2025 Mid-year Economic and Market Commentary

August 2025

The Family Office at Synovus

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2025 Second Quarter Recap

In the second quarter, we saw tremendous volatility in global equity markets, with the S&P 500 declining 19% from its peak (February 19th) in early April and recovering the full drawdown by quarter-end. In fact, the S&P 500 rallied 23.9% in 55 trading days, marking the fastest recovery from a 15%+ decline in over 70 years.

The lead-up to the “Liberation Day” trade announcement on April 2 started the decline, which then picked up after the announcement. On April 9, following a 12% decline in the S&P 500, the administration announced a pause, which initiated a strong rally.

While bond and equity markets stabilized, the U.S. dollar continued to weaken as the Trump administration’s policy aimed to make U.S. manufacturing more competitive with China and Europe.

In May, we saw a return of the AI tech rally and strong returns overall in global equity markets. The anticipated higher prices from tariffs did not materialize, supporting equity and bond prices. In late June, what seemed like a major global event (U.S. intervention in Iran nuclear facilities) ended up being a minor blip as equities rallied and interest rates remained range-bound.

All in all, markets have persisted despite a series of what would normally be headwinds.

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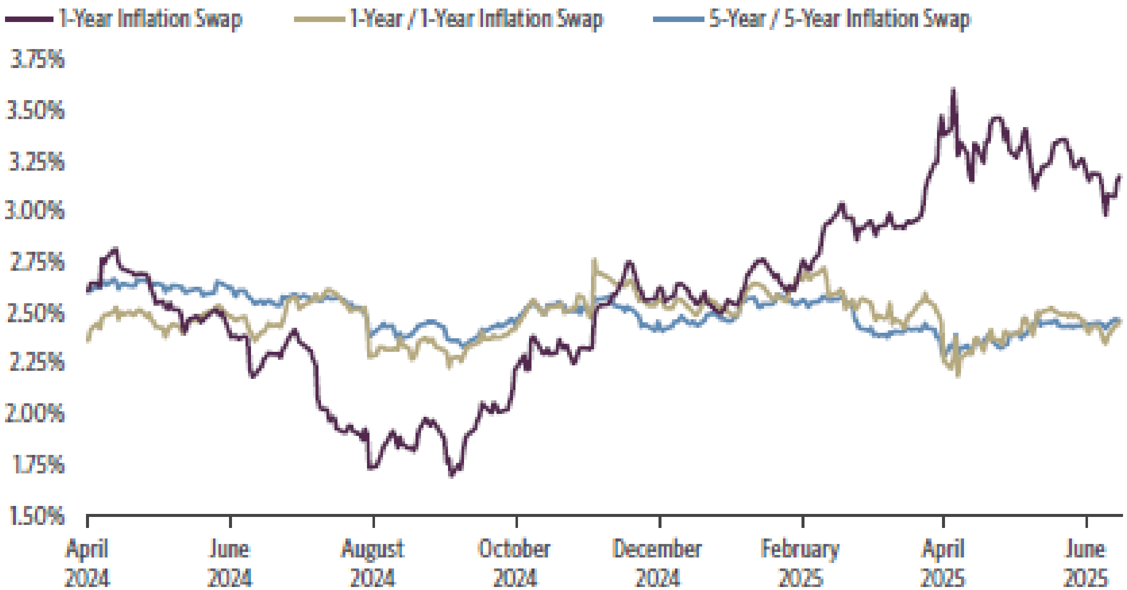
Inflation

- The effects of tariffs on inflation have been delayed and more gradual than expected.
- Market participants view higher inflation as a short-term event and not persistent.
- Longer-term expectations are for inflation to range between 2.25% and 2.5%.

