The Family Office at Synovus

Empowering enterprising families to thrive. Together.

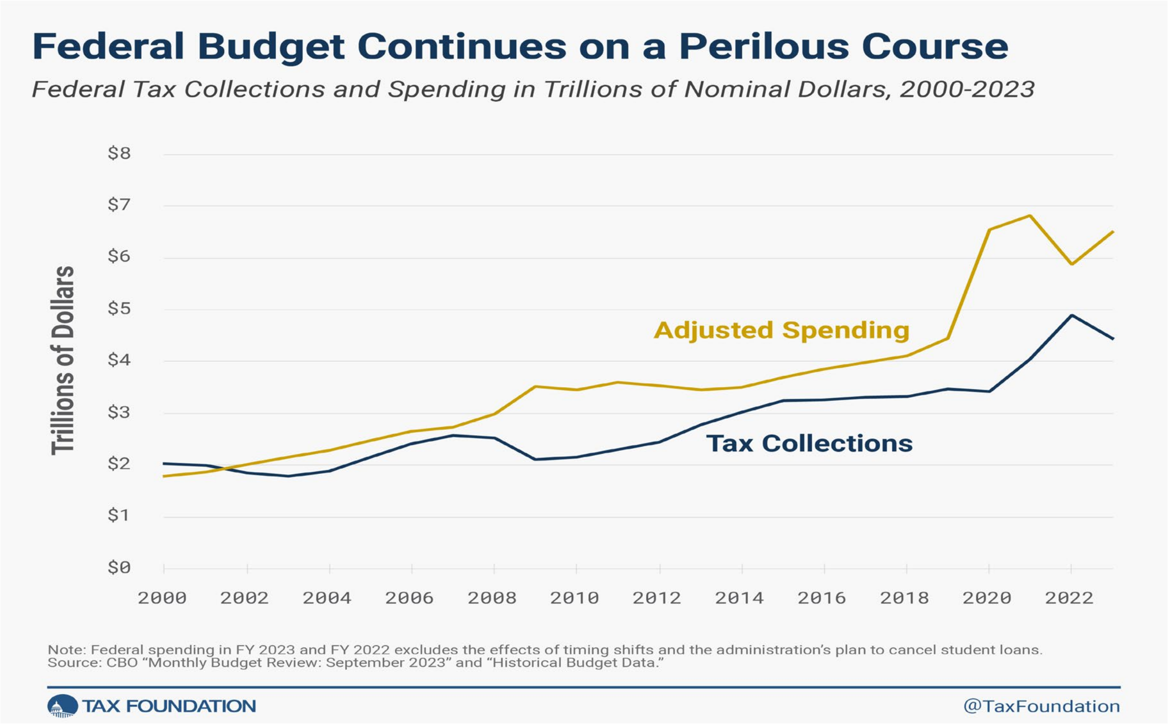
2023 4th Quarter Outlook

Economic Outlook

In the third quarter, we began to see consensus move in the direction of a soft landing or no recession over the next 6-9 months. Economic growth has continued to hold up well, even with interest rates moving higher. Inflation has come down from its peak in June of 2022, but has been sticky around 3%-3.5%. The Fed's aggressive tightening of Monetary Policy has been seen mostly through higher housing costs, commercial real estate distress, and lower margins for banks. Fiscal policy has been loose, likely offsetting much of the tightening by the Fed. Deficits continue to increase even in a period of low unemployment and positive economic growth. For 2023, the deficit is measuring around 7% of GDP. The only other times that the U.S. has run this large of a deficit was during WWII, The GFC of 2008-2009, and during the Covid shut-down of 2020. There remains some spending power left, but we will likely see consumer spending begin to slow as many have used up their savings and are utilizing credit cards to maintain current spending levels. If rates stay higher for longer, we will eventually see a significant slowdown in the economy that may or may not produce a recession in the next 6-12 months. We continue to be positioned for either a slow down or continued growth by being more diversified, utilizing passive and active management, and avoiding trying to time the market.

