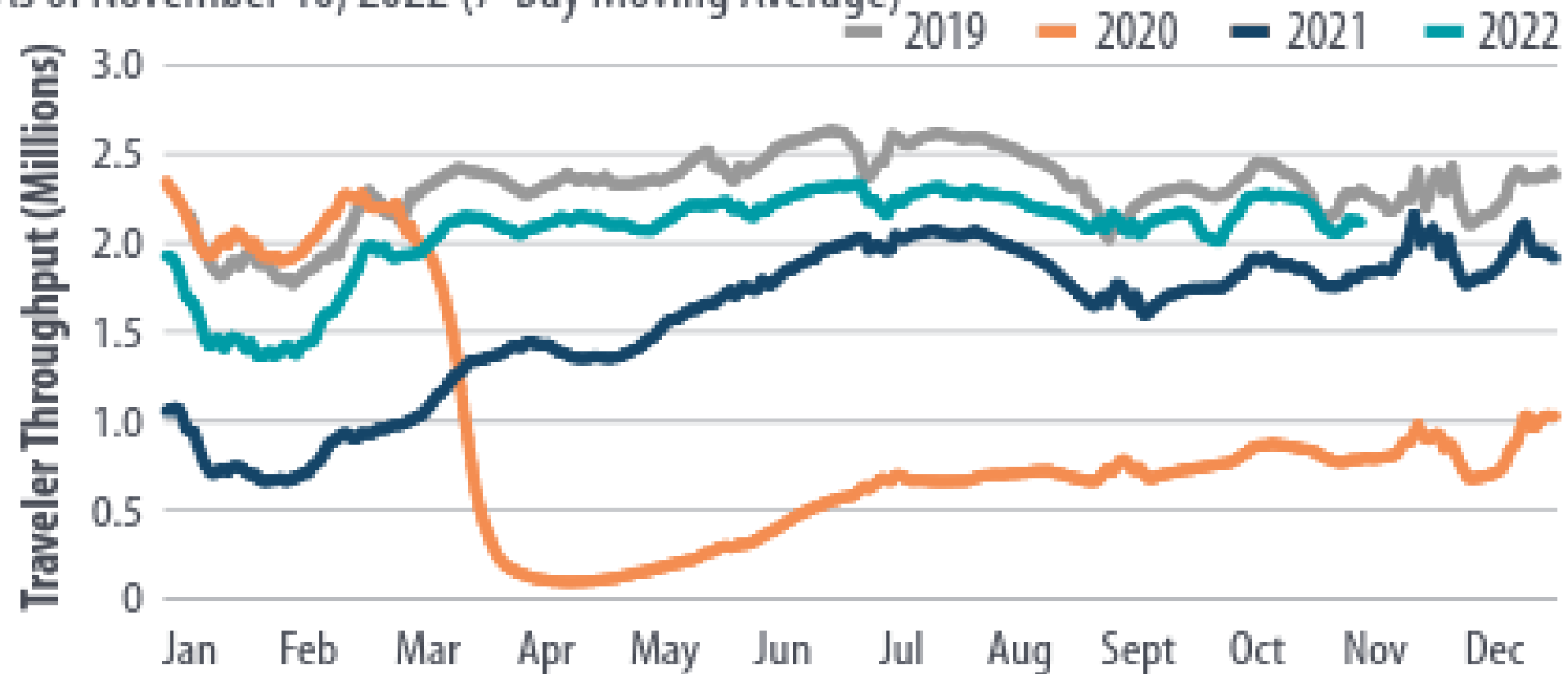
# OPENTABLE STATE OF THE RESTAURANT INDUSTRY

As of November 9, 2022 (7-Day Moving Average)



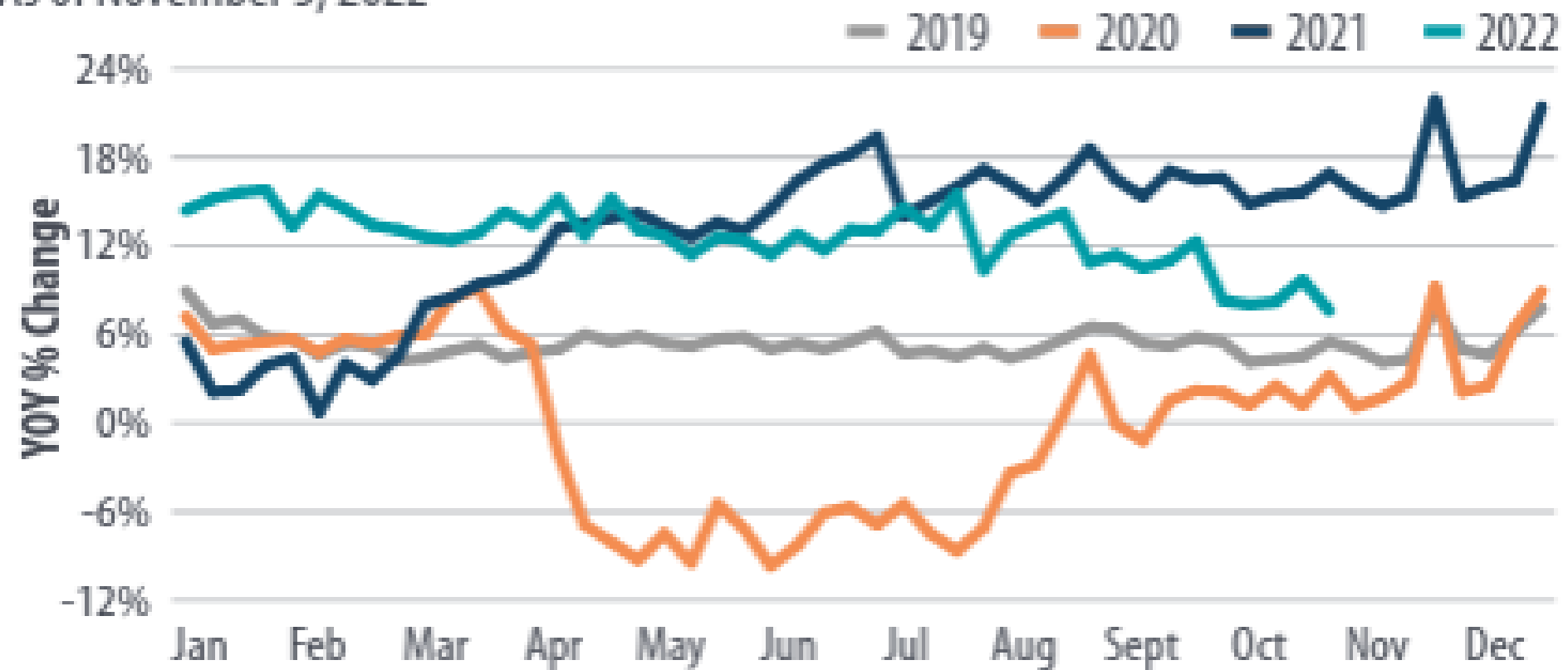
# TSA CHECKPOINT DATA

As of November 10, 2022 (7-Day Moving Average)