Near-Term Inflation Expectations Are Elevated, Longer-Term Anchored

Inflation Swaps at 1-Year Tenor and Forward Tenors

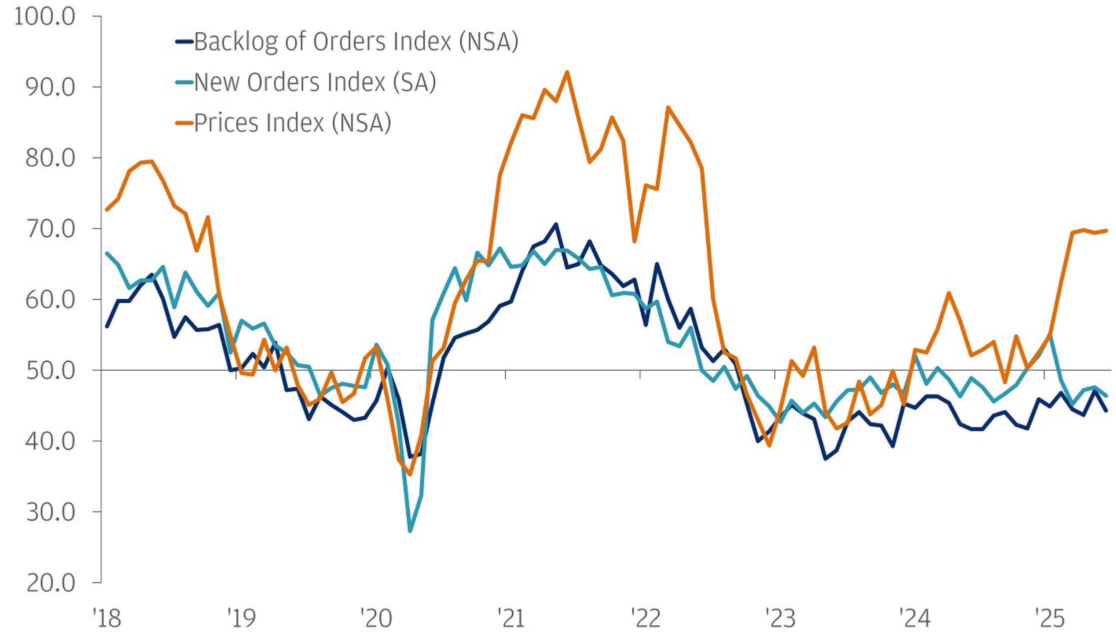


Source: Guggenheim Investments, Bloomberg. Data as of 6.18.2025.

Inflation and Business

- While effects of tariffs on inflation have been subdued, they are starting to show up in input prices and certain sectors such as furniture, clothing, and appliances.
- U.S. companies have largely managed inventory to avoid big increases in the short-term but will eventually have to pass some along.
- A weaker dollar helps to absorb some of the hike in tariffs.

Institute of Supply Management, level, 50+ = increasing



Source: Institute of Supply Management, Haver Analytics. Data as of June 30, 2025.

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- Most major think tanks, regardless of political leaning see significantly higher deficits and debt to GDP levels.

Deficits

The scorekeepers' dynamic conclusion: OBBBA increases deficits without spurring significant growth

Dynamic Effects of House Reconciliation Plan (2025–2034)

	Deficit Effect (Dynamic Score, Trillions of $)	Debt at the end of 2034 (Trillions of $)	Average Annual GDP Growth (%)
Penn Wharton Budget Model	3.2	56.7	~1.9
The Budget Lab at Yale	3.5	53.3	1.9
Congressional Budget Office	3.4	52.9	1.9
Tax Policy Center	3.0	52.6	1.9
Tax Foundation	1.8	51.8	1.9

Sources: The Budget Lab at Yale, Congressional Budget Office, Penn Wharton Budget Model, Tax Policy Center, and Tax Foundation

Notes: Penn Wharton figures are for primary deficits only. Debt at the end of 2034 is debt held by the public. Applying the PWBM estimate of changes in GDP growth to the CBO GDP baseline implies a 1.9% growth rate in GDP by the end of 2035

