The Family Office at Synovus

Economic and Market Commentary

April 2025

Empowering enterprising families to thrive. Together.

2025 First Quarter Recap

In the first quarter, we noticed a drop in enthusiasm for growth. The administration focused on tariffs instead of de-regulation and tax cuts, which had initially boosted sentiment. In December 2024 and January 2025, most estimates predicted U.S. GDP growth of around 2%-2.5% for the year and inflation close to 2.5%. The excitement was due to the continuation of the 2017 tax cuts and reduced regulations. However, attention shifted to tariffs in February, targeting border security and a focus on Canada, Mexico, and China. Tariffs increased and expanded to China from February through April. On April 2, the administration announced 10% tariffs across the board, with higher tariffs on China and Southeast Asia.

The decline in the S&P 500 coincided with new tariff announcements. The market peaked in mid-February and continued to decline through the end of the quarter. The S&P 500 ended the quarter down 4.3%, with Consumer Discretionary and Tech stocks leading the decline. Energy, Healthcare, and Staples performed well, ending the quarter in positive territory. The downturn was opposite to the previous run-up, with the Magnificent 7 stocks* leading the decline and value stocks rising. Bonds provided some cushion to the selloff, with the Aggregate index up 2.8%.

*The Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. The Term was coined by Bank of America strategist, Michael Hartnett.

Why Tariffs?

- The Trump administration believes that tariffs are a way to change the trade imbalance by making it more economic to produce some goods in the U.S.
- The dollar as the world's dominant reserve currency is seen as a major issue by members of the administration.
- Tariffs are seen as a way to generate revenue instead of increasing income taxes.

- Raise revenue to cover costs of extending 2017 tax cuts
- Weaken the dollar to improve trade imbalance
- Improve wealth disparity without increasing individual income taxes
- Shift policy from a post-WWII containment of the Soviet Union to a focus on China
  - U.S. is too reliant on China for important inputs for technology, healthcare, and defense
  - Make Europe pay for being covered by U.S. defense umbrella or spend more on defense

Reliance on China

- The U.S. and the rest of the world are reliant on China for rare earth elements that are critical inputs for the defense, technology, and healthcare industry.
- While the U.S. is the second largest miner, there is little to no refining and processing capabilities.
- The U.S. is trying to encourage mining and refining domestically, but it will take many years and likely government support to be meaningful.

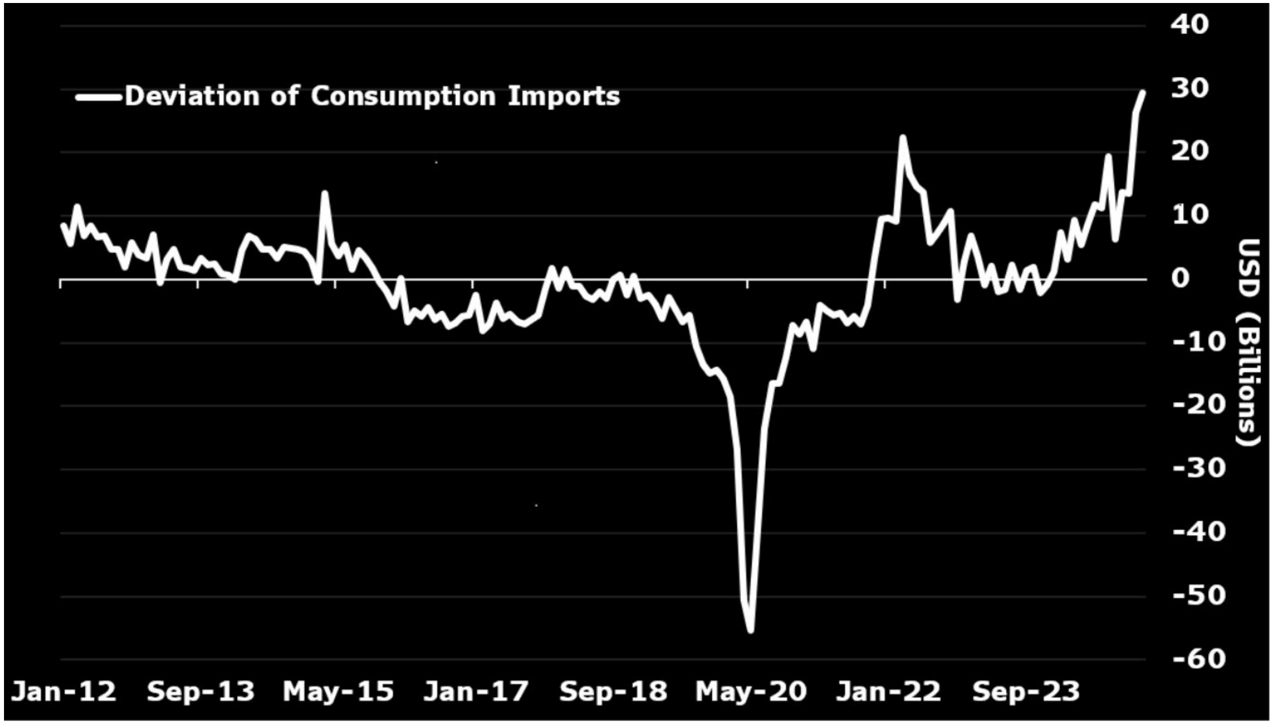
Rare earth metals subject to Chinese export controls

