



MIXED SIGNALS

Our View

A QUARTERLY NEWSLETTER
from SABAL TRUST

P psychology impacts investor decision-making. The investment tone in 2019 has been dramatically different to that of the 4th quarter of last year. Deep pessimism shifted rapidly back to optimism with the markets retracing their year-end declines and are now off to their strongest start in over a quarter of a century. While a more positive pricing environment has developed, contributors to the 2018 market volatility remain in-place. Deciphering market messages is an integral part of the investment process. **Mixed economic and sentiment signals make charting a path forward even more challenging.**

For over 30 years, Sabal Trust Company and our predecessor companies have been serving communities throughout Florida. Since our inception, Sabal Trust's vision was one of stability and lasting relationships that would stand the test of time. Indeed, many of the relationships we have forged have endured beyond a lifetime, some spanning three generations.

Economic Cycle

In its 10th year, the economic cycle is now one of the longest expansions on record. Cycles inevitably shift. Consequently, monitoring signposts including the Leading Economic Indicators (LEI's) is important. The LEI's provide valuable economic signals by measuring manufacturing activity, retail sales, the stock market, new business formations, and the housing market. While the LEI's remain supportive of a healthy economic environment, we have seen a gradual shift as the pace of job growth is slowing and increased stresses have surfaced in the housing and auto markets. Additionally, the rate of economic growth continues slowing across Europe and China. **Therefore, one needs to adopt realistic expectations about the economy's capacity for future growth.**

Manufacturing

We believe the ISM Manufacturing index is an important gauge of economic health as it measures new orders, deliveries, production, inventories and employment. Expanding business activity indicates underlying economic health and optimism about the economy's prospects. The ISM index, which fell sharply at the end of last year, rebounded as new orders, production activity and inventory rebuilding all increased. **The data is indicative of an economy on a healthy footing.**

Consumer Confidence

Monitoring consumer confidence is important due to its high correlation with consumer spending. After three consecutive months of declines, confidence recently rebounded. Consumers appear to have placed concerns over the government shutdown and 4th quarter market volatility behind them and adopted a more optimistic outlook when assessing the economy, labor markets, and overall business conditions. **Any material, negative shift in sentiment is an early warning signal that requires attention.**

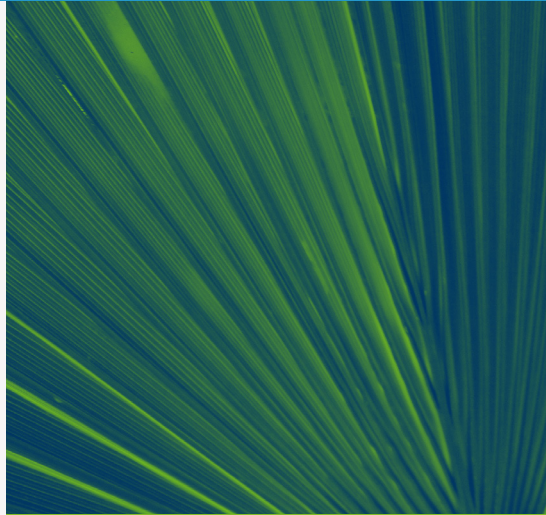
Corporate Profits

Accelerating corporate profits and earnings drive stock prices. While corporate profits remain positive and healthy, the rate of growth is slowing. This does not indicate an imminent end to the cycle, nor does it imply a pending market correction. However, valuations are unlikely to expand against a slowing macro-economic backdrop. **As a result, decelerating corporate profits signal that the future return environment could be challenged.**

DIVIDENDS:

A Proof Statement

Dividends provide a steady and ever-increasing cash flow for investors. Also, dividends supply investors with important information about a company's health and its underlying corporate strategy. Financial discipline, accountability, and transparency are all required for corporate management to maintain a comprehensive dividend policy that will attract an investor base. **Since the 1920's, dividends have accounted for approximately 47% of the annual return of common stock, which is a proof statement that over long-periods of time and through various market cycles, dividend investing is a successful strategy.**



Inflation

The Federal Reserve remains intensely focused on inflation, which can have a destabilizing effect since rising prices are essentially a tax on consumers and businesses. Inflation, as measured by the Consumer Price Index remains below policy makers' target of 2% even against the backdrop of a tight labor market. Future policy decisions will require time to assess and any interest rate adjustments must factor in the economic impact of the on-going trade negotiations as well as global growth pressures. **As a result, policy makers continue to express their desire to be "patient" as they monitor the economy and it is increasingly possible that they will not adjust rates in 2019.**

Our Outlook

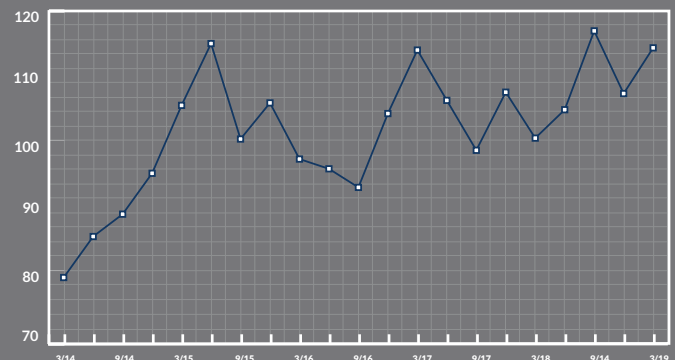
Expectations can push markets to extremes as emotional influences impact asset pricing. Shifting to the later stages of the economic cycle will bring the continued re-rationalization of asset pricing and valuation. **Therefore, remain focused on your ability to take investment risks that ultimately impact your family legacy as volatility will inevitably return even while the economic backdrop remains healthy.**

STOCK FOCUS:

Walt Disney Company

Stock Symbol: **DIS** Market Capitalization: **\$169B** Dividend Yield: **1.7%**
Long Term Earnings: **4.9%** 2019 P/E: **15.6x** Return on Equity: **18.7%**

Disney is an iconic entertainment company with diversified operations spanning media, theme parks, hospitality, and consumer products. Key brands/assets include parks & resorts, Lucas Films, Marvel, Pixar, Disney, ABC, and ESPN. The recent acquisition of Fox will create the largest studio in the U.S. with more than 40% market share at the box office. DIS is a powerful cash flow generator that gives the company financial flexibility that should be supportive of a growing earnings stream and future dividend payouts.



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