Synovus Market Update

September 9, 2022

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Southeastern U.S. Commercial Real Estate Brief: Pause for Effect

Cal Evans, Senior Director, Synovus Investor Relations & Market Intelligence

Commercial real estate (CRE) metrics in the Southeast are as strong as they have ever been, fueled by in-migration from other states, an extremely strong level of new business creation (specifically in Florida and Georgia), and wages that continue to escalate. Occupancy rates are at historically high levels and rent growth has soared into the double digits for better property classes. More pertinent to Synovus and its customers, occupancy levels and rent growth rates within our footprint Metropolitan Statistical Areas (MSAs) exceed national averages in almost every category (Figure 1).

	Occupancy		Rent Growth	
	Footprint Avg	*National Avg*	*Footprint Avg*	*National Avg*
Office	89.8%	83.3%	3.1%	0.5%
Retail	96.2%	95.6%	6.6%	4.3%
Industrial Logistics	96.9%	96.2%	15.1%	13.9%
Multifamily	96.6%	96.8%	20.2%	14.5%

Figure 1

These metrics have fueled escalating values, resulting in record levels of CRE investment. In 2021, total U.S. sales volume for CRE eclipsed the $800 billion mark for the first time in history.

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However, recent economic shocks and the rapid rise in rates driven by a hawkish Fed are pushing investors to the sideline. A chart of cumulative 2022 CRE sales volume from Real Capital Analytics (Figure 2) shows two distinct inflection points.

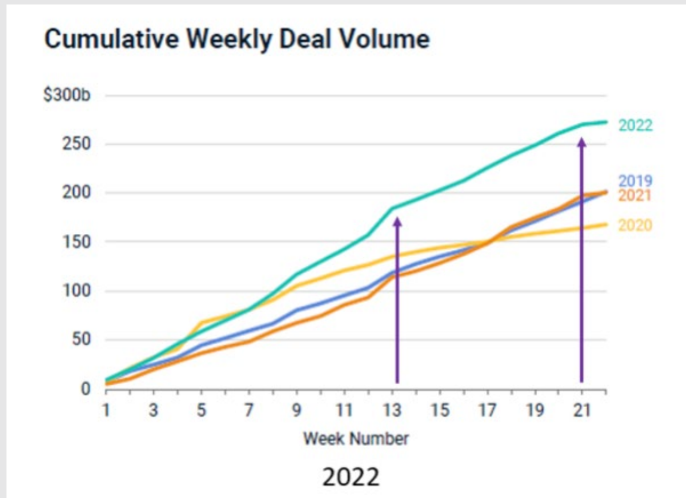

Figure 2

The first was in March when conventional wisdom accepted the fact that the invasion on Ukraine was going to be much more than a weekend war, and the second was in mid-May, when consensus opinion coalesced around the fact that multiple 75 basis point rate hikes could be a reality. Fundamentally, both CRE investors and lenders also noted that the erosion of the spread between capitalization rates and the 10-year yield in the first half of 2022 (Figure 3) signaled potential value loss via elevated cap rates in the second half of 2022 (Figure 4). For investors, this meant a sizeable reduction in their risk premiums, whereas the banks saw the potential for swift value erosion when these historically low cap rates begin to rise. As would be expected, investors are increasingly moving to the sidelines and lenders have tightened underwriting for new deals. This should result in a

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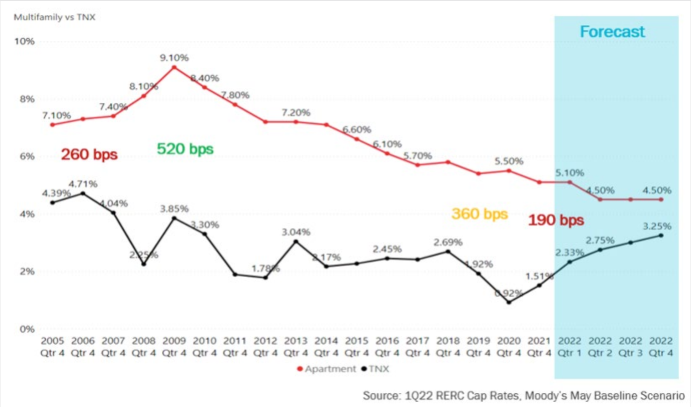

Figure 3

simultaneous decrease in both the supply and demand for CRE capital for the remainder of 2022. The extent of the decrease will vary by property sector as leading categories, such as multifamily and office, will be impacted the least, and more problematic subsectors, like Class B office and Big Box retail, will see declining investment and valuations.

Historically high occupancy rates and eye-popping rent growth will help to offset negative market forces for the time being, but normalization is around the corner and should occur in 2023. If this occurs in tandem with a reversal in the Federal Reserve's stance indicating rate cuts, the impact on CRE will be negligible. Sticky inflation, sustained rate hikes, and no or slow growth that continues into 2024 would be felt much more acutely by the market.