Mineral	Uses	US net import reliance	Share of US imports from China
Samarium	Nuclear reactor control rods and small motors	~80%	~70%
Gadolinium	Neutron absorbers in nuclear reactors, MRI imaging	~80%	~70%
Terbium	Night-vision goggles, sonar systems, shape-changing magnets, medical x-rays	~100%	~100%
Dysprosium	Industrial magnets for F-35 fighter jets, EVs, wind turbines	~80%	~70%
Lutetium	Cancer treatment, LED lighting, petroleum refining	~80%	~70%
Scandium	Aerospace, industrial metals	100%	<50%
Yttrium	Jet engine coatings, radar systems, precision lasers, industrial metals, LED screens, superconductors	100%	93%
Tungsten	Ammunition, machine tools used on oil rigs and jet engines, etc	>50%	27%
Tellurium	Metal alloys	<25%	<5%
Bismuth	Pharma	89%	67%
Indium	Fiber optics, laser diodes, LCD screens	100%	8%
Molybdenum	Metal alloys	0%	<6%

Source: CleanTechnica, USGS, MBMG, JPMAM, April 2025. Rare earth US net import reliance & import share from China is used as a proxy for samarium, gadolinium, dysprosium and lutetium

Tariff Anticipation

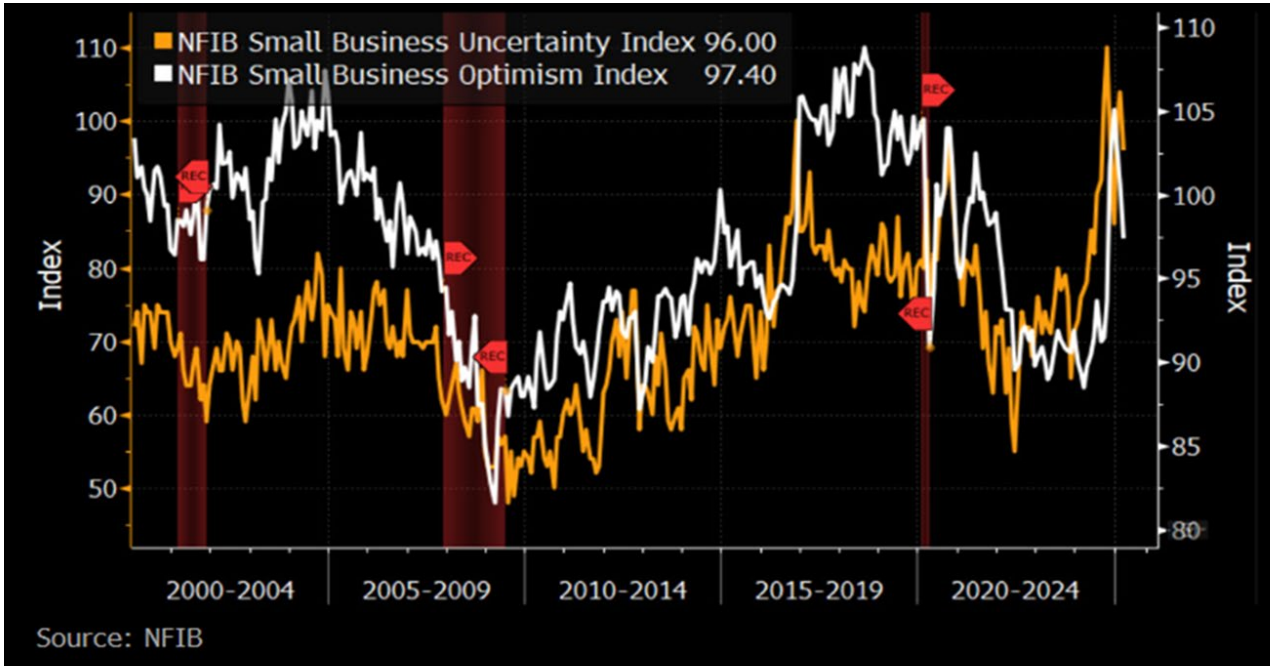
- The Trump administration has been talking about tariffs before the election, so there was a window for companies to anticipate them.
- At the end of the year and into the first quarter, we saw the imports of consumer goods pick up dramatically as purchasers built up inventory.
- This inventory will take a couple of months to work through, pushing off the impact of tariffs on prices to mid-year.



