

Synovus Market Update

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Daniel Morgan
Senior Trust Portfolio Manager,
Synovus Trust Company



Chris Brown, CIMA®, CRPC™
Vice President — Investments,
Synovus Securities, Inc.



David Grimaldi
Foreign Exchange Sales Consultant,
Synovus Bank

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➔ Widening the Moat for the S&P 500

Chris Brown, CIMA®, CRPC™
Vice President — Investments

As we pass through the halfway point of 2023, the year has been marked by a mixed bag of economic performance accompanied by further economic concerns for the U.S. economy. The S&P 500, the broad benchmark of the U.S. stock market, has experienced both highs and lows over the past 18 months. It reflects the intricate dance between market dynamics of pervasive inflation, low unemployment and a resilient U.S. consumer. We assess the year-to-date (YTD) performance of the S&P 500 and delve into further broad participation in sectors, which up to mid-May has been dominated by the mega cap Tech Sector. As investment outlook remains positive, it's hard not to acknowledge the narrow participation of seven stocks that have contributed to more than 90% of the S&P performance in 2023.

S&P 500 year-to-date and the magnificent seven

The S&P 500 started the year on a strong note, reflecting optimism and recovery from last year's bear market. The 2022 laggards have become the belle of the ball for 2023, led by Big Tech and investor excitement over artificial intelligence

(AI). A May 16 article by S&P Global stated that only seven stocks had been responsible for the lion's share of returns for the S&P 500. To quote, "Apple Inc., Alphabet Inc., Meta Platforms Inc., Microsoft Corp., NVIDIA Corp., Amazon.com Inc. and Tesla Inc. have seen significant gains after a bleak 2022, and the collective gains have kept the S&P 500 in positive territory in 2023, with the overall index rising about 7% since the start of the year. Without these seven stocks, which make up nearly 26% of the large-cap index's total weight, the S&P 500 would be down 0.8% on the year, through May 16."

However, since mid-May we have found a broadening of participation and positive returns. As of June 22, Advanced Micro Devices (AMD), Salesforce (CRM), Palo Alto Networks (PANW), Carnival Cruise Lines (CCL), Royal Caribbean Cruises (RCL), Pulte Group (PHM), General Electric (GE), and Norwegian Cruise Lines (NCLH) have bumped their way into the top 10 performers (see chart below).

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Source: StockCharts.com



Continued from previous page

➔ Currency Outlook: Third Quarter 2023

David J. Grimaldi, TM Foreign Exchange
Sales Consultant

Last month, the Fed decided to pause interest rate hikes, which was mostly expected. Since then, we have seen lower inflation numbers this week (June 26) plus good U.S. employment numbers the week of June 19. However, the Fed did announce two more hikes this year, including one in July, that would put Fed Funds at around 5.6%. After a month and a half of U.S. dollar strength, there are signs that it is about to return to a weakening trend.

EUR/USD (Bullish)

The euro and U.S. dollar (EUR/USD) formed a golden cross, where the 30-week moving average crosses through the 90-week moving average, which is usually a strong signal for a longer term trend. The weekly chart had a bullish candle the second week of June, which may mean a short-term move through key 1.1100 resistance, targeting a move to 1.1400.

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➔ AI chips

Daniel Morgan, Senior Portfolio Manager

With all the buzz surrounding AI and the Microsoft ChatGPT deal, I thought it might be interesting take a look at the overall health of the semiconductor industry and conduct a brief overview of some of the top semiconductor companies that are offering AI chips.

The near-term fundamentals of the global semiconductor market point to revenues projected to decline 11.2% in 2023, according to the latest forecast from Gartner, Inc. In 2022, the market totaled \$599.6 billion, which was marginal growth of 0.2% from 2021. The short-term outlook for the semiconductor market has deteriorated further. As economic headwinds persist, weak end-market electronics demand is spreading from consumers to businesses, creating an uncertain investment environment. In addition, an oversupply of chips, which is elevating inventories and reducing chip prices, is accelerating the decline of the semiconductor market this year.

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