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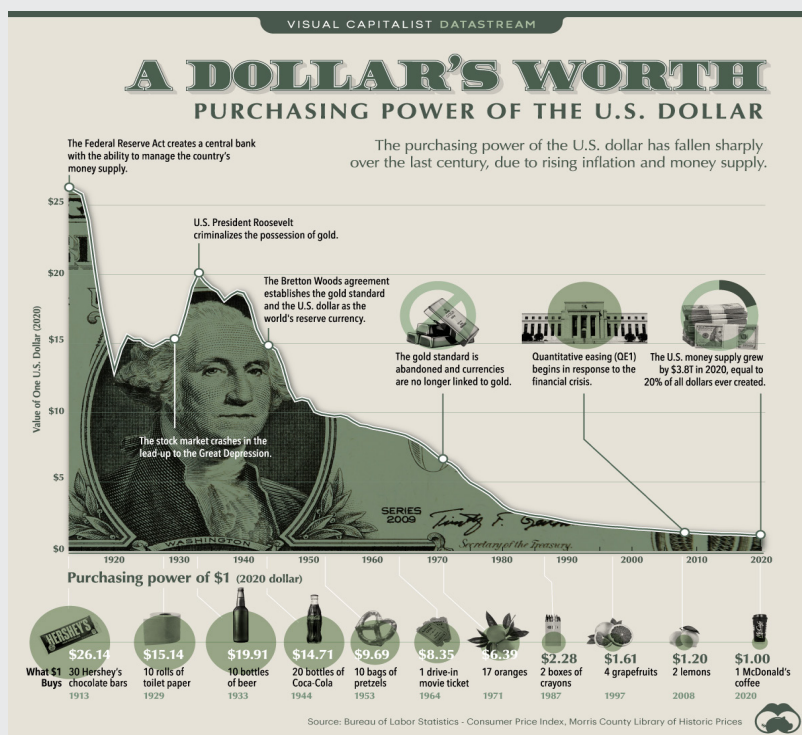
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A Tale of Budget Deficits, Dollar Purchasing Power and Global Currency Part 1: The Gold Standard

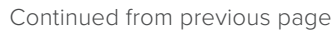
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Although Gross Domestic Product (GDP) was below expectations, the July number was the largest in annualized terms in almost 20 years. Also, COVID-19 benefits and child credits keep flowing, even though there are 10 million job openings; stocks are at all-time highs; and unemployment numbers are getting back to pre-pandemic levels. Despite strong data, Americans continue to receive benefits in different forms from the U.S. Government. Furthermore, on August 3, the U.S. Centers for Disease Control (CDC), under the direction of President Biden, overruled the Supreme Court and issued a 60-day eviction moratorium, keeping landlords from collecting rent, effectively acting as a government transfer of wealth. It has since been reversed by a 6-3 majority. With good signs in the economy and government money in people's pockets, is there a need for a \$550 billion infrastructure deal that could lead to inflation? Indeed, the infrastructure figure is much larger, as Speaker of the House Nancy Pelosi is trying to tie the deal to future spending on budgets up to \$6 trillion. To conclude, debt for the U.S. is approaching \$30 trillion dollars, a number so big that it has become almost ignored on both sides of the aisle and deemed a future generational problem.

How did we get here as a nation, and what are the impacts on the dollar? Most younger Americans have not lived through inflation before, and therefore have not experienced the tax-like impact it has on purchases. This week, the Federal Reserve showed concerns of an overheating economy by announcing a tapering of the QE program. Thus, the question arises, does pumping more money into an already overheating, supply induced, inflationary environment mean that the Federal Reserve and the Biden Administration are seeing events unfold differently? If we eventually enter a cycle of rising interest rates, it could be disastrous for the U.S., as interest payments on debts will surpass yearly budgets. Certainly, weakening our currency has been a long-established policy this century, executed by both Republicans and Democrats, with short-term positive results, broken promises, and a bill to be paid down the road.



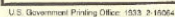
Source: <https://www.visualcapitalist.com/purchasing-power-of-the-u-s-dollar-over-time/>



When the Great Depression hit, the United States suffered a banking crisis, and depositors panicked and removed their gold in anticipation of falling interest rates. Fearing a devaluation of the dollar, foreign and domestic individuals and firms drained gold holdings in banks, resulting in the Fed being unable to honor its commitment to convert currency to gold.³ That drain on gold eventually led to a run on the banks and Americans keeping their money in their



between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin.”³ In April, the President then issued Executive Order 6102 prohibiting hoarding of gold, exports of gold, declaring citizens could own only \$100 in gold and must turn over gold and gold-back certificates more than the amount or suffer punishment of fine of \$10,000 and up to 10 years in prison.⁴ Then, in June, Congress took the U.S. off the gold standard, just as Britain had done in 1931, and Congress suggested that in the future, bills could be exchanged for silver, or eventually gold, depending on the course the administration decided to take, adding more uncertainty to what would back the dollar.



