OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Fourth Quarter 2017

CAUTIOUS CONVICTION

Investing stirs deep emotions since building and protecting a family's legacy is a highly personal endeavor. Realistically assessing the investment landscape involves analyzing market drivers and catalysts from a dispassionate perspective. This sounds like a tall order for individuals to successfully accomplish. However, overcoming emotional biases are critical as investors synchronize their rationale for investing in the capital markets with the actual structure of their investments.

ECONOMY:

Solid second quarter corporate earnings answered some of the swirling questions about the sustainability and durability of the current economic expansion, now the third longest on record. Economic indicators signal an economy with modestly positive momentum. However, since the timing of downturns are difficult to accurately predict, continually monitoring signposts of change remains a prudent course of action.

CORPORATE FINANCIAL HEALTH:

In the face of inevitable obstacles, ***positive economic drivers could extend the cycle over the coming quarters.*** Corporate financial strength remains solid with approximately $2 trillion held in cash reserves that could be allocated to infrastructure investment, capital expenditures, hiring activity, and growing dividends. The prospects of corporate tax reform also have the potential to boost corporate spending and further stimulate the underlying economy.

TAX POLICY:

Only time will tell if their interpretation is correct and if wage growth or the reflation of global economies push input and consumer prices higher. There remains great anticipation that tax reform, designed to reduce costs and create economic incentives for businesses, will be ultimately implemented. The recent antagonistic health care debate exposed a deep partisan divide. Tax reform, budget discussion and debt ceiling issues will pose incredible challenges to an already fractured Washington D.C. ***Legislative activity is complex, challenging, and time-consuming work.*** Policy risks can manifest themselves in a variety of obvious as well as unexpected ways, which is why investors will view proceedings in Washington D.C. with great interest.

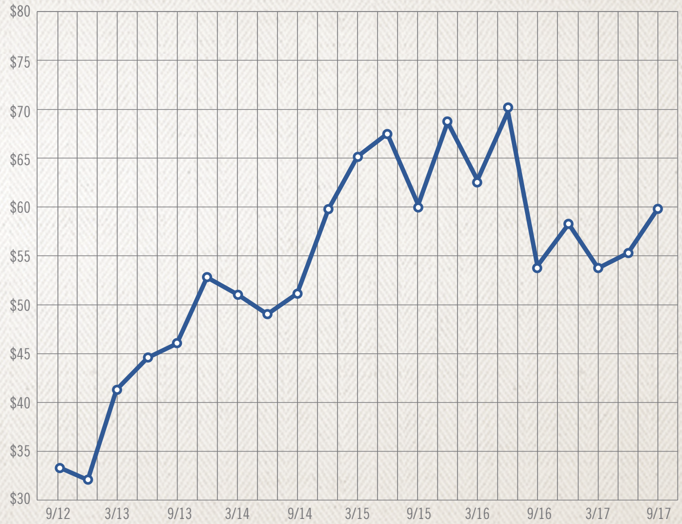
BALANCE SHEET REDUCTION:

After years of unprecedented monetary policy accommodation from near-zero interest rates, Federal Reserve officials ***continue to signal their tightening bias based on their positive assessment of the economy.*** Future interest rate increases are dependent on economic growth projections and inflation expectations. In addition, the markets are focused on the gradual reduction of the Fed's balance sheet that has expanded from $900B in 2008 to a current level of $4.5T. The phased reduction of bond holdings will have to be carefully orchestrated to avoid unexpected shocks to the global economy and the broader markets.

Stock Focus: BRISTOL-MYERS

Bristol-Myers is a global biopharmaceutical company involved with the development, licensing, manufacturing, marketing, and distribution of biopharmaceutical products. BMY has a strong product pipeline that gives the company excellent cash flow visibility over the coming years and is supportive of their growing dividend. With 45% of its revenue generated overseas, BMY is a leader in the oncology and cardiovascular spaces and has a lower correlation to broader economic trends.

Stock Symbol: BMY
Market Capitalization: $96B
Divident Yield: 2.6%
Long Term Earnings: 9.3%
2017 P/E: 19.9x
Return on Equity: 31%



INFLATION DISCONNECT:

Unemployment, reaching a 16-year low at 4.3%, is confounding economists because of the lack of inflation given the tight labor market conditions. Historically as the economy reaches full employment, wages rise, which place upward pressure on inflation. Time will tell whether this phenomenon is transitory or indicative of longer-term structural trends. Furthermore, while labor costs drive a portion of the inflation measures, many of the other inputs have also failed to push the Consumer Price Index (CPI) materially higher.

VALUATIONS:

While valuations of certain market segments are difficult to justify given the underlying fundamentals, asset prices have not breached unprecedented levels nor has investor sentiment reached euphoric conditions. Given positive economic signs from recent corporate earnings and absent aggressive Federal Reserve policy, market valuations appear reasonable. In fact, ***above-average market valuations are not unusual during extended periods of low inflation.*** Yet as investors push asset prices higher, remaining vigilant and sensitive to asset valuations remains prudent.

LOW VOLATILITY:

Extended periods of muted volatility inevitably shape behavior. Many investors have intentionally moved along the risk curve by strategically shifting money from traditionally more conservative investments into riskier parts of the capital markets. Complacency also encourages investors to unintentionally move along the risk curve as their asset allocations tilt in favor of risk assets (i.e. over-allocation to common stocks because of strong price gains). Low volatility and market tranquility are not perpetual. Asset prices are historically cyclical. The prolonged absence of volatility could accentuate negative price movements.

OUTLOOK:

Remain focused on a solid plan designed to build and protect your family's legacy. As you balance liquidity needs, risk tolerances, and investment time horizons, determine the appropriate exposure to the capital markets through the most important element of control: asset allocation. The willingness and ability to take risks are completely different concepts. When moving across the risk spectrum in the capital markets, ask if you are being properly compensated for additional incremental risk.

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