

A photograph of an older man and woman in a kitchen. The man, on the left, has grey hair and wears glasses and a dark apron over a collared shirt. The woman, on the right, has short grey hair and wears glasses and a light-colored apron over a grey top. They are both smiling and looking towards each other. In the background, there are white kitchen cabinets with glass doors and a window showing a view of trees.

OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Third Quarter 2016

“SLOWLY BUT SURELY”

The duration of the current economic recovery recently surpassed the seven year mark, making this cycle one of the longest during the post-World War II era. While extended in length, the economic environment lacks robust growth, resulting in a chorus of calls to further stimulate via public policy measures. However, *the economic cycle continues moving in a positive direction*, supported by the housing market, a labor market recovery, and a resilient consumer.

HOUSING RECOVERY:

Positive changes in the housing market continue influencing consumers, whose spending accounts for 2/3 of total GDP. Robust new and existing home sales, increased household formations, and new highs for median home prices create a positive “wealth effect” for consumers. Furthermore, *the multiplier effect of housing market strength also supports economic growth*.

FEDERAL RESERVE:

While low inflation and modest growth continue to shape monetary policy, investors remain watchful of the Federal Reserve’s shifting sentiment toward continued rate increases. While the timing is important, the magnitude of rate increases will be the more meaningful variable. The outlook on inflation shapes investor decision-making and a gradual increase of producer costs could accelerate a policy shift toward higher interest rates. *Inflationary pressures, specifically on input costs, along with moderate labor costs, and excess slack in manufacturing capacity remain the focus of a data-dependent Federal Reserve*.

ENERGY:

The economic consequences of a decline in commodity prices are clear. As the price declines, supply falls because of the reduced economic viability of production. Concurrently, demand increases because of the lower relative cost of the underlying commodity. This dynamic played out in the second quarter with depressed energy markets appearing to have reversed course through a dramatic rebound in energy prices as demand increased and supply was taken off-line. *Does this price adjustment signal a shift in the markets’ supply and demand relationship?* Only time will tell if this move is sustainable or temporary.

ECONOMIC SUSTAINABILITY:

Achieving true economic sustainability requires a well-crafted combination of fiscal and monetary policy initiatives. The groundswell of voter anger appears rooted in fundamental economic issues. The current economic recovery, the slowest on record in 70 years, has been void of

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Sabal Trust
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YOUR LIFE. YOUR LEGACY.



Stock Focus Waste Management

Waste Management is the largest provider in North America of waste management services, including collection, transfer, recycling, disposal and waste-to-energy services. Customers include commercial, industrial, municipal, and residential collections. The company is the largest owner of domestic landfills, which provides them a strategic advantage over their competition through an annuity-like revenue stream. WM is a solid free cash flow generator that supports a consistently growing dividend payout to shareholders.



Stock Symbol: **WM**

Market Capitalization: **\$27B**

Dividend Yield: **2.7%**

Long Term Earnings: **8%**

2016 P/E: **21.2x**

Return on Equity: **22.6%**

meaningful wage, job and income growth, resulting in a groundswell of voter anger. Further stoking this anger is the emergence of a bifurcated economy characterized by distinct segments of the population enjoying success, while struggles remain entrenched for a growing number of people. This structural dynamic, which could restrain future economic growth, is dominating the current political discourse that will crescendo this summer as the political parties convene to finalize their respective tickets for the November election.

POLARIZATION:

Voter anger has resulted not only in the polarization of the two political parties, but in the fragmentation within the parties themselves as seen by the contentious primary electoral season. Philosophical differences exist within both the Democratic and Republican parties on the future direction of policy and leadership. In what is shaping up to be an uncertain election, investors may have to wait until it is over before gaining clarity on whether policy is likely to move markets forward or hold them back. Either way, with this element of uncertainty removed, businesses and individuals will adapt their decision-making to the environment that ultimately unfolds.

POPULISM & PROTECTIONISM:

The embracing of populism and protectionism could shape the global economic landscape for decades to come. Not limited to the United States, *global calls for nationalism and an inward focus could dampen the tenants of free trade, which is the foundation for true economic growth.*

STOCK MARKET VALUATIONS:

Examining potential returns, investors assign investment value. P/E ratios represent how much investors are willing to pay for a company's future earnings. History is marked by periods of investor irrational exuberance resulting in asset classes reaching over-valued states with unsustainable valuations. In the face of modest economic growth, policy uncertainty, and an increasingly tense political environment, the markets are *fairly valued indicating that further multiple-expansion could be constrained by modest revenue and earnings growth.*

OUR OUTLOOK:

Every business cycle has unique characteristics and influences. *While the current cycle has experienced only half of the growth rate of the average recovery since the 1940's, positive economic growth continues and our expectations remain constructive for future returns.*

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