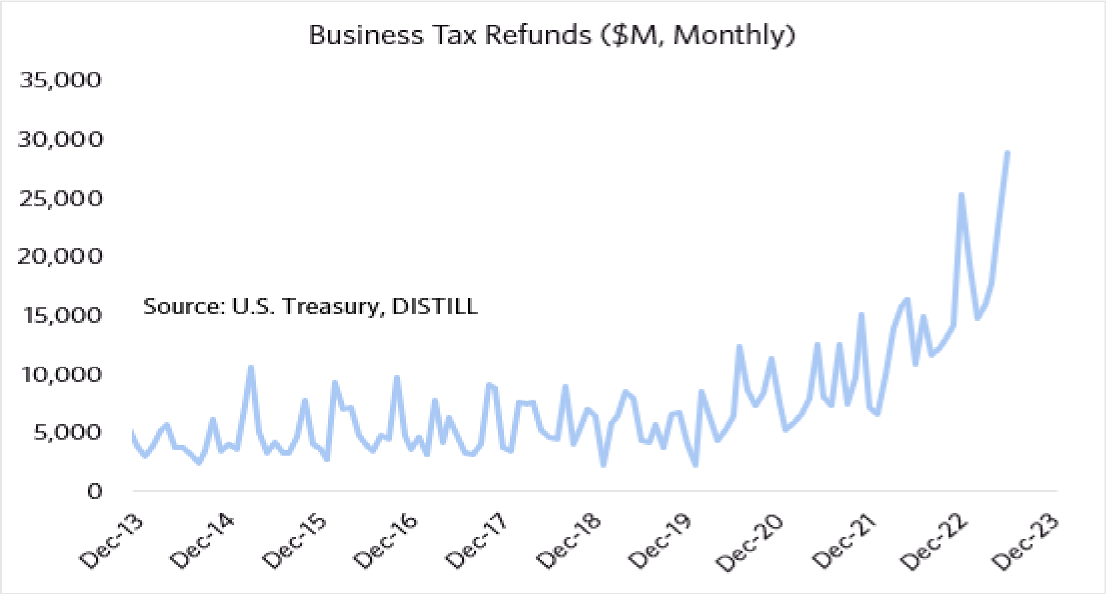
Fiscal Policy

- One major reason that the economy has continued to grow is due to continued fiscal stimulus.
- The U.S. is running a deficit of 7% of GDP and is likely to run deficits between 4%-5% over the next couple of years.
- Fiscal stimulus provides some benefit, but the marginal benefit per dollar is low to negative after 12-15 months. Running deficits eventually crowds out productive private investment.



Fiscal Policy

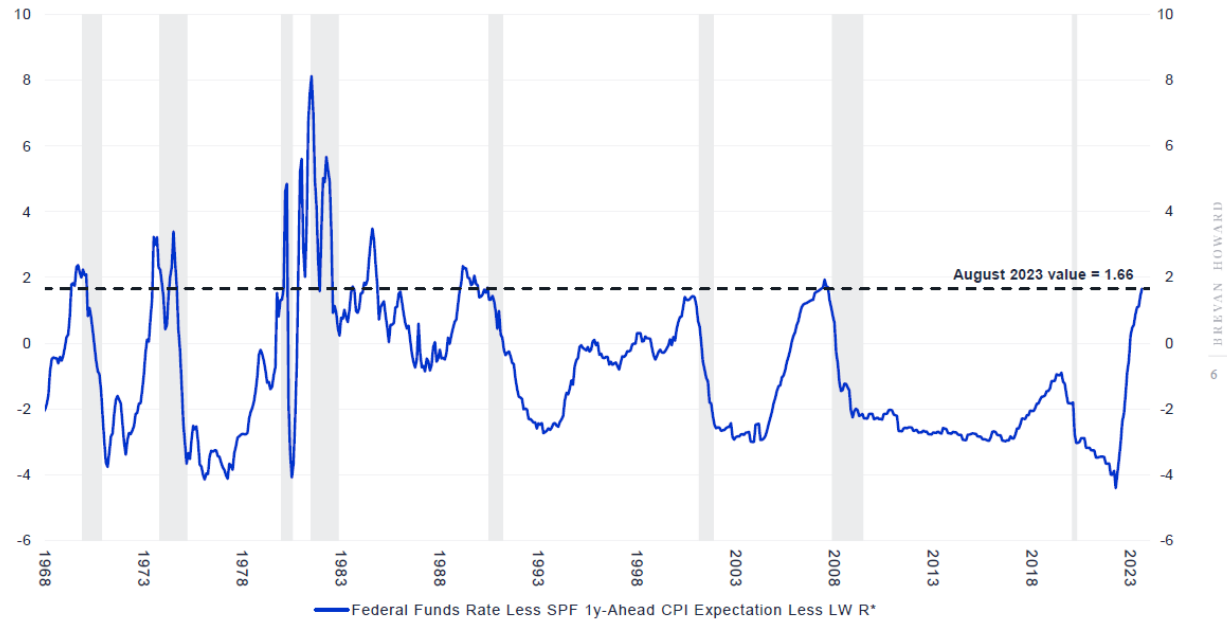
- A primary example of why the deficit has exploded is the Employee Retention Credit (ERC).
- The ERC program was designed to give employers a tax credit for retaining employees from Q2 2020 to Q3 2021. It provides for up to $28,000 per employee of credits on amended tax returns.
- Originally estimated to cost $55bn, it has paid out nearly $230bn through September.
- The run rate was nearly $30bn a month before being paused.



