Synovus Market Update

October 7, 2022

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Daniel Morgan
Senior Trust
Portfolio Manager

David Grimaldi
Foreign Exchange
Sales Consultant

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

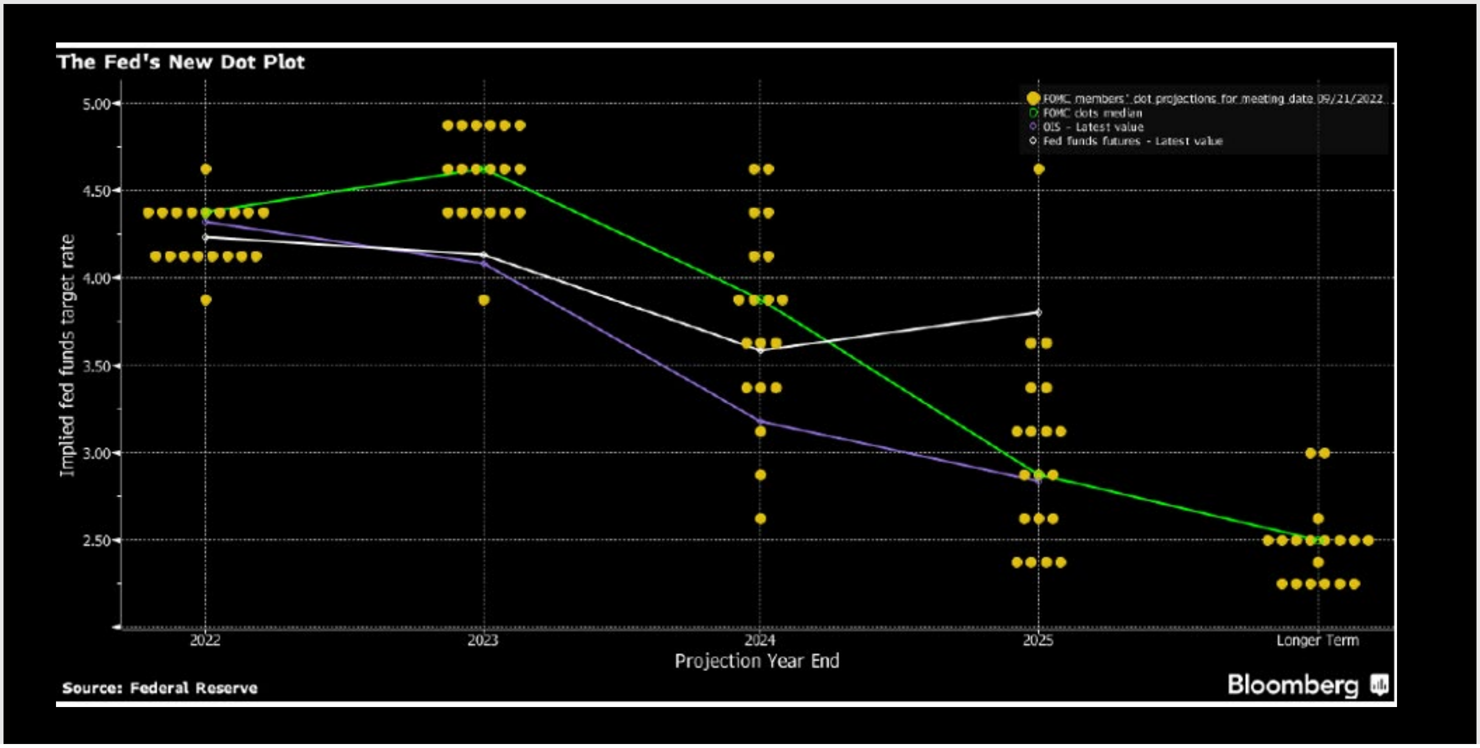
Christopher Brown, CIMA®, CRPC™
Financial Advisor,
Synovus Securities, Inc.

Federal Reserve raises interest rates again; latest move to stem inflation

Daniel Morgan, Senior Portfolio Manager

Federal Reserve Chair Jerome Powell said officials were determined to curb inflation after they raised interest rates by 75 basis points for a third straight time and signaled a more aggressive-than-expected path of rate hikes to come. “We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%,” he commented at a press conference after the committee lifted the target for the benchmark federal funds rate to a range of 3% to 3.25%. That’s the highest since before the 2008 financial crisis, and up from near zero at the start of this year.

