OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

First Quarter 2016

"CAUTIOUS POSITIONING"

In the U.S., unprecedented levels of economic stimulus appear to have paid off. GDP has shown slow, but steady, growth, unemployment is below levels experienced prior to the Great Recession and the Federal Reserve is taking its initial step away from a zero-interest rate policy for the first time since December 2008. Further, auto sales are strong and mortgage applications are trending higher, suggesting consumers remain confident. ***Viewed more broadly, however, the economic picture remains somewhat blurred.*** With much of the global economy still on life-support and short-term interest rates rising in the U.S., conservative portfolio positioning appears warranted.

EMPLOYMENT:

With the official unemployment rate in the U.S. at 5%, the job market has staged an impressive recovery. Nearly 12 million new jobs have been created since the recession came to an end in 2009. Average hourly earnings have also shown steady growth, pulling more people back into the labor force. However, ***measures of unemployment that consider under-employed and "discouraged" workers remain elevated.*** Broader measures of unemployment and the impact of higher short-term rates on wage growth will be key factors in determining the Federal Reserve's next set of policy initiatives.

MONETARY POLICY:

The uncertain direction of monetary policy, both in the U.S. and abroad, reflects concerns among central bankers about the sustainability of economic growth. Also worrying is that inflation in many economies has struggled to reach official targets, despite record amounts of stimulus. Many central banks outside the U.S. continue to lower rates and further stimulate by buying bonds. While the U.S. economy is strong enough to merit an official lending rate above zero, these factors taken together suggest that the pace of interest rate increases will be slow and that the Federal Reserve is likely to pause after its first rate hike to fully gauge its impact. ***Despite the attention given to the Fed's "liftoff", monetary policy will remain accommodative.***

DOLLAR STRENGTH:

With the Fed positioning for higher interest rates, global funds continue to flow into dollar-denominated assets. As a result, the U.S. dollar has reached its highest level in more than a decade relative to a trade-weighted basket of major currencies. ***U.S. companies with a significant foreign presence have struggled to maintain sales and earnings growth against the currency headwind.*** The manufacturing sector has been particularly affected by the strength of the dollar. In contrast to sectors more domestically focused, monthly job growth in the U.S. manufacturing sector has been trending lower since November 2014.

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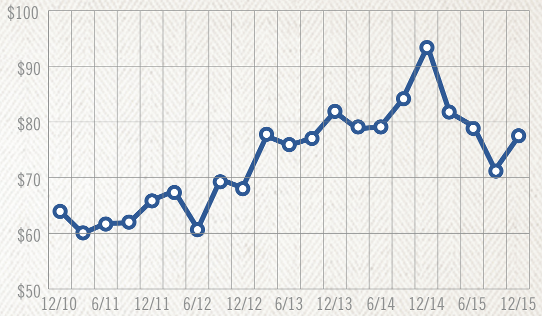
Stock Focus Procter & Gamble:

Procter & Gamble is the world's largest consumer products manufacturer. With a history that dates back to 1837, P&G operates with a lineup of leading brands, including Charmin, Pantene, Pampers and Tide. Lately the company has increased its focus, shedding over 100 brands to become a more nimble competitor. Of its 65 remaining brands, 21 generate more than $1 billion in sales annually. Exposure to developing markets offers P&G the potential to introduce its leading brands to younger, faster growing populations. With an attractive and growing dividend and valuation reflective of a company in transition, Procter & Gamble remains a core holding for any conservative portfolio.



Stock Symbol: **PG**
Market Capitalization: **$220B**
Dividend Yield: **3.3%**
Long Term Growth: **6.5%**
P/E (FY 2015): **19.5x**
Return on Equity: **13.4%**

**Funds from operations*

ENERGY:

The energy sector continues to experience a tidal wave of bad news. With OPEC's recent decision to maintain current production and sanctions on Iranian oil set to be lifted, the energy markets are likely to remain oversupplied for some time. ***The widening imbalance between supply and demand has driven the oil price to its lowest level since the global economic crisis seven years ago.*** In response, energy firms have slashed tens of thousands of jobs and delayed or canceled $200 billion in projects. Meanwhile, amidst unseasonably warm winter weather, U.S. consumers are enjoying the lowest fuel costs since 2008, further supporting economic recovery.

OUTLOOK:

Capital preservation is and will continue to be a core tenet of Sabal's investment philosophy. Several indicators suggest the potential for trouble ahead, including increased default rates for low rated, or junk, bonds, which, historically, has presaged periods of recession. Record levels of mergers and acquisitions and a narrowing market, where only a small percentage of stocks make new gains, also suggest a market at risk of running out of steam. While, in the face of low yields and increasing rates, equities remain our preferred asset class, we have shifted our portfolio positioning to historically less volatile sectors. Furthermore, we continue to believe dividends will be a key component of return.

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