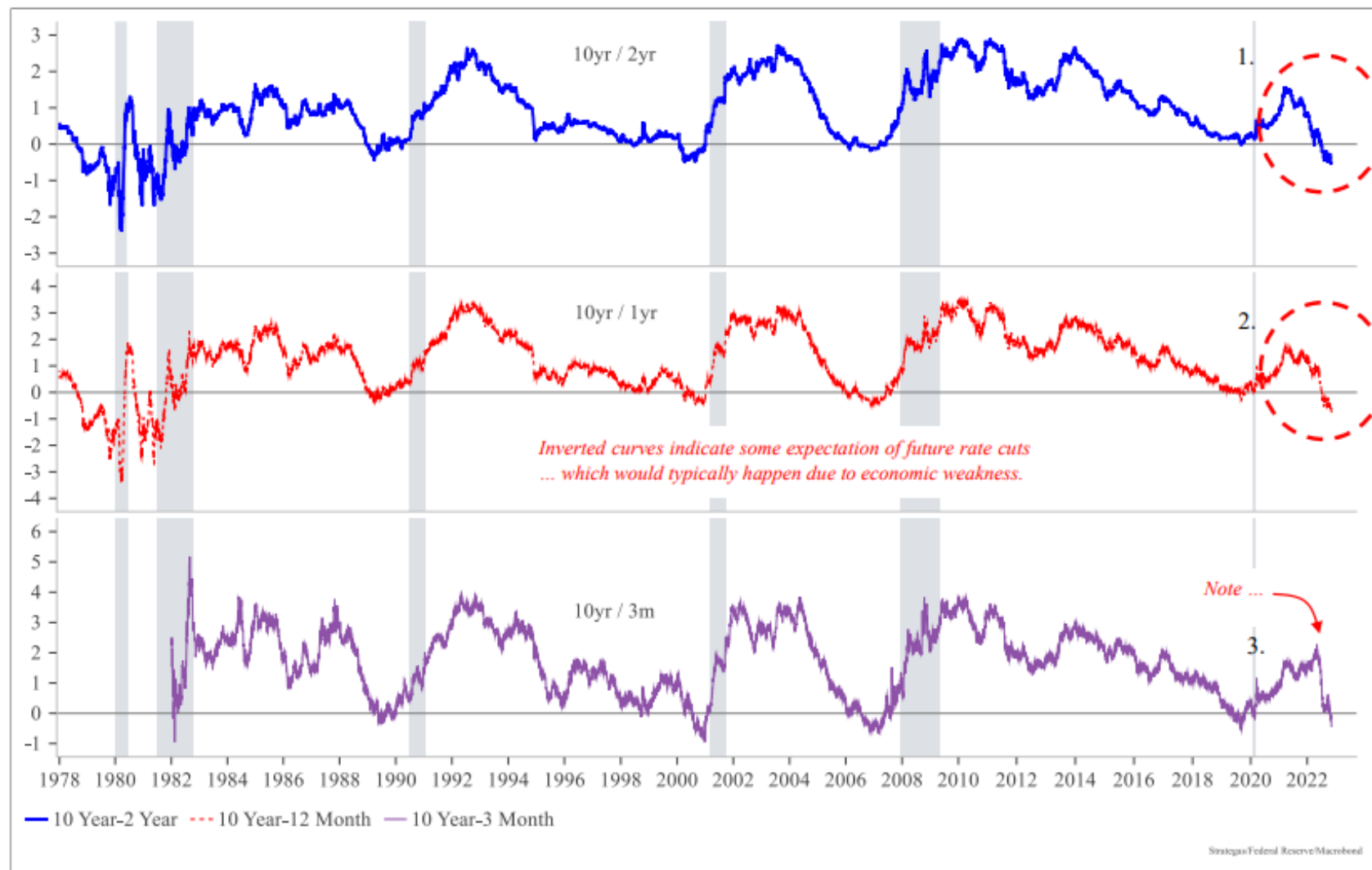


# WEEKLY RETAIL SALES

As of November 5, 2022

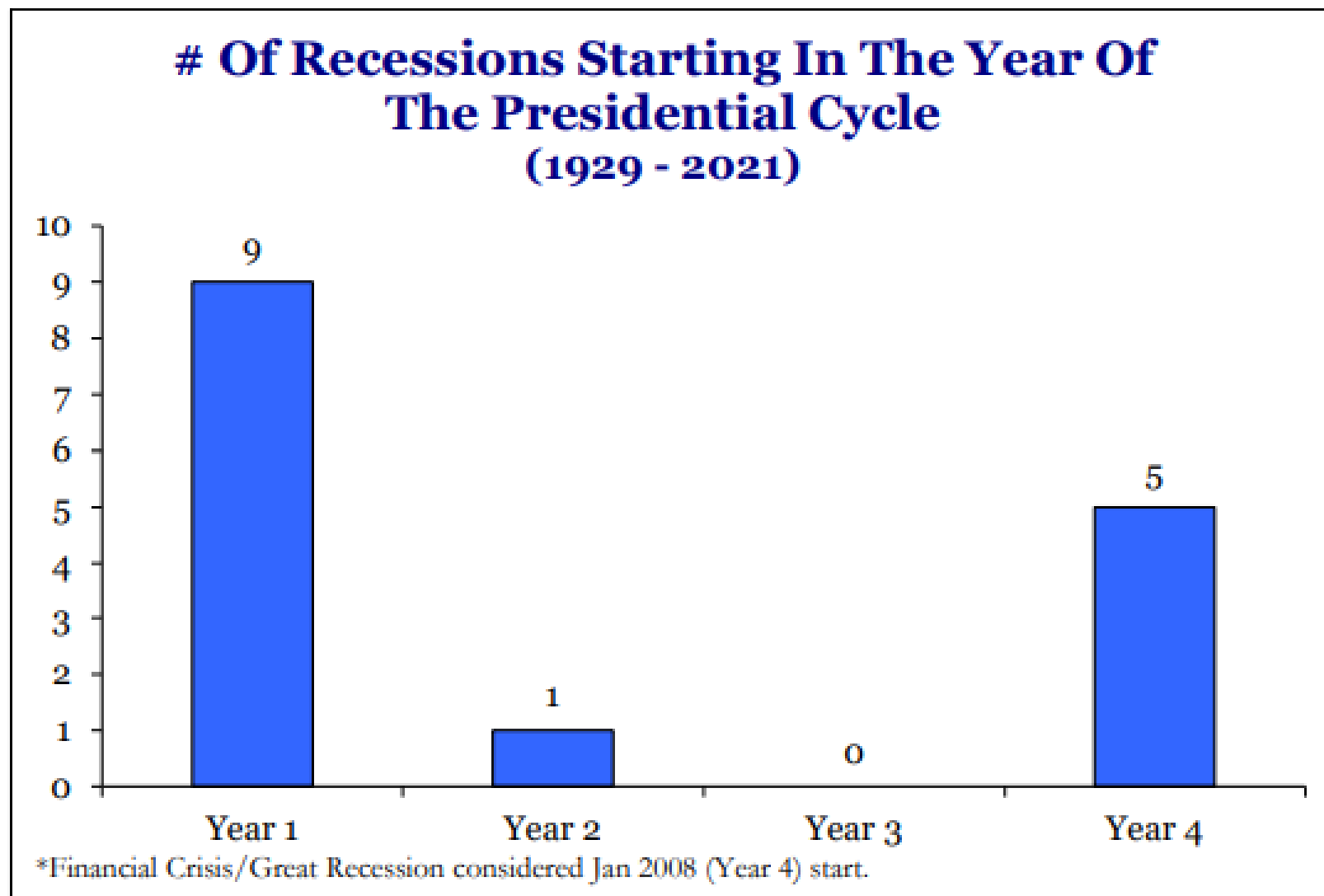


## MULTIPLE YIELD CURVES PROVIDING A WORRISOME SIGNAL, OR VERY CLOSE



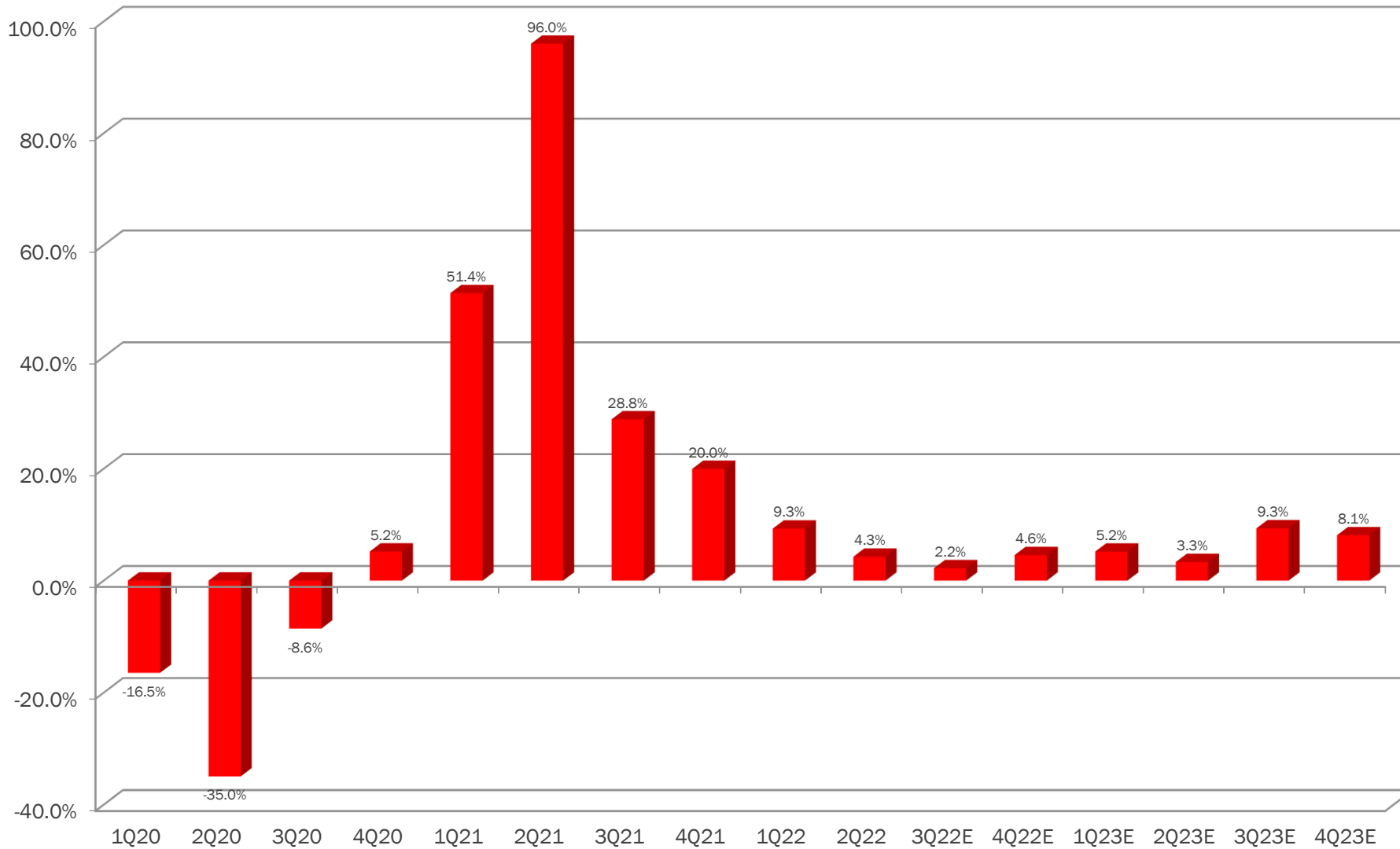


# Will the unbroken streak end in 2023?



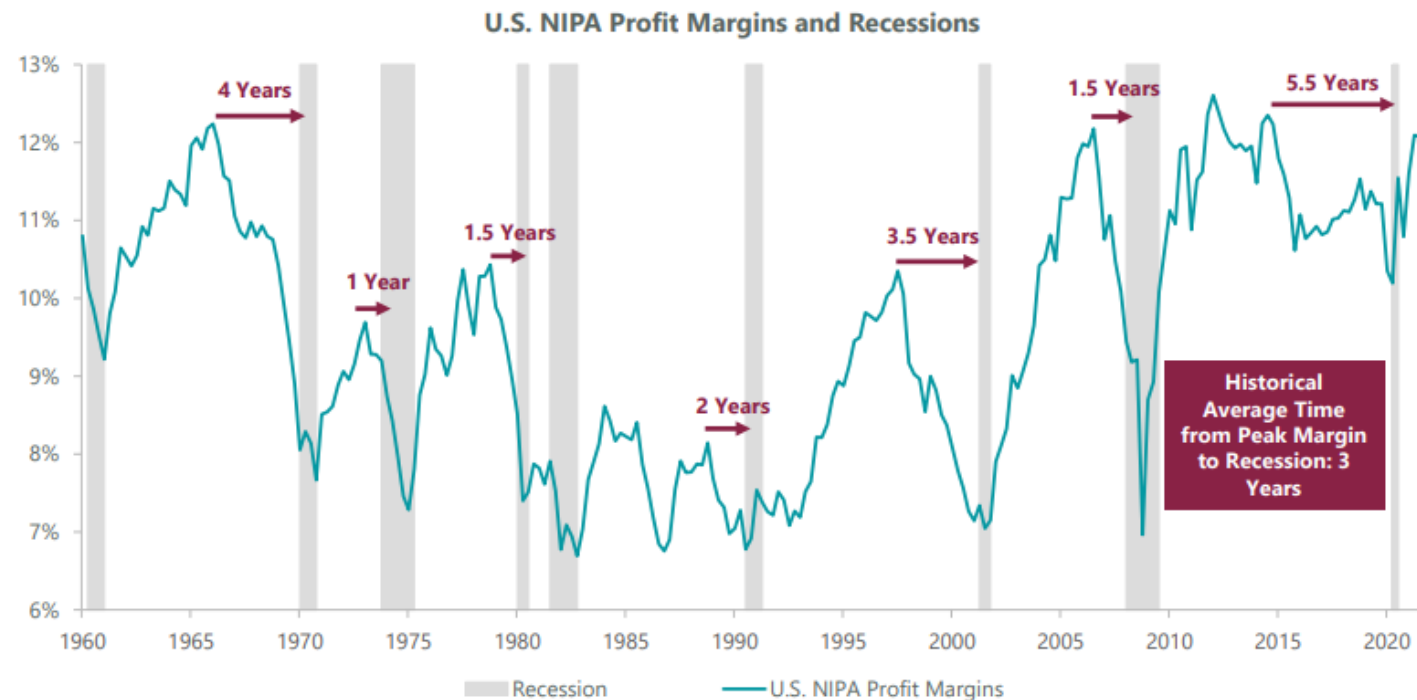
Source: Strategas Research Partners

# S&P 500 Index Profit Growth



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

## The “Margin” for Error

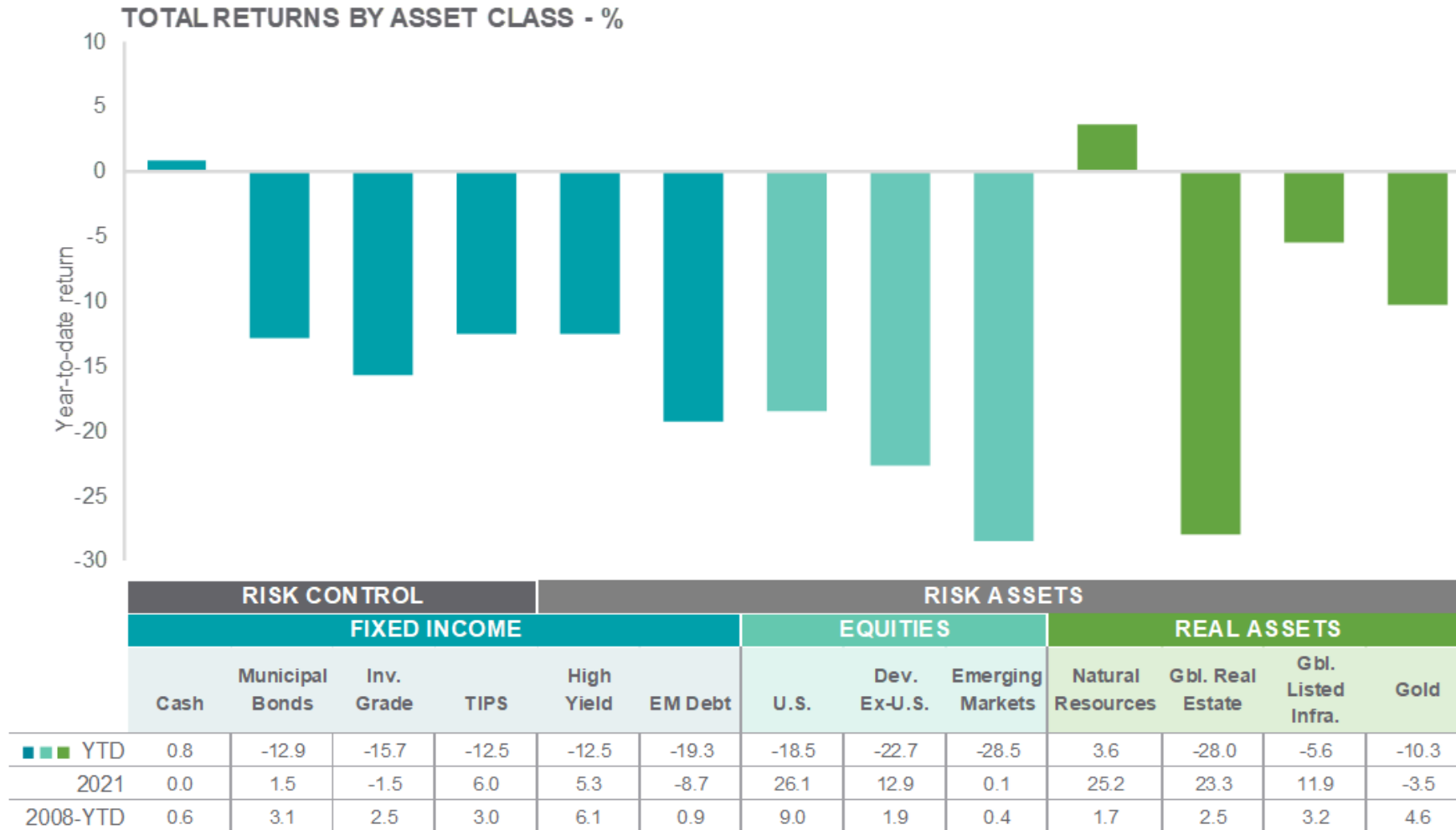