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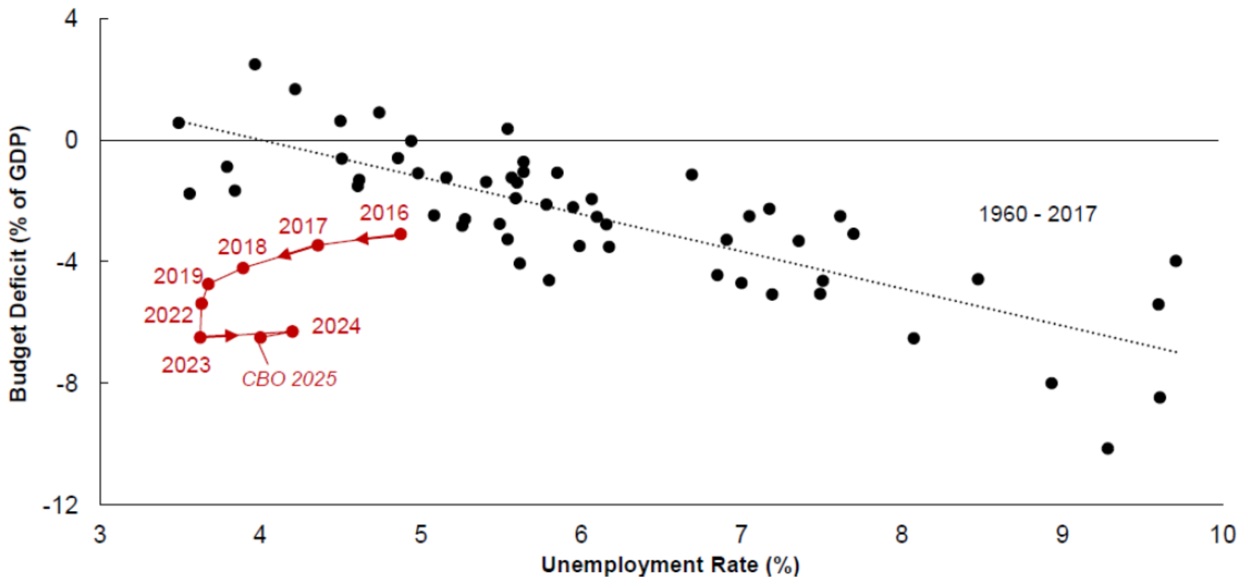
Deficits

- Budget deficits are expected to continue at historically high rates.
- Normally, we would see unemployment rates of 7%-8% when running such high deficits.
- This is due to countercyclical fiscal policy kicking in to the tune of 4%-6% of GDP.
- The ongoing concern is that those countercyclical tailwinds won't be available in the next recession.

U.S. Budget Deficit vs. Labor Market
1960 – 2024*



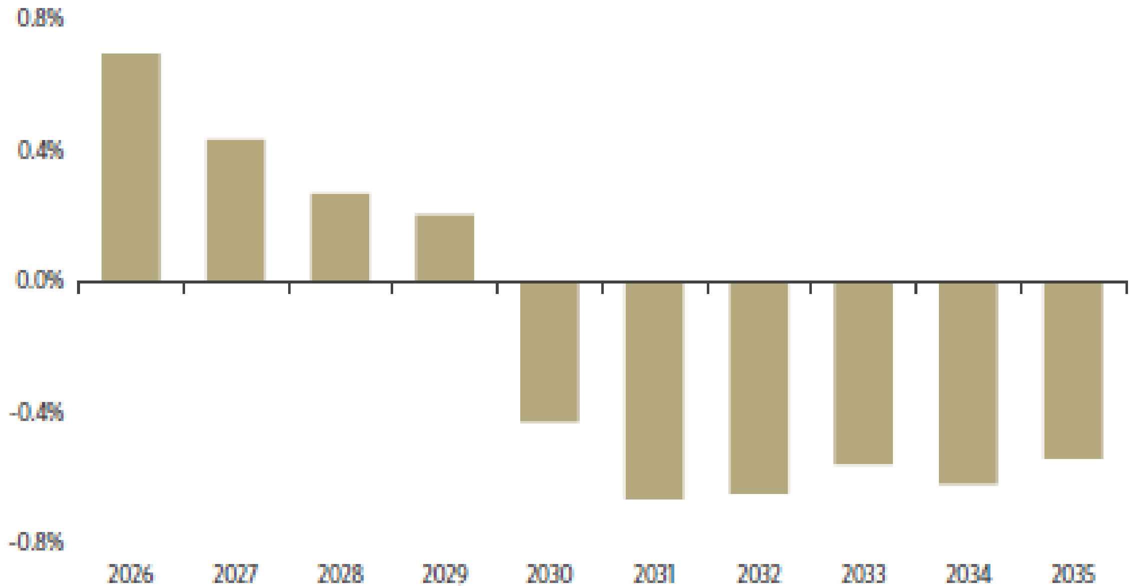
Sources: Treasury, BEA, BLS, CBO, Haver, SMBC Nikko as of September 30, 2024
* Excludes 2020 and 2021.

One Big Beautiful Bill (OBBB)

- The newly passed tax legislation will provide a short-term fiscal boost but add to deficits over the next 10 years.
- If higher deficits lead to higher interest rates, that will be a headwind for consumers and businesses.
- Over short periods of time (1-2 years) estimates on tax legislation are somewhat predictable. Beyond 2 years, they are not accurate at all.

