



The
Family Office
at Synovus

Empowering enterprising families to thrive. Together.

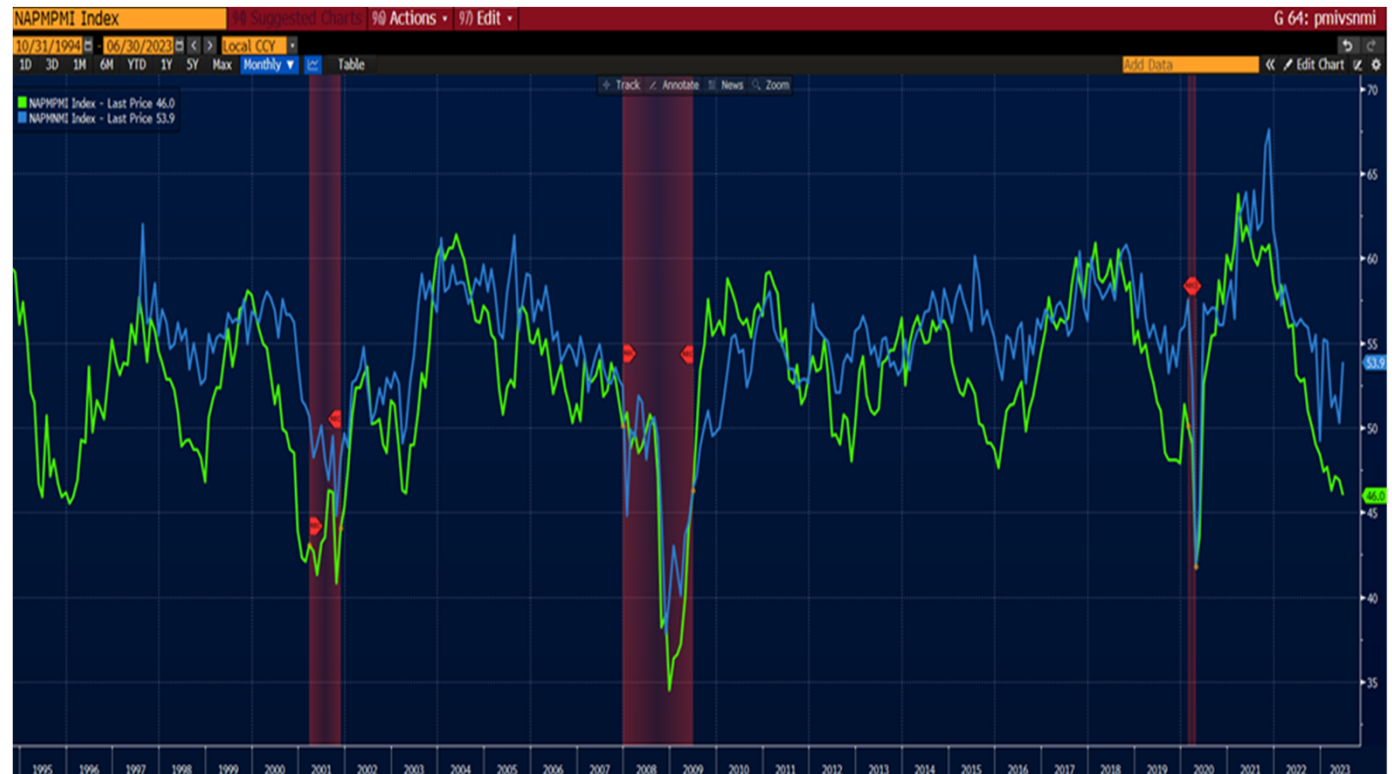
2023 2nd-Half Outlook

Economic Outlook

- In the first half of the year, we experienced three of the top four bank failures ever and a contentious fight over raising the debt limit. Regardless, the S&P 500 is up 16.89% through the end of June. The anticipated recession has yet to unfold and the average expected return for the S&P 500 for the full year was 4.5%-5%. As noted in previous outlooks, this environment seems more difficult to rely on historical norms for predicting economic and market outcomes. While we have seen many economic factors weaken, employment has held up extremely well, allowing for households to keep spending (especially on services). Government spending is still above pre-Covid trend and manufacturing construction is up significantly. The lag effect of rising interest rates are just now starting to filter its way into the economy. The Fed has indicated that they are willing to push rates above the current 5%-5.25% level in order to get inflation down to a 2% target. Expectations were that it would take a recession to achieve that goal. Currently the odds of the Fed pulling off a soft-landing are increasing.
