



OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

First Quarter 2018

REMAINING DISCIPLINED

Strong market returns and an economic cycle entering its 9th year leave investors asking: “What should I really expect in 2018?” The search for real answers can be daunting and potentially elusive as investors sift through a myriad of data, news flow, and opinion pieces. While, meaningful signposts point to the continuation of a healthy economic environment, ***investors should not become complacent and take investment returns for granted.***

ECONOMIC ENGINE:

Buoyed by rising home prices and increasing wages, confident consumers continue to meaningfully drive economic growth. Corporations remain healthy with elevated cash levels on balance sheets, which could be used for investments and act a catalyst for future economic growth. Additionally, international economies remain in a cyclical upswing with the emergence of synchronized global economic growth. While trade policy questions and geopolitical risks could adversely influence sentiment, ***the stage is set for sustained economic momentum into 2018 as investors continue to reward positive earnings.***

INFLATION:

Shorter-term cyclical influences such as low unemployment and a tight labor market historically lead to wage inflation. However, structural influences such as technology enhancements and Dollar strength have kept a lid on rising prices. ***Consistently low inflation could extend the economic cycle*** due to the Federal Reserve policy makers adopting a more reserved approach toward interest rate tightening activities.

FEDERAL RESERVE LEADERSHIP:

Pending leadership change at the Federal Reserve and the nomination of Jerome Powell will officially end the Yellen era, but is ***unlikely to usher in dramatic change*** to current policy initiatives including gradual interest rate increases. Remaining data dependent, policy makers will intensely focus on inflationary pressures as the current unemployment data signals the economy has reached full employment.

POLITICS:

Policy initiatives and politics will shape the 2018 investment landscape and influence decision-making with intense legislative activity leading up to the mid-term elections. The intended effect of pending legislation is to reduce costs and encourage the strategic investment and allocation of capital. The optics of proposed legislation has driven investor sentiment higher. Yet, ***policy risks stemming from deep political divisions threaten the timing and effectiveness of legislative change as well as the ultimate economic impact.***

Stock Focus: PUBLIC STORAGE

Public Storage acquires, develops, owns, and operates self-storage facilities. The company also owns and manages commercial properties, primarily multi-tenant flex, office and industrial parks. PSA maintains a strategic investment in self-storage facilities across Western Europe. PSA, the largest self-storage REIT in a highly fragmented industry, maintains a healthy balance sheet and is positioned to take advantage of growing secular demand for self-storage.

Stock Symbol: PSA

Market Capitalization: \$37B

Divident Yield: 3.7%

Long Term Earnings: 5.5%

2017 P/E: 21.2x

Return on Equity: 15.6%



CENTRAL BANK ACTIVITY:

Global central bankers influence markets through policy initiatives. In addition to adjusting interest rates this past year, the Federal Reserve started to gradually reduce fixed income assets held on their balance sheet. Foreign central banks also began to ease stimulus measures as in the face of positive global economic growth. Barring an unexpected external shock, given the positive catalysts influencing the economic environment, **central bank decision-makers will remain focused on normalizing interest rates and removing the support structures put in place after the global financial crisis.**

RISK AND REBALANCING:

In an abnormally low interest rate environment the search for income led many investors along the risk curve. As the low yield environment persisted, to avoid sacrificing cash flows, many investors assumed greater risk to achieve specific levels of income. The normal ebb and flow of the markets inevitably results in a portfolio shifting out of balance with respect to the overall asset allocation guidelines. Multiple years of strong equity markets have accentuated this condition. **Re-balancing an investment portfolio is critical for long-term investment success and to effectively control and manage risk.**

ASSET ALLOCATION:

Diversification is a dynamic component of the portfolio management process. What does this mean to you? **A well-diversified portfolio serves as the platform from which to leverage future investment opportunities and to manage risk.** Integrating your goals and objectives with asset allocation decisions is designed to protect portfolio returns against the volatility of the stock market and to minimize investment risk. Diversification does not completely remove all investment risks, but it does prevent the disasters experienced with an undiversified portfolio.

OUR OUTLOOK:

While economic indicators continue to support global economic growth, remain vigilant of signs that indicate a gradually shifting landscape. Furthermore, intellectually embrace the reality of risks across the investment landscape. To position yourself for success, **remaining disciplined and focused on your personal goals and objectives is paramount during all parts of the market cycle and today is no different.**

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