Front-Loaded Tax Cuts Could Provide Modest Fiscal Boost in 2026

House Reconciliation Package Contribution to Fiscal Deficit (% GDP) vs. Current Policy



Source: Guggenheim Investments, Congressional Budget Office, Yale Budget Lab. Data as of 3.19.2025.

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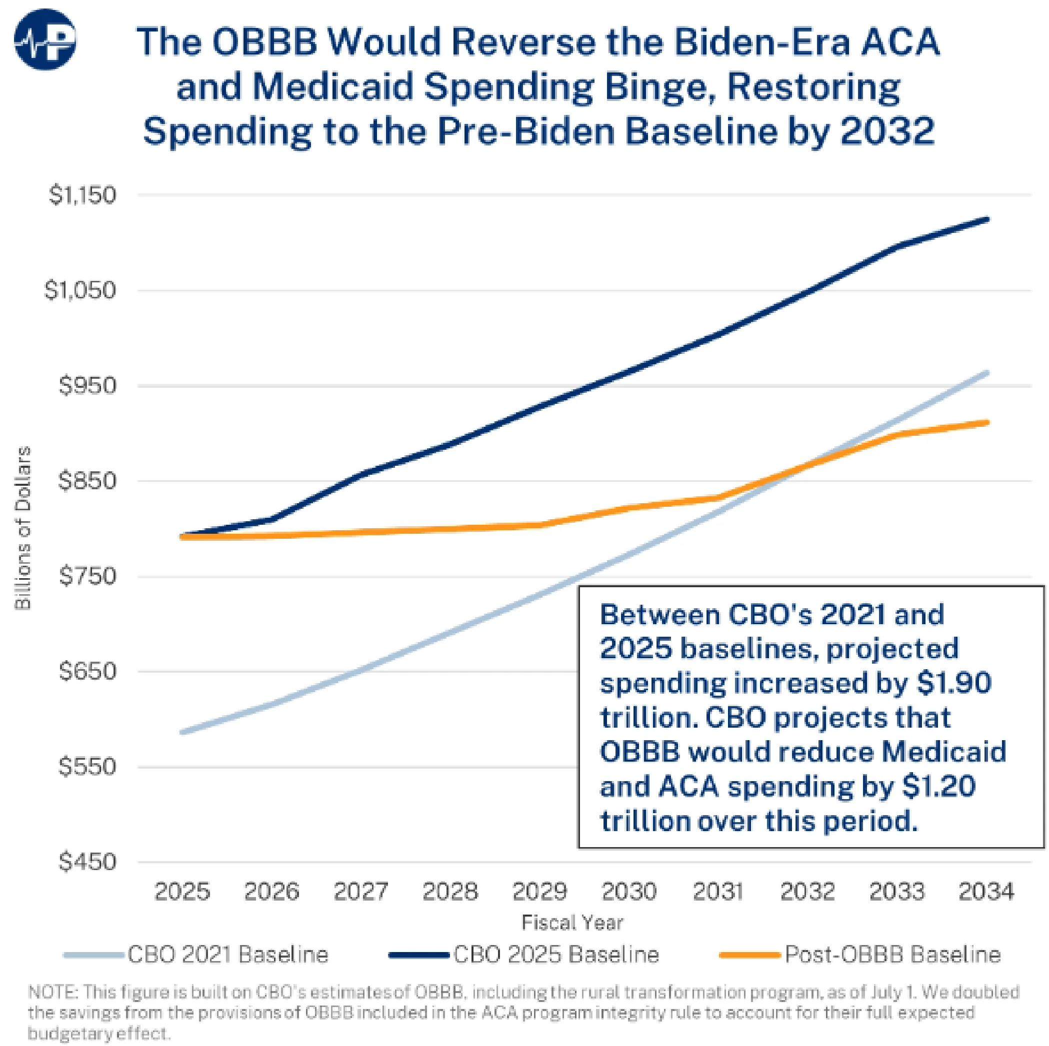
One Big Beautiful Bill (OBBB)

- There has been a lot of discussions around Medicaid cuts in the new Bill.
- The reality is that we are adjusting back to pre-Covid levels.
- Medicaid rolls were significantly higher in 2023 compared to 2019. Most states cut Medicaid rolls starting in 2023 due to eligibility returning to pre-Covid requirements.
- Medicaid spending will be higher than the Congressional Budget Offices (CBO) 2021 baseline through 2032.