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After citizens turned in their gold, Roosevelt's next job was to devalue the dollar. To accomplish this, Congress gave Roosevelt authorization to drive up the price of gold to a fixed price, resulting in a devaluation of the dollar versus gold and foreign currencies still pegged to gold. During a meeting with Secretary of the Treasury Henry Morgenthau, the President decided to change the ratio between gold and paper dollars. After weighing his options, Roosevelt settled on a 21-cent price hike because "it's a lucky number." In his diary, Morgenthau wrote, "If anybody ever knew how we really set the gold price through a combination of lucky numbers, I think they would be frightened."⁵

While FDR was making decisions and buying gold from his bed with the Treasury Secretary by his side, not everybody trusted the Administration. As a result, some private citizens held onto gold illegally, sensing that FDR would drive up the price of gold after seizure, and they were eventually vindicated. Then, on January 31, 1934, Roosevelt signed the Gold Reserve Act, with the new claim that gold buying was not to drive up commodity prices, but rather to bring stability to the dollar. Thus, the gold standard was reinstituted, and The Act, through devaluation of the dollar, raised gold prices from \$20.67 per ounce to \$35. It is interesting to note that during this period, Roosevelt also initiated the repeal of the 18th amendment on Prohibition, and three quarters of the states ratified it as the 21st amendment. One observer, commenting on this remarkable turn of events, noted that of two men walking down the street at the start of 1933 — one with a gold coin in his pocket and the other with a bottle of whiskey in his coat — the man with the coin would be an upstanding citizen and the man with the whiskey would be the outlaw. A year later, precisely the reverse was true.⁶

As a result of government sponsored gold purchases, FDR accumulated an estimated 190 million ounces of gold worth \$7 billion in devaluation of the U.S. Dollar.⁷ In the first year of the New Deal, Roosevelt proposed spending \$10 billion, while revenues were only \$3 billion. Between 1933 and 1936, government expenditures rose by more than 83%. Federal debt skyrocketed by 73%.⁸ Roosevelt's removal of the gold standard opened doors to a limitless currency and credit expansion, and broke promises to war bond holders by devaluing their redeemed value. Conversely, it reinflated farm commodity prices of cotton and wheat, and helped America out of the Great Depression. The gold standard policy existed until Nixon abandoned it in 1971. The dollar would now be backed by the full faith and credit of the United States. Consequently, a dangerous precedent was set for the U.S. Dollar, as from that point, it would be ultimately backed by the political party in power, promising one thing but usually delivering devaluation.





Technology Corner: What are Some Secular Forces Driving the Technology Sector Today?

Dan Morgan, Senior Trust Portfolio Manager

Artificial Intelligence/Machine Learning. AI chips refer to a new generation of microprocessors that are specifically designed to process artificial intelligence tasks faster, using less power. One such AI accelerator is Google's Tensor Processing Unit (TPU), an ASIC (Application Specific Integrated Circuit), specifically designed for Google's TensorFlow programming framework used mainly for two branches of AI: machine learning and deep learning. Also, Apple has been developing its own chips for some years, suggesting that the company may eventually stop using outside suppliers such as Intel. Indeed, Apple looks determined to go its own way in the AI future, as the company has been using its A11 and A12 "bionic" chips in the latest iPhones and iPads. Another company, Intel, was reported to have been generating \$1 billion in revenue from selling AI chips as far back as 2017. More recently, Intel has developed an AI chip range called "Nervana", described as "neural network processors". In the market for GPUs (Graphic Processing Units)? Then, Nvidia looks to have a lead. The specific AI chip technologies Nvidia supplies to the market include its Tesla chipset, Volta, and Xavier, among others. These chipsets, all based on GPUs, are packaged into software plus hardware solutions aimed at specific markets. Like Nvidia, Advanced Micro Devices, Inc. (AMD) is another chipmaker that is strongly associated with graphics cards and GPUs, partly because of the growth of the computer gaming market over the past couple of decades, and lately because of the growth of bitcoin mining. AMD offers hardware and software solutions such as EPYC CPUs and Radeon Instinct GPUs for both machine and deep learning. EPYC is the name of the processor that AMD supplies for servers, mainly in data centers, while Radeon is a graphics unit mainly aimed at gamers. Additionally, AMD offers other chips including the Ryzen, and perhaps the more well-known Athlon.

5G Expected to Positively Impact Smartphone/Infrastructure Sales. A main driver in demand for smartphones will be the migration towards 5G, which is now the primary reason consumers are upgrading their mobile devices in the U.S. and China. According to a recent estimate from Strategy Analytics, mobile 5G handset volumes are expected to more than double to nearly 624 million units in 2021. This compares to the 269 million 5G smartphones that were shipped in 2020. In the first quarter of 2021, 135.7 million 5G smartphones were shipped globally. This represents about a 40% penetration rate as of the first quarter. Total estimated iPhone unit shipments for fiscal year 2021 now stands at 230 million (vs. 190 million in 2020), an annual growth rate of 21% year-over-year, to reach 237 million units by fiscal year 2022, an annual growth rate of 3% year-over-year.