Officials forecast that rates would reach 4.4% by the end of this year and 4.6% in 2023, a more hawkish shift in their so-called dot plot than expected. The biggest surprises were in the forecast, starting with higher and tighter than expected median fed funds estimates. The FOMC median is 4.25-4.5% this year, suggesting rate hikes of 75bp in November and 50bp in December, though the dots are almost evenly split between 100 and 125 basis points of hikes at the two meetings. The 2023 dots are almost all distributed in three clusters at 4.75-5.0%, 4.50-4.75%, and 4.25-4.5%. The 2024 and 2025 dots are widely disbursed, suggesting no meaningful consensus on the FOMC.



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Chair Powell commented that officials were “strongly resolved” to bring inflation down to the Fed’s 2% goal and added that “we will keep at it until the job is done.” The phrase invoked the title of former Fed chief Paul Volcker’s memoir “Keeping at It.” Policy makers now expect the key rate to rise to 4.4% by year end and 4.6% during 2023.

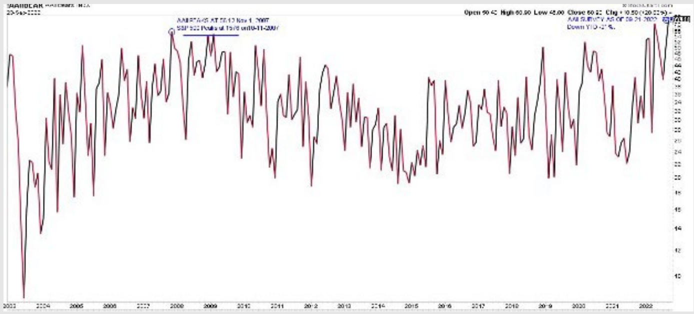
Bottom line: With these rate hikes slowly mixing into the economy the median GDP estimate for 2022 has fallen to 1.6%. The Fed was predicting economic growth for 2022 of 1.7%, but those estimates are falling. The 2023 median GDP forecast now calls for just 0.9% growth. Considering that GDP growth for the 1H22 has been negative with the economy technically in a Recession these estimates seem optimistic. During the 1Q22 and 2Q22, GDP dropped -1.4% & -0.9%, respectively. In the 2Q22 personal consumption only rose +1.0%, after just a +1.8% increase in the 1Q22. The probability of a recession in late FY23 now stands at 50%. It is not clear why anyone would expect the economy to accelerate from a standstill to nearly 2% despite aggressive Fed rate hikes, but apparently some economists are optimistic. The median unemployment forecast is 3.7% this year — a modest further increase from its current level — and 4.1% in 2023. The median core inflation (excluding food & energy) forecast is 4.7% this year and 3.2% in 2023. These figures may be overly optimistic as August’s headline CPI stood at 8.5%, with the core rate coming in above expectations at 6.3%

Millennial Money: Your first Bear Market… what’s next?

Christopher Brown, CIMA®, CRPC™
Financial Advisor, Synovus Securities, Inc.

A Bear Market occurs when the broad market index (Dow Jones, S&P, NASDAQ) declines by more than 20% from its recent high. 2022 has been one of the most challenging market environments since the GFC (Great Financial Crisis) of 2008. For most investors under 40 years old, this is your first Bear Market experience. Welcome to the 2022 markets, please fasten your seat belts and return your tray in their upright positions.

The American Association of Individual Investors or AAII Sentiment Survey (survey data since 1987) measures the opinions of individual investors by asking them where the market is heading in the next six months. The AAII survey, as of September 21, 2022, shows that individual investors are more bearish today than the GFC of 2008 even though corporate earnings, credit spreads, and unemployment data (major economic indicators) are much better today than 2008. Does this mean the investor sentiment pie is over-cooked or can this point toward further pain to come?



source: https://www.aaii.com/sentimentsurvey/sent_results

Inflation

Inflation is probably one of largest trending buzzwords in 2022 next to #cryptocrash or #recession2022. After two years of a pandemic, $4 trillion in Fed induced “Helicopter Money Drops” in the form of stimulus checks, global supply chain

“Helicopter Money Drops” in the form of stimulus checks, global supply chain break downs, and a Russian-Ukraine war provoking a spike in energy prices.

