Synovus Market Update

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➔ Did Small Caps Just Make ‘Fetch’ Happen?

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The small cap index — companies with a market capitalization between $250 million and $2 billion — had a moment of outperformance over the S&P 500 and NASDAQ in November 2020, which peaked in March of 2021. In hindsight, I would argue that this reversal was the first sign of inflation not being just transitory but an ominous sign to indicate higher rates on the horizon.

For the past 40 months the small cap index, specifically the Russell 2000 (IWM), has been in a down trend when compared to the S&P 500 (SPY) and NASDAQ 100 (QQQ) large cap stocks. This underperformance of the small cap index has left many market participants underinvested and has given way to the overcrowding of investors in mega-cap growth stocks or “The Magnificent 7” (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) stocks. Over the past few weeks, we have seen a role reversal and breakout of the small cap index versus the S&P 500.

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➔ Striking a Balance: Navigating Growth and Value Investing in Today’s Market

Dean Austin, CFA, CAIA, Senior Investment Consultant, Synovus Trust Company

U.S. history is punctuated by a series of watershed moments that have shaped our nation’s history. The “Roaring 1920s” through “The Great Depression,” for example, saw a spectacular rise followed by the equally dramatic fall of the stock market. World War II was followed by 20 years of worldwide economic growth through the early 1970s called “The Golden Age of Capitalism.” The 1970s “Oil Crisis,” the “Tech Bubble” of the 1990s, and “Global Financial Crisis” of 2008 are all events that, for better or worse, were defining periods in history with far-reaching economic impacts.

Through it all, value investing has long held a structural advantage over growth investing when considered over multiple market cycles. But like fashion, investment styles cycle in and out of favor, and sometimes quite abruptly. After wandering aimlessly in the wilderness for 17 years, circa the “Great Financial Crisis” (GFC) in 2008, value investing may finally be ready to rejoin civilization and take its rightful place beside its growth counterpart. The halcyon days of growth are certainly not at an end, but finally strong signs that the tide is turning in favor of value stocks deserves our attention. As we navigate through the back half of 2024, the question looms large: Will growth continue to reign supreme over value, especially with a widely expected decline in interest rates? The answer may lay in the atypical turn of events witnessed in 2023. More on this topic later.

Value and Growth Defined

Investors have long held distinct definitions for value and growth stocks. Value stocks are typically characterized by well-established companies with stable profits, trading at a discount to their true value.

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Is an AI Mega-Tech Correction Underway?

Daniel Morgan, Senior Trust Portfolio Manager, Synovus Trust Company

The biggest question that clients appear to be asking: Is this a correction or the start of something bigger? First off, earnings estimates for the second half of 2024 are seeing revisions lower with 3Q coming down 1.4% since July 1 and 4Q decreasing by 0.2%. The bigger concern, however, is the waning "AI enthusiasm." The circular capital expenditures (CapEx) cycle for the largest, most liquid companies does not appear to be ending just yet, but investors are now questioning what the return on investment (ROI) will be in the future. "AI disappointment" remains the biggest risk to the market, and near the tail end of July this played out. Wall Street investors continue to raise concerns that many of the large Technology companies may be spending too much CapEx on artificial intelligence (AI) and the ROI will not be realized. With the top Tech players (Amazon, Google, Microsoft and Meta) all projected to spend collectively up to $185 billion in CapEx in 2025, a large portion of those dollars will be dedicated toward the AI data center.

After Alphabet's (GOOGL) 2Q24 financial results, shares sold off as investors digested the news. For the 2Q24, earnings per share of $1.89 (up 31%) on revenue of $84.7 billion (14%) beat analysts' expectations of earnings per share of $1.85 on revenue of $84.3 billion. Advertising revenue topped $64.6 billion (11%) versus analysts' $64.5 billion expectations. That represented a bit of a pullback in growth from 1Q24 (+13%). YouTube ad revenue, however, fell short, with the segment bringing in $8.66 billion (13%) versus $8.95 billion expectations. That represented a drop in growth from 1Q24 (+21%). This miss could potentially be due to heightened competition from other players like TikTok.

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Tariffs – Costs and Benefits

Eric Krueger, Synovus Trust Senior Portfolio Manager

Tariffs have long been employed as an economic and political strategy by nations, influencing international trade and domestic economies. In the U.S., the usage of tariffs has sparked intense debates, particularly in recent years. Grasping the significance of tariffs is essential for making informed investment choices. This article explores the advantages and disadvantages of tariffs for the U.S. economy.

Benefits of Tariffs

1. Protection of Domestic Industries
Tariffs can protect domestic industries from foreign competition, facilitating their growth and development. Imposing duties on imported goods allows U.S. manufacturers to compete more effectively against inexpensive foreign products. This can be particularly beneficial for emerging industries or those facing unfair trade practices from overseas.

2. Job Creation
The protection of domestic industries often translates into job preservation and creation. With decreased competition from foreign manufacturers, domestic companies may see a surge in demand for their products, leading to growth and new employment opportunities.

3. Revenue Generation
Tariffs serve as a revenue source for the federal government. The funds generated can be used to finance public goods and services, reducing dependence on other forms of taxation.

4. Leverage in Trade Negotiations
Tariffs can also function as a bargaining tool in international trade negotiations.

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