Source:.Bloomberg

- The announcement of higher and broader tariffs have begun to weigh on sentiment, with large and small businesses beginning to reduce their optimism due to higher uncertainty.
- Small businesses were very optimistic after the election due to the possibility of lower regulation and taxes.
- That optimism has pulled back as uncertainty remains high. This can eventually lead to less investment in growth for CEO's and business owners.

Sentiment



Uncertainty

- We see a dramatic decline in CEO confidence in the economy one year from now after being strong at year end.
- Company executives need to see some degree of certainty and understand what the environment will look like for them to commit to growth and expansion.

Source:.Apollo

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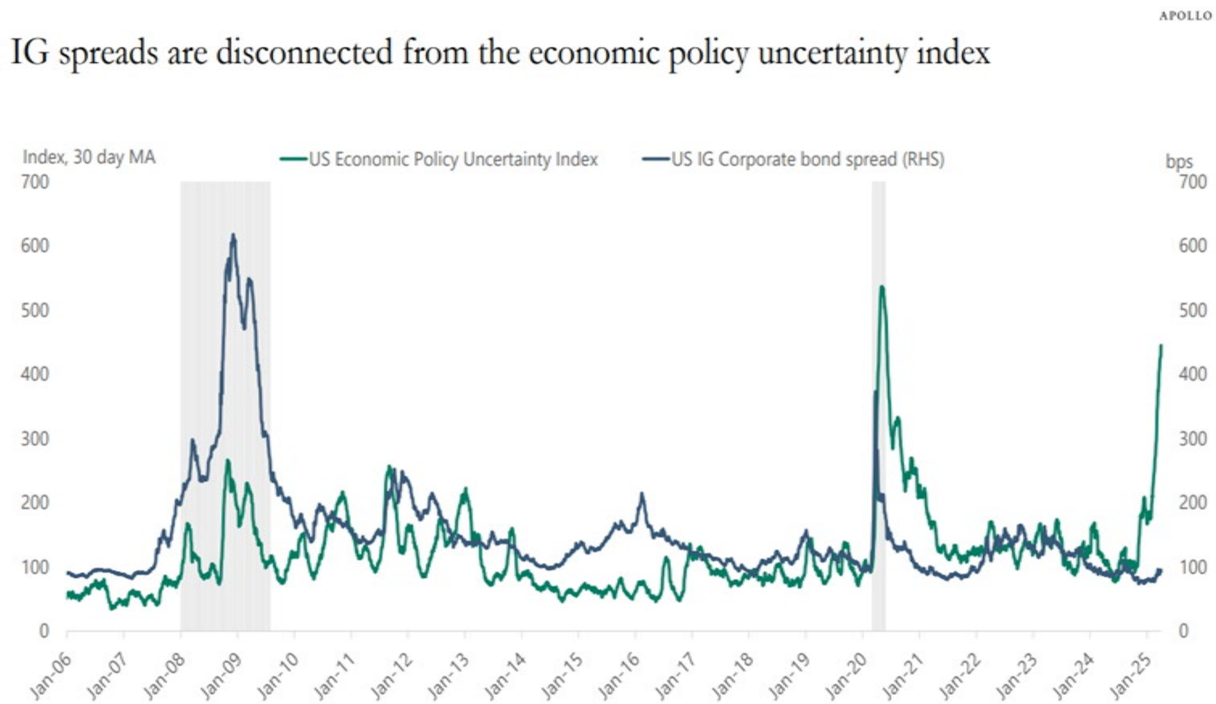
Credit

