Economic and Market Commentary
2024 Recap and 2025 Outlook

January 2025

The Family Office at Synovus

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2024 Recap

The U.S. economy and equity markets exceeded expectations in 2024, with GDP growth projected between 2.7% and 3%, and the S&P 500 appreciating by 25%. This robust performance was underpinned by strong consumer spending and impressive corporate earnings from larger firms. Productivity levels reached historical highs, contributing significantly to growth and employment. The Federal Reserve successfully reduced inflation to approximately 2.5%, although it remains somewhat persistent.

The U.S. led the developed world in per capita GDP growth and wealth creation, with growth rates 2.5 to 3 times higher than those of Germany and France. The Fed's decision to cut rates by 100 basis points starting in September, coupled with strong fiscal spending, fueled asset appreciation and consumer spending. However, the increase in 10-year U.S. Treasury rates by about 100 basis points impacted mortgage rates, slightly dampening potential growth.

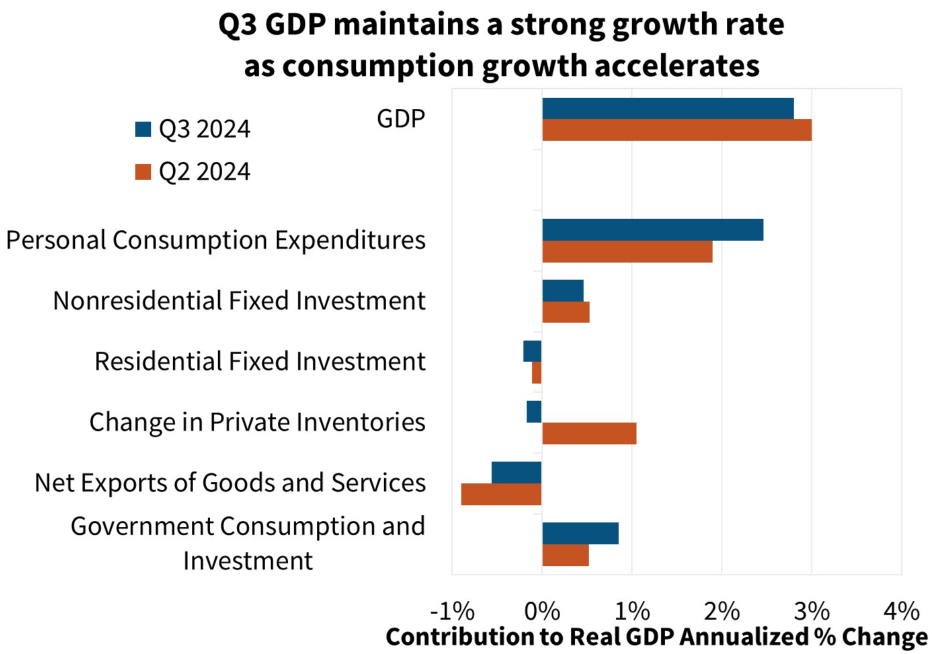
U.S. Growth

- The U.S. economy has experienced remarkable growth over the past five years.
- GDP per capita has grown 12% since 2019.
- This is 2.5x-3x more than France and Germany and on par with developing countries (which grow faster from a lower level).

GDP per Capita: PPP, Constant 2021 International US$. Data as at May 22, 2024. Source: Source: IMF, KKR Global Macro & Asset Allocation analysis.

U.S. Growth

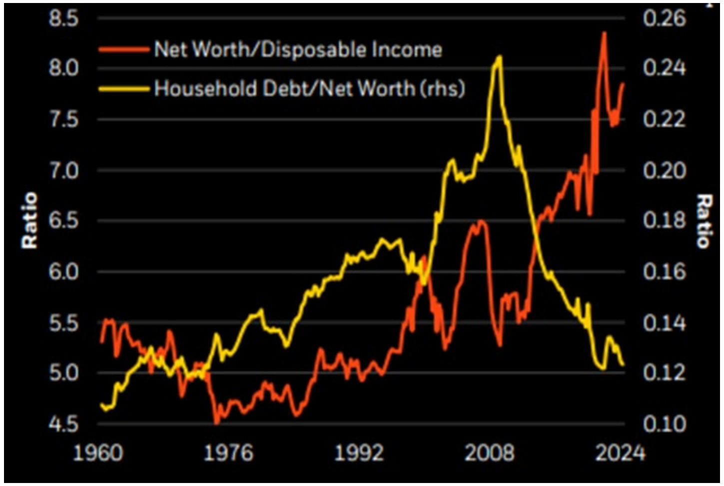
- U.S. GDP growth in the second and third quarters of 2024 grew nearly 3% on an annualized basis.
- Consumer spending has been the largest contributor to growth, followed by government spending.
- One area of weakness to watch has been housing (represented by residential fixed income) which has been affected by higher mortgage rates and valuations.



