Synovus Market Update

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Federal Reserve Policy

Wade Fowler, Senior Trust Portfolio Manager

Despite the ongoing pandemic, the United States labor market continues to recover and tighten. Moreover, inflation statistics have been showing steadily rising prices across the economy. On December 15, the Federal Reserve indicated intentions to purchase fewer bonds in January than in December. They plan to further reduce the amount purchased in February and again in March. The Committee highlighted continued improvement in the labor market and ongoing inflation as reasons for the reduction in monthly purchases. While acknowledging inflationary pressures and improvement in the labor market, the Committee decided to maintain the federal funds rate near zero. The Committee indicated intentions to hold this rate near zero until the labor market has reached maximum employment based on a range of indicators they monitor. The committee cited new virus variants as a risk to their forecast that they will be able to begin raising the Fed Funds rate in the second or third quarter of 2022. Since the Federal Reserve meeting December 15, the Omicron variant of SARS-CoV-2 has dominated world news and has been a major focus for investors. One of the main reasons investors have been so focused on the Omicron development is the implication for a disruption of plans the Fed has communicated regarding their policy changes. The chart below from the Atlanta Fed shows just how uncertain the path forward for rates is. The chart shows investors' average expectations for the Fed Funds rate by the end of 2023 is approximately 1.5%. However, the range of expectations for the Fed Funds rate at that time is between 0.5% and 2.0%. This large range of expectations by investors highlights uncertainty still facing the economy and a likely outcome for Federal Reserve policies over the next couple of years.

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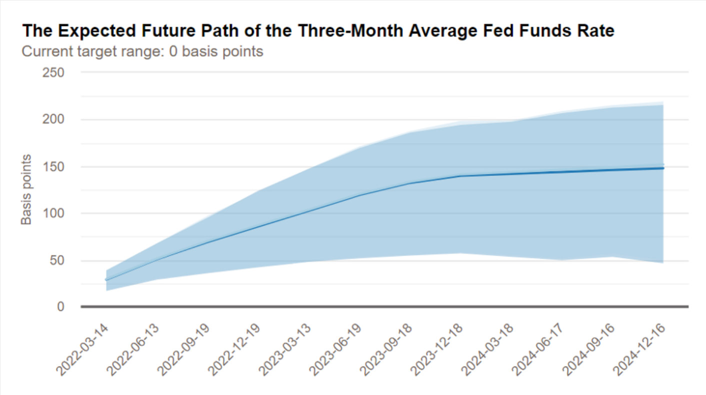

Source: FactSet, Federal Reserve Bank of Atlanta

2022 Currency Outlook

David Grimaldi – Foreign Exchange Sales Consultant

The Federal Open Market Committee (FOMC) announced its intentions to take a more proactive and aggressive approach to fight future inflation during its final meeting of the year. The FOMC outlined plans to raise interest rates and aggressively taper monthly asset purchases in 2022. My previous view – that the USD will continue to strengthen into the new year – is supported by the FOMC's latest decision. Similarly, U.S. Treasury yields should also rise. Other currencies more linked to commodities and susceptible to hawkish central bank actions should also see strength against the USD. These views rely upon what we know about the new Omicron variant. So far, Omicron has shown to be highly transmissible yet mild as compared to previous COVID-19 variants. Therefore, another extensive global economic shutdown is unlikely in 2022. Of course, my outlook could change if we see the emergence of new and deadly COVID-19 variants or if a significant geopolitical event were to occur.

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EUR / USD (bearish)

Source: TradeView

While the U.S. has three rate hikes looming in the new year, European Central Bank President Christine LaGarde announced that rate hikes are not on tap for the Euro Zone. Therefore, the USD should continue to climb as United States production and inflation outpace Europe. Look for a test of key 1.0800 support before the ECB starts slowing asset purchases in the Spring. The EUR should regain some ground from its decline from a high of near 1.2350 in 2021.

USD / JPY (bullish)

Source: TradeView

Now that Fed interest rate projections are behind the market for 2021, the focus returns to growth, earnings, and inflation in 2022. U.S. Treasury yields should rise in anticipation of hikes. The United States' economic growth should continue to outpace Japan, as the new Prime Minister Fumio Kishida looks to raise wages, transfer wealth, and enact other fiscal stimulus measures that typically slow economic growth. The ongoing chip shortage has also hampered the Japanese car market. These shortages should continue well into 2022. Inflation has not been as problematic for Japan as for the United States. Therefore, interest rate hikes are not likely, keeping the USD strong against the JPY.

GBP /USD (neutral)

Source: TradeView

To combat rising inflation, the Bank of England took steps on December 16 by raising interest rates from historic lows of 0.1% to 0.25%. Although ECB/UK Post Brexit concerns could undercut growth expectations, the risk premium should not reach 2019 levels. Rising expectations of inflation and rate hikes should reconnect the GBP to the interest rate picture. Weakness in the EUR versus the GBP should remain a strong theme in early 2022, where it should stay more neutral versus the USD.

AUD / USD (neutral)

Source: TradeView

Although AUD/USD historically does very well in riskier, strong growth markets, the currency suffered due to intense lockdowns by the Australian government in 2021. Further outbreaks of Omicron could see the government perpetuate future lockdown policies. Since vaccination rates in the country are high, politically, it becomes a difficult choice. Inflation remains under control, and rate hikes are behind other developed countries that have

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been open this year. AUD/USD appears very oversold, so the expectation is more neutral into 2022.

USD / CAD (bearish)

Source: TradeView

The Canadian dollar, or the “Loonie,” should remain a safe bet in 2022 as the currency’s close ties to oil should keep it strong. Demand for oil through production necessities, the government’s drilling restrictions, and corporate transition to costlier alternative energy sources should keep the price per barrel on a pace toward $100. The Canadian economy has recovered to pre-pandemic levels and has lifted strict border policy. Quantitative easing ended in October, and the first - out of four - interest rate hikes should occur by mid-2022.

