OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Fourth Quarter 2015

"CAPRICIOUS CONDITIONS"

Volatility returned to the markets in a big way in the third quarter as new concerns from abroad called into question the strength of the global recovery and the timing of an eventual increase in interest rates by the Federal Reserve. ***While positive economic growth and accommodative monetary policy will likely continue to support markets, heightened volatility is likely to persist until greater clarity is achieved.*** Matters of fiscal policy are also likely to gain investor interest as Congress turns its attention to important legislation and the presidential race gets serious.

U.S. ECONOMIC GROWTH AND MONETARY POLICY:

The U.S. continues to be one of the safest bets globally as its economic recovery appears unlikely to be deterred by China's slowdown. Second quarter U.S. GDP growth was revised upward to an annualized rate of 3.7% from an initial report of 2.3%. In the same period, corporate profits increased at a 9.8% annualized rate. ***Business conditions in the U.S. appear solid. Strong home sales further support the idea that the U.S. economy remains on a firm foundation.*** Second half growth is likely to average 3%. Unemployment has fallen to 5.1% and jobs numbers from previous months have been revised higher. Wages and hours worked have also increased. Recent strength in employment reinforces the idea the Fed will lift off before the end of 2015.

GLOBAL INFLUENCES—CHINA AND EMERGING MARKETS:

Weaker than expected economic data from China and a surprise currency devaluation on August 11th sparked a global equity selloff that lasted several days, resulting in the worst performance for U.S. stocks since 2011. ***After decades of investment, China is struggling with overcapacity***. Producer prices in China have declined for more than three years and the country's appetite for raw materials appears to be waning. While the revaluation took markets by surprise, it was small in comparison to the appreciation the Chinese currency experienced over the past several years. Given the decline in economic activity, further decreases in the currency value may be necessary for China to regain its competitive edge. In any event, Chinese officials will likely use every tool at their disposal to attempt to steadily manage the currency's revaluation lower.

ENERGY MARKETS:

The decline in energy commodity prices continued apace in the third quarter and, as concerns about a long-term decrease of activity in the sector grow, even industries not directly correlated with commodity prices suffered. With most oil production unprofitable at current prices, U.S. oil production may finally be set to decline. The Energy Information Administration (EIA) lowered its estimate for 2015 production by more than 460,000 barrels per day. Global oil demand, meanwhile, is estimated to have grown by one million barrels per day due to lower prices. Decreased production and increased demand is the recipe for a return to stabilizing commodity prices and a better environment for companies focused heavily on production as well as those with only tangential exposure.

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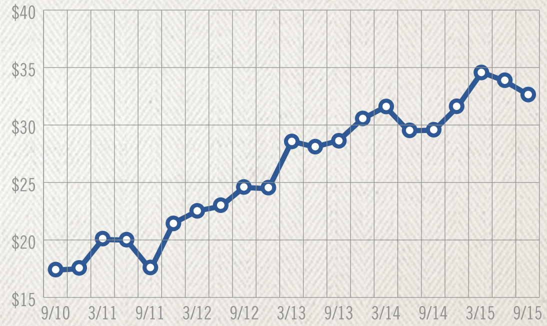
Stock Focus Pfizer (PFE)

Pfizer is one of the world's largest pharmaceuticals firms. Prescription drugs and vaccines account for approximately 90% of its $50 billion in annual sales. Pfizer's treatments include Prevnar for meningitis, Viagra for impotence, Lyrica for epilepsy and Enbrel for rheumatoid arthritis. Pfizer sells products globally with international sales accounting for close to 60% of the total. The company's competitive advantages result from its size and scale, along with its diverse portfolio of patent-protected drugs. Pfizer offers an attractive dividend, which we believe will continue to grow.



Stock Symbol: **PFE**
Market Capitalization: **$193B**
Dividend Yield: **3.4%**
Long Term Growth: **5.6%**
P/E (FY 2015): **15.6x**
Return on Equity: **12.4%**

**Funds from operations*

INTEREST RATES:

Despite U.S. strength and the likelihood of a Fed Funds rate increase before year end, the Fed is unlikely to begin an aggressive phase of rate hikes. Recent inflation figures have remained tepid. And, with the 10 year Treasury yielding around 2% after trending down during the 3rd quarter, the market seems to believe that whatever the Fed does with short term interest rates, longer term rates aren't heading higher any time soon.

POLITICAL ENVIRONMENT:

While the U.S. presidential race has attracted a lot of attention, it's too early to tell who will be either party's nominee. An early surge has historically been a curse rather than a blessing. The eventual nominee usually doesn't begin to gain traction until December or January. ***In the meantime, Congress has an agenda full of potentially market-moving legislation to consider*** including completing a budget, renewing highway funding (which could include lifting the crude oil export ban) and, once again, dealing with the debt limit. Fiscal policy is likely to regain some of the spotlight as 2015 comes to a close.

MARKET VOLATILITY:

Stock market declines of ten percent or more are not unusual even during periods of market expansion. The tight trading range experienced for most of 2015 had been less typical. Particularly painful is that stocks that are traditionally defensive have not offered much cover in the recent downturn. Dividend payers within the S&P 500 have lagged behind this year as investors sought refuge in high growth stocks, particularly internet names. At some point valuations and dividends will matter again to investors and many high-quality dividend paying companies appear to be trading at bargain prices.

OUTLOOK:

While we continue to expect steady global economic recovery, markets will likely be volatile until there is greater clarity about the direction of monetary policy and economic growth outside the U.S. Episodes of volatility present an opportunity for investors to reassess their tolerance for risk within the context of their investment objectives and time horizon. Bonds remain an important source of portfolio stability and predictable income. However, ***for investors willing to withstand the additional volatility, a diverse portfolio of dividend paying companies offers income along with the potential for long-term growth.***