Source:.Fannie Mae

Strong Consumer

- We continue to see strength in the consumer, supported by significant increases in wealth relative to income and historical low debt to net worth.
- Household wealth has increased $15 trillion dollars over the past year.
- Thanksgiving period card spending for the Christmas season was up 4.9% over the previous year.
- Biggest increases were in entertainment and travel.



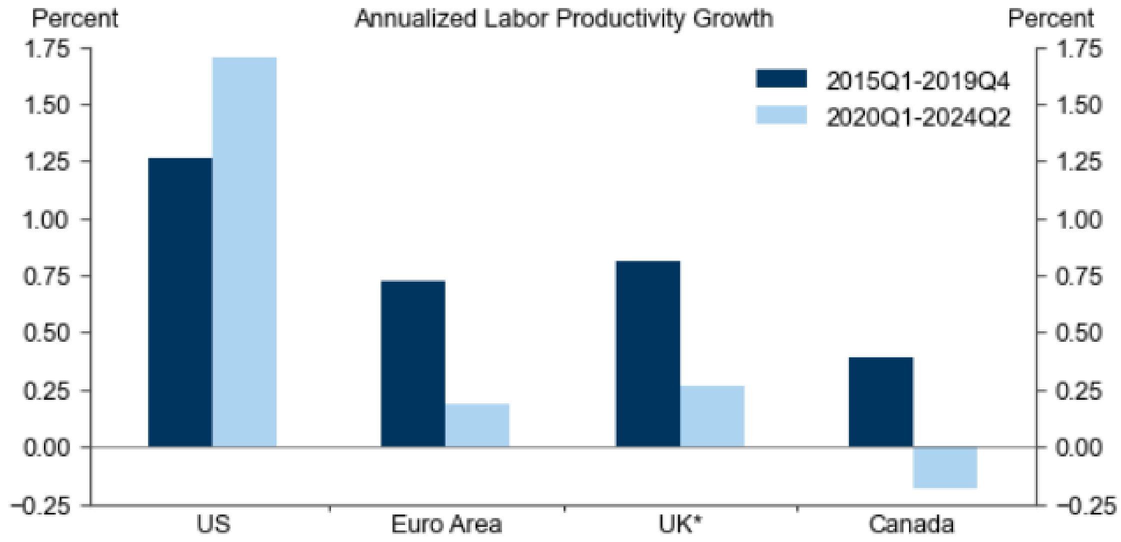
Thanksgiving Period YoY Card Spending Growth	
Total Card Spending	4.9%
Retail ex. Auto	2.0%
Airlines	3.3%
Lodging	1.4%
Entertainment	17.0%
Transit	11.4%
Gas	-5.9%
Clothing	4.2%
Online Electronics	7.6%
Grocery	0.8%
General Merchandise	3.1%
Online Retail	7.9%
Holiday items	5.3%

Source: Blackrock and Bank of America.

Productivity

- The U.S. has seen remarkable growth in productivity compared to the rest of the developed world.
- Higher productivity allows for higher corporate earnings and the ability to pay higher wages without generating higher inflation.
- The U.S. benefits from industrial energy prices that are 1/4 to 1/3 the cost of Europe.