Monetary Policy is Tight

- However way policy is measured, monetary policy is tight to neutral.
- When looking at Fed Funds vs how the Fed measures a neutral rate (R*), conditions are tight relative to historical levels.
- Conditions were tighter when the Fed was fighting high inflation during the 1970's and early 1980's.

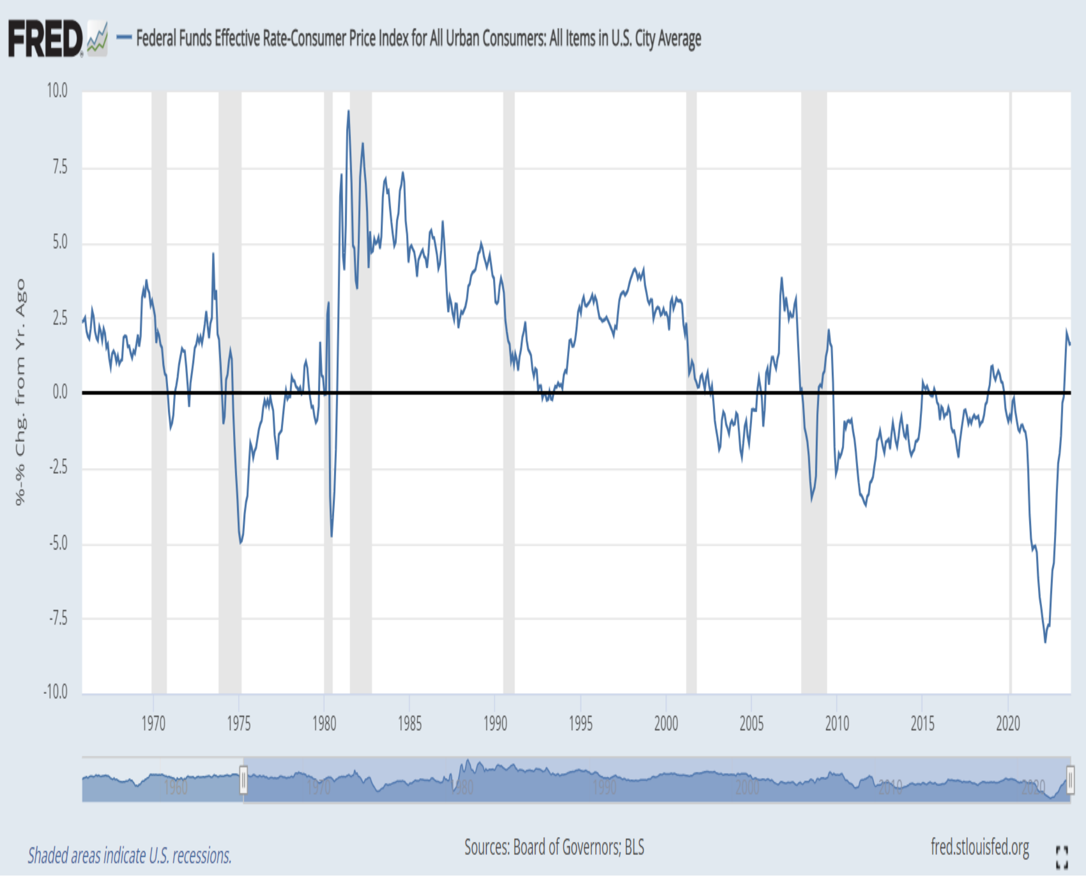
Forward Real Federal Funds Rate Less R* (%)