Apple Stock Nearing $3 Trillion in Market Capitalization: What Does This Mean for the Technology Sector?

Dan Morgan, Senior Trust Portfolio Manager

Apple shares are approaching a historical landmark regarding overall value for the company. Apple is now the most valuable company trading on the stock market. It was just three years ago in August of 2018 that Apple shares eclipsed $1.0 trillion market valuation. Then just two years later in August 2020, Apple’s value broke the $2.0 trillion barrier. Today, Apple shares are approaching $3.0 trillion in market capitalization. This is an astonishing figure, considering it is based on a market capitalization for the entire S&P 500 Index of $38.74 trillion. Apple shares now represent approximately 8% of this highly followed benchmark. Many forces are propelling Apple shares value to unprecedented heights.

Despite chip shortages and production delays, lead times for a new iPhone 13 have been kept under control. Although, lead times have expanded on average basis across all the major regions – U.S., China, Germany and the UK – lead times have moderated, positioning Apple to potentially deliver a strong holiday quarter.

Recently, the China Academy of Information and Communications Technology (CAICT) disclosed that international (Apple) shipments tracked at 7.3 million for the month of November, which is higher than the historical average of 6.4 million, and the highest shipments for the month of November since 2016. 5G mobile phone shipments increased 9% month-over-month to 29.0 million units and accounted for 82% of total shipments—and on a year-over-year basis, volumes increased by 44%. The year-to-date market share of 5G increased modestly to 75%. Long story short, iPhone demand in China has been very strong.

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It appears that the smartphone market is experiencing another super cycle with the iPhone12/iPhone 13 franchise and that Apple is lifting off to another string of quarters with strong revenue and profit growth.

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Total estimated iPhone unit shipments for Fiscal Year 2021 now stands at 232 million (versus 190 million in Fiscal Year 2020) – an annual growth rate of 21% year-over-year and expected to reach 237 million units by Fiscal Year 2022, an annual growth rate of 2% year-over-year. The last major iPhone super cycle occurred with iPhone 6 in 2014. Apple stock has increased over the past new product launches: 2012 iPhone 5 (stock performance 31%); 2013 5s and 5C (stock performance 5%); 2014 6 and 6+ (stock performance +38%). iPhone unit volume peaked in 2015 at 231.22 million units but has gone flat since. However, the iPhone12/ iPhone 13 5G launch (with an estimated 237 million units to be sold) should eclipse the previous iPhone volume record set in 2015 (with 231 million units sold).

Apple is positioned to monetize its 900+ million user base through ever-expanding services offerings. Apple has spent years cultivating an aspirational brand image through clever marketing and a focus on the premium smartphone segment. This effort has allowed the company to attract and retain a loyal base of 1.4 billion Apple devices and over 900 million iPhones that it can monetize through upgrades and services sales. Along with brand cachet, Apple's ecosystem is a key asset that keeps users locked in as they accumulate content including pictures, videos, movies, and other content that makes a switch to Android difficult. We're looking for Apple to continue to leverage its massive user base to cross sell other products (iWatch, MacBook, iPad Pro, AirPods and Apple TV) and services (Music, Pay, Apps, Care, and TV subscriptions) to diversify revenues away from just the iPhone franchise.

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Some of Apple's older more mature product categories – iPads, iWatch and Macs – are going through a bit of a renaissance, as overall sales have picked up in recent quarters. Further, Apple is

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working on other future product categories to complement its service segment (Music, Pay, Apps, Care & TV subscriptions) – like virtual reality/Metaverse/autonomous vehicles. Virtual reality/Metaverse/autonomous driving are new businesses that many analysts are pointing to Apple's potential to diversify away from its core iPhone business into other revenue generators, even though these segments are many years away from contributing significantly to Apple's total revenues (65% iPhone based).

Recently, top chipmaker Broadcom posted strong revenues of $5.63 billion versus an estimate of $5.61 billion in its Semiconductor Solutions unit. Broadcom generates roughly 25% of its revenues from Apple. Apple has warned that weakening iPhone 13 demand may impact the holiday quarter. This has prompted focus regarding the iPhone 13 product cycle to shift more towards supply constraints in recent weeks. Despite all these headwinds, the Broadcom results show that demand for smartphone chips is strong, giving analysts confidence that the holiday quarter for Apple should exceed expectations.

Finally, Apple shares are benefiting from a flight-to-quality trade as investors migrate to established brand names over up-and-coming technology companies with untested business models. The consensus 2021 EPS growth for the tech sector now stands at 41.5%, compared to a resilient year in 2020 when tech EPS grew by 4%. For 2022, EPS growth for the tech sector is expected to slow considerably to just 4.9%. Based on these lower-earning estimates for 2022, investors are flocking into more well-established names – like Apple – that can deliver above industry average profit growth in a slower profit growth environment.

	Q2/21	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	FY21*	FY22*	FY23*
-Information Technology-									
Total Sector	39.8%	14.1%	5.9%	3.5%	4.0%	11.8%	41.5%	4.9%	11.1%
Semiconductors	52.9%	17.2%	9.4%	5.0%	-0.4%	10.8%	65.1%	-5.4%	9.2%
Software & Services	27.3%	17.4%	11.2%	8.9%	4.5%	16.3%	24.4%	13.1%	14.5%
Technology Hardware & Equip.	49.2%	9.1%	-2.7%	-4.7%	7.4%	7.6%	48.4%	3.5%	8.0%

Source: Bloomberg "Expected Earnings Growth for Industries in S&P 500"