Exhibit 11: Productivity Growth Has Outperformed in the US, Underperformed Elsewhere

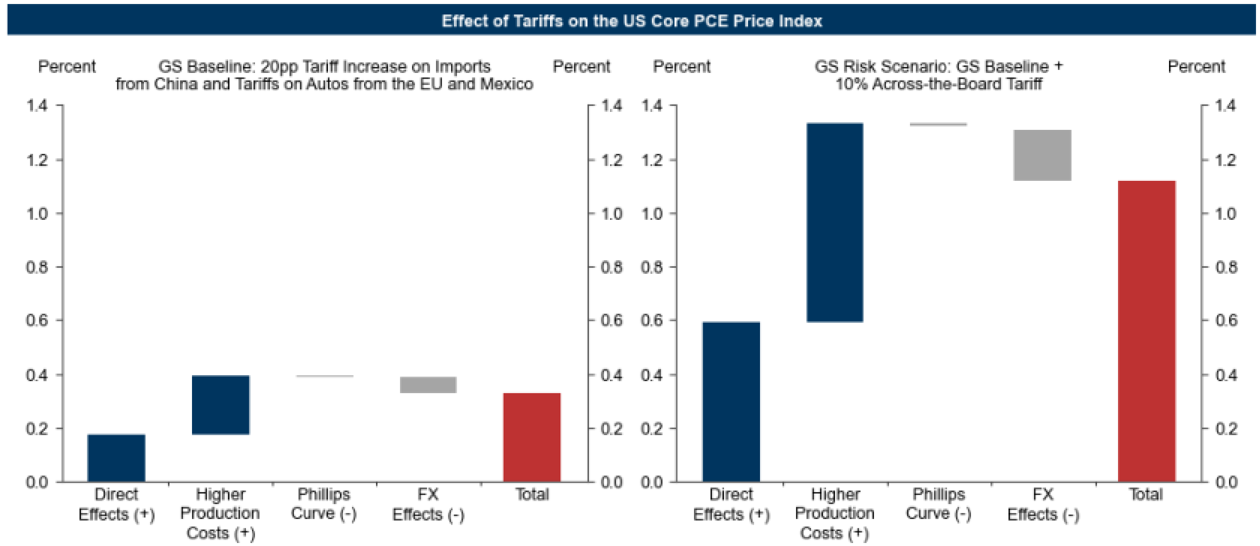


Note: Labor productivity is defined as total-economy real value-added per hour worked.
*UK 2024Q2 productivity is a GS forecast.

Source: Haver Analytics, Goldman Sachs Global Investment Research

Inflation

- Inflation has come down significantly but remains sticky around 2.5%.
- The possibility of tariffs are likely to keep inflation above 2% for the year.
- We are likely to see inflation 0.2%-1% higher if tariff policies are implemented.



Source: Goldman Sachs Global Investment Research

Regulation

- While tariffs may keep prices higher, loosening regulations can offset them.
- The easiest area to make a dent is by overturning executive orders from the previous administration.
- These are costs that are born by companies and consumers, but don't show up in government spending.
- Smaller companies will benefit the most.

TRACKING THE ADMINISTRATIONS

REGULATORY ACTIVITY FROM INAUGURATION DAY TO JULY 5th (Year 4)

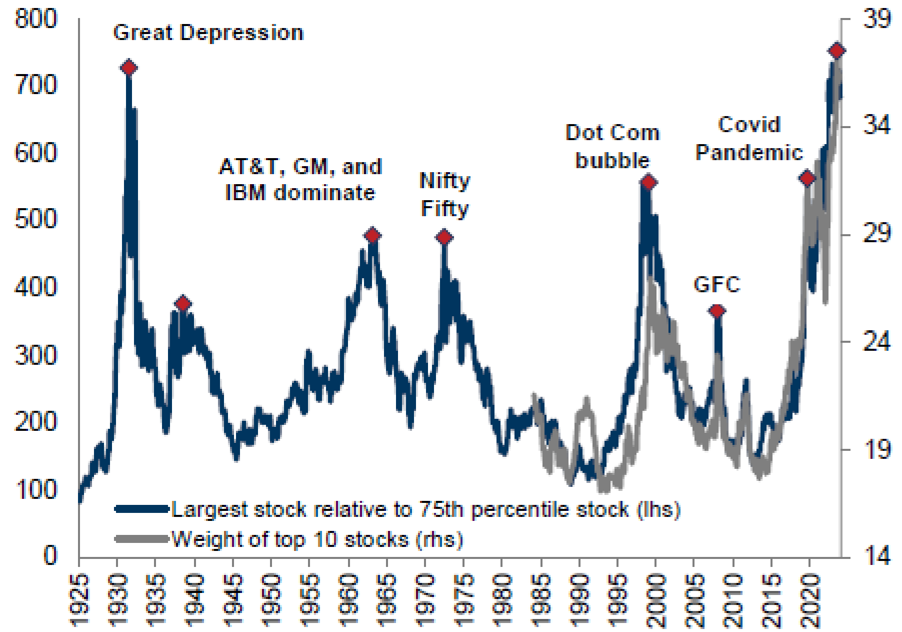
	FINAL RULES	FINAL RULE COSTS	PAPERWORK HOURS
BIDEN 2021	961	$1.69T	298.6M
TRUMP 2017	1039	-$144B	82.4M
OBAMA 2009	1300	$308.4B	243.4M

