The Family Office at Synovus

2024 Mid-year Economic and Market Commentary

August 2024

Empowering enterprising families to thrive. Together.

2024 Mid-year Investment Review

In the first half of 2024, we saw continued volatility in the markets, with the Federal Reserve staying put and maintaining their "hold" on cutting interest rates. Going into the beginning of 2024, most forecasters were looking for rate cuts to begin in March or May. Talk has now shifted to the first cut likely to occur in September. It is anticipated that the Fed will decrease rates two to three times by year-end.

The concentrated tech names continued to lead, with the S&P 500 Growth Index up 23.5% and the S&P 500 up 15.29% (June 2024 YTD). U.S. economic growth has continued to be robust, while unemployment has only slowly moved higher, ticking up to 4.3% in July. Combined with the rate of inflation remaining higher than expected, the Fed has been in a position of uncertainty. It is still unclear at this point whether inflation will move back up or if the economy will begin to decline. This has generated an environment where interest rates have been relatively stable, giving markets room to run higher.

The Presidential race has taken a quick turn, with President Biden dropping out and competition tightening amongst the political parties. While the outcome is unknown, either party winning has the potential to produce inflation. The big difference between each party's policy will be around renewing individual income tax rates for those above $400,000 per year.

Looking ahead, we continue to see pockets of weakness and strength in the U.S. economy. Wealthier households are seeing their assets grow, while lower-income households are feeling the impact of rising prices for goods and services. We are also observing higher U.S. debt levels that have the potential to lead to slower growth and higher long-term rates, barring a major recession. The anticipation of the Fed cutting rates has been a strong tailwind for equity markets, as we are in a period of likely lower rates with a low probability of a recession. As we know, that can change quickly, but in the meantime, it has been a good ride.

Macro Overview

- Unemployment has been gradually increasing, but it hasn't reached a level associated with a recession.
- One important indicator we pay attention to is the number of weekly unemployment claims. Historically when unemployment claims on a rolling monthly basis increase by more than 75,000-100,000 from a trough, we typically see the start of a recession.

Figure 1b: Unemployment Insurance Claims

Notes: To better illustrate movements in unemployment insurance claims for the full period, the vertical scale has been truncated to 1,000, which caused the period March 2020 to July 2020 to fall outside the scale. This period peaked at 4,190,000 in April 2020. The shaded areas represent National Bureau of Economic Research recession periods.
Source: Initial claims for unemployment insurance, state programs, monthly averages of weekly data (SA), January 1963 to March 2023 via Haver Analytics.

3

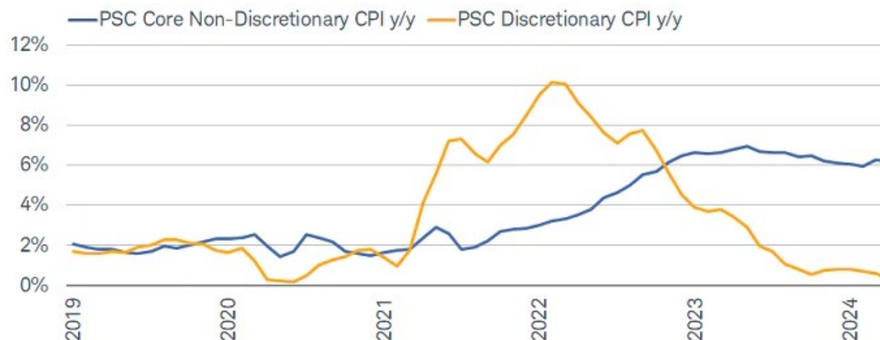
Divergent Economy

- We continue to see a divergence in parts of the economy, where the services sector is doing well, but manufacturing is not as strong.
- We see a divergence in price levels for household goods, with non-discretionary items (such as food) continuing to move higher while discretionary items (such as beauty products) leveling out and moving lower.
- Lower income households are more affected by higher priced non-discretionary items.

Services' reacceleration

Source: Charles Schwab, Bloomberg, ISM (Institute for Supply Management, as of 5/31/2024. The Manufacturing ISM Report On Business and the Services ISM Report On Business are based on data compiled from purchasing and supply executives nationwide. Readings above 50 indicate expansion in activity and below 50 indicate contractions.

Prices of needs › prices of wants



Source: Charles Schwab, Piper Sandler & Co. (PSC), as of 4/30/2024. CPI indexes created by PSC. Core Non-Discretionary categories: Medial Care Commodities, Rent, Hospital Services, Motor Vehicle Maintenance, Motor Vehicle Insurance, Motor Vehicles Fees, Day Care and Preschool, Wireless Telephone Services, Internet Services, Personal Care Products, Legal Services, Funeral Expenses, Haircuts & Other Personal Care Services, Financial Services, Pet Services including Veterinary.