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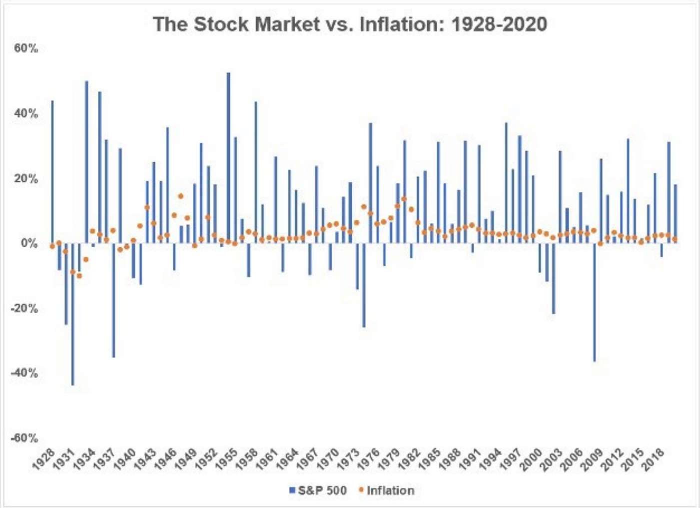
break downs, and a Russian-Ukraine war provoking a spike in energy prices, most global economies find themselves fighting rampant inflation forcing central banks to hike interest rates aggressively for the first time in over a decade. Inflation erodes your purchasing power on the daily necessities from the grocery store to the gas pump. Over the long term, investing in equities have been shown to be a great way to combat inflation. The chart below shows stock market returns over the past 80 years compared to the inflation rate in those years.



https://awealthofcommonsense.com/2021/10/inflation-vs-stock-market-returns/

Market history matters

Bear markets are tough to endure and provoke fear, panic, and despair. When in doubt, scroll out, and look at the data. Since WWII, the average decline for the S&P 500 during a recession is approximately -30% with the median decline being -24%. At the time of this article, the S&P is down -24.5% YTD. By historical average standards, the

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Source: https://finance.yahoo.com/news/history-stocks-recession-102913314.html

the rearview mirror. The good news is the pendulum of the markets swings both ways. One year after the market troughs the average return of the S&P 500 is up 40% and two years from the trough the S&P is up an average of 54%.

Stay invested

During turbulent market conditions, it is important to know 3 key points. **1)** Define your investment goals and objectives. Having a good understanding of your investment goals can provide a framework around what type of investments are appropriate for your long term financial needs. Whether you are saving for retirement, building your family nest egg, or saving for your child's education, defining your goals and desired outcome can pave the way toward your personalized investment strategy. **2)** Know your time horizon for your investments. Time horizon can help you define what type of investments you want to own and the volatility you are willing to accept for your long term investment plans. A ten year time horizon for your investments may allow you to take more risk in growing your investments than someone with a three to five year investment time horizon. **3)** Know your risk tolerance. If you don't have the intestinal fortitude to handle the up's and downs of the markets, finding investments with a defined maturity date, buffered

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downside investment strategies, or principal protected investments may help you stay invested without realizing the full brunt of a bear market cycle.

Euro Winter, Euro Weakness

David Grimaldi, TM Foreign Exchange Sales Consultant

Energy has become the Euro trade. As the negative impacts of the Ukraine War and bad European policy and planning increase the prices of fuel, it drastically impacts production and increases the burden of costs on households. As Britain and Europe play catch up with inflation fighting and raising interest rates to keep pace with the U.S., exploding energy costs are keeping downward pressure on Eurozone currencies. United Kingdom energy prices will jump 80% this winter according to energy regulator Ofgem, or GBP 3,549 per year to heat and power their homes.[1] These costs are second to Czech Republic, and nearly double what French citizens are paying. Almost every European country is implementing these inflationary policies by subsidizing citizens for these hardships or cutting VAT tax on natural gas. The issue Europeans must grapple with is how they traded their energy security to Russia and climate ideals, without alternate supply chains, with aging nuclear energy, and for a global climate agenda.

