



Market Volatility Update – November 20, 2018

Price volatility continues to dominate the equity markets in the 4th quarter as growth-oriented stocks, industries and sectors bear the brunt of the fluctuations, with Facebook, Amazon, Alphabet, Apple, and Netflix receiving the most headlines.

The sources of market volatility that we highlighted last month remain in place:

- The economy over the last several years is transitioning from a very low interest rate environment to a normal rate environment. Rising bond yields compete more readily for investment dollars, which have recently been allocated to equities.
- Market returns during the last two years have had been strongly influenced by the highly successful, high growth companies in technology, consumer services, and social media spaces, which had enjoyed explosive price appreciation during most of this year. This resulted in valuations that were stretched beyond all reasonable valuation metrics. This eliminated a margin of safety and making these popular stocks vulnerable to declines.
- The current global trade conflicts have increased uncertainty about the future durability of our currently strong economy. Coupled with this, the Federal Reserve continues to gradually increase interest rates, and perhaps not independent of these factors, we have seen a modest slowdown in both automobile and housing activity.
- The gradual reduction of the Federal Reserve's balance sheet, Brexit concerns, energy price fluctuations, and other macro-level factors also are contributing to investor angst.

Sabal Trust Strategy:

- 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.
- Over the last several months, we have telegraphed our concern about the potential for market volatility, which led us to strategically re-position the Sabal Dividend Growth Portfolio.
- We deemed these changes necessary to protect our clients' underlying capital from the inherent risks in the market. Since June, these defensive strategy actions gained traction and have provided downside protection especially during the periods of volatility in the 4th quarter. We don't know how long this current period of volatility will last. As a result, we will carefully

monitor the SDG holdings and continue to make adjustments if deemed necessary.

Going Forward:

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.

Sabal Trust Company