- While we have been expecting a recession like others, we were cautious on when it may actually start due to the ramifications of coming out of an environment of Quantitative Easing and a pandemic. The U.S. economy has been surprisingly strong, and we are seeing more strategists speak of the Fed possibly pulling off a soft-landing. While that may well happen, history shows that there is peak consensus around a soft-landing just before the onset of a recession. While inflation has come down significantly from the highs of last summer, we see the CPI staying at or above 3% for the remainder of the year. The Fed may hike one more time in the Fall, just in time for the lag-effect (it takes a couple of quarters for higher rates to effect economic growth) to kick in.

Service Sector Strength

- The goods portion of the economy has been weak, but the service portion has been strong.
- During Covid, we saw a strong pickup in goods as locked down consumers could only spend on goods while the service sector was shut down. That led to a significant pull-forward.
- Now we are seeing a catchup in services, as consumers are travelling, eating out, and going to concerts.

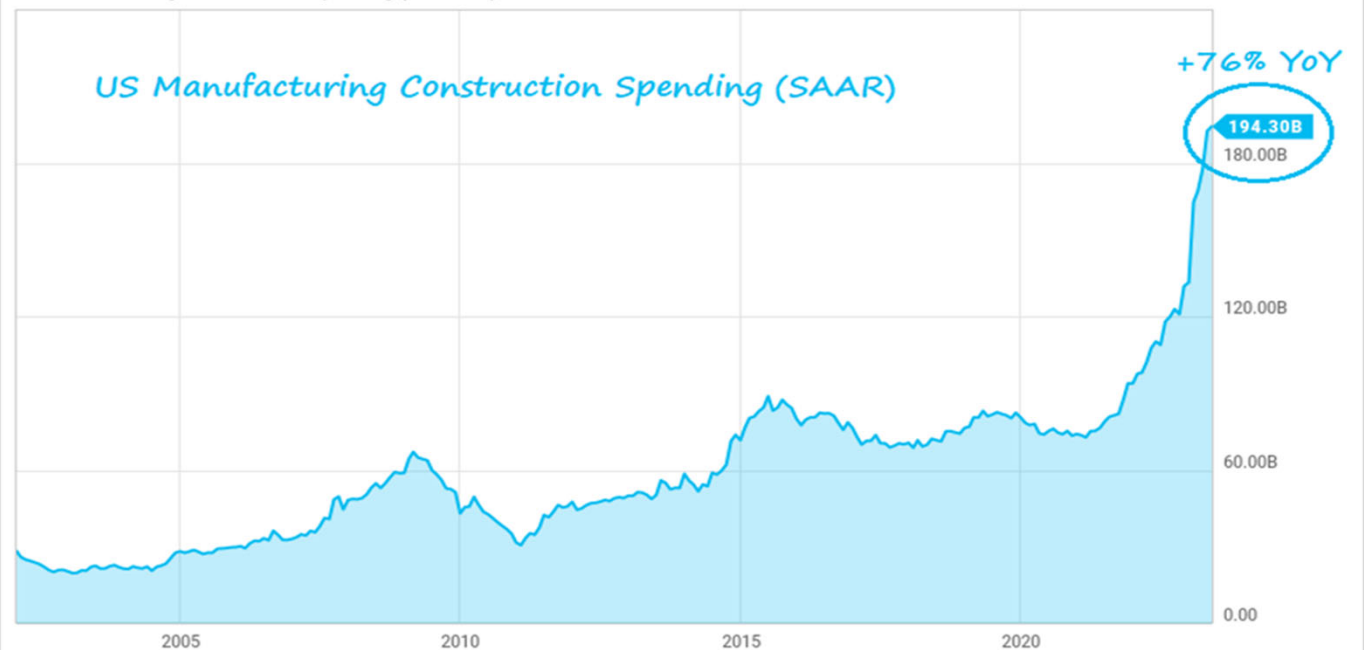


Source: Bloomberg

Onshoring

- One area of strength has been the spending on building-out new manufacturing facilities in the U.S.
- The primary focus has been on chip and electronic plants.
- While less than 1% of U.S. GDP, it is still meaningful on the margins with GDP growing around 2%.