In 2018 President Donald Trump addressed the United Nations General Assembly and stated, “Reliance on a single foreign supplier can leave nations vulnerable to extortion and intimidation and that is why we congratulate European states such as Poland for leading construction of a Baltic pipeline so that nations are not dependent on Russia to meet their energy needs." Poland had constructed the Baltic Pipeline to be energy independent from Russia, as their memories of Russian occupation were still fresh in their minds when they made policy. The Germans delegation reacted with laughter. Germany was receiving 55% of its natural gas from Russia. “They offered very cheap gas prices, and that was very attractive. And this is why we’re in this mess,” said Professor Claudia Kemfert, head of the department of energy, transportation, and environment at DIW, the German Institute of Economic Research. What has happened was predictable. I have been predicting it for the past 15 years,” she said.[2] Polish Deputy Foreign Minister Pawel Jablonski said “We told them so. Some countries have been warning of this situation and have been much better prepared,” he said.[3] German lawmakers are now planning to burn coal, which was never supposed to be part of any green energy strategy. Germany has phased out their nuclear energy program and has extended the deadline of reactors they planned to shutter. Deutsche Bank is suggesting Germans burn wood instead of gas for heating this winter.

The NY Times reported Germans are clear cutting ancient forests and grinding them up into wood pellets in the name of renewable energy.[4] “People buy wood pellets thinking they’re the sustainable choice, but in reality, they’re driving the destruction of Europe’s last wild forests,” said David Gehl of the Environmental Investigation Agency, a Washington-based advocacy group that has studied wood use in Central Europe.[5] Some of Germany’s biggest energy users, from steel to chemical companies, are cutting back on production, and business leaders are warning that soaring prices risk eroding the economy’s competitiveness.

“The cuts in gas supplies from Russia over the summer and the drastic price increases they triggered are wreaking havoc on the economic recovery following the coronavirus,” said Timo Wollmershäuser, senior economist at Ifo.[6]

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ArcelorMittal, Europe's largest steelmaker, said this month it would switch off one of the blast furnaces at a steelworks in Bremen, northern Germany. "The cuts in gas supplies from Russia over the summer and the drastic price increases they triggered are wreaking havoc on the economic recovery following the coronavirus," said Timo Wollmershäuser, senior economist at Ifo.[6]

The story is similar for the French, as they announced in September that they will allow the Eiffel Tower to go dark for additional hours to conserve electricity. A factory making iconic French bistro glasses is idling its furnaces to offset soaring energy costs. Cities around France are turning off streetlamps and other outdoor lighting to curb electricity use. In Normandy, some schools will start heating classrooms by burning wood to conserve natural gas.[7] France would seem to be less vulnerable than its neighbors: It boasts the biggest nuclear energy arsenal of any European Union country, and is one of the least reliant on Russian natural gas. But France faces an energy crisis of its own, as its nuclear industry addresses cracks, corrosion and other troubles that have forced EDF to temporarily shut down 32 of France's 56 nuclear reactors. In June French PM Macron, a champion of green policies, opened a shuttered coal energy plant going back on his pledge from 2018 to end coal energy.

The harshest critics of European energy policy have recently come from Belgium. "The risk of that is de-industrialization and severe risk of fundamental social unrest." Belgian Prime Minister Alexander De Croo warned that Europe needs to act immediately to address the energy crisis or risk the kind of fundamental economic shutdown that the bloc would struggle to recover from. "I honestly do not see any other choice than doing market interventions," De Croo said. "We don't get a second chance to prove as 450 million Europeans that we take things in our hands. What you are seeing today is a massive drainage of prosperity out of the European Union."[8] "This is, of course, not a crisis that (Russian President Vladimir) Putin has caused, but that Europe has brought on itself by phasing out its own primary energy production this century," he asserted. He explained that exploitation of oil, gas, and coal reserves was not allowed while "the dumbest countries, Germany and Belgium, have phased out nuclear energy in parallel."

