OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Second Quarter 2015

THE JOURNEY TOWARD NORMAL

We continue to expect an improving trend in economic growth in the U.S. and abroad. While this trend should lead to higher interest rates in the U.S. this year, the pace of policy tightening will likely be gradual. Lower energy prices will further support global GDP growth. Amidst this backdrop we believe the outlook for stocks remains positive and that high-quality, short-term and intermediate-term bonds offer the best combination of current income and principal protection.

MONETARY POLICY

While broader measures of unemployment continue to be elevated, and the plight of the long-term unemployed remains a concern for policymakers, ***the jobs picture no longer serves as a deterrent to tighter monetary policy in the U.S.*** With headline unemployment and initial jobless claims back in normal territory, and wage pressure starting to increase (albeit from low levels), expectations remain in place for an increase in the Fed Funds rate target sometime in 2015.

INFLATION OUTLOOK

Benign inflation readings give the Fed time to gradually normalize monetary policy. January's Consumer Price Index (CPI)—distorted by the sharp downturn in energy costs—showed a year-over-year decline in prices. However, Core CPI, stripped of volatile food and energy components, increased by 1.64%—in line with previous monthly readings. Inflation appears to be following the same trend it has for much of the recovery: positive, but below the Fed's 2% target. Taken together, unemployment and inflation suggest interest rates are likely to increase, but not quickly. ***Sometime in the third quarter of 2015 seems most likely for the Fed's first attempt at normalizing monetary policy in six years.***

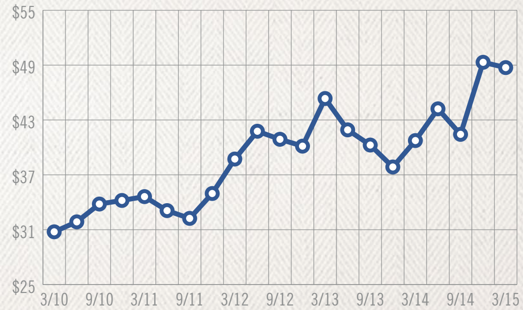
INTERNATIONAL GROWTH

Lower energy prices, weaker currencies and accommodative central bank policies should support improving economic growth outside of the U.S. as well. While significant structural challenges remain in the Euro area, improvements in employment, manufacturing, retail sales and consumer confidence have appeared. In Japan, quantitative easing and the positive impact of a weak currency on the country's exporters should help sustain growth while the government works through necessary labor market reforms.

Sabal Trust Company
YOUR LIFE. YOUR LEGACY.

Stock Focus REALTY INCOME

Escondido, California-based Realty Income is a real estate investment trust (REIT) focused on generating dependable monthly cash dividends. Realty Income owns 4,200 mostly free-standing, single-tenant, triple-net-leased retail properties. The company's real estate portfolio is well diversified with properties in 49 states and Puerto Rico. More than 200 tenants from 47 different industries lease property from Realty Income. Since its initial public offering in 1994, Realty Income has increased its dividend at an average annual rate of growth of 5%.



Stock Symbol: **O**

Market Capitalization: **$11.2B**

Dividend Yield: **4.6%**

Long Term Growth: **3.4%**

P/FFO (FY 2015):* **18.2x**

Return on Equity: **6%**

**Funds from operations*

ENERGY

Lower fuel costs are already having a positive impact on consumer net worth, as motorists are left with more cash in their pockets after each trip to the pump. But will lower energy prices translate to stronger GDP growth? Data suggest consumers are saving, rather than spending, the recent windfall. However, ***as lower fuel prices last longer, consumers will increasingly open their pocketbooks, contributing positively to GDP.***

While a return to $100 per barrel oil is not likely in the near term, consumers should enjoy deeply discounted prices while they last. Commodity prices at recent low levels are unsustainable. Energy firms have already sharply curtailed planned expenditures on new production. And, with global oil demand growing by a million barrels per day annually, prices will inevitably rise.

INVESTOR SENTIMENT

Investors who participated in the stock market's advance since it touched bottom in the first quarter of 2009 may be concerned about how much higher equity markets can go without a significant pullback. Eventually, markets will disappoint. However, there is much to support continued stock ownership in the current environment. Gains experienced over the past six years have largely been driven by improved earnings. And with earnings growth likely to continue as the economy improves, ***stock valuations aren't unreasonable—especially amidst such low inflation and, interest rates.*** Furthermore, individual investors, likely scarred by the financial crisis, have tended to prefer other investments over U.S. equities. This hesitancy to own stocks suggests that the U.S. equity market hasn't yet run out of steam, as a lack of enthusiasm is not typical of a stock market peak.

OUTLOOK

While stocks seem poised to move higher, market uncertainty surrounding monetary policy and the sustainability of revenue and earnings growth, along with heightened geopolitical tensions, has increased volatility. ***Dividend-paying stocks offer more stability than the market overall. And, growing dividends cushion the impact of rising interest rates and increased volatility.*** Owning companies that have developed sustainable competitive advantages through scale, intellectual property, brand identity, a positive regulatory environment or other factors not easily competed away, should also offer protection on the downside.