



OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Second Quarter 2018

PATIENCE, PRUDENCE, PERSEVERANCE

OUR OUTLOOK:

Even in the face of market volatility, the global economic backdrop remains healthy and poised for continued growth. Asset price volatility creates opportunities, especially when purchasing high quality companies with solid fundamentals that display a commitment to a growing dividend stream. ***The duration and severity of volatile periods are always unknown and navigating through opaque, choppy market environments requires discipline and focus to protect your family legacy.***

VOLATILITY:

Market turbulence, especially after extended periods of calm can be extremely unsettling. ***Market pull-backs are healthy and normal.*** Specifically, over the last three decades, markets decline, on average, 5% or more at least three times during a calendar year. This historical pattern has been dormant, but appears to be stirring due to the prospects of inflation and a Federal Reserve committed to increasing interest rates.

JOBS, WAGES & INFLATION:

Wages represent the greatest contributor to inflationary pressures, which is why the Federal Reserve monitors labor costs with great scrutiny. Recent labor market tightness has not translated into higher wage growth; yet, that dynamic now appears to be shifting. Historically low unemployment rates and a stabilized labor force participation rate could be precursors to further upward wage pressure. ***Any wage acceleration will shape investor expectations of Federal Reserve policy and continued increases in interest rates.***

MONETARY POLICY:

Against a positive economic backdrop and rising headline inflation data, the Federal Reserve is deliberately moving forward with interest rate increases. In addition to upward rate adjustments, policy makers are reducing fixed income assets on the Fed's balance sheet. Foreign central banks are also committed to removing the dramatic stimulus measures put into place after the financial crisis. ***These tighter monetary policy measures are indicative of a healthy global economy.***

IMPACT OF RISING INTEREST RATES:

While the path toward policy tightening is a positive indicator that current economic strength is sustainable, rising interest rates can influence borrowing costs and potentially dampen credit demand. Investors are concerned bonds are becoming a more attractive investment relative to stocks on a risk adjusted basis, partially explaining the recent market volatility. ***It is important that investors monitor the pace and magnitude of future interest rate hikes.***

Stock Focus: BB&T CORP.

BB&T Corp. is a diversified regional bank that generates more than half of its revenue from fees and maintains a solid dividend policy. BB&T has grown its dividend consistently by +10% annually over the last 5 years. Combined with conservative underwriting, BB&T Corp. is uniquely positioned to safely take advantage of an accommodative banking environment which includes higher rates, decreased regulation, and a strong economy.

Stock Symbol: BBT

Market Capitalization: \$42B

Dividend Yield: 2.4%

Long Term Earnings: 16.4%

2018 P/E: 13.8x

Return on Equity: 10.9%



FISCAL POLICY STIMULUS:

Stimulus measures, including a dramatic rewriting of the U.S. tax code and additional infrastructure spending, are expected to further boost corporate revenues and profits. This development could be a catalyst for strategic investments and support future economic growth. ***The ultimate economic impact will be determined by the willingness of corporations to increase capital expenditures, investments, and hiring activities.***

TAXES AND TIMING:

Public policy shapes economic decision-making and behavior. Individuals will clearly benefit from the new tax legislation. However, corporations will be the greatest benefactors of the Tax Cuts and Jobs Act of 2017. Historically, policy measures have been enacted in a counter cyclical manner: taxes are usually cut during periods of economic struggle or decline, not prosperity. ***Fiscal stimulus measures applied to a healthy environment could overstimulate the economy leading to inflation and higher interest rates.***

IMPACT OF PROTECTIONISM:

"America First" was one of the Administration's campaign themes and at its very core embraced a more domestic focus, which was warmly embraced by a portion of the voting populace. However, a desire to be inwardly focus carries with it protectionist overtones. Now the winds of change are blowing regarding global trade as talk of economic nationalism and protectionism could threaten the sustainability of global economic growth. Counter parties responding to trade barriers and tariffs might retaliate with punitive measures of their own. Ultimately increased tariff and trade costs would dampen trade activity and slow economic momentum. ***The economic impact to trade tariffs and other measures depend on how policy makers respond.***

DEFINING SUCCESS:

The definition of investment success varies greatly among market participants. Common traits for all investors to embrace during periods of greater volatility and uncertainty are patience and discipline. ***Patience involves recognizing the longer-term cyclical nature of the markets, while discipline incorporates a steadfast focus on long-term investment outcomes.***

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