- ▶ Profit margins have typically peaked three years ahead of recessions.
- ▶ Labor has been the scarcest resource of the recovery, meaning businesses may opt to keep workers on the books with margins still near record levels.



Financial assets have declined sharply this year and when can we expect a rebound?

# ASSET CLASS RETURNS – 10/31/2022

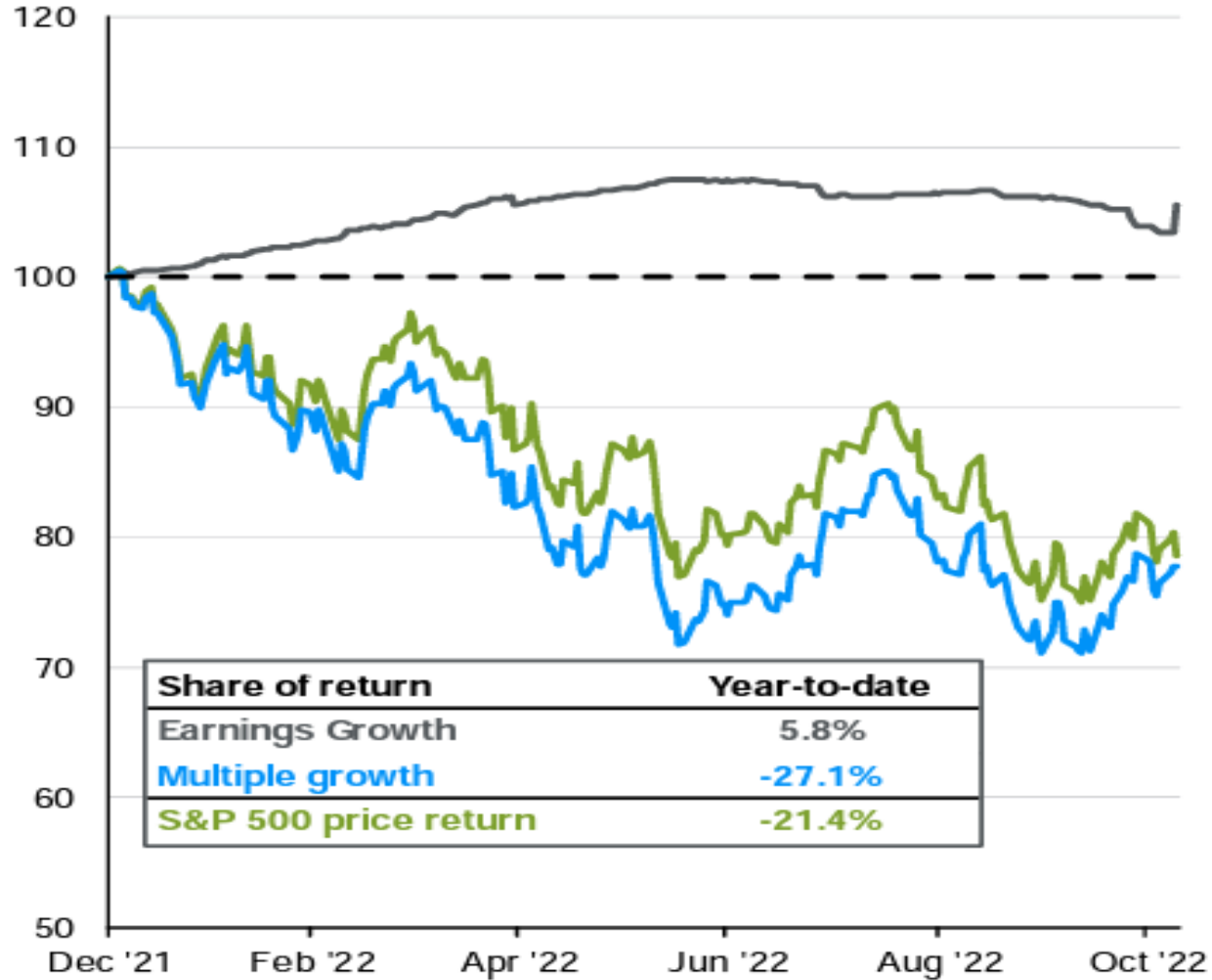




# CORPORATE PROFITS AND SOURCES OF RETURN

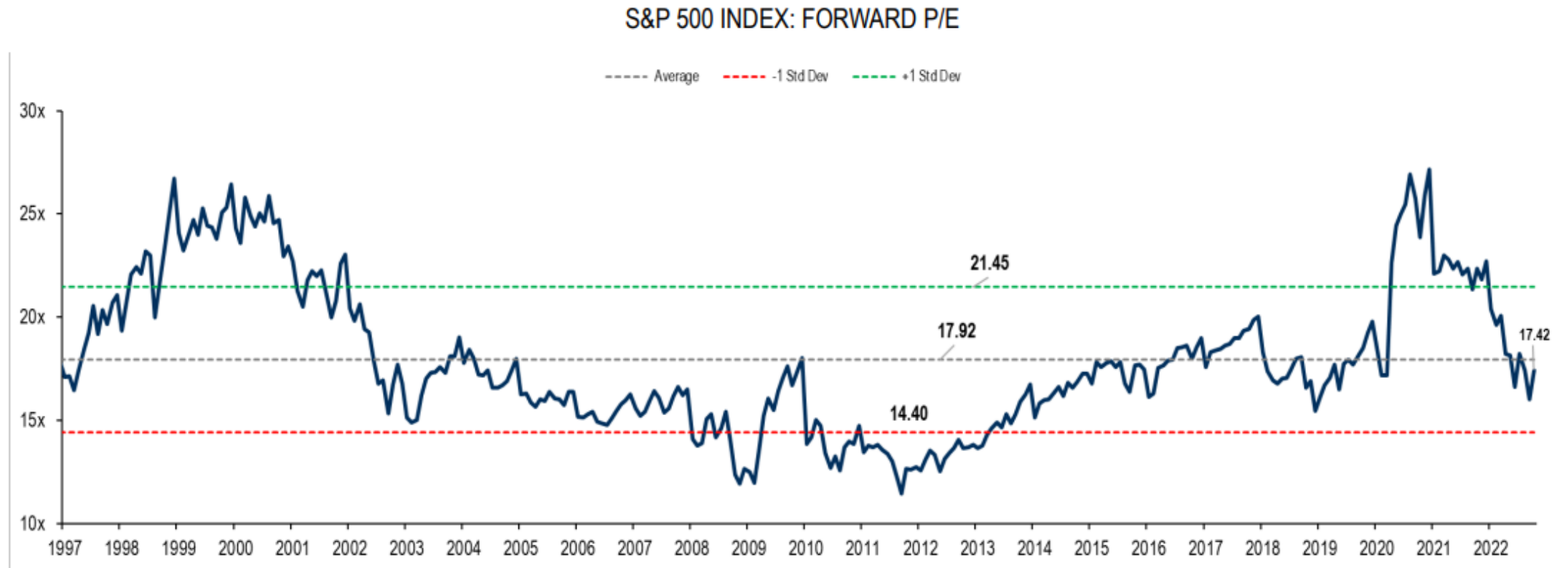
## Percent change in S&P 500, earnings and valuations\*