US Manufacturing Construction Spending (I:USMCS)

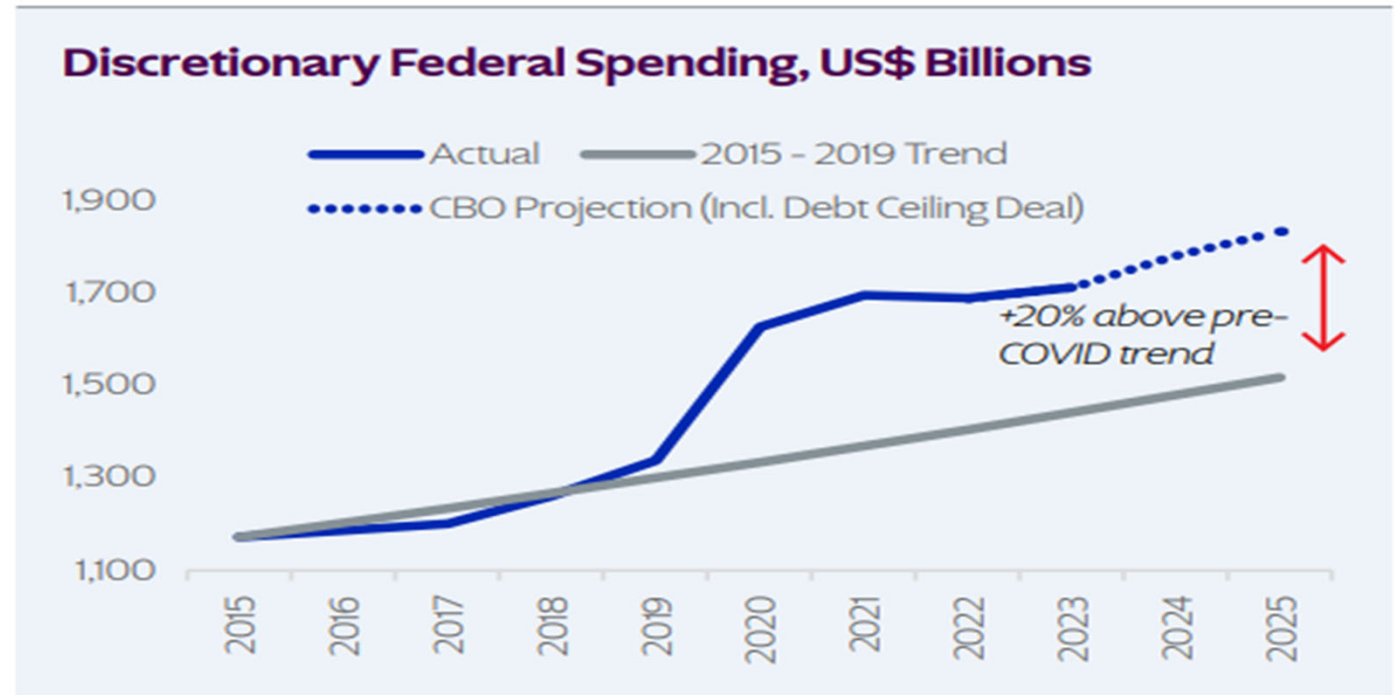


CREATIVE PLANNING @CharlieBilello

Jul 10 2023, 10:48AM EDT. Powered by YCHARTS

Government Spending Still Above Trend

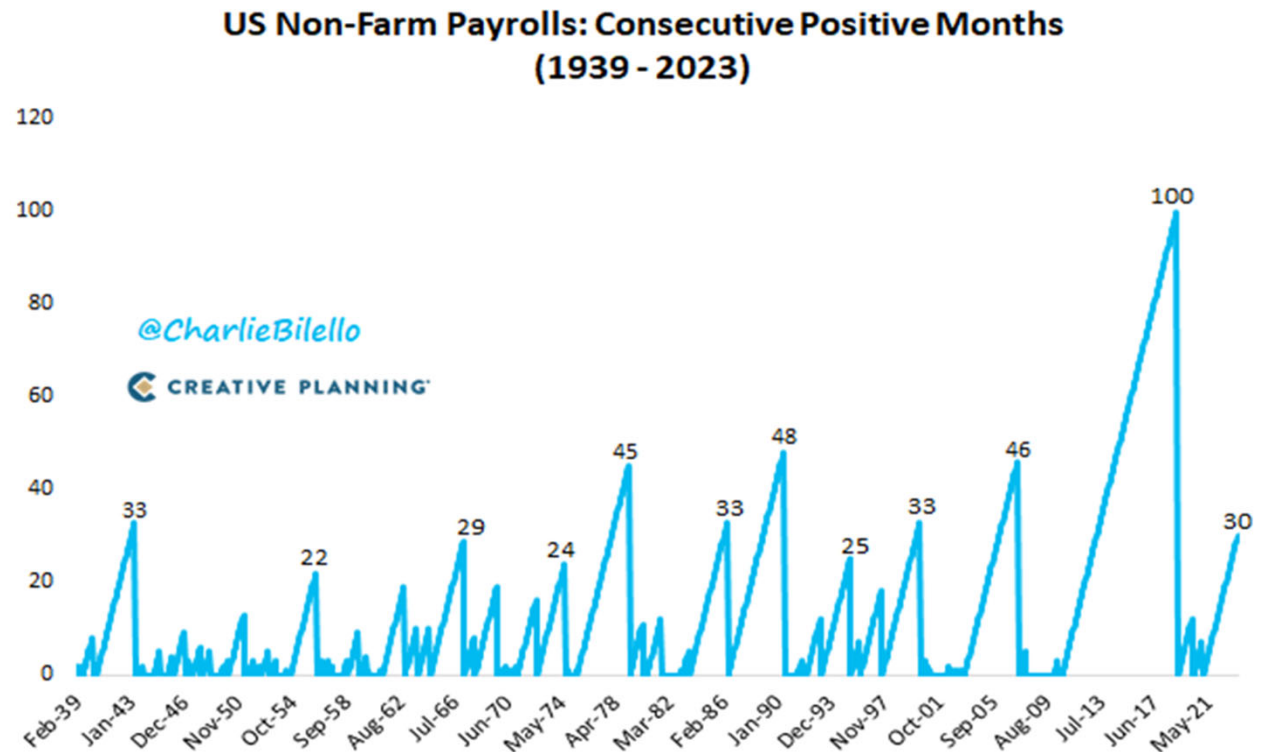
- Government initiatives, such as the CHIPS act and the “Inflation Reduction Act” (IRA) will keep discretionary spending above pre-Covid trend.
- The extra spending amounts to about 2% of GDP.



Data as at May 31, 2023. Source: Congressional Budget Office.

Strong Jobs Market

- The U.S. job market continues to remain robust with Non-Farm Payrolls growing for thirty consecutive months.