- Usually when we have a large change in policy during the later part of the business cycle and an equity bull market, things can begin to break.
- One area we are watching closely is corporate credit.
- Today the economic policy uncertainty is as high as it was during the beginning of Covid and midway through a recession.
- If these levels hold, we are likely to see corporate credit spreads widen and the cost of capital to get more expensive.



Source:.Apollo

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Equity

- Historically most calendar years have experienced drawdowns of 10%-15% at some point throughout the year even as returns have averaged over 8%.
- The S&P 500 two-day drawdown after "Liberation Day" was the 5th highest since 1950.
- In the top 10 drawdowns, the S&P 500 has historically seen strong returns over the ensuing 1-year, 3-year, and 5-year periods.

S&P 500: Biggest 2-Day % Declines and Forward Total Returns (1950 - 2025)

Biggest 2-Day % Declines					Forward S&P 500 Total Returns		
Rank	End Date	Start S&P	End S&P	2-Day	1-Year	3-Year	5-Year
1	10/19/1987	298	225	-24.6%	28%	55%	119%
2	10/20/1987	283	237	-16.2%	24%	47%	108%
3	3/12/2020	2882	2481	-13.9%	62%	63%	144%
4	11/20/2008	859	752	-12.4%	49%	73%	164%
5	**4/4/2025**	**5671**	**5074**	**-10.5%**			
6	11/6/2008	1006	905	-10.0%	21%	48%	119%
7	10/15/2008	1003	908	-9.5%	24%	44%	109%
8	10/7/2008	1099	996	-9.4%	9%	24%	88%
9	3/9/2020	3024	2747	-9.2%	44%	50%	127%
10	10/22/2008	985	897	-9.0%	25%	48%	119%

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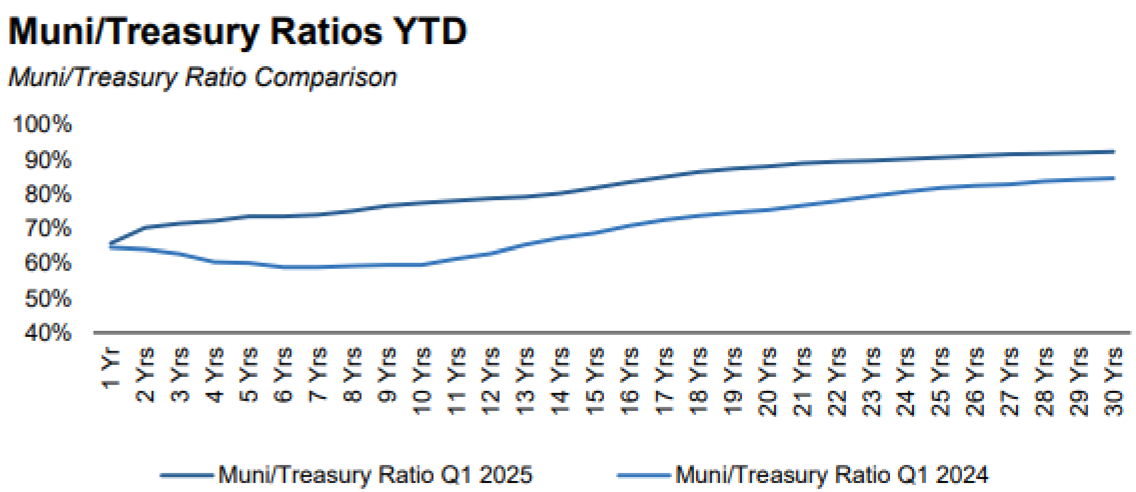
Fixed Income

- Bonds were having a good year through mid-March but then yields went higher with the prospects of higher inflation.
- As equity markets declined in late March and early April, investors began to allocate towards more liquidity.
- Municipal bond yields have gone up more than U.S. Treasury yields due to less liquidity, presenting a good opportunity for investors.

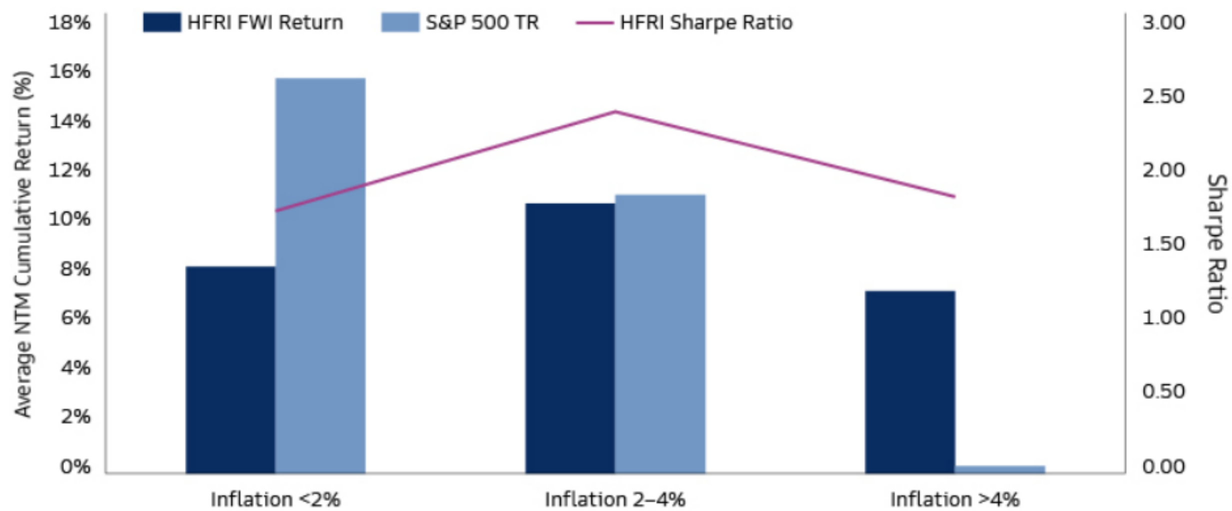


Source:.Nuveen

Alternatives

- Inflation looks to remain elevated with the effects of tariffs.
- If we have inflation and lower growth, it could be a challenging market for both equities and bonds.
- Historically, hedge funds have outperformed equities during periods of elevated inflation.

Bureau of Labor Statistics, *Bloomberg, HFRI.* Analysis from 1990-2022



Source:.Cygnus Capital

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. Looking for one to two cuts by year-end unless we enter a recession.
- Within Alternatives, we launched our 2024 Private Equity Vintage and a Private Credit Fund.

- **Equity**: Our allocation to active management and international has helped to cushion the market drawdown.
- **Fixed Income**: Looking for yield curve to remain steep. Prefer duration of five to six years. Municipal bonds look attractive.
- **Hedge Funds**: Increasing allocation to uncorrelated strategies within Absolute Return. Hedge Funds have historically outperformed equity during periods of higher inflation.
- **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.

2025 Second Quarter Outlook

Most of the macroeconomic conversation has focused on tariffs. While the tactical messaging has been inconsistent, there is a strategic plan from the administration. This plan aims to reduce reliance on China for critical items like medicine, rare earth elements, and technology components. According to the Trump administration, tariffs will generate revenue to help make the 2017 tax cuts permanent, bring back manufacturing, and make U.S.-based companies more competitive in international markets. Tariffs will not be completely eliminated, but they will be used to reduce trade barriers. They will also help reduce the world's reliance on the dollar as a reserve asset and address the vulnerable supply chain network with China.

The economic effects of escalating tariffs are likely to include short-term inflation, slower economic growth, and lower profit margins for some companies. The biggest issue is the continuing uncertainty. This uncertainty could become self-fulfilling, as businesses reduce capital spending and hiring, potentially causing a recession. Estimates suggest the economy will slow but not necessarily fall into a recession this year. Policies to incentivize domestic production and extend the 2017 tax cuts may offset some of the higher costs affecting households.

We continue to follow our strategy of being broadly diversified to mitigate the uncertainty around policy. While major indices have seen significant drawdowns, there are areas within equity and other assets that are up. A diversified mix of assets will help reduce volatility.

Disclosure

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