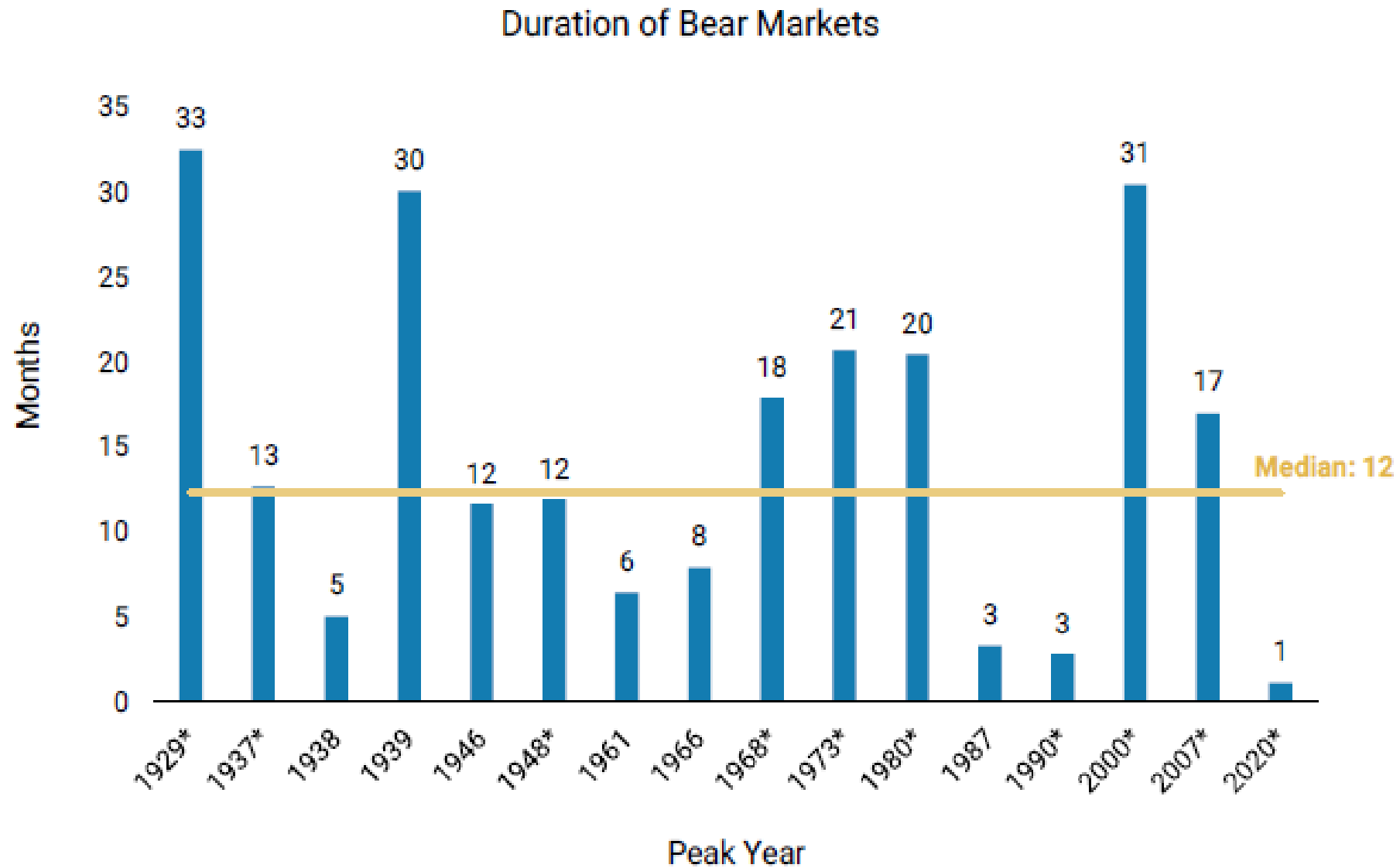
Year-to-date, indexed to 100





# S&P 500 Forward Price-to-Earnings



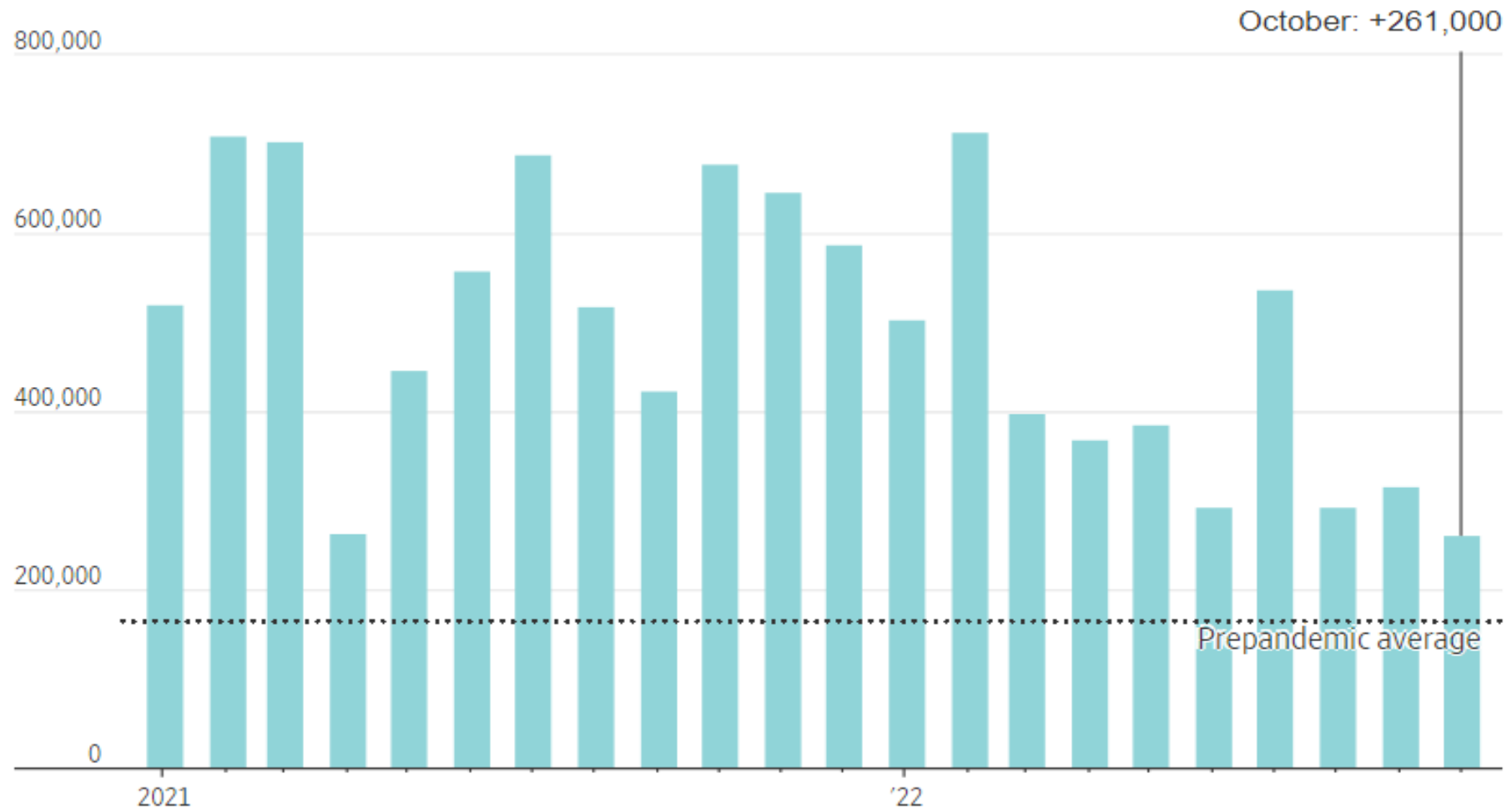


Source: Bloomberg, Morgan Stanley Research. Bear Markets defined as at least 20% corrections (closing price). \*Bear markets associated with recessions.



The Federal Reserve continues to hike interest rates what is the anticipated impact from higher interest rates?

## Nonfarm payrolls, monthly change



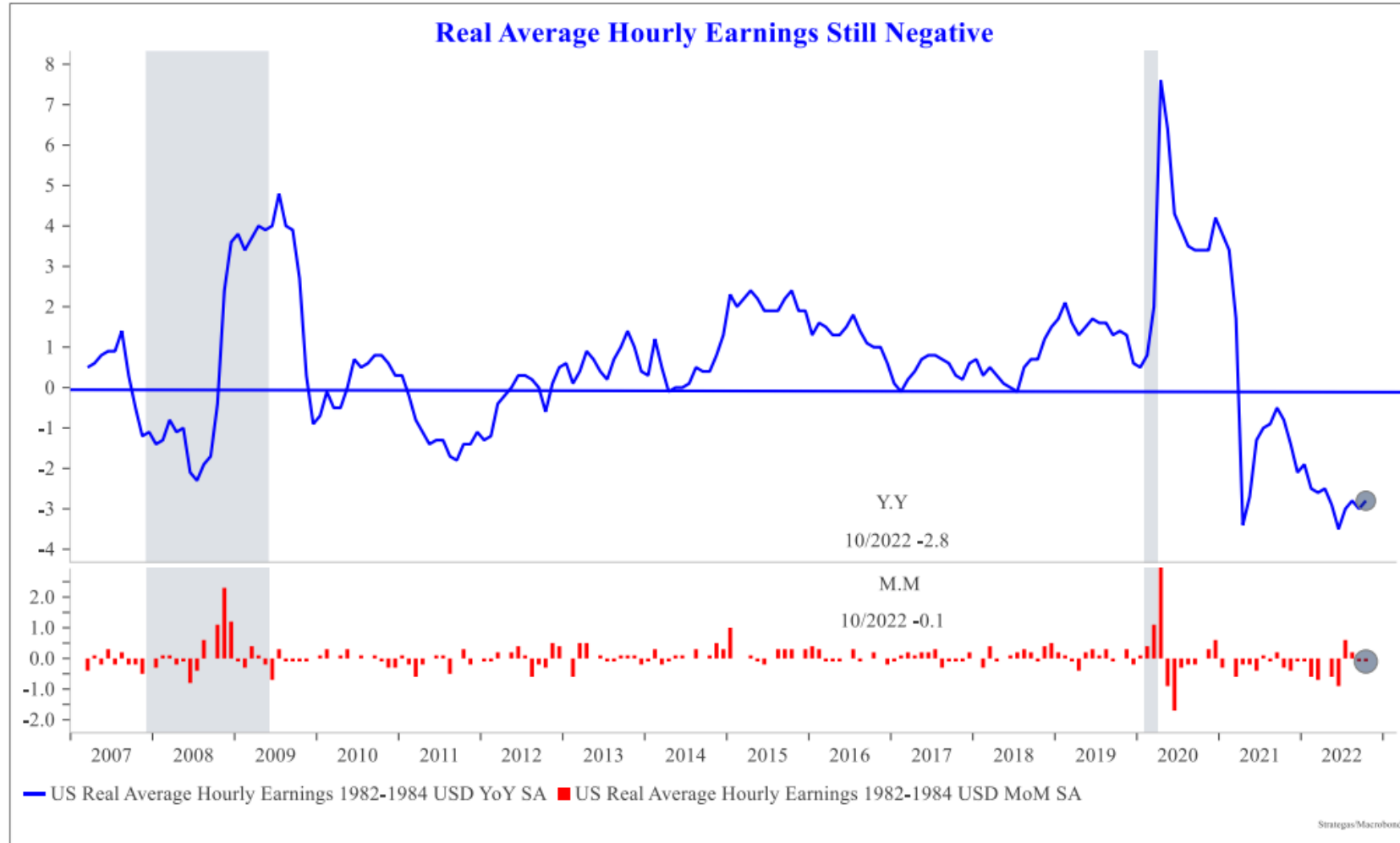
Note: The prepandemic average is the average monthly change in 2019. Data are seasonally adjusted.