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Bart De Wever, the Mayor of Antwerp added, “Belgium is bankrupt, we are the new Greece,” he underlined, adding that his country's public debt and government spending show a worse balance than in most of the Southern European countries that are often blamed for disrespecting budgetary discipline. According to De Wever, Europe now must deal with the consequences of “pushing away all energy sources, making ourselves dependent on Putin.” “In America, people are not in this mess,” he added, asserting that the US has become an oil and gas exporter in 20 years. At the same time, he pointed out that EU climate standards are hypocritical because European “companies go to America and China to produce, then you are bankrupt, and the climate is not saved either."[9]

In the United Kingdom, the energy crisis has seen a rise in defaults due to the energy crisis, which has strained the British financial industry. The new UK PM Liz Truss ended fracking ban to increase available oil. PM Truss is also proposing a bailout of GBP150 Billion to temporarily cap the prices of energy for households. The Prime Minister hopes this stems the tide of businesses being forced to close due to high energy costs. This plan has been explained as an inflation fighting proposal, to keep prices down for businesses and consumers. Economists would say borrowing money, especially in periods of high inflation, will mostly add to inflation as it is expansionary fiscal policy, increasing demand and not supply. Nearly one in four households in the United Kingdom plan on keeping the heat off this winter.[10] Most of the energy issues the British face is due to the government run electricity, which contrasted with their natural gas supplies are privately owned. UK prices have been higher than the EU average for at least five years, with the gap widening in the aftermath of the COVID lockdown and the war in Ukraine. A regulated UK energy market is more susceptible to price shocks, due to the lack of competition. Additionally, gas prices are higher in the UK than in Europe despite importing only a small amount of Russian gas. This is due a heavy reliance on natural gas, as the British have a smaller amount of nuclear energy, renewables, and less capacity to store natural gas.[11]

California energy officials projected that there’d be a potential shortfall of between 1,700 to 5,000 megawatts this year, leaving between one million and four million people without power, US News reported.

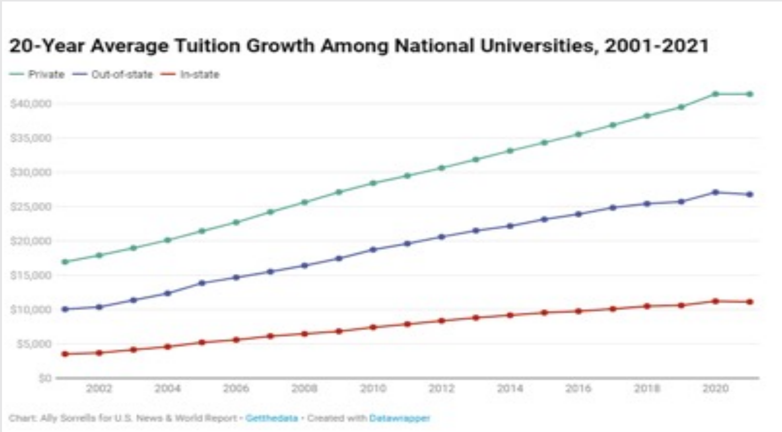
The U.S. is ignoring all the signs to what is happening in Europe and here domestically. In California, Governor Gavin Newsom told citizens not to charge their electric cars due to the recent heat wave, a week after state regulators voted on a ban of gas-powered cars by 2035. California energy officials projected that there’d be a potential shortfall of between 1,700 to 5,000 megawatts this year, leaving between one million and four million people without power, US News reported. California has about 5694 EVs per 100,000 citizens (over 2 million for 39 million population). EV’s don’t create energy, they store them. California’s electrical grid is 20% powered from coal, 40% from natural gas, and 20% from nuclear. If California’s energy grid can’t sustain 2 million vehicles, how will it sustain 40 million in in 2035? There is still no reliable energy replacement for the sources stated above. After California recently avoided rolling blackouts during the latest heatwave, Governor Newsom reacted to critics defiantly stating, “They want to double down on stupid and continue to drill and actually do more damage. And get us more deep in the mess that we created that we’re trying to get out of, which is the hot is getting much hotter, the dry is getting much drier, and the extremes that are self-evident, not just here in California, but all over the western United States and around the world, related to climate change.”[12]

