

# OUR VIEW

A QUARTERLY NEWSLETTER FROM SABAL TRUST COMPANY

## A RETURN TO FULL POTENTIAL?

### ECONOMIC GROWTH

While the US economy has displayed positive albeit tepid growth since the recession officially ended in early 2009, it lost ground in the first quarter of this year. Much of the decline has been attributed to weather. Undoubtedly the pace improved in the second quarter. Nonetheless, GDP growth during this recovery has been weaker than in past recoveries. While economies generally take longer to recover following financial shocks, other factors are at play. ***The uncertainties created by various interventions at the Federal level and Congress' inability to accomplish other more beneficial legislation have restrained the economy's return to full potential.***

### INTEREST RATES

Greater clarity has been established with respect to monetary policy. The Federal Reserve is on a path to end its latest round of bond buying (QE3) by fall. ***Monetary policy will remain supportive of growth, however, as short-term rates are likely to stay near zero into 2015.*** The low level of inflation gives the Fed cover to remain accommodative. Too much slack exists in the labor market for higher wages and, therefore, higher prices to take hold. And, while various Fed programs have substantially increased the money supply (the fuel for future inflation), plenty of cash continues to sit idle. Higher inflation and interest rates will eventually be a concern as the economy gains traction, and a negative surprise—even in the near term—amidst such low expectations remains a possibility. But, for now, current data suggest the inflation and interest rate environments will remain low in support of continued economic expansion.

### EQUITY MARKETS

With equity market indexes near all-time highs, investors are right to ask where we go from here. Stocks aren't as cheap as they once were, and some areas appear overvalued. As an asset class, equities continue to be attractive relative to alternatives. ***Price-to-earnings ratios are reasonable and nowhere near levels seen in previous bubble environments. With that said, some complacency among investors is evident.*** Volatility is too low given the uncertainties that exist. Being selective will likely be rewarded. We continue to favor companies with a clear path to earnings growth and an expressed commitment to shareholders through meaningful dividend distributions.

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# STOCK FOCUS: ENBRIDGE

Stock Symbol: ENB

Long Term Growth: 12%

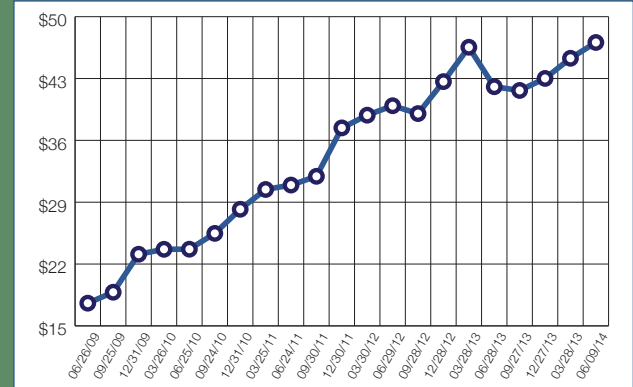