Source: Labor Department

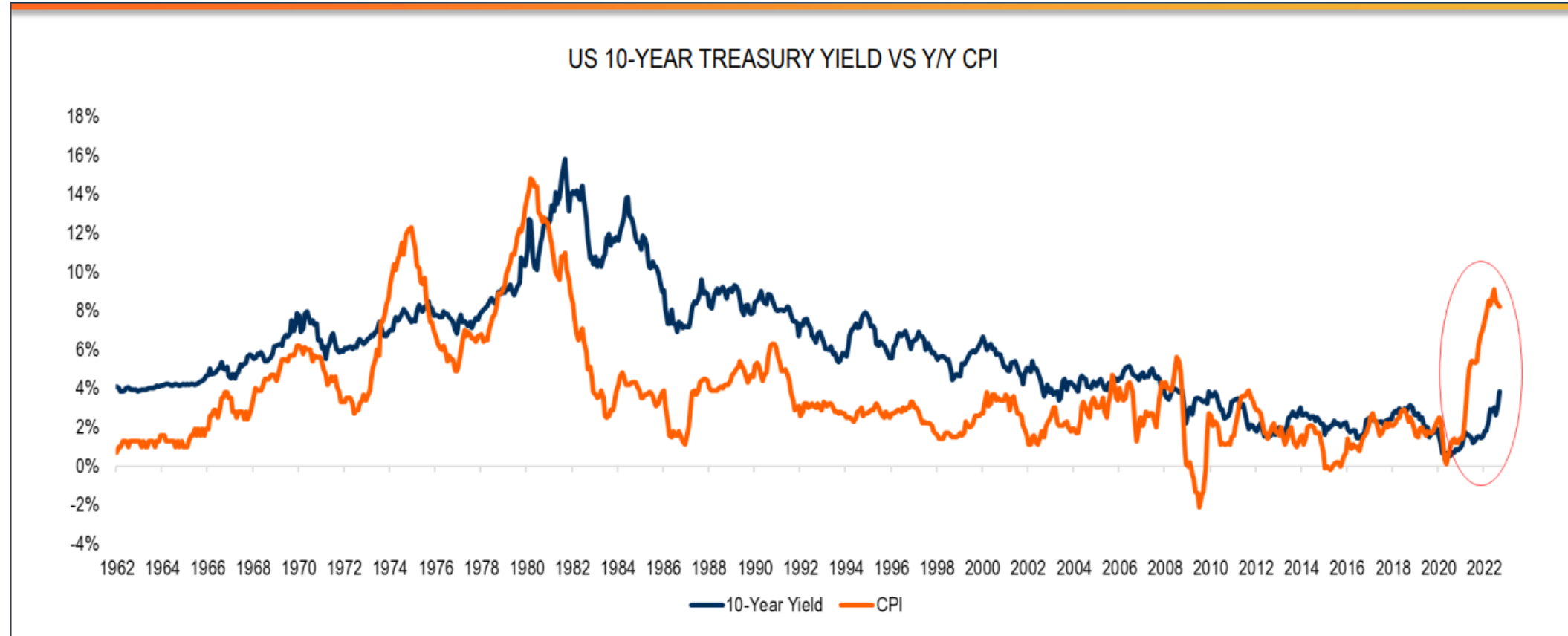
# THERE'S STILL A CUSHION WITH JOB OPENINGS > UNEMPLOYED



# U.S. REAL AVERAGE HOURLY EARNINGS CONTINUES TO BE NEGATIVE

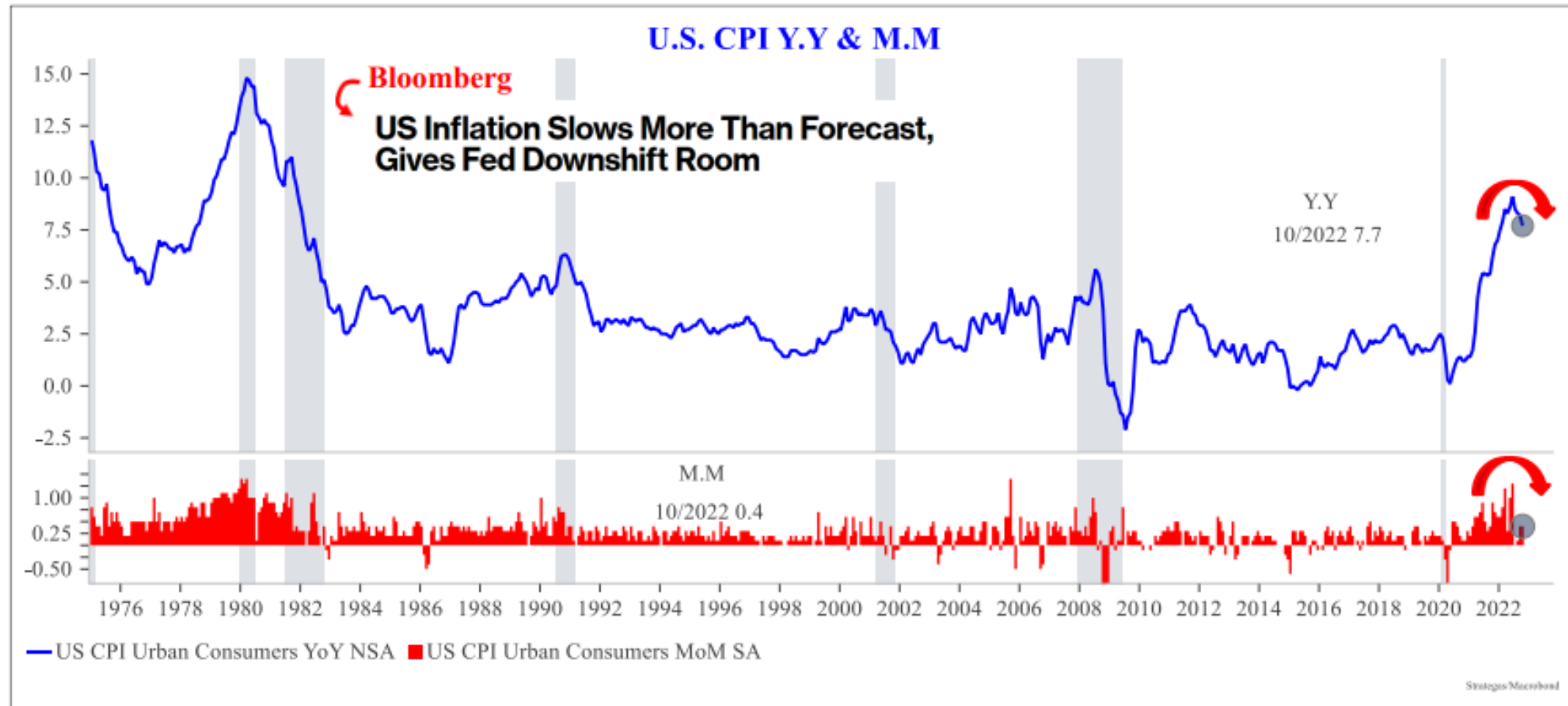


# Inflation is Firmly Ahead of Interest Rates

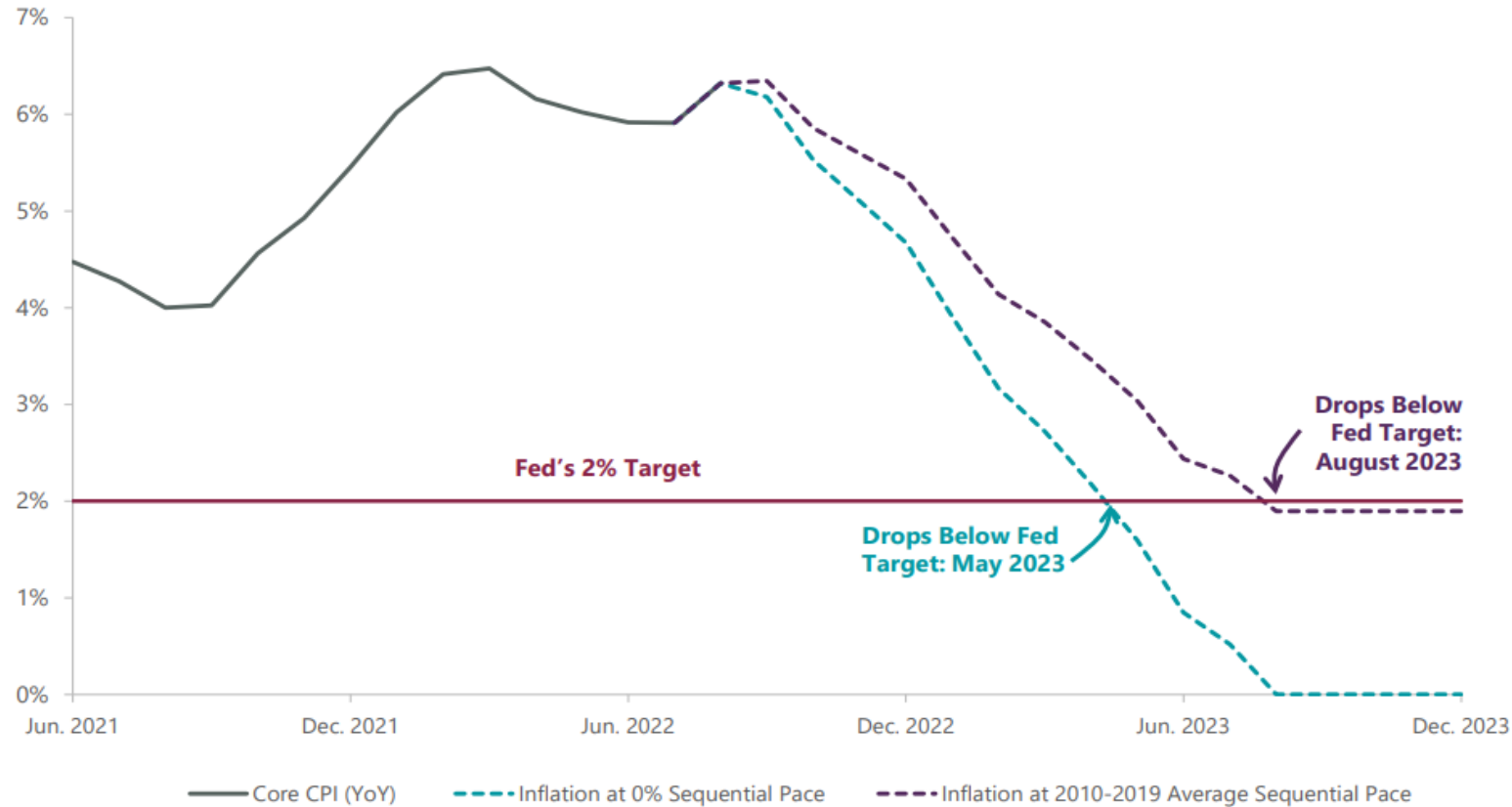




## U.S. CPI FALLS MORE THAN EXPECTED, STILL A LONG WAYS TO GO



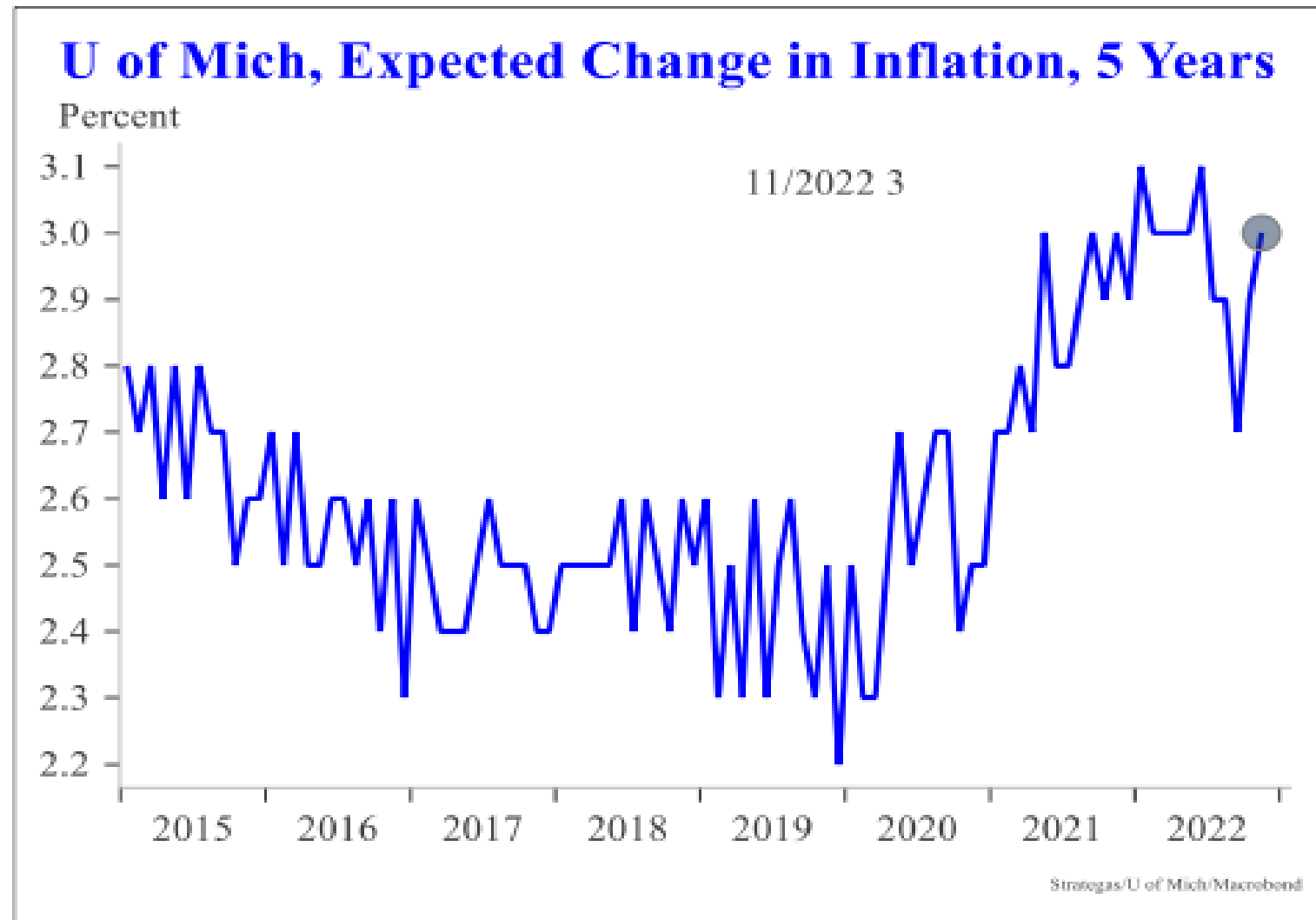
# Getting Back to Inflation Target



- ▶ **With inflation at such elevated levels, a moderation in the pace moving forward would still mean a lengthy glidepath back to the Fed's 2% target.**