Europe accounts for $400 Billion in U.S. exports, or over 20% of all trade, so the impact of recession in Europe will be felt domestically. Euro Dollar along with the British Pound should see continued selling as energy conditions worsen. Europe is blaming bad policy in the name of eliminating fossil fuels on the Ukraine War and climate change. As Europe goes into winter where people freezing in their homes is a reality, they are now reverting to fuels such as coal and wood that pollute more than natural gas and dwindle ancient forests, reversing the most basic goals of climate lobbyists. Europe has made its citizens vulnerable at a national security level with Russian dependence on their fuel, which is now costing jobs, but could eventually cost lives. Kristalina Georgieva, managing director of the IMF says, "There is certainly fear of recession in some countries, or even if it is not recession, that it would feel like recession this winter, and if Mother Nature decides not to cooperate, and the winter is actually harsh, that could lead to some social unrest."[13] Lack of energy security soon becomes food insecurity, which the World Bank currently says 350 million people now experience. Dr. Jordan Peterson recently explained to Piers Morgan, "You cannot win against someone you can't say no to, period. And we can't say no to Putin because we sold our soul for his oil and gas, and we did that to elevate our moral stature in relationship to saving the planet. Here we are, facing a very dire winter. All the measures you are putting in place are making the environment worse, so how is that even vaguely acceptable?"[14]

Navigating the Student Loan Debt Relief Plan

Jarrett E. Hindrew, CFP®, ChFC®

The Biden Administration released their Student Loan Debt Relief plan on Aug. 24, 2022. The plan consists of a three-prong strategy designed to help alleviate a modest percentage of the overall $1.7 trillion of outstanding Federal student loan debt. Note that while this plan does provide real relief for some borrowers, it does not address the root of the problem, which is the exponential rising cost of obtaining a college degree (as outlined in the chart below). Those changes would require congressional action via legislation.



Overview of The Biden Administration's Student Loan Debt Relief Plan

- Part 1: Final extension of the student loan repayment pause.
- Part 2: Providing targeted debt relief to low-and-middle income families.
- Part 3: Make the student loan system more manageable for current and future borrowers.

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Part 1: Final Extension

President Trump issued an executive order in March 2020 establishing a temporary moratorium on student loan payments. The moratorium has thus been extended several times and has continued under the Biden Administration. The Student Loan Debt Relief Plan extends the final moratorium until December 31, 2022, with payments resuming in January.

Part 2: Debt Relief

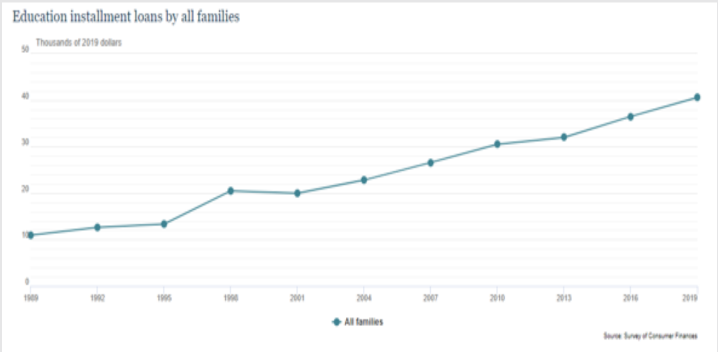
Only Federal student loans, which include federal graduate school loans and Parent Plus loans, qualify for relief. For borrowers to qualify, they must have income below the following thresholds: Individuals - $125,000; Married or Head of Household - $250,000. The Administration has not explicitly stated what their definition of "income" is used as a qualifier, but it is assumed that it will mostly likely be Adjusted Gross Income (AGI). Those who qualify, will be eligible for up to $10,000 in loan forgiveness and if they were recipients of a Federal Pell Grant award, can receive up to an additional $10,000 for a total of $20,000 in debt forgiveness.

Note: *The Plan also addressed the Public Service Loan Forgiveness program and made permanent the rule changes temporarily put in place by a waiver, that allowed borrowers to receive credit for past periods of repayment.*

Part 3: New Income Based Repayment Plans

This is still a proposal at this point with many of the details yet to be finalized, but the proposed new income-driven repayment plan would include:

- Borrowers to pay no more than 5% of their discretionary income monthly on undergraduate loans.
- New calculation of non-discretionary income using 225% of poverty line.
- Debt is discharged after 20 years. 10 years for those whose original balance is $12,000 or less.
- Provide Interest subsidies for those who are making their monthly payments.



Over the past 30 years, the average student loan balance has increased for families by over 270%. Many details are still forcoming, but the outlined proposed plan will postively impact many student loan borrowers. Hopefully, these actions will eventually be matched by Congressional action to address the issue of college affordability.

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We're here if you have questions.

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

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