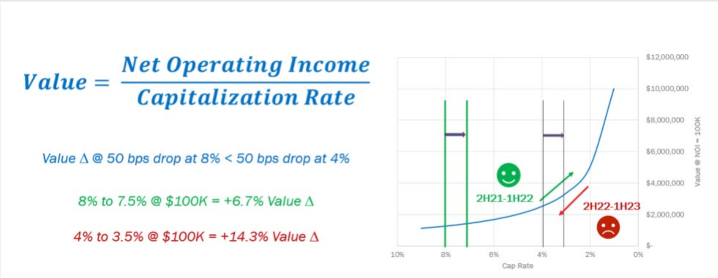

Figure 4

What strategy can investors employ to reduce portfolio volatility in the current environment?

Daniel Morgan, Senior Portfolio Manager

The stock market is suffering a turbulent 2022 so far; and with inflation still running at a 40-year high, the Federal Reserve locked in a significant rate-hiking cycle and mid-term elections just months away, it's likely the volatility is going to remain for the time being. Investors looking for a smoother market ride should consider buying low-volatility stocks as a way to manage risk. Low-volatility strategies are designed to limit losses during periods of market decline, while still allowing for upside.

Data shows lower volatility names have typically out-performed the broader market indexes over the long term. The S&P 500 Low Volatility Index, which measures the performance of the 100 least volatile stocks in the S&P 500® based on their historical volatility, averaged a 1.2% risk-adjusted return between 2010 and 2019, compared to a 0.9% return for the S&P 500 Index. Investors should look at low-volatility stocks as a way to add diversification and stability to their portfolios as part of a longer-term strategy. One way for investors to find low-volatility names is to look at beta, which measures how volatile a stock is relative to the broader market. A beta of less than 1.0 theoretically means that the name is less volatile than the S&P 500, while a beta greater than 1.0 points to a stock with more volatility.

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The low-volatility strategy Index is up 22% over the past two years. The rally stalled in June/July but the Index has mostly recovered to its former high set in April. At this point, it's wise

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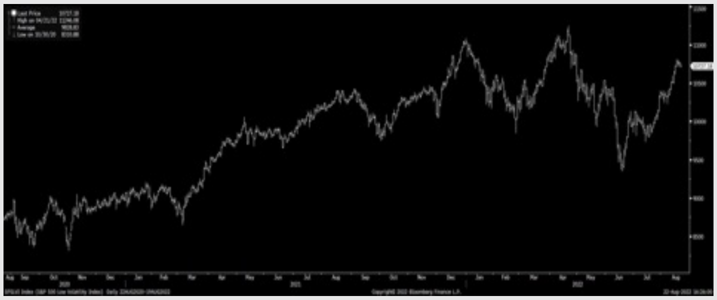
to view the Index's recent struggles as a breather amid a durable up-trend, not a change of direction. Low-volatility stocks have a lot in their favor, including a still-positive overall trend, supportive relative



valuations, and the market's general direction (despite recent strength) remaining down, as evidenced by the S&P 500 continuing to trade below its 200-day moving average.

Top Low Volatility Stocks Over Time			
Name	Ticker	Yield	Beta
Pepsi	PEP	2.45%	.594
McDonalds	MCD	2.05%	.635
Coca-Cola	KO	2.68%	.592
Hersey Foods	HSY	1.57%	.542
Proctor Gamble	PG	2.40%	.555
Colgate Palmolive	CL	2.27%	.410
Johnson & Johnson	JNJ	2.61%	.476
Duke Energy	DUK	3.60%	.316
Southern Co.	SO	3.42%	.608
Verizon	VZ	5.66%	.177

Source: Bloomberg

Industry sectors that typically offer lower price volatility along with solid dividend yields to offset higher interest rates, include Consumer Staples; Health Care; Utilities and Telecom. Examples of some stocks from these sectors that have offered lower price volatility over time are listed in the table above. Whether a low volatility strategy is appropriate for a given investor's portfolio depends on the investor's unique risk tolerance and time horizon.

Technology Corner: What the recent financial results tell us about the overall health of the technology sector?

Daniel Morgan, Senior Portfolio Manager

With calendar-year second quarter earnings season winding down, it may be a good time to step back and gauge the true health of the overall tech landscape. Often market participants will make broad based sweeping judgments on the entire Technology sector based on a few high-profile earnings reports. However, if we peel the layers away and take a hard look at the different groups within the tech space, we can make some more informed judgements of its true health.