# Long-Run Inflation Expectations

SYNOVUS



Source: Strategas Research Partners

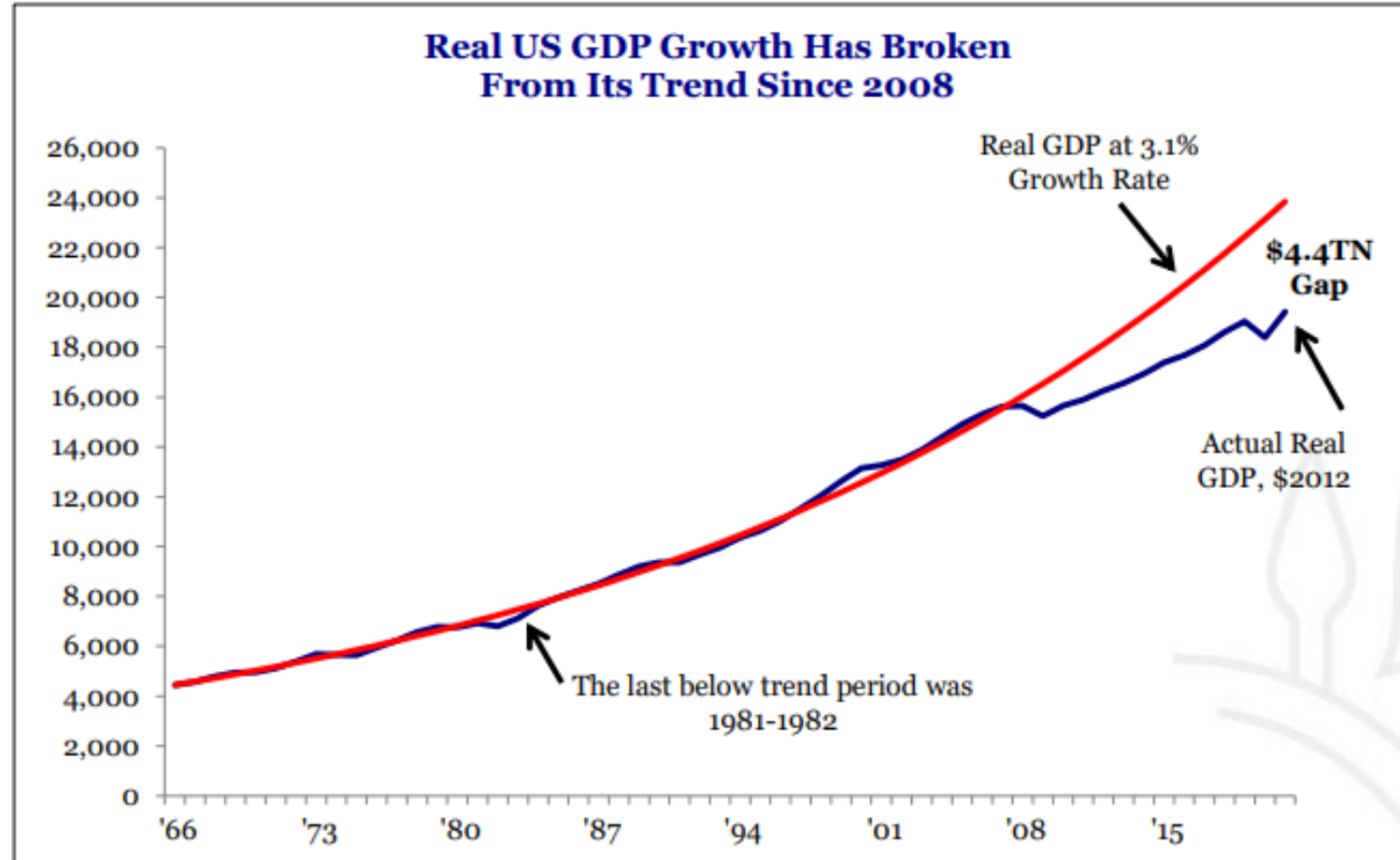
# FEDERAL RESERVE ACTIONS

<u>2022 Decision Dates</u>	<u>Action</u>	<u>Prime Rate</u>
• March 16	↑25 bps	3.50%
• May 4	↑50 bps	4.00%
• June 16	↑75 bps	4.75%
• July 27	↑75 bps	5.50%
• September 21	↑75 bps	6.25%
• November 2	↑75 bps	7.00%
• <u>Anticipated Decisions</u>		
• December 14	↑50 bps	7.50%
• 2023	↑75bps	8.25%



The mid-term election results are nearly complete. What is the possible impact on economic policy and the stock market?