LAST UPDATED: JULY 5TH, 2024 AMERICANACTIONFORUM.ORG

Equity

- Concerns continue to mount around the concentration of the S&P 500.
- The weighting of the top 10 stocks is around 37%, which is the highest weighting since right before the great depression.
- The weighting of U.S. stocks within global equity indexes is at record highs.

Market cap of the largest stock relative to 75th percentile stock (x, lhs), weight of the top 10 stocks in S&P 500 (%, rhs)*



*Consists of US stocks with price, shares, and revenue data listed on the NYSE, AMEX, or NASDAQ. Series prior to 1985 estimated based on data from Kenneth French data library reflecting the market cap distribution of NYSE stocks.
Source: Compustat, CRSP, Kenneth R. French, Goldman Sachs GIR.

Equity

- While the U.S. market is extremely concentrated, what is comforting is that this group is in better financial shape than previous periods.
- Compared to the Nifty Fifty and Dot Com period, today's top 10 stocks have better cash flows and valuations.

...and the valuations of these stocks have risen significantly...

Median company P/E multiple

Source: Compustat, Goldman Sachs GIR.

...though today's leaders generally have relatively high profit margins and returns on equity...

Characteristics of largest stocks in 2024

Largest stocks in 2024

		Market cap		P/E ratio		Trailing 12m profits	
Company	Sector	$bn	% of S&P 500	Last 12m	Next 12m	ROE	Net margin
NVIDIA	Info Tech	$3,608	7%	56x	36x	81%	54%
Apple	Info Tech	3,474	7	36	30	163	24
Microsoft	Info Tech	3,069	6	34	30	31	36
Amazon.com	Consumer Dis	1,853	4	41	33	18	8
Alphabet	Comm Services	1,795	4	22	19	29	28
Meta Platforms	Comm Services	1,230	2	26	22	31	35
Tesla	Consumer Dis	942	2	136	105	12	8
Berkshire Hathaway	Financials	865	2	24	24	7	17
Broadcom	Info Tech	763	2	33	26	34	46
JPMorgan Chase	Financials	696	1	13	14	16	31
Top 10 total / median		**$18,296**	**36%**	**33x**	**28x**	**30%**	**29%**

Source: Compustat, FactSet, Goldman Sachs GIR.

...compared to the top stocks in either 1973...

Characteristics of largest stocks in 1973

Largest stocks in 1973

		Market cap		P/E ratio		Trailing 12m profits	
Company	Sector	$bn	% of S&P 500	Last 12m	Next 12m	ROE	Net margin
IBM	Info Tech	$47	7%	38x		18%	13%
Eastman Kodak	Info Tech	24	4	48		20	15
Exxon	Energy	20	3	13		12	7
Sears Roebuck	Consumer Dis	18	3	31		14	5
General Electric	Industrials	13	2	26		18	5
Xerox	Info Tech	12	2	49		21	11
Texaco	Energy	10	2	12		13	10
Minnesota Mining & Mfg	Industrials	10	2	41		19	12
Procter & Gamble	Consumer Staples	9	1	32		18	8
Coca-Cola	Consumer Staples	9	1	48		24	10
Top 10 total / median		**$171**	**27%**	**35x**		**18%**	**10%**

Source: Compustat, FactSet, Goldman Sachs GIR.

