Investment Environment & Outlook

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Sabal Trust

Market & Economic Environment

While the economic, financial and societal influences of COVID-19 continue to linger, we are in a better place today because of accelerating vaccine distribution. Moving closer to herd immunity will give citizens around the world greater mobility, which will increase economic activity. Furthermore, support measures from Congress and the Federal Reserve will advance the economic recovery. Investors are debating the potential inflationary impact of policy makers efforts to stimulate the global economy. This back-and-forth discussion resulted in elevated volatility during March. Against this backdrop, focus on what you can control: asset allocation, risk management, and building a portfolio of high-quality stocks and bonds.

ADDITIONAL FISCAL STIMULUS

The $1.9T American Rescue Plan signed by President Biden is designed to provide a wide-range of on-going support measures as the country continues to recover from the impact of COVID-19. The legislation provides funding for food aid, support for failing businesses, school grants, as well as assistance to state and local governments. Additionally, this fiscal package delivers another round of direct payments to consumers. Inevitably, spending must be offset with corresponding revenue. With more spending plans on the horizon (infrastructure), the market will turn its attention to the reality and impact of higher taxes to fund these spending activities.

LEADING ECONOMIC INDICATORS

Leading Economic Indicators, including the Purchasing Managers Index, durable goods orders and consumer confidence, are highly correlated to the economic cycle. The LEI index continues to rise, but at a slower rate of increase, which is reflective of the continued COVID-19 impact. The deceleration of growth signals that the economic recovery is not taking place as quickly as anticipated. However, the recently passed $1.9T stimulus package as well as the greater distribution of vaccines and increased mobility should positively influence future LEI data and the overall economy.

BANK CAPITAL ALLOCATION PLANS

The Federal Reserve's ongoing Dodd-Frank Act Stress Tests continue to show that banks are adequately capitalized to withstand an economic/financial shock. In March, the Federal Reserve announced the end of additional restrictions on capital returns for most banks beginning in 3Q21 because of improved credit trends. Banks have been limited in their ability to both pay dividends and repurchase shares for nearly a year as a precautionary measure related to the pandemic. We are encouraged by this shift from the Central Bank which signals stability within our financial system.

DIVIDEND INVESTING

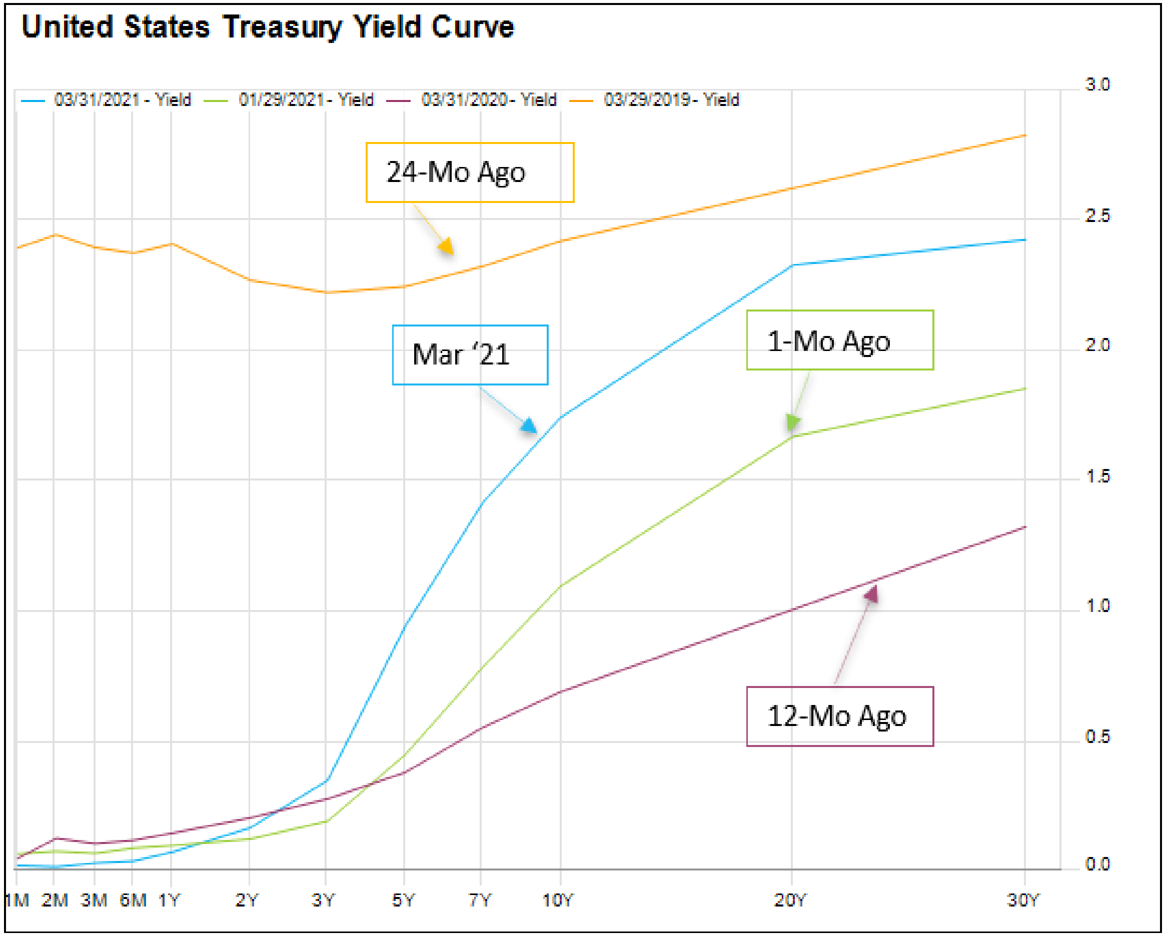
Dividends are a meaningful component of total return over long market cycles. Dividends also allow investors to remain patient during periods of elevated market volatility. Inflation occurs as prices increase. In an environment with growing inflation pressures, it is important to maintain purchasing power. As prices move higher, the same dollar purchases less, resulting in a loss of purchasing power. We believe that dividends act as an inflation hedge by providing purchasing power through a steady and ever-increasing stream of income.

Fixed Income Observations

Even as the Federal Reserve pointed to a continuing economic recovery and an improved employment outlook, policy makers remain committed to their asset purchasing program and pledged low interest rates through the end of 2023. They also believe that accelerating economic growth will have only a temporary effect on inflation. Last summer, the Federal Reserve adjusted their inflation framework by focusing on a 2% average inflation target instead of an absolute level. This departure from previous inflation targeting practices signaled that interest rates would remain lower for longer. The question remains how committed policy makers will be if inflationary pressures do not prove to be transitory. Until answers emerge, elevated bond market volatility will likely be the norm for investors.

YIELD CURVE

- In this month's FOMC meeting, Fed officials reiterated that current rate policy will remain in place and maintained that they will not act on what they perceive to be temporary bouts of inflation.
- Amid fears of rising inflation, volatility gripped Treasury markets in March. Between days of heavy sell offs and rallies, during the month, the Treasury curve bear steepened. Yields surged and performance remained under pressure, making Q1-2021 the worst quarterly performance for Treasuries in decades.
- 10-yr yields climbed over 34 bps, closing the month at 1.74%. 30-yr yields also increased by 26 bps, closing at 2.41%.
- The belly of the curve saw yields rise, but the front end remained anchored. 2s-10s spreads widened by over 30bps closing at ~158bps a while 5s-30s spreads remained relatively steady on the month.



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