# Economic Volatility is Creating Political Volatility

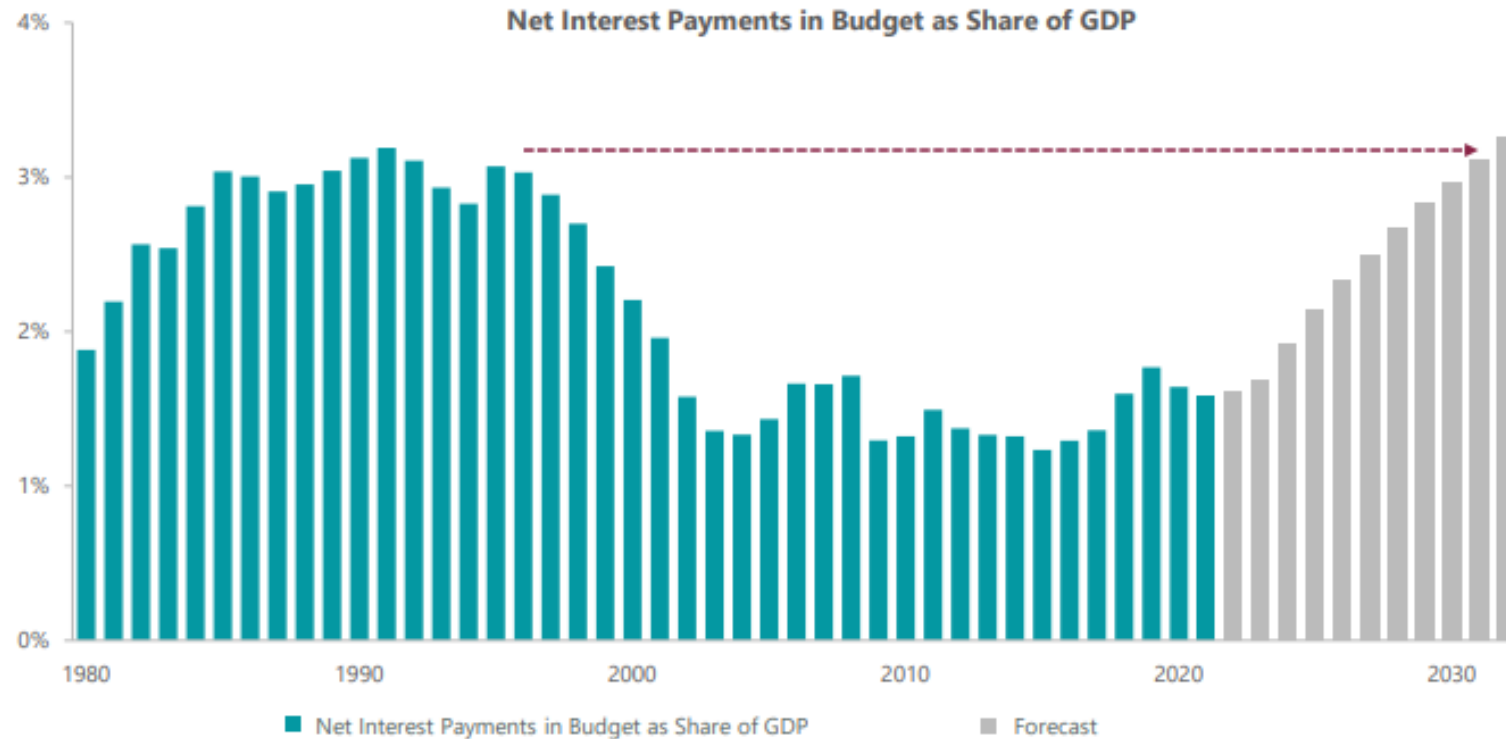


## Changing Government Dynamics





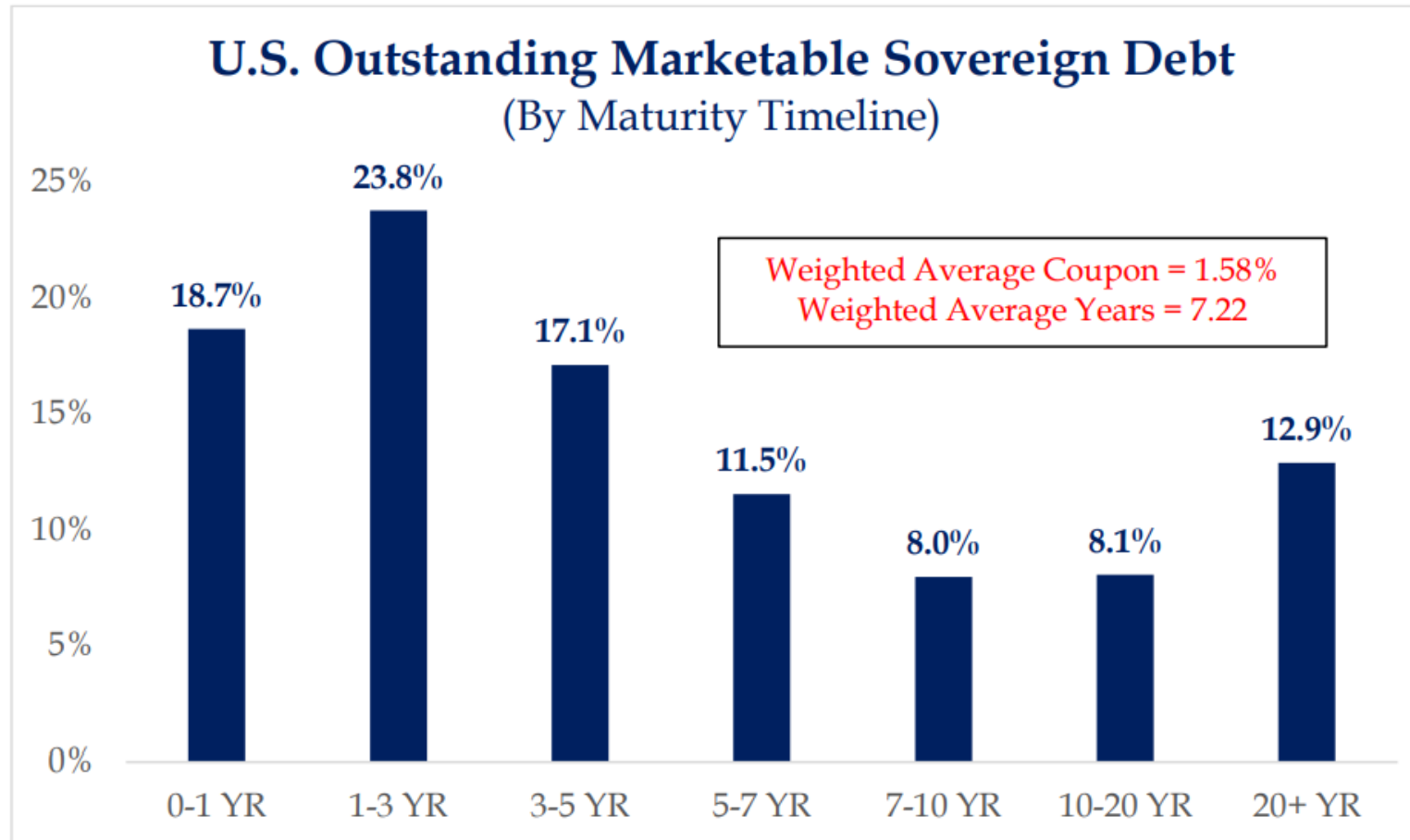
# When Will U.S. Debt Be An Issue?



- ▶ **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.**

Data as of June 30, 2022, latest available as of Sept. 30, 2022. Source: Congressional Budget Office, ClearBridge Investments.

# Higher Interest Payments Ahead



# Priorities For Democrats & Republicans Post-Election

## Democrats

Child Tax Credit  
Medicaid Expansion  
Clean Energy  
Infrastructure

## Republicans

Energy Pipelines  
Immigration  
Crime/Policing  
Defense Spending



New Spending Will Likely Need To Be  
Paid For With Higher Taxes: Corporate,  
Multinational, Income Tax Surcharge

# What to Expect From a Split Congress

- CONCERNS

- More Gridlock, brinkmanship and less legislation passed.
- Little chance of fiscal relief in a recession.
- Fight over lifting the debt ceiling in summer 2023 or fall 2023.
- More executive actions from President Biden.

- OPPORTUNITIES

- Bipartisan cooperation to pass a Farm Bill in 2023.
- Potential for bipartisan cooperation to bolster U.S. industrial policy and promote on-shoring.
- Potential for bipartisan deal on extending the child tax credit in exchange for a research and development tax credit.
- Increased spending on defense industry.

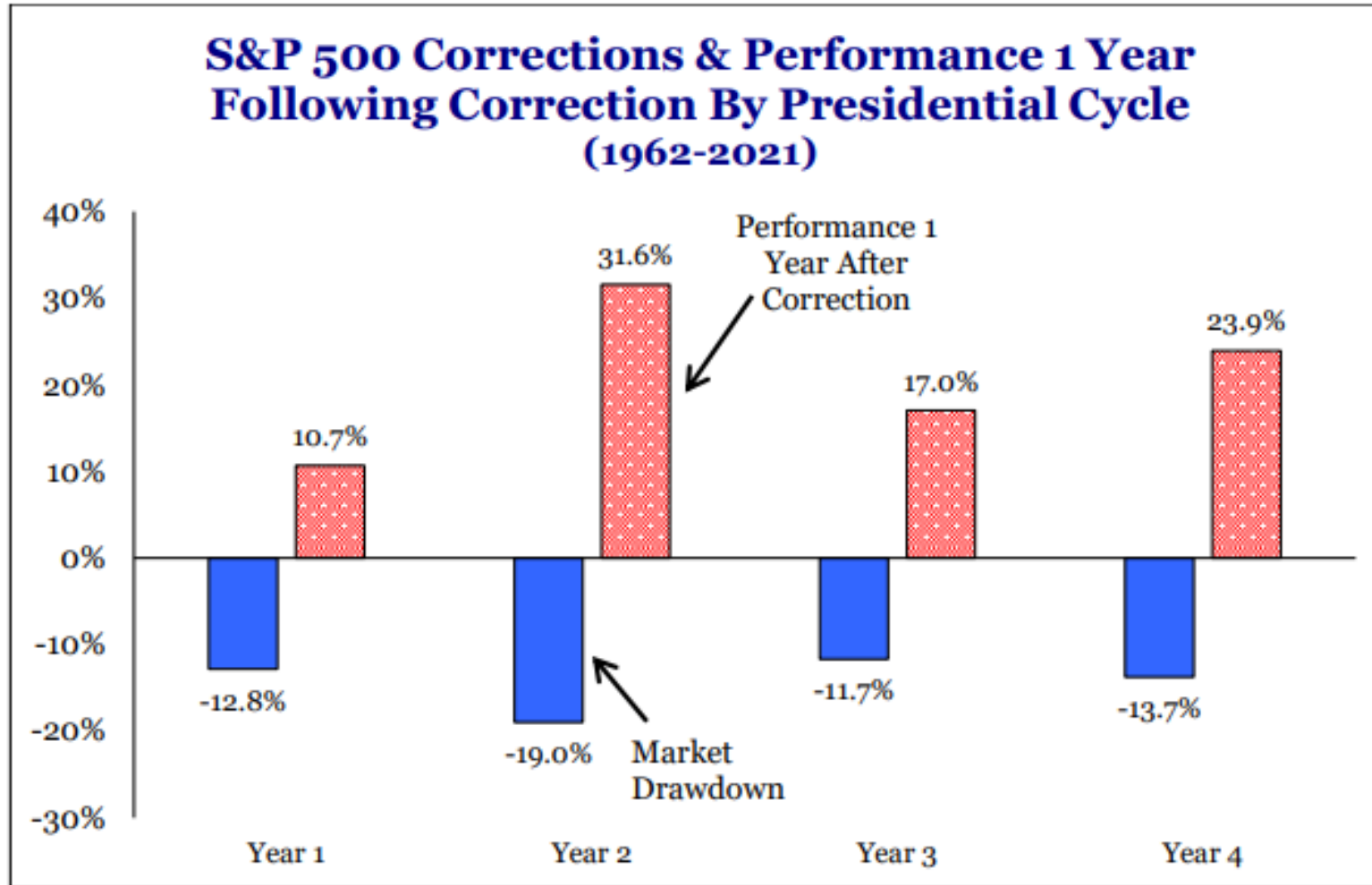


What is the outlook for 2023?