- Unemployment would need to increase to 4% or higher to signal a recession.
- Jobless claims moving higher by 10% over a 3-month rolling period would also be a leading indicator of recession.



Labor and Corporate Profits as % of GDP

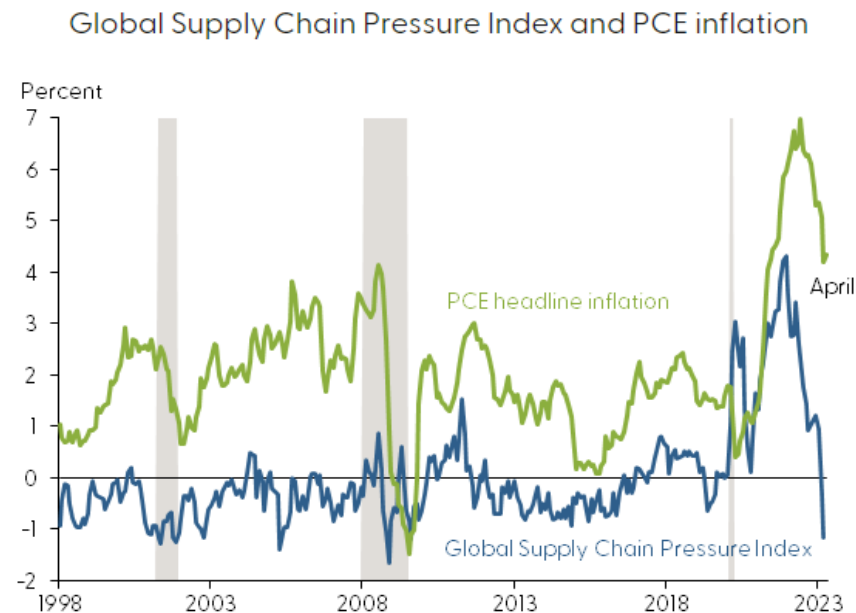
- Corporate Profits as a percentage of GDP remain near historical highs, though have moved down recently.
- Labor as a percentage of GDP remains near historical lows.
- It is likely we are entering a period where labor has more leverage and companies will seek to hold on to employees longer than in the past.
- The consequences could be a slow growing economy with deteriorating profits.



