

OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Third Quarter 2015

PUTTING THE ECONOMY BACK TO WORK

The positive economic underpinnings that have contributed to strong investment returns over the past several years continue to be in place. *While first quarter U.S. GDP was negatively impacted by weather, port closures and shifting energy markets, we expect growth to resume for the remainder of 2015.* Inflation and interest rates remain low, employment and housing are sustaining a good recovery and corporations are in sound financial shape.

Recognizing that some areas of the market appear to have reached valuations no longer supported by fundamentals, we continue to find attractive—and often overlooked—dividend-paying equities trading at reasonable valuations. Importantly, we find dividend-paying stocks that are more than just placeholders for income investors waiting for higher bond yields, but that offer enticing opportunities for long-term growth in earnings and dividends.

VALUATION

Federal Reserve Chairman Janet Yellen suggested recently that equity market valuations are “generally quite high,” and, as it relates to certain sectors and select companies, the Chairman is correct. In fact, our process has led us to reevaluate some holdings that have appreciated beyond what fundamentals would suggest. However, for the most part, *equity valuations appear reasonable against a backdrop of low inflation and low interest rates, and attractive relative to other asset classes.* Additionally, market sentiment is not reflective of the extreme bullishness that is typically found at market tops.

INTEREST RATES

Even if the Fed lifts short-term interest rates sometime this year, as we expect, interest rates are unlikely to increase substantially, meaning the rate environment will continue to be supportive of higher asset valuations. *It is important to keep in mind that the anticipated shift in monetary policy is away from emergency economic accommodation, not toward the other extreme of tight monetary policy.* Core inflation continues to be below the Fed’s target. Additionally, monetary policy is about the only tool being used to stimulate the economy. Fiscal policy—including taxes, trade policy and regulation—continues to work against economic growth.

SABAL TRUST INVESTMENT COMMITTEE

William A. Eickhoff, CFA

Charles H. Kard, CFA

Gerard J. Lachnicht, CFA

Jennifer R. Garbowicz, CFA

G. Lowe Morrison, CFA

G. Bruce Mullin, CFA

Scott L. Pieper, CFA

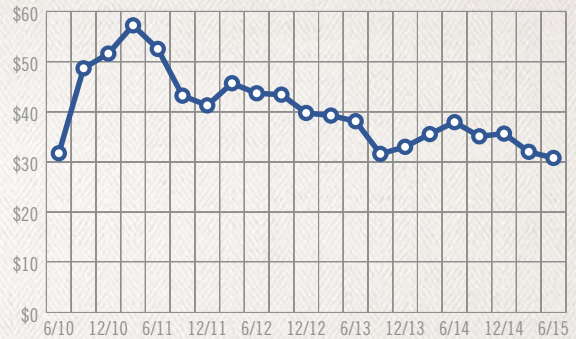
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Stock Focus POTASH (POT)

Potash Corp. of Saskatchewan, Inc. is the world's largest fertilizer company measured by capacity. The company produces crop nutrients, including potash, phosphate and nitrogen, with potash accounting for nearly 60% of gross profit in 2014. Population growth, improving diets and increased potash application in emerging markets support long-term demand growth. (Currently, potash application rates in China and India lag scientifically recommended levels.) The geology and scale of the company's Canadian mines create a cost advantage relative to other producers which should allow POT to remain profitable even amidst a weak pricing environment. Management has maintained a disciplined approach to production and a focus on creating shareholder value. POT has an attractive dividend yield, and we expect dividend payouts will continue to grow.



Stock Symbol: **POT**

Market Capitalization: **\$25.2B**

Dividend Yield: **5.0%**

Long Term Growth: **7.8%**

P/E (FY 2015): **16.0x**

Return on Equity: **17.1%**

HOUSING

Strength in housing is key to a continued economic recovery, and the recent jump in new home starts was encouraging. ***In fact, housing data across the board have been strong, with new home sales, existing home sales and home prices showing growth.*** Nationally, single-family home prices increased by about 4% year-over-year, with a few cities showing annualized gains closer to 10%. With prices outpacing income growth, some moderation in home price appreciation should be expected. However, the housing market looks likely to continue to contribute meaningfully to economic expansion.

DOLLAR STRENGTH

One headwind for corporations has been the strength of the U.S. dollar. While the Federal Reserve's quantitative easing policy has come to an end, many central banks outside the U.S. are engaged in similar rounds of economic stimulus. The resulting differentials between interest rates in the U.S. and other parts of the world have led to rapid appreciation of the dollar. ***Dollar strength is likely to continue as global capital pours into the U.S. to take advantage of relatively higher interest rates.*** With more than a third of U.S. corporate earnings coming from outside the U.S., multinationals are likely to continue to be challenged by foreign currency translation.

OUTLOOK

Some market strategists have advised shifting away from dividend-paying stocks in anticipation of higher interest rates. The thinking behind this recommendation is that dividend payers have attracted undue investor attention throughout the low-interest rate cycle and, as rates rise, will be pressured as income-oriented investors shift their attention back to bonds. While some form of this scenario may play out, we caution that the timing and magnitude of higher interest rates is still unknown. Also, unknown is how the market will react to a Fed decision likely to already be reflected in securities prices, when it occurs. In contrast, the predictability of dividend income remains solidly in place. ***We recommend equity investors not get sidetracked by concerns about the short-term price movement of dividend stocks relative to the market, but continue to focus on dividend stocks' long-term benefits: high, growing and predictable income, with reduced price volatility.***

ST. PETERSBURG

200 Central Avenue, Suite 220
St. Petersburg, Florida
33701
727-824-8700

SARASOTA

1800 Second Street, Suite 103
Sarasota, Florida
34236
941-556-0760

TAMPA

4211 West Boy Scout Boulevard,
Suite 190
Tampa, Florida
33607
813-229-2180

THE VILLAGES

1060 Lake Sumter Landing
The Villages, Florida
32162
352-751-2199

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