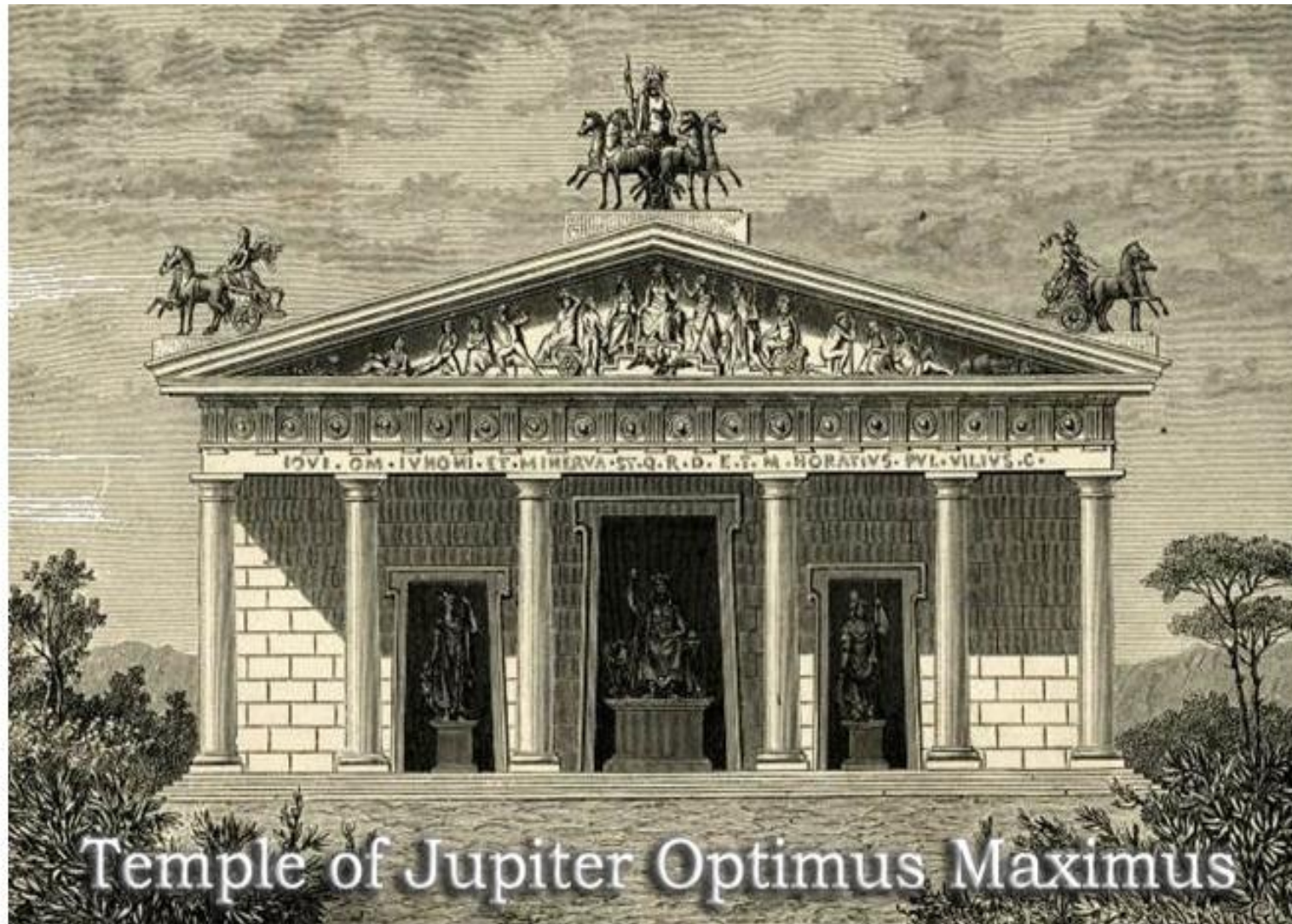
# 2023 Economic and Market Forecast



# Mid-term Election Years are Historically Volatile







S&P P/E Valuation  
Positive

Interest Rates  
Negative

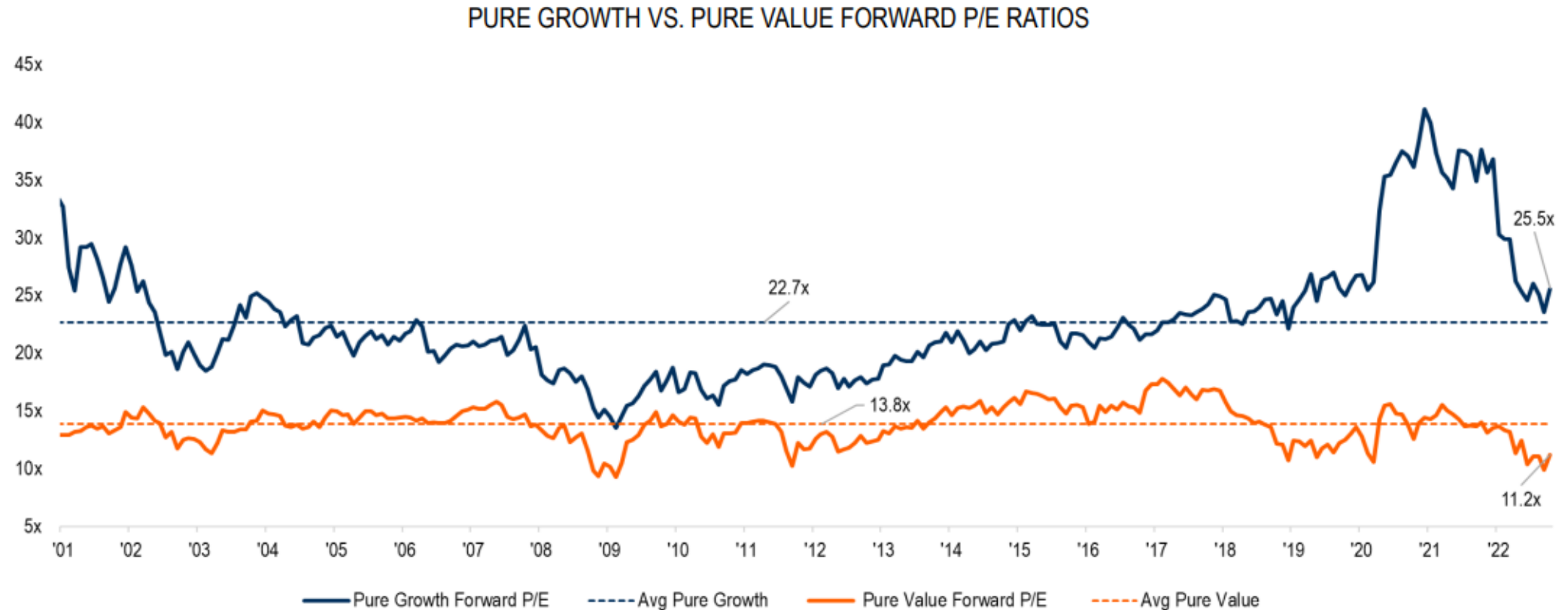
GDP  
Positive

Inflation  
Negative

S&P Profit Growth  
Positive

UST Curve Inverted  
Negative

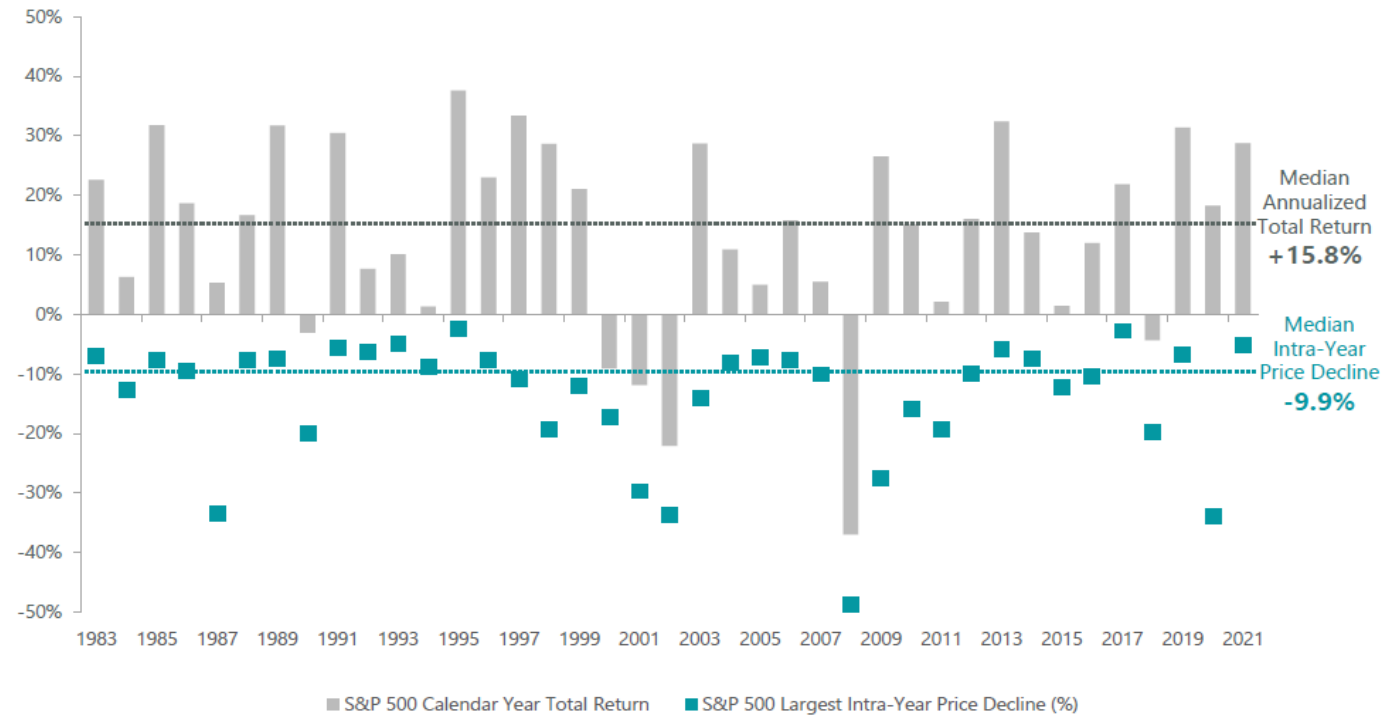
# Pure Growth versus Pure Value – Forward Multiples



# THE WORLD IS ENTERING A PERIOD OF DE-GLOBALIZATION, SIMILAR TO PRE-1990

- Multipolar World with China and Russia Challenging World Order
- More Domestic Production & On-Shoring (Semis, etc.)
- Slightly Higher Inflation of 3%
- Higher Interest Rates
- Lower P/E's on Stocks
- Move from Value to Growth when Federal Reserve stops hiking
- The New ESG: Energy, Security, Governance

## Volatility Does Not Equal A Financial Loss Unless You Sell



Source: FactSet and ClearBridge Investments. Data as of December 31, 2021.

# 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.

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