# Synovus Market Update

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## Secular Over Cyclical and a Tailwind Thesis

Chris Brown, CIMA®, CRPC™
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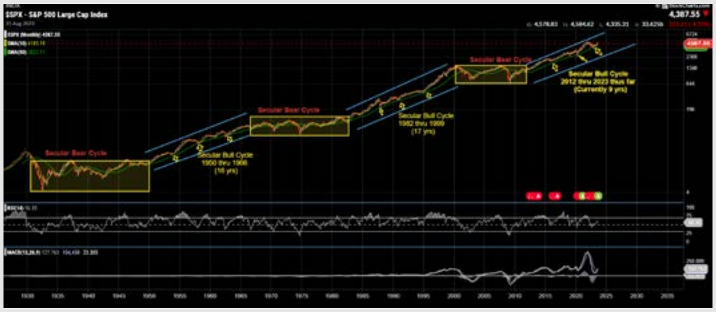
Many economists and economic forecasters are predicting a near-term U.S. recession due to economic signals in the bond market's inverted yield curve, slowing non-farm payrolls, as well as challenges with near-term corporate debt that will be resetting at much higher interest rates for small- and medium-size businesses over the next 12 to 24 months. It's also helpful to understand that economic slowdowns and recessions in economic business cycles are natural occurrences within a functional economy. There are two types of economic cycles: the cyclical and the secular cycles. Cyclical markets are shorter-term economic trends — referring to terms like business cycles. A general business cycle of expansion, peak, contraction and trough can be anywhere from 18 months to seven years. In this market update, let's spend time addressing some data points on the longer-term secular economic cycles that are less talked about in the fast-paced media outlets.

Secular markets refer to market activities that unfold over long time horizons and are not heavily influenced by short-term factors.[1] A secular trend can refer to both long-term bull and bear market trends. These trends tend to last from 10 to 20 years in duration. An examination in broad market secular trend allows long-term investors to review data while minimizing the noise of the shorter-term cycle. There could be a prospective tailwind when assessing our current secular market trend — U.S. population demographics.




There are thoughts that the bull market secular trend started in 2012. Over the past 90 years, the U.S. economy has experienced two previous secular bull market trends in the S&P 500. The first secular bull market occurred from 1950 to 1967 and the second happened from 1982 to 2000. In the chart below you can see the long-term secular bull and bear market cycles that have occurred over the past 90 years within the S&P 500.

The S&P 500 indicates the two prior bull market cycles — with the upward sloping blue brackets — within a multi-year time horizon. The bull market in the 1950s, also known as "The Nifty Fifty," was a time of economic expansion led by U.S. manufacturing and infrastructure activity for a post-World War II growing U.S. population. This time is also known as the building of modern America, a secular trend that lasted approximately 16 to 17 years. Four recessions occurred during the first secular bull market and two recessions occurred during the second secular bull market of the 1980s and '90s.

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## What a Government Shutdown Could Mean for Investors

Eric Krueger, Synovus Trust Senior Portfolio Manager

A divided U.S. Congress is facing a September 30 deadline to find agreement on a variety of spending bills to avoid a government shutdown. Economists estimate a shutdown would shave 0.05% to 0.2% off GDP per week and would affect employment and data releases. However, activity would likely be made up in the following quarter's activity. Historically, government shutdowns have not been big market movers.

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## Is Nvidia the New Cisco?

Daniel Morgan, Synovus Trust Senior Portfolio Manager

Almost everyone remembers the "Four Horsemen" — Cisco, Dell, Intel and Microsoft — and its leadership during the dot-com era. (For what it's worth, the phrase was rooted in the nickname given the 1924 Notre Dame football backfield.) That tech group was followed by the "FAANG" stocks - Facebook, Apple, Amazon, Netflix and Google. At one time it represented 25% of the entire S&P 500 Index's market cap. That leadership has now given way to the "Magnificent Seven." The "Magnificent Seven" stocks — Alphabet, Amazon.com, Apple, Nvidia, Microsoft and Tesla — are up an average 87% year to date (YTD).

Will Nvidia (NVDA) fall into the same trap that Cisco did some 25 years later? Nvidia shares have nearly tripled in this year's artificial intelligence (AI) boom. It's not dissimilar from Cisco's trajectory at the turn of the century. Cisco shares still haven't managed to recapture the peaks it scaled back in 2000. Cisco shares hit an all-time high of $70 a share in August of 2000 and now trade south of that milestone at $54 a share!

Investors have piled into Nvidia because it makes the chips backing AI models, like OpenAI's ChatGPT and the Cloud Data Center. Nvidia is now the fifth-biggest U.S. stock, trading at 40 times its sales. Cisco was one of the largest tech stocks during the dot-com bubble, trading as high as 30 times revenues.

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[1]Investopedia, April 6, 2022 https://www.investopedia.com/terms/s/secular.asp#:~:text=In%20investing%2C%20secular%20refers%20to,fluctuations%20in%20the%20wider%20economy



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