OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Second Quarter 2017

"MORE QUESTIONS THAN ANSWERS"

Periods of political or economic change increase uncertainty and result in a growing number of questions about the impact on financial assets. More questions than answers exist today forcing investors to operate and make decisions in a more ambiguous environment. An effective method of dealing with these unanswered questions is to ***design high-quality investment strategies that withstand the test of time as investors navigate through different phases of the market cycle.***

WHAT IS THE OUTLOOK FOR THE ECONOMIC CYCLE?

Economic, market and asset class cycles always prevail. The differentiating factors include the length and strength of a given cycle. The current, eight-year expansion has been characterized by anemic growth, stagnant wages, and a growing income disparity. These qualities resulted in a disruption created by the winds of political change and a profound shift in philosophical views on how to support and accelerate economic growth. The basic tenets of larger government have been replaced by the notion of lower taxes, costs, and reduced operational barriers to create incentives for corporate spending and hiring activity, which could be stimulative to the economy.

HOW WILL PUBLIC POLICY UNCERTAINTY MANIFEST ITSELF?

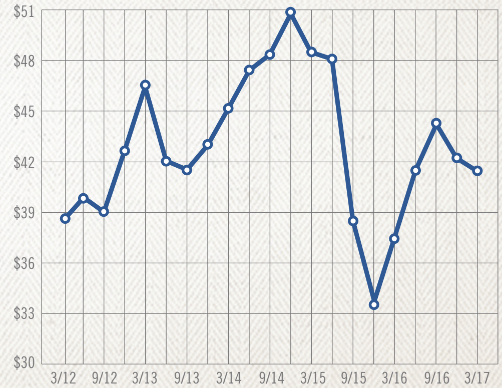
Given the dramatic change in the political landscape since the November election, analyzing policy risk takes on an even greater importance. Political risk manifests itself in a variety of ways resulting in heightened uncertainty that influences investor decision-making. Since the inauguration, the new Administration is following through on campaign promises, which should not be surprising or unexpected. Elevated investor sensitivity to these initiatives is the new reality marked by an unconventional political figure dominating policy discourse. ***While the ultimate effectiveness of seismic policy shifts is unknown, the market remains focused on potential economic opportunities resulting from changes to the tax code, regulation and other pro-business initiatives.***

DO MARKET PARTICIPANTS APPRECIATE RISK?

Risk, shaped by perceptions, emotions, and experiences, influences investor decision-making. Extended periods of pain cause investors to overlook the long-term benefits of investing. Conversely, prolonged periods of strong markets marked by low volatility can lead to complacency. Today, investors have enjoyed expanding markets, muted inflation, and low interest rates. These tailwinds inject a degree of complacency regarding future return expectations. ***Guarding against complacency and embracing the risks and realities of any investment environment is critical to long-term investment success.***

Stock Focus: Enbridge, Inc.

Enbridge, Inc., based in Calgary, Canada, was founded in 1949 and operates a diverse set of oil and gas assets, including pipelines and terminals, distribution facilities, utility operations, and green energy projects. Enbridge recently acquired Spectra Energy and maintains a strong balance sheet, has consistent and predictable business operations and provides excellent earnings visibility. The company is an exceptional generator of cash flow, which is supportive of a robust dividend.



Stock Symbol: **ENB**
Market Capitalization: **$89B**
Dividend Yield: **4.3%**
Long Term Earnings: **8.9%**
2017 P/E: **22.1x**
Return on Equity: **6.7%**

WHY DO RISING RATES MATTER?

Several decades of declining interest rates, coupled with low price volatility, directly benefitted bond investors. The road will become more challenging to navigate as the Federal Reserve adjusts monetary policy. Navigational tools to protect investors in a rising rate environment include utilizing high-quality bond instruments and shorter-duration vehicles to dampen the sensitivity to rate increases. Today, the prospects of greater economic growth from strong consumer demand, an improved employment picture, and upward wage pressures signal that a gradual tightening cycle is inevitable. ***Rising interest rates signal a greater confidence that the underlying economy is showing signs of sustainable growth.***

HOW DOES ASSET ALLOCATION MANAGE RISK?

A well-diversified portfolio serves as the platform from which to leverage future investment opportunities and protect portfolio returns against elevated market volatility. Diversification does not completely protect a portfolio from losing value in a market where all asset classes are declining, but it does prevent the challenges experienced with an undiversified portfolio.

WHAT FACTORS SHOULD BE CONSIDERED WHEN RE-BALANCING A PORTFOLIO?

The normal ebb and flow of the markets inevitably results in a portfolio shifting out of balance with respect to overall asset allocation guidelines. Extreme market moves to the upside or downside only accentuate these conditions. Re-balancing an investment portfolio is critical for long-term investment success and to effectively control and manage risk. When re-balancing a portfolio, ***investors must consider overall goals and objectives, individual risk tolerances, time horizons, income needs*** and other variables that will ultimately influence the portfolio construction process.

OUTLOOK:

The three elements of investment control include appropriate asset allocation, use of high quality investments, and building a growing stream of cash flows into a portfolio. Determining the appropriate level of capital market exposure given underlying goals and objectives will lead to the proper asset allocation, which will position a portfolio to benefit from the potential economic upside derived from impactful public policy initiatives, but it also provides an element of downside protection if political risks elevate.

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