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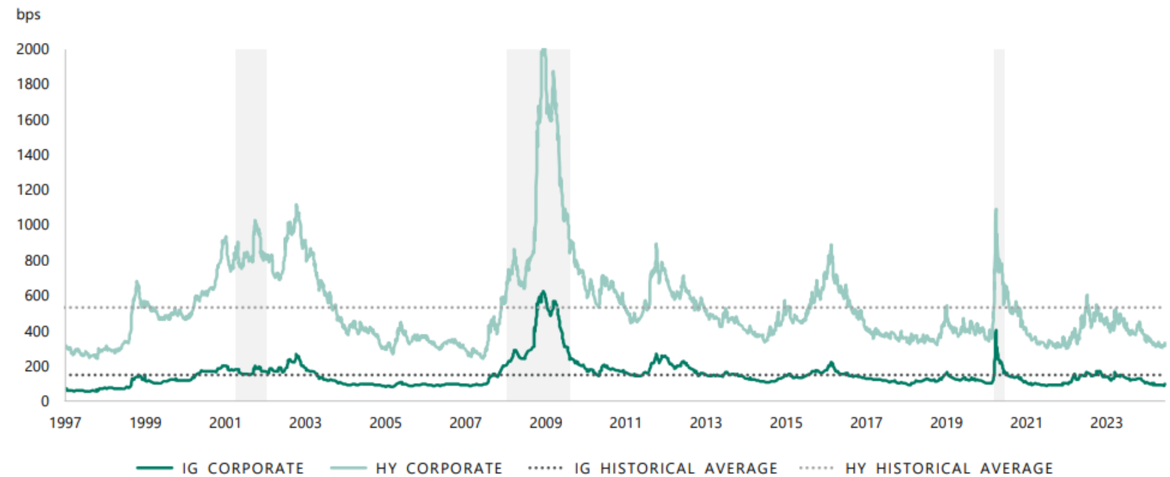
Credit

- We continue to see large corporations maintain strong profit margins, which show up in historically tight credit spreads.
- While defaults have been low, they are beginning to increase and the return for the amount of risk embedded in corporate debt is less favorable.
- We continue to see good opportunity in the 4–6-year maturity range relative to longer maturities.

U.S. Investment grade and high yield spreads



Data as of June 14, 2024.
Sources: Bloomberg, Apollo Chief Economist

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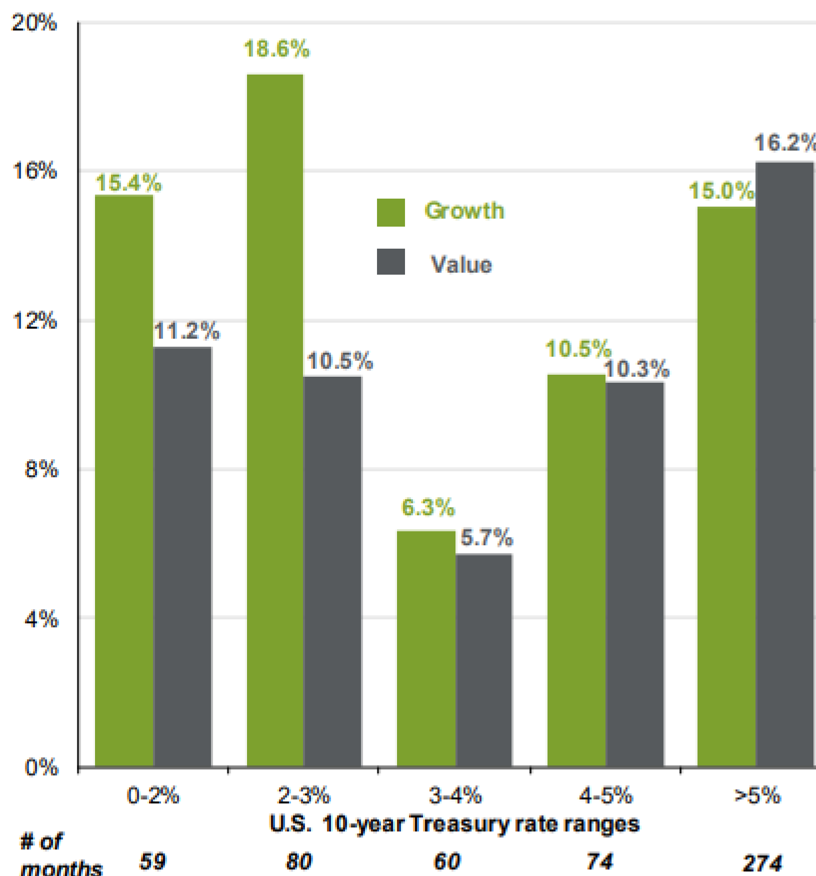
Equity

- We are likely to see the yield on the 10-year Treasury remain above 3.5% for the foreseeable future.
- Yields above 3% have been much better environments for value stocks than higher interest rate environments.
- We seek to be diversified across all styles, making slight tilts based on market environments.