On the infrastructure front, all top four NA service providers are all likely to have nationwide 5G coverage by the end 2021, even given the intricacies of 5G. However, the ability to default to the 4G network and dynamic spectrum sharing (DSS) 5G-like coverage, which can be supplied relatively inexpensively, has yet to see much growth from equipment providers based on NA investment. According to a recent study by Morgan Stanley, U.S. wireless carrier CAPEX is expected to increase 12% in 2020, 11% in 2021 and 6% in 2022. Therefore, it seems a major step-up in 5G edge equipment is not necessary until 5G specific services are offered or overall traffic surges. This will most likely occur as new 5G phones from Samsung/Apple gain market share into 2021. Notably, after bad bets, what remained of one-time American champions Lucent and Motorola, was acquired by Finland's Nokia and Sweden's Ericsson. According to a recent study by Omdia, the top 5G infrastructure vendor share is as follows: Huawei 15%, Nokia 16%, Ericsson 14%, and Samsung 3%. On the chip set front, top CDMA-intellectual property giants Qualcomm and TSMC should get a sizable 5G boost. Another catalyst could be the infrastructure bill, depending on the plan you evaluate



Ultimately, faster spend rates should positively impact the chip companies that make the processors, which are the brains of data servers such as Intel (Xeon), AMD (EPYC & Vega) and Nvidia (GPU)—and all compete for a piece of this lucrative market.



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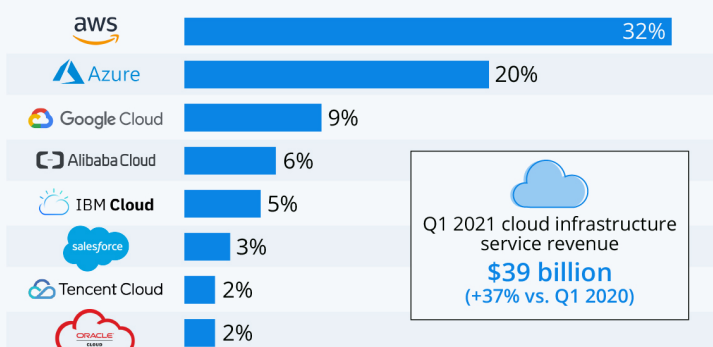
(Republican vs. Democrat), as proposed infrastructure provisions are estimated at \$65 to \$100 billion. While it's too early to

quantify the impact future stimulus will have on growth, the concept of universal broadband should expand the market and represent a strong tailwind.

IaaS Cloud Growth Drives Demand for Increase in Data Center Spending. Data center demand should continue to be driven by continued strength in IaaS buildouts. Expect cloud migration to accelerate post-COVID-19. Furthermore, data center CAPEX is expected to increase in the double-digit annual range in 2021, and is forecasted to reach \$180 billion in 2024 as the market grows at a 15.7% compound annual growth rate. According to a recent Study by Statista, in the first quarter of 2021, Amazon continued to lead the worldwide IaaS market with an estimated 32% of the total market (see chart), while Microsoft remained in the number 2 position in the IaaS market with a 20% market share. To drive adoption, Microsoft has leveraged its sales reach and ability to co-sell its Azure offerings along with other Microsoft products and services. Meanwhile, the dominant IaaS provider in China, Alibaba Cloud, now has a worldwide market share of 6%. Lastly, Google's IaaS, Google Cloud Platform (GCP), is gaining traction in the U.S. with a market share of 9%.

Amazon Leads \$150-Billion Cloud Market

Worldwide market share of leading cloud infrastructure service providers in Q1 2021*



Q1 2021 cloud infrastructure service revenue
\$39 billion
(+37% vs. Q1 2020)

* includes platform as a service (PaaS) and infrastructure as a service (IaaS) as well as hosted private cloud services

Source: Synergy Research Group



statista

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Source Footnotes:

¹ <https://www.federalreservehistory.org/essays/roosevelts-gold-program>

² <https://www.federalreservehistory.org/essays/roosevelts-gold-program>

³ <https://www.federalreservehistory.org/essays/emergency-banking-act-of-1933>

⁴ Franklin D. Roosevelt, Executive Order 6102—Requiring Gold Coin, Gold Bullion and Gold Certificates to Be Delivered to the Government Online by Gerhard Peters and John T. Woolley, The American Presidency Project <https://www.presidency.ucsb.edu/node/208042>

⁵ John Morton Blum, From the Morgenthau Diaries: Years of Crisis, 1928-1938 (Boston: Houghton Mifflin Company, 1959), p. 70.

⁶ Lawrence W. Reed, New Dealing from The Bottom of The Deck, Jan 1, 1998.

⁷ <https://www.fff.org/explore-freedom/article/roosevelts-crusade-gold/>

⁸ Lawrence W. Reed, New Dealing from The Bottom of The Deck, Jan 1, 1998.

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