Source: FRB, NBER, calculations by BH; as at 31 August 2023.
SPF = Survey of Professional Forecasters; LW R* = Laubach-Williams natural rate of interest.

Monetary Policy is Neutral

- When looking at the difference between the Fed Funds Effective Rate and Inflation (CPI), Monetary Policy looks neutral relative to history.
- Regardless of how it is measured, Monetary Policy is as tight as it was going into the three previous recessions.



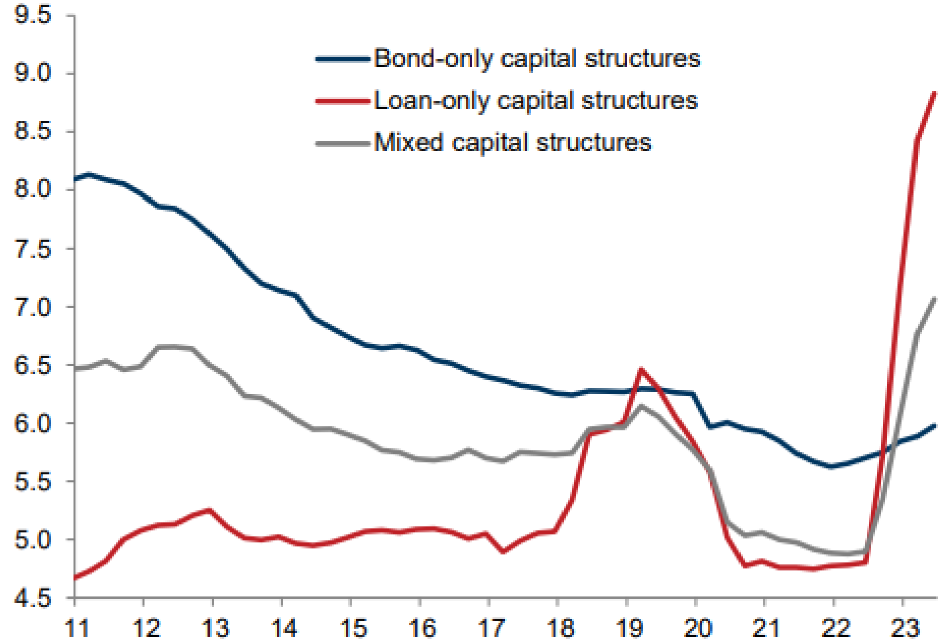
Follow the Fed

- While markets are anticipating that the Fed is done or could hike one more time, we have seen the 10-year Treasury climb towards 5%.
- Historically, the 10-year hits the Fed's peak rate before rates begin to come down.
- At today's rate, that means the 10-year could reach 5.25%-5.5%.
- As we have said many times, past precedents have not held up during this cycle of first Quantitative Easing and now tightening.

Equity

- Large companies with strong balance sheets were able to take advantage of low rates and lock in their interest expense.
- Smaller companies with weaker balance sheets are now at the mercy of the loan market in which rates have adjusted higher.
- We continue to see value in owning profitable companies with stronger balance sheets, especially in the small cap space.