Source: JP Morgan Guide to the Markets 3Q 2024

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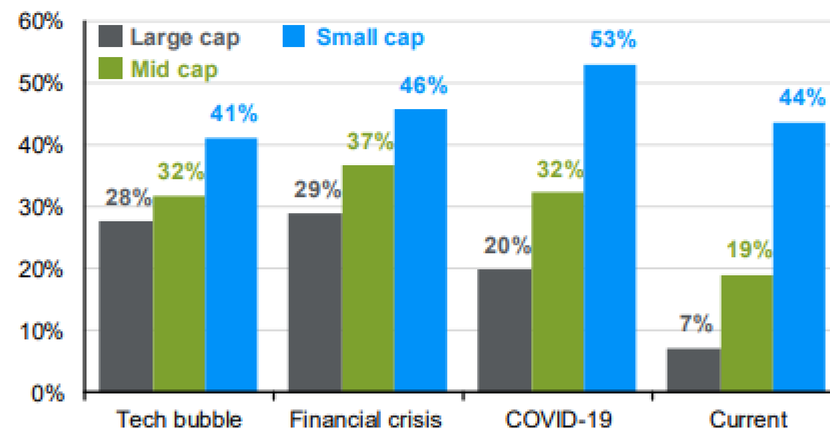
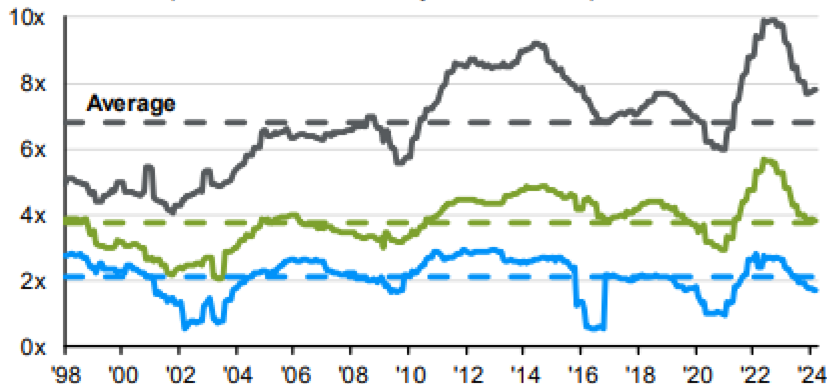
Equity

- Small cap stocks have lagged significantly compared to U.S. large cap stocks.
- Small cap stocks, historically have had less profitable businesses and have been reliant on floating rate debt.
- We see opportunity in active management within small caps vs. investing entirely in the index.





Source: JP Morgan Guide to the Markets 3Q 2024

- Private Equity volume has not yet reached the peak of 2021 but is expected to exceed that of 2023.
- Many investors are waiting for proceeds to be returned from prior investments before making new allocations.
- Valuations have slightly decreased in the buyout sector and have significantly dropped in venture capital.

Private Equity

PE exit activity

Source: Pitchbook. Geography: U.S. Data as of March 31, 2024.

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Portfolio Market Positioning

- No major changes in our equity allocation, using run-up in large cap growth to rebalance to lagging areas (small cap, international).
- While we do foresee a re-steepening of the yield curve, we anticipate a less dovish Fed. We expect to see likely two to three cuts by year-end.
- Within Alternatives, we plan to launch our 2024 Private Equity Vintage and a Private Credit Fund.

- **Equity:** Rebalancing back to our strategic allocation. U.S. large cap growth has outperformed significantly comparable to value and international. We see opportunity in expanded participation.
- **Fixed Income:** Focusing on quality issues, extending duration at the margins where appropriate. Positioning the portfolio for a normalization of the yield curve following easing cycle.
- **Hedge Funds:** Increasing allocation to uncorrelated strategies within Absolute Return. Added a small cap long/short manager. Added an event-driven manager to absolute return fund.
- **Private Equity:** Targeting lower middle-market buyout managers with a proven value creation process. Preference to funds with historically low loss ratios and top quartile performance. Looking at Venture and Growth capital as valuations have settled down.

2024 Year-end Outlook

As we've suggested, we anticipate a Federal Reserve rate cut in September as employment weakens and inflation edges closer to the 2% goal. At the time of publishing this commentary, there has been a lot of news about the U.S. markets selloff and the unwinding of the Japanese Yen carry trade. We are already seeing the markets stabilize, refocusing the conversation around if and when the U.S. might enter a recession.

Presently, the U.S. economy is still expanding and though the chances of a recession are slim, historical data reveals the challenges of accurate prediction by both forecasters and the Federal Reserve. We persist in seeking opportunities to diversify portfolios and establish a resilient allocation, avoiding the need to chase forecasts. Our focus remains on long-term strategies, without any compelling reasons for drastic asset allocation shifts.

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