Source: Bloomberg

Moderating Inflationary Pressure

- One primary source of inflation has been through disrupted global supply chains. As measured by the NY Fed, that pressure has eased substantially.
- PCE and CPI tend to lag by about 6 months, so both should move lower.



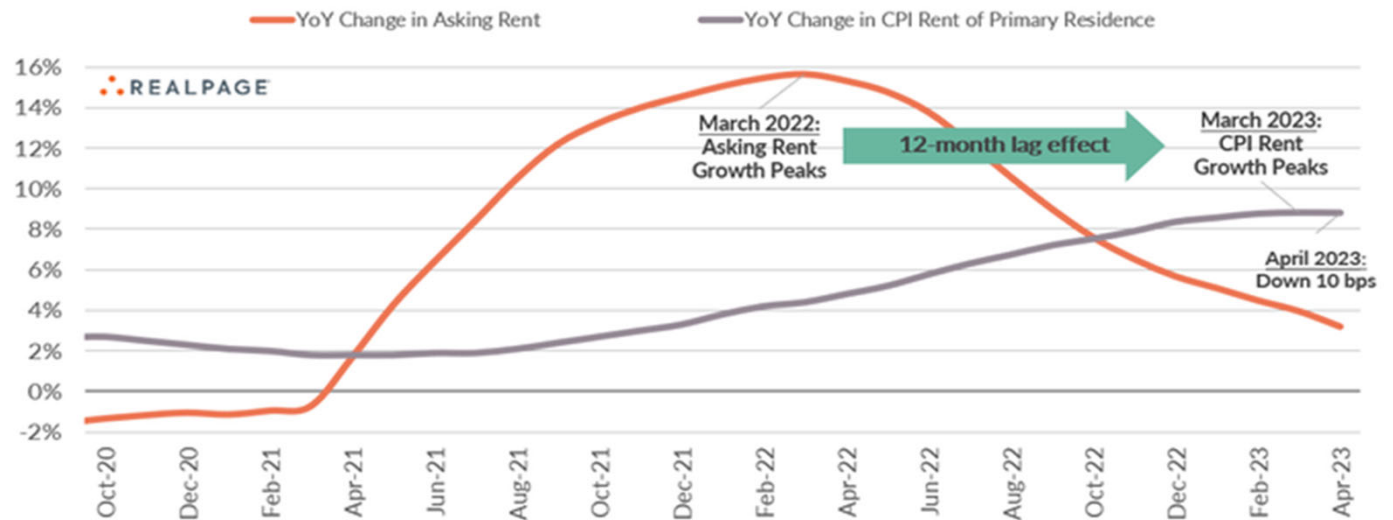
Source: FRB New York, Bureau of Economic Analysis, and authors' calculations. Gray shading indicates NBER recession dates.

Housing Inflation Slowly Coming Down

- Housing inflation within the CPI tends to lag by about 12 months versus what is seen in the current rent statistics.
- Asking rents peaked in March of 2022 and the housing component of CPI has likely peaked.
- While moderating, housing costs will continue to cause inflation to remain above 3% for the foreseeable future.