Weighted-average coupon for HY-rated USD bond and leveraged issuers by category of debt capital structure, %

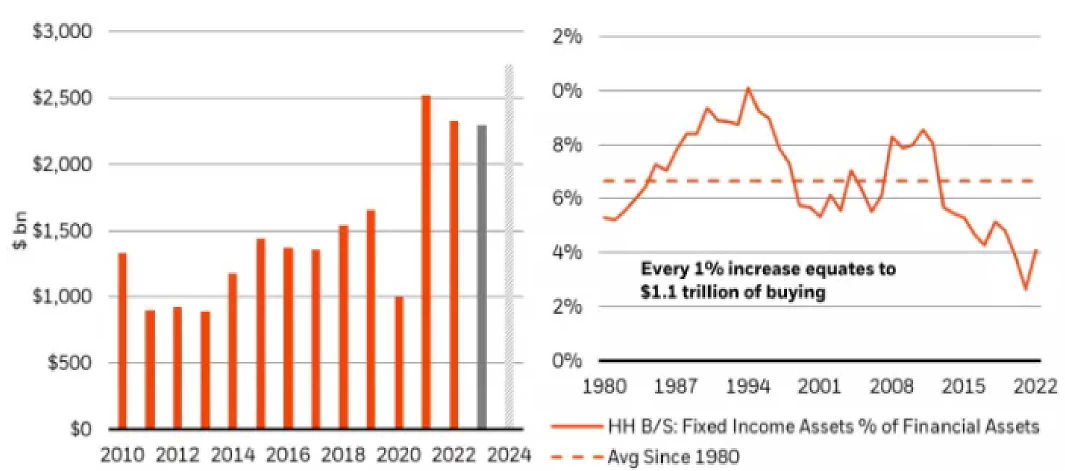


Source: Bloomberg, Goldman Sachs GIR.

Fixed Income

- The 10-year U.S. Treasury Bond moved above 4% and briefly touched 5%. We see more value in bonds but remain cautious of extending duration too much at this time.
- The U.S. continues to run massive deficits and will need to issue over $2.4tn of 10-year equivalent debt next year.
- Households have been happy to own money market funds with yields above 5%. They hold historically low amounts of fixed income relative to other financial assets and should step up their allocations as rates stay higher.

Figure 7: Net supply of UST (10-yr. equivalent terms) massive next year, but households have room to expand allocations



Sources: U.S. Treasury Department and Federal Reserve, data as of Aug. 31, 2023 (LHS); Goldman Sachs, data as of Aug. 31, 2023 (RHS)

Source: Blackrock

Market Positioning

- We maintain our quality tilt within our equity portfolios as well as overweighting emerging markets relative to Europe.
- Significant rise in rates provides opportunity to add value to portfolio with fixed income. Look to gradually extend duration as bonds mature.
- Added exposure to Catastrophe Bond manager at beginning of the year. Looking to add 1 or 2 private credit funds to our absolute return strategy.

- **Equity**: Quality oriented companies and increasing active management opportunity. See better valuations in emerging markets. Want to see end of Fed hikes (weaker dollar) to add more exposure.
- **Fixed Income**: Continue to target strong/quality issues. Extended duration slightly to take advantage of rates above 4%. Maintain exposure to 3-5 year U.S. Treasuries.
- **Hedge Funds**: Increase exposure to Absolute Return strategies that can benefit from rising rates and provide diversification away from equity and fixed income risk.
- **Private Equity**: Focus on Small-Mid Buyout strategy, which is less frothy than Venture. Balance smaller emerging managers with those with persistent track records.

Disclosures

- This report has been prepared from sources and data believed to be reliable but not guaranteed to or by Synovus Trust Company, N.A. (STC). Opinions expressed are subject to change without notice. Synovus Trust Company, N.A. has prepared and presented this report for the sole usage of its clients as information and is neither an offer to sell nor a solicitation of an offer to buy any security.
- Trust services for Synovus are provided by Synovus Trust Company, N.A. The Family Office at Synovus is a division of Synovus Trust Company, N.A. Investment products and services **are not FDIC insured, are not deposits of or obligations of Synovus Bank, are not guaranteed by Synovus Bank, and involve investment risk, including possible loss of principal invested.** Synovus Trust Company, N.A., its affiliates and its officers, directors and employees may from time to time acquire, hold, or sell securities, funds or asset classes that may be referenced herein.