...or 2000

Characteristics of largest stocks in 2000

Largest stocks in 2000

		Market cap		P/E ratio		Trailing 12m profits	
Company	Sector	$bn	% of S&P 500	Last 12m	Next 12m	ROE	Net margin
Microsoft	Info Tech	$557	4%	65x	60x	29%	39%
Cisco Systems	Info Tech	533	4	181	133	22	20
General Electric	Industrials	513	4	50	43	26	9
Intel	Info Tech	442	3	57	45	27	26
Exxon Mobil	Energy	271	2	31	22	18	5
Walmart	Consumer Staples	252	2	45	39	23	3
Oracle	Info Tech	222	2	150	108	41	15
IBM	Info Tech	212	2	36	27	30	7
Citigroup	Financials	202	2	18	19	24	13
Lucent Technologies	Info Tech	196	2	77	41	20	9
Top 10 total / median		**$3,398**	**27%**	**53x**	**42x**	**25%**	**11%**

Source: Compustat, FactSet, Goldman Sachs GIR.

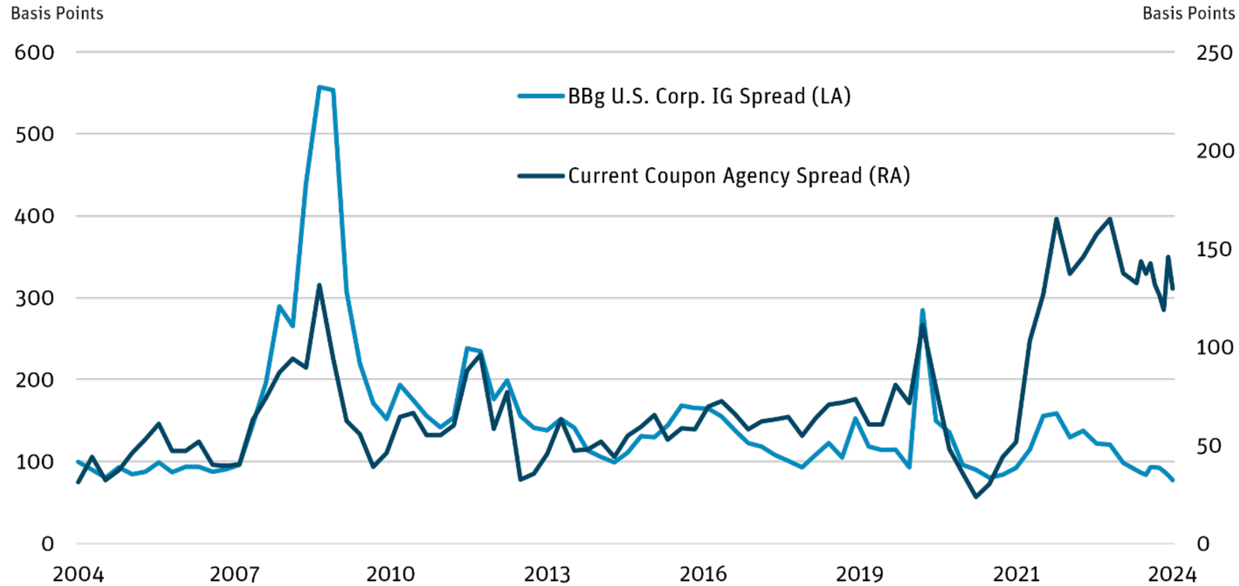
Fixed Income

- Bonds have become more attractive relative to U.S. stocks.
- The earnings yield (earnings divided by price) of the S&P 500 is lower than the yield on a 10- Year U.S. Treasury bond for the first time in nearly 20 years.
- We see opportunity to mitigate risk investing in bonds relative to potential equity returns considering current valuations.

Fixed Income

Fixed Income

- While we have been investors in investment grade corporate bonds, we now see better opportunities in Mortgage Backed Securities (MBS).
- The additional yield on MBS is attractive considering the amount of equity that has been built up in higher home valuations.