Internet/Social Media Internet ad spend rates are beginning to deaccelerate from the easy comparisons after the Pandemic. The Ukraine conflict, macroenvironment headwinds and increasing competition for advertising dollars that are now growing more slowly is creating an overall smaller advertising pool. According to a recent study from Winterberry Group overall spend rates for on-line media players are expected to slow to 16.6% in FY22, following a massive gain of 36% in FY21. Both Twitter and SNAP reported disappointing 2Q ad revenue growth. TWTR reported ad revenue of $1.08 billion, +2% year-over-year (YoY), and SNAP reported 2Q revenues of $1.110 billion, +13% YoY (guiding for 3Q revenue to be flat YoY).

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Facebook parent Meta reported a steeper-than-expected drop in revenue, missed on earnings and issued a surprisingly weak forecast, pointing to a second consecutive decline in year-over-year sales. Overall advertising revenues were $28.15 billion (-1.5% YoY), which missed estimates of $28.53 billion. Reality Labs, home of Meta's VR headsets, posted an operating loss of $2.81 billion. Meta's online ad unit continues to face targeting and measurement headwinds such as App's iOS privacy rule changes, which contributed to the challenges across the digital ad industry (including both Twitter and SNAP). Finally, Meta gave a disappointing 3Q revenue outlook now anticipating revenue of $26.0 to $28.5 billion, which is below the consensus analyst estimate of $29.1 billion.

Despite Alphabet's weaker-than-expected earnings and revenue for the second quarter. The stock price jumped in after-market trading as many investors expressed a "sigh of relief" that the results were not worse. Revenue growth slowed to 13% in the quarter from 62% a year earlier, when the company was benefiting from the post-pandemic reopening and consumer spending was on the rise. Advertising revenue increased just 12% to $56.3 billion (below the estimated $56.91 billion), as marketers reeled in their spending to manage inflationary pressures. YouTube, Alphabet's emerging video segment, reported ad revenues of $7.3 billion (below the estimated $7.626 billion) resulting in just a 5% YoY rise, after jumping 84% YoY in the 2Q21. Google Cloud (GCP), reported revenues of $6.288 billion (+35.61 YoY), but fell short of revenue expectations of $6.342 billion. Further, GCP continues to operate in the red posting operating losses of $858 million.

Going into the 2Q22 print for Amazon there were two buy-side camps forming around the story -- those who believe that some of 2021's heavy cost inflation rolls off in 2022 and could see retail margin upside, and those who thought the external factors like fuel price and wage increases are simply too elevated to manage and that AMZN is in for another disappointing year. AMZN countered some of these doubts with an upbeat 2Q earnings report. AMZN reported revenue of $121.23 billion vs. an estimate of $119.09 billion. Revenue growth of 7% YoY in the 2Q topped estimates, bucking the trend among its Big Tech peers. AMZN's power growth driver Amazon

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Web Services reported strong revenue growth of $19.7 billion vs. an estimate of $19.56 billion, + 33% YoY. This along with strong growth from MSFT's Commercial Cloud unit (+28.2% YoY) and Alphabet's GCP unit (+35.5% YoY) gives evidence that the enterprise datacenter cloud space is still very buoyant. Alphabet's Advertising unit posted slower growth of $8.76 billion in revenues vs. an estimated $8.65 billion, a growth rate of just 21% YoY. This matches the muted growth that we saw out of other Internet/Social Media players -- Meta, Alphabet, SNAP and Twitter.

Enterprise One of the strongest areas so far in the Technology Segment has been the Enterprise hardware and software space. With all top bell-weather enterprise players, IBM and MSFT, recently reported strong quarterly results. IBM kicked the 2Q earnings season with a surprising beat. IBM's revenue rose 9% YoY in the quarter. IBM spun off its managed infrastructure services business into publicly traded Kyndryl in November, and sales to Kyndryl boosted IBM's revenue. IBM reported $6.17 billion in software revenue in the second quarter, up 6%. IBM's consulting division generated $4.81 billion in revenue, jumping nearly 10%. IBM's infrastructure unit, which includes mainframe computers, contributed $4.24 billion in revenue, up almost 19%. In May, IBM started selling its latest mainframe, the z16. Sales of z Systems products rose 69%, compared with a decline of 19% in the first quarter.

IBM kicked the 2Q earnings season with a surprising beat.

Microsoft shares rose after the company issued a rosy income forecast for the year ahead, despite issuing quarterly results that failed to reach Wall Street consensus. Microsoft turned in the slowest revenue growth since 2020, at 12% YoY. The company's reported EPS fell short of consensus for the first time since 2016, with net income rising 2% to $16.74 billion. Microsoft's guidance called for $49.25 billion to $50.25 billion in fiscal first quarter revenue, which reflects worsening PC sales and slower cloud infrastructure growth. Microsoft's Intelligent Cloud segment, which includes the Azure public cloud for application hosting, SQL Server, Windows Server and enterprise services generated $20.91 billion in revenue, up 20% YoY. Microsoft's flagship datacenter cloud product Azure (that accounts 35% of revenue) and other cloud services grew by 40%, compared with 46% in the prior quarter.