Right on Schedule: CPI Shows Rent Growth Easing 12 Months After Peak

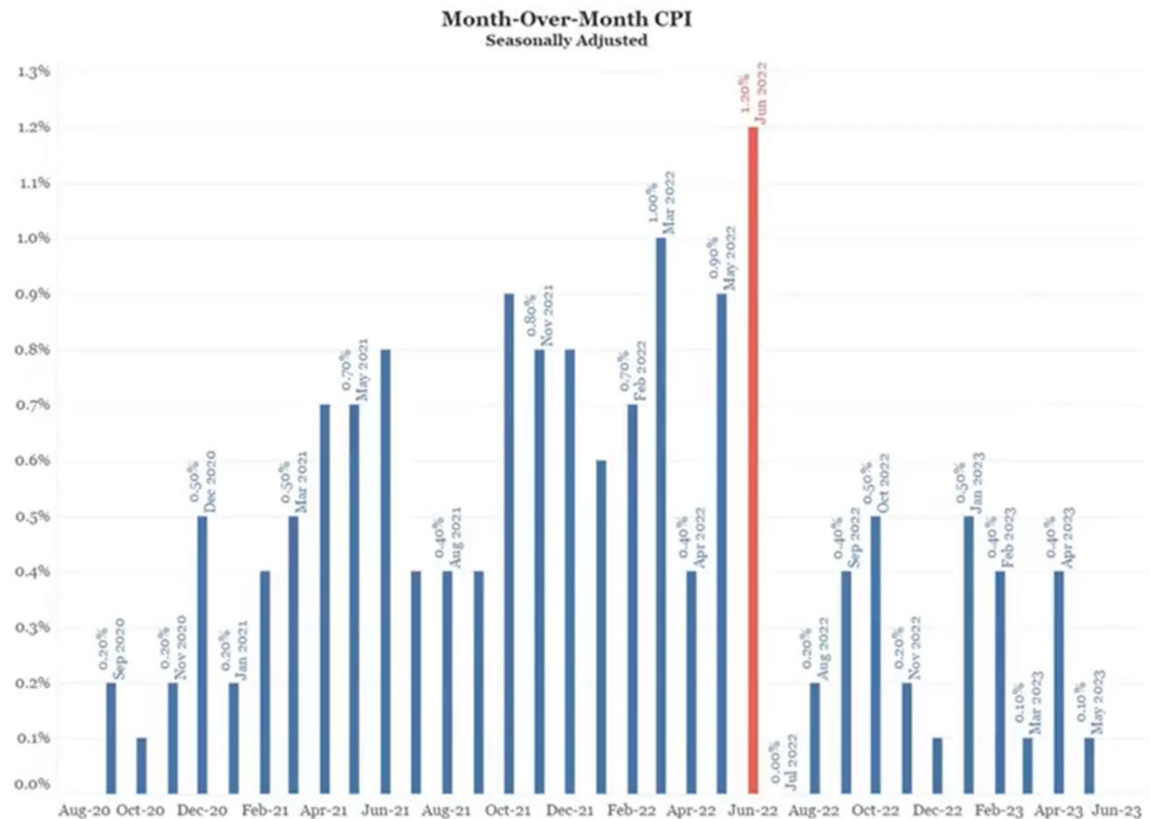
Comparing Different Measures for Market-Rate Apartment Rent (RealPage) vs. CPI Rent (BLS)



Sources: RealPage Market Analytics; Federal Reserve Economic Data (FRED) & BLS

Inflation Peak and Base Effect

- June's CPI report came in around 3% for the trailing twelve months, which was the lowest level since March 2021.
- While the rate of inflation has come down substantially, getting below 3% for a sustainable period of time will be difficult.
- CPI has a base effect in which inflation is measured from the same month one-year ago. June came in lower, because June of 2022 was the peak month for inflation. July of 2022 was flat, so we are likely to see CPI go up in July and August from the 3% level. Inflation would need to be zero each month of the rest of the year for CPI to get below 3%.



Source: Bianco Research, BLS

Narrow Stock Market Leadership

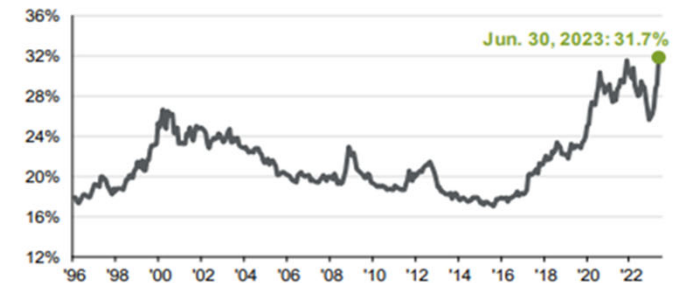
- The top 10 stocks in the S&P 500 trade at 1.45x their average P/E from 1996 to today. The remaining stocks trade just above the average at 1.13x.
- The top 10 stocks make up the highest percentage of market capitalization (31.7%), but only contribute 21.5% of earnings.
- We see a better environment for active management and stocks outside of the top 10 playing some catchup.