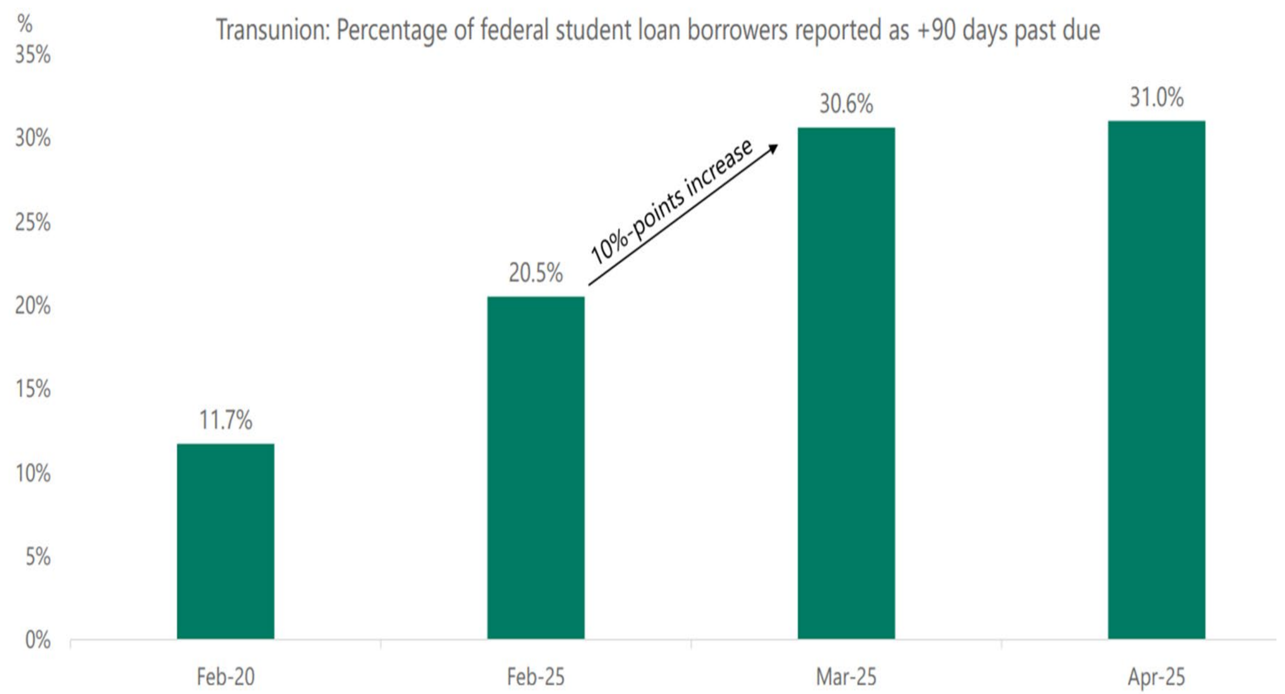
Credit

- High levels of liquidity and asset values since Covid have pushed risk premiums to historically low levels.
- Here we see where the spread on the highest vs. lowest yielding major asset classes is at the tightest level since 1985.

*3-month, 10-year and 30-year Treasurys, ICE BofA U.S. corporate bond index, earnings yield on S&P 500; monthly data through Wednesday
Source: LSEG

Student Loans

- Student loans have become more of an issue lately, as over 45 million people carry a total of $1.6 trillion in loan balances (larger than credit cards and auto loans).
- During Covid, delinquent loans were put into forbearance and not included in credit scores. This allowed for easier credit and lending terms.
- Now that delinquencies have jumped, there is some risk that housing and consumer spending could be affected at the margin.

