Investment Environment & Outlook

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Sabal Trust

Market & Economic Environment

As with any period, there are many moving parts shaping the investment markets. This is especially true when a new Presidential Administration takes office whose policies are in stark contrast to its predecessor. Given the divided nature of our political parties, this is not unusual. We approach any change of political leadership with a sense of discipline and patience. As investors we try to take a dispassionate view of the landscape by not reacting to the potential policy shifts but recognize that the environment will evolve which creates new investment opportunities. We also remain focused on the rollout of vaccinations, which will influence the trajectory and timing of the economic recovery.

BIDEN ADMINISTRATION

Campaigning is more difficult than governing as the process of creating legislation is drastically different than a campaign soundbite. Any new Administration enters office with an extensive agenda and history tells us they are usually successful implementing approximately 1/3 of their original plans. The Biden Administration's platform is ambitious: accelerating COVID-19 vaccine distributions, additional economic stimulus, broader access to health care, infrastructure investments, climate change initiatives, greater energy and financial regulation, an externally focused approach to foreign policy, a more nuanced view on the labor markets (income inequality), and other focal points. The markets will monitor legislative developments and begin to factor in expected and unexpected outcomes.

BLUE WAVE IMPACT

The Democrats emerged victorious in the Georgia Senate runoff, which signaled the completion of the "Blue Wave" from last November's elections. While a "Blue Wave" materialized and Vice President Harris holds the tie-breaking vote, a moderate voting block of Democrats in Congress could make passing sweeping legislation more challenging. Regardless, policy change is coming and while the degree remains unknown, investors and business will adapt to the shifting landscape.

RETAIL SALES

The COVID-19 induced economic dislocations disrupted supply chains and adversely impacted inventory levels. At the end of 2020, industrial production signaled that companies continued the process of rebuilding and replenishing inventories, in contrast to the consumer spending slowdown. Consumer goods production remains strong and when combined with a weakening U.S. Dollar, signals that production activity should be supportive of the economic recovery that is underway.

4Q20 GDP

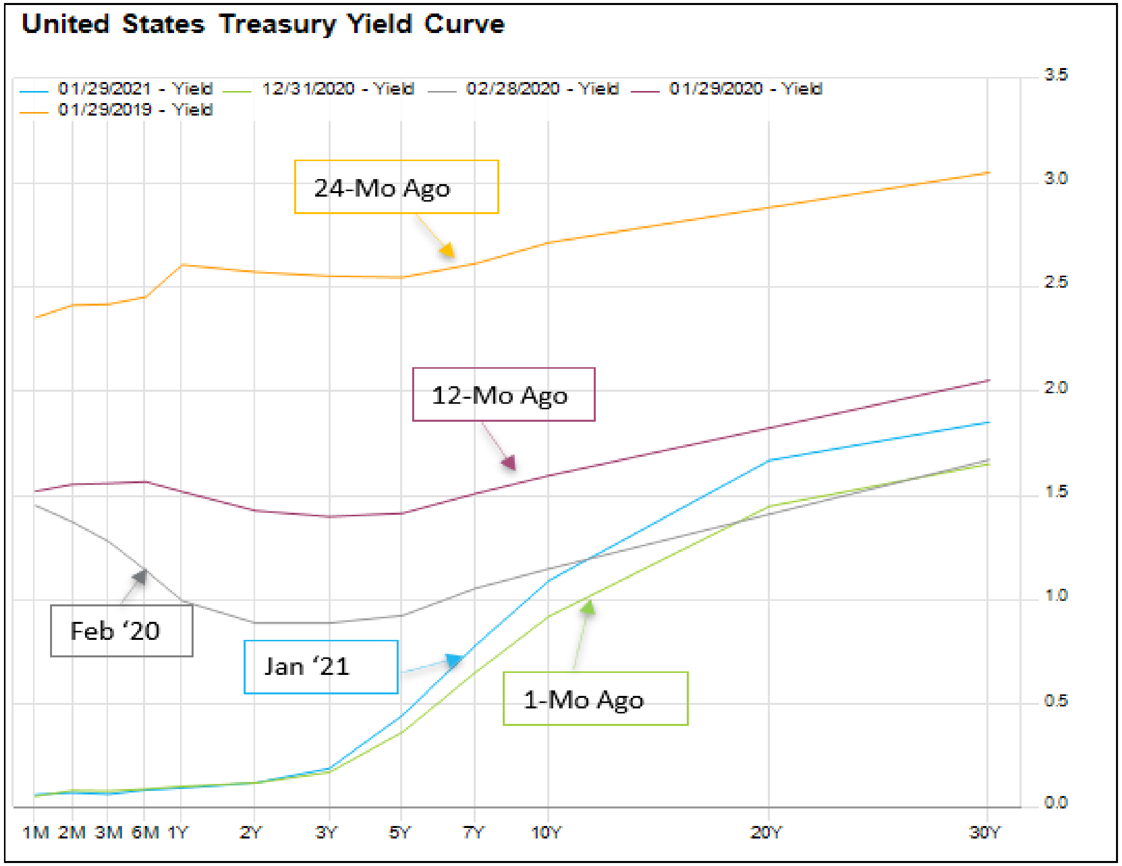
Gross Domestic Product (GDP) measures economic activity and is the sum of all goods and services produced during a specific time frame. As COVID-19 spread globally, governments shut down entire economies which swiftly ended the 10-year economic expansion. 3Q20 GDP +7.4% signaled of recovery as we pushed our way past the most severe economic contraction since the Great Financial Crisis of 2008/09. 4Q20 GDP +4.0% moderated as consumption slowed due to Congressional stimulus talks stalling and another virus wave resulting in economic lockdowns. The Biden Administration will remain focused on additional fiscal support measures to help replace lost income and repair the economic damage brought on by COVID-19.

Fixed Income Observations

The Federal Reserve officials continue to balance their assessment of a weak economy with an optimistic outlook on vaccine deployment. Recent economic weakness is due to a pullback in consumer spending activity, a slowing labor market recovery, and other deteriorating high-frequency data (OpenTable, TSA security checks, etc.) However, increased vaccination activity will allow the population to become more mobile and resume normal levels of economic activity. In January, the Federal Reserve Chairman shed additional light on their labor market policy framework by indicating that even if headline unemployment shows dramatic improvement, policy makers will focus on specific segments of the labor market that have been disadvantaged and "left behind" to ensure that everyone is participating in the economic recovery. Consequently, policy makers will remain accommodative for the foreseeable future even as economic activity picks up and inflation increases.

YIELD CURVE

- 2021 started with heightened volatility over fears that the Federal Reserve may scale down its asset purchases by year end. However, the uncertainties quickly dissipated as Chair Powell clarified Fed's position and called the debate premature.
- In the January 2021 FOMC meeting, Policy Makers unanimously voted to keep benchmark rates unchanged and reiterated their commitment toward continued support for the economic recovery.
- Policy makers also stated that they will maintain their bond buying program, with no change to the pace of purchase or composition of assets until "substantial" progress toward Central Bank's employment and inflation goals is achieved.
- On the month, long-dated yields surged, steepening the 2s-10s spread by over 16 bps to 0.96%. The 10-yr closed at 1.06% and the 30-yr closed at 1.83%.



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