P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months, 1996 - present



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

Weight of the top 10 stocks in the S&P 500
% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500
Based on last 12 months' earnings

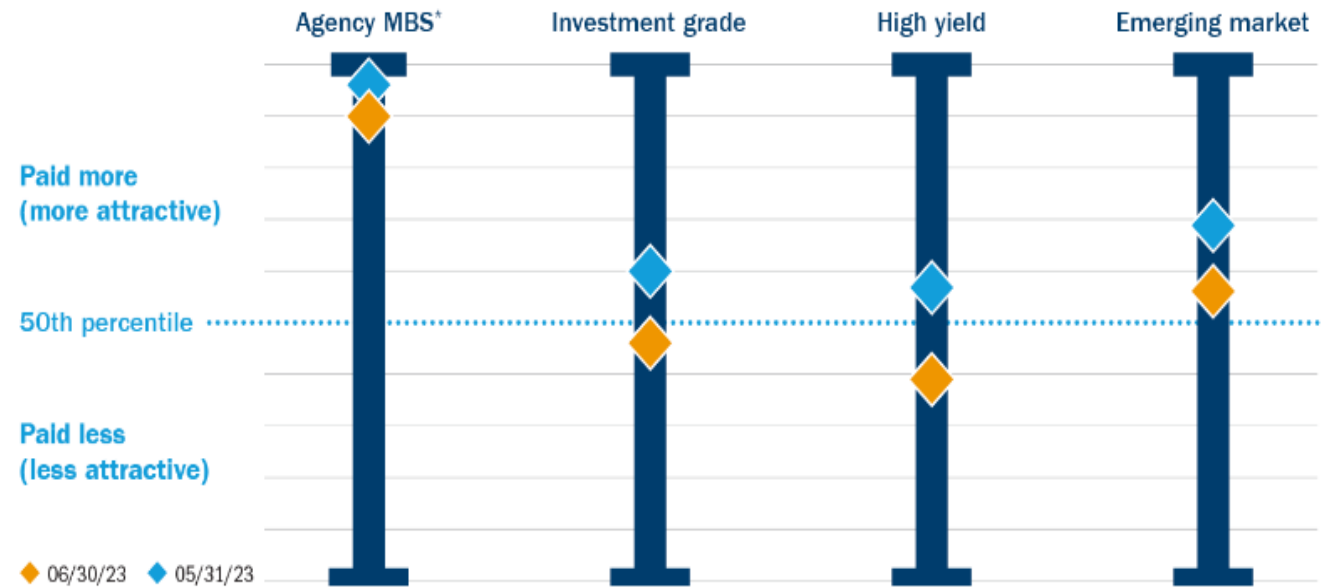


Fixed Income

- While rates have moved higher to attractive levels, there are differences in how bond categories are pricing in the risk of a recession.
- Investment grade and high yield bonds are priced at historical averages in regard to their spread to Treasuries. Spreads could double or triple if we experience a typical recession.

▶ How much are fixed-income investors being paid to take on excess risk?

Range of spreads over 20 years



Source: Columbia Threadneedle Investments.

*Agency MBS are represented by 30-year Agency mortgage-backed securities (FNCL) traded in the TBA market (current coupon) using LIBOR discounting (data available since July 2006).

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 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, over-weight in health care. 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 3%. 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.

Summary

The behavior of financial markets in the first half of the year reinforces the idea of being invested for the long term and trying to market time based on forecasters or strategists who are usually wrong. The consensus was that we would likely be in a recession by now and the Fed would be starting to cut interest rates. Any investor who acted on that advice and applied it to their investment allocation has experienced significant underperformance. We continue to view forecasts as having less accuracy in a post-covid/highly stimulus environment. While we view the odds of a recession as better than 50% over the next 9-12 months, we do not think getting the timing right warrants major moves in our portfolio allocation. Where we seek to add value is in incremental moves that will still participate in a continued strong market, but will hold up better when a recession materializes. We are likely to see inflation stay stronger for longer and most investors are not positioned for that environment. In the residential real estate market, buyers are being told to buy and pay the maximum amount for a mortgage with the likelihood they will be able to refinance as soon as rates go down. What if they don't?

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.