Sabal Trust

**Market Volatility Observations – October 22, 2018**

During the month of October, investors have seen a return of equity market volatility, similar to the market fluctuations experienced early in the year and again in late spring. The volatility is related to the following:

- The economy is transitioning from an extremely low interest rate environment to more normal levels. Rising bond yields compete more readily for investment dollars, which have recently been allocated to equities.
- Market returns over the last two years have been strongly influenced by high growth companies in technology, consumer services, and social media spaces. These companies have enjoyed strong price appreciation resulting in stretched valuations beyond all reasonable metrics, which eliminates a margin of safety making these popular stocks vulnerable to declines.
- Global trade conflicts increased uncertainty about the future durability of domestic and global economic growth. Coupled with this, the Federal Reserve continues to gradually increase interest rates, which could negatively influence investor, consumer, and business behavior.
- Mid-term election year volatility has largely been absent, until now.

**Current Strategy:**
Since this past Spring, we have been concerned about the potential for market volatility, which led us to make on-going structural changes in the Sabal Dividend Growth Portfolio. We deemed these adjustments necessary to protect our clients' underlying capital from the inherent risks in the market. In the third quarter, we saw these defensive strategy actions gain traction. During the October declines, we have experienced less volatility with the Sabal Dividend Growth Portfolio.

| | **October Returns** |
|---|---|
| Sabal Dividend Growth | -2.5% |
| S&P | -5.2% |
| Dow | -4.0% |
| Nasdaq | -7.1% |

The Sabal Dividend Growth strategy remains focused on solid, predictable cash flows from dividend-paying stocks. This income-oriented strategy remains prudent and appropriate given our investment style and discipline. The portfolio's income continues to grow even during those periods where stock prices fluctuate.

During these periods of heightened volatility, it is important to revisit goals and objectives, confirm asset allocation targets, review income needs, and define the willingness and ability to incur risk. Making sure that equity allocations are not above levels that you are comfortable is critical. On the back of several years of strong market gains, asset allocations could be stretched and favor of risk assets. Therefore, re-evaluating asset allocation targets and moving back to guidelines will help protect assets if volatility remains elevated.