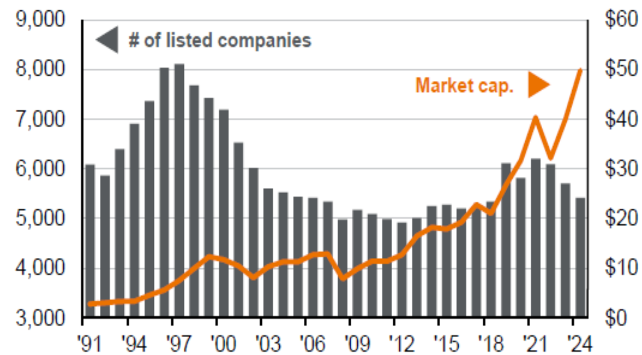


Source: TransUnion U.S. Consumer Credit Database, Apollo Chief Economist

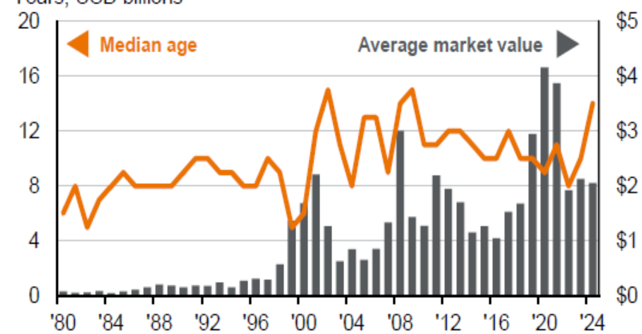
Alternatives

- We continue to see opportunity in Private Equity.
- When compared to U.S. small cap stocks, private equity names tend to grow faster, stay private longer. And when they do go public, they tend to be mid to large cap in size.
- We, like many allocators, view private equity as being small cap in nature.

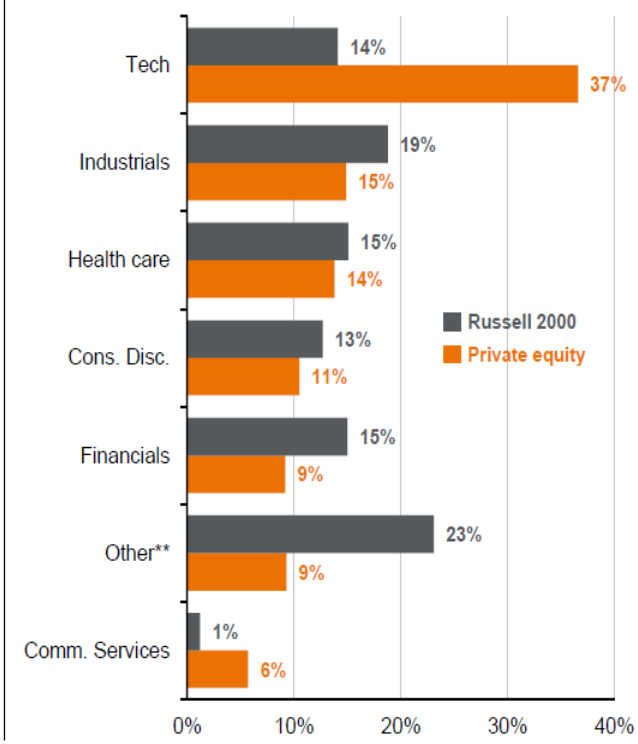
Number of listed U.S. companies* and market cap.
Number, S&P 500 market capitalization in USD trillions



Median age and average market value at IPO
Years, USD billions



Private equity vs. small cap sector weights
2Q24



Sources: Cambridge Associates, FactSet, FTSE Russell, Jay Ritter, University of Florida, World Federation of Exchanges, J.P. Morgan Asset Management.

Portfolio Market Positioning

- No major changes in our equity allocation.
- While we do foresee a re-steepening of the yield curve, we anticipate a less dovish Fed. We anticipate one to two cuts by year-end unless we enter a recession.
- Within Alternatives, we launched our 2024 Private Equity Vintage and Private Credit Funds.

- **Equity**: Our allocation to active management and international has helped cushion the market drawdown in April, while still participating in continued rebound and move to record highs.
- **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 Half Outlook

With the One Big Beautiful Bill Act being passed by Congress and signed by the President, we have one less major policy decision outstanding to drive uncertainty. We are likely to see some stimulus in the short term before deficits start to overwhelm growth.

On the Tariff front, we continue to see deals being played out in real time, and it looks like the effective tariff rate will land around 15%-17%. While this is the highest rate since the 1930's, it is well below the 27% rate estimated after "Liberation Day." This will lead to higher inflation in the short term (second half 2025 to early 2026) and a return to 2%-2.5% inflation thereafter. While not ideal, businesses will be able to have a more certain policy to make decisions around.

We are likely to see one to two cuts in rates by the Fed before year-end, but it will be much harder to get longer-term rates down. Increasing deficits and higher inflation will keep longer-term rates elevated. What is likely to keep longer-term rates from moving too high is the Treasury issuing more short-term debt and keeping the supply of longer maturities constant.

U.S. equity markets continue to move higher, led again by the large technology names. While the concentration of exposure in the S&P 500 remains a concern, it is remarkable how much cashflow they are able to generate. Outside of technology, we will look to see how tariffs affect margins and which companies can pass through higher prices without taking a hit from demand.

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