Smart Phones Apple reported fiscal third quarter earnings that beat Wall Street expectations for sales and profit in a tough environment, but showed slowing growth for the iPhone maker. Apple reported EPS of $1.20 vs. an estimate of $1.16, down 8% YoY. Revenue was reported at $83 billion vs. an estimate of $82.81 billion, up 2% YoY. iPhone revenue remain resilient coming in above expectations at $40.67 billion vs. an estimated $38.33 billion, up 3% YoY. Apple's iPhone sales exceeded Wall Street expectations, suggesting that demand for iPhone 13 models remains strong even in the second half of the product's annual release cycle. The Services business reported revenues of $19.60 billion, +12% YoY. Services segment is one of the consistent growing segments for Apple during the quarter. The Services segment includes monthly subscriptions (like Apple TV + Music), payment fees, warranties (Apple Care), search licensing fees from Google, and revenue from the iPhone App Store. Overall, AAPL was able to deliver strong results with the headwinds of a broad based slow-down in consumer spending on technology gadgets.

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Semiconductors Chipmakers have signaled that there is slowing demand for smartphones and PCs around the world as consumers grapple with recession fears and a 40-year high inflation. In contrast, chip companies that cater to automakers, data centers and industrial firms are still trying to keep up with demand. These results are playing out in the semiconductor sector as the "haves" are being separated from the "have nots."

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Apple is reported to be telling assemblers to make 90 million of its newest iPhones on par with last year. While Apple's soft 3Q growth in unit volumes for iPhone (+3%), iPads (-2%), Macs (-10%) and wearables (-8%) suggest that the consumer electronics industry is headed for a period of slow or no growth. While Apple suppliers SK Hynix Inc. and Qualcomm Inc. announced underwhelming outlooks tied to a dip in demand for consumer electronics and smart phones.

Sales of both memory and PC chips got boosts during the pandemic as demand surged for mobile phones, computers, and other work-from-home electronics. The catalysts driving those products is now fading as workers return to the office and students to the classroom. Micron Technology Inc., the top maker of NAND/DRAM memory chips that are used in electronic devices ranging from TVs, smart phones to PCs, issued 4Q sales guidance that was below estimates. Citing macroeconomic factors and supply constraints that have broadened customer inventory adjustments.

Global PC makers HP Inc. and Dell Technologies are grappling with the potential for a global recession and supply snags, have seen inventories moving higher. Intel Corp., the biggest maker of personal computer and server processors, posted disappointing 2Q results that included a 23% quarter over quarter (QoQ) drop in Datacenter and 18% QoQ drop in Personal Computing sales. Further, Intel slashed sales and profit forecasts for the rest of the year. AMD, top player in PC chips, shares fell after saying a slump in the personal-computer business is expected to slow future revenue growth. Despite the

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weakness in AMD's PC business the data server unit that makes chips for IaaS cloud centers is booming, posting 2Q revenues of $1.5 billion, + 83% YoY. This strength in cloud centers drove total revenue growth for AMD in the 2Q22 of 70%, which is the eight straight quarter of record growth.

A string of companies have reported in line results but with divergent trends in their individual business segments. Infineon Technologies AG increased its revenue forecast thanks to auto industry demand. Texas Instruments Inc. and NXP Semiconductors NV issued bullish forecasts on strong demand for industrial, cloud datacenters, service providers, broadband and auto products. Despite weakness in consumer segments like PCs, Mobile and Communications Infrastructure. Top gaming/datacenter chip maker Nvidia, pre-announced its 2Q results citing a fall in demand for gaming chips that will drop the unit's revenues by 33.3% YoY to $2.04 billion. This warning came despite consistent growth in its datacenter unit that is expected to post revenues of $3.810 billion, +61.0% YoY.

With all these contradictory signals should investors take advantage of the recent sell-off, S&P Information & Technology Index is down 24% this year, or is there more market weakness to come? With the Fed signaling that they will keep raising rates as long as inflation stays elevated (the Fed has signaled a 50 to 75 basis point increase is on the table for the upcoming September meeting), even if it means increasing unemployment. This creates fears this Fed policy will eventually lead to slower economic growth, squeezing IT budgets and resulting in lower profits for the Technology sector. Key sectors in the Tech space, such as Social Media/Internet, Smart phones and PCs, are exhibiting a dramatic slowdown. While in contrast, the datacenter and enterprise segments have remained buoyant. With market technicals now favoring the bears, there seems to be a flight to value within the Technology sector, as lower multiple, more mature growth names are out-performing their once high multiple, fast-growth brethren.

We're here if you have questions.

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