

4<sup>th</sup>  
Qtr.  
2021



DEMONSTRATING  
RESILIENCE

# Our View

A QUARTERLY NEWSLETTER  
from SABAL TRUST

Investing is a journey during which investors are on an unending quest for answers. While many answers are elusive, a continual thought exercise of question-asking allows you to better understand the potential influences on market pricing. Currently, two of the more critical questions on investors' minds are related to inflationary pressures and the potential economic impact of the Delta and other potential COVID-19 variants. Only the passage of time and the collection of additional data will shed light on the answers.

*Each quarter, we'll highlight one of the many ways we help enrich your life and legacy.*

## Above & Beyond IRA SERVICES

Sabal Trust provides expertise, guidance and administration of your Traditional, Roth, Inherited, Simple, SEP or Rollover IRA. We will help you with IRA tax planning and charitable gifts and ensure that your Required Minimum Distribution is completed. We construct a portfolio using our asset allocation strategies to achieve your goals and coordinate your IRA with your other investments, and we will communicate with you regularly.

## Consumer Engagement

Consumer demand fuels 70% of the economy's growth. Consumer confidence measures the outlook of current conditions and future expectations. Confidence directly influences spending and economic activity. Even with continued stock market gains and additional fiscal relief measures, confidence levels fell recently due to concerns about the Delta variant's economic impact and the threat of higher inflation.

*We believe positive consumer sentiment is critical to shape future spending trends that will support the economy.*

## High Frequency Data

High frequency data provides a granular look into broader trends and activities. The Delta variant appears to be influencing consumer behavior based on recent data readings. Specifically, the number of airline passengers moving through TSA security checks, OpenTable reservations, and hotel occupancy have trended lower over the last few weeks.

*Assessing future consumer-related data will provide additional signals into the health and sustainability of the economic recovery.*

## Supply Chain Bottlenecks

Bottlenecks and disruptions in global supply chains contributed to the recent surge in inflationary readings. The interconnected global economy relies on smoothly functioning supply chains. Semi-conductor shortages are a vivid example of the cascading effect that bottlenecks can have on end products.

*Disruptions from the Delta variant could further strain supply chains and push input costs even higher.*

# Pricing Power

Profits are money a company makes after subtracting input costs. There are two ways to defend profits. A company can manage input costs including raw materials and labor, or when costs are rising, it can pass along those costs to their customers through higher prices. As input costs rise, we look for companies that have pricing power, or the ability to raise their prices. During the most recent quarter, companies in our portfolio including McDonald's, Pepsi, and Waste Management, continued to demonstrate pricing power.

*Companies with pricing power have greater financial flexibility to make capital allocation decisions that support a growing dividend stream.*

# Geopolitical Risks

While ever-present, geopolitical risks can lay dormant for long periods of time, when and where they resurface is unpredictable. The unfolding tragedy in Afghanistan is a fluid situation and could serve as the spark to destabilize a historically more volatile region of the world.

*If tensions continue to escalate in the Middle East, the markets will take notice, especially if the region's energy complex is impacted.*

# Successful Navigation

When invested in the capital markets, avoiding short-term volatility is impossible. The most important decision to effectively manage risk and dictate long-term wealth protection involves selecting the appropriate mix of stocks, bonds and cash.

*A well-balanced, diversified portfolio containing high quality, dividend-paying companies and shorter-term investment-grade bonds better positions you for success in today's environment.*

# The Control Factor

How much direct control the Federal Reserve exerts over inflation is debatable, since policy-making is not an exact science. Policy tools are broad instruments designed to promote economic growth and create price stability. Federal Reserve officials continue to express the view that inflation is transitory. However, during the 2Q21 earnings season, companies across a wide range of industries and sectors reported material increases in input costs.

*Only time will tell if these price pressures are permanent or temporary and if the Federal Reserve has successfully controlled inflation.*



# Outlook

Complacency occurs when comfort levels rise and concerns over risks fall. Complacency can upend a portfolio and put a family's legacy at risk. After 12 months of strong equity returns and elevated asset prices, investors can lose focus and become complacent about the environment. Most companies exceeded revenue and earnings expectations during the most recent earnings reporting season. Yet, the rapid spread of the Delta variant poses a real threat and adds new uncertainties to the economic outlook.

*We remain optimistic about the economy's trajectory as companies and individuals alike have demonstrated a resilience during the pandemic that is likely to be enduring.*

## STOCK FOCUS:

# PepsiCo, Inc.

Stock Symbol: **PEP** Market Capitalization: **\$214B** Dividend Yield: **2.8%** Long Term Earnings: **9.2%** 2021 P/E: **24.9x** Return on Equity: **47.5%**

Pepsi, one of the largest global beverage and snacking businesses, serves customers in more than 200 countries. PEP operates a broad, diversified portfolio of products, and they partner with Starbucks and Beyond Meat in the energy and plant-based snacks categories. They have demonstrated pricing power by offsetting higher input costs to protect earnings that support a growing dividend stream. The compounded annual dividend growth rate over the last five years is 7.8%.



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