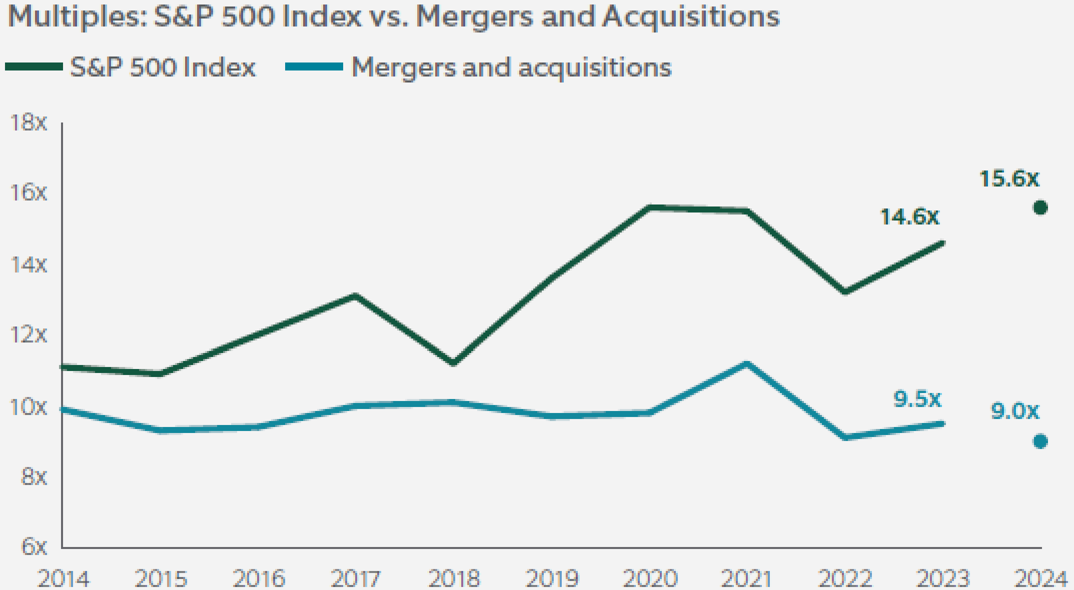


Source: Angel Oak Capital, Bloomberg.

Private Equity

- Private Equity valuations are attractive compared to Public Equity.
- Multiples peaked in 2021 and came down with public markets.
- Private valuations have lagged the rise in public valuations over the past two years.
- We expect to see a pick-up in deals as regulations get rolled back.

Public and M&A Valuations Have Widened



Source: Pitchbook. Data from 2014 to 2024. Multiples represent the value of a company for every one dollar of profit. Multiples in this chart are calculated as enterprise value divided by earnings before interest, taxes, depreciation and amortization (EBITDA). Enterprise value is the total value of a company, including market capitalization, debt and cash.

Portfolio Market Positioning

- No major changes in our equity allocation, using run-up in large cap growth to rebalance to lagging areas (small cap, Int'l)
- While we do foresee a re-steepening of the yield curve, we anticipate a less dovish Fed. Likely one to two cuts by mid-year.
- Within Alternatives, we launched two funds in 2024: Private Equity Vintage Fund and Private Credit Fund.

- **Equity**: We are looking at exposure to value, small cap, and international stocks and how correlated they are to each other. We want to broaden out, but not become too overweight in unintended factors
- **Fixed Income**: Because we expect the yield curve to remain steep, we prefer bonds with a duration of 5 to 6 years. Mortgage-backed bonds are attractive.
- **Hedge Funds**: We have been increasing allocation to uncorrelated strategies within Absolute Return. We've added a small cap long/short manager and an event-driven manager to the absolute return fund.
- **Private Equity**: We've been targeting lower middle-market buyout managers with a proven value creation process. Our preference is for funds with historically low loss ratios and top quartile performance. We are watching venture and growth capital as valuations have settled down.

2025 Outlook

The U.S continued to see impressive growth in 2024 and is expected to grow 2%-2.5% in 2025. Strong growth and employment have been supported by productivity that has historically been associated with boom times. The consumer, buoyed by strong balance sheets and notable increases in wealth continue to be the largest driver of growth.

The Fed has managed to drive inflation back down to acceptable levels but remains sticky around 2.5%. Proposed initiatives by the Trump administration are likely to keep inflation above 2%, with the potential to go a little higher.

The strong economy and potential proposed lessening of regulation and taxes are likely to reduce the number of expected interest rate cuts in 2025. Consensus is we will get one to two cuts in 2025. The uncertainty around tariffs and continued strong growth with less regulation will keep longer-term interest rates higher as well.

Our outlook remains cautiously optimistic, emphasizing the importance of maintaining a robust portfolio allocation with a long-term focus.

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