

2nd
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2021

INFLATION *and* IMMUNITY

Our View

A QUARTERLY NEWSLETTER

from SABAL TRUST

One year has now passed since COVID-19 began to exert its influence on the global economy, creating deep scars across the landscape. An economic recovery is underway because of extensive support measures implemented by the Federal Reserve and Congress. Despite the COVID-19-generated challenges, stocks touched all-time highs at the end of last year. As stocks continued their push higher into 2021, they ran into the specter of inflation and rising bond yields.

Purchasing Power

Purchasing power is the ability of a dollar to buy specific amounts of a product or service. Inflation occurs when the goods we purchase increase in price. As prices move higher, the same dollar purchases less of the goods we desire, resulting in a loss of purchasing power. Today, data indicates that input costs are rising, which could place upward pressure on the prices we pay for goods and services.

Investor concern is elevated because one potential response by the Federal Reserve to combat inflation is to increase interest rates.

Inflation Mandate

Last August, the Federal Reserve adjusted the strategy to execute on their core mandate. They adopted a new inflation framework by focusing on a 2% average target over time and not an absolute level. This departure from previous inflation targeting regimes signaled that interest rates would remain lower for longer. With recent bond market volatility, policy makers reconfirmed their willingness to keep interest rates low for the foreseeable future.

The push/pull relationship between investors and the Federal Reserve will continue to play out and influence market sentiment and pricing.

Impact on You

Higher interest rates boost earnings on savings accounts and positively impact income earned on newly purchased fixed-income investments. Conversely, rising interest rates increase borrowing costs and can reduce consumer and business loan activity. Future policy decisions will be critical.

Interest rate changes permeate throughout the entire financial system and can have unintended financial and economic consequences.

Each quarter, we'll highlight one of the many ways we help enrich your life and legacy.

Above & Beyond PERSONAL REPRESENTATIVE SERVICES

Personal Representative Services include the tasks involved in settling your estate. The role of the Personal Representative (PR) is complex and often time-consuming. The PR makes crucial decisions during such an emotional time, and for this reason, many families turn with confidence to Sabal Trust. Sabal Trust is also one of the few corporate trustees having experience settling estates with closely held businesses, commercial real estate, and other unique assets. Turn to us to handle the affairs of your estate and protect and support your loved ones during such an emotional and difficult time. As your estate's Personal Representative, Sabal Trust is responsible for handling the administration of your estate including:

- Paying bills and claims against the estate
- Marshalling and safeguarding assets
- Selling real estate and other assets as necessary
- Transitioning closely held businesses
- Working with your existing advisors
- Distributing estate assets
- Reviewing the investment portfolio
- Settling tax matters

Competition for Dollars

Stocks and bonds compete for investment dollars. Historically, low interest rates diminish the attractiveness of bonds. This forced many investors along the risk curve to purchase stocks to boost income. Treasury yields are considered the risk-free rate. Against the backdrop of rising inflation expectations, during the 1st quarter, the 10-year Treasury yield touched 1.6% — its highest level since February 2020. In comparison, during the depth of the COVID-19 crisis, the 10-year Treasury yield fell to 0.5%, while the S&P yield touched 2.5%.

As interest rates rise, investors reach a tipping point and must decide where to place the next dollar of investment as bonds become more attractive investments relative to stocks.

Dividends: An Inflation Hedge

Dividends supply investors with important information about the future health of a company. Financial discipline, accountability, and transparency are all required for companies to maintain a comprehensive dividend policy designed to attract investors. A healthy dividend stream allows investors to “wait out” volatile market periods.

Dividends also act as an inflation hedge by providing a steady and ever-increasing cash flow for investors.

Stock Valuations

Valuation is the price investors are willing to pay per dollar of earnings. The price of a stock is shaped by expectations of a company's future earnings growth rate. Inflation can also impact stock valuations. Rising inflation can result in higher interest rates, which in turn can cause stock prices to decline. Since the 1950s, when inflation is less than 1.7%, the average P/E of the S&P 500 is 19.5x. When inflation falls between 2.9% and 4.4%, the average S&P 500 P/E is lower at 16.2x.

With the prospects of growing inflation, investors should exercise caution as they navigate the parts of the market with elevated valuations.



Outlook

What will sustainable economic growth look like after we have reached herd immunity and greater mobility? What will the inflationary impact be of policy makers' efforts to pour fuel into the economic engine through low interest rates and elevated fiscal spending? Investors will climb a wall of worry as they attempt to answer these questions.

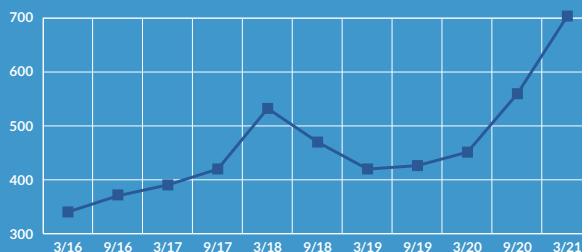
As we embrace the prospects of inflation and herd immunity, position your portfolio by controlling asset allocation, focusing on risk management, and purchasing the stocks and bonds of high-quality companies.

STOCK FOCUS:

Blackrock

Stock Symbol: **BLK** Market Capitalization: **\$109B** Dividend Yield: **2.3%** Long Term Earnings: **12.0%** 2021 P/E: **19.6x** Return on Equity: **15.3%**

Blackrock provides investment management and advisory services with \$8.7T Assets Under Management. BLK offers a diverse product and service lineup resulting in solid annual asset inflows. The company has operational scale, excellent cost management, and solid earnings growth that should lead to future dividend growth. The compounded annual growth rate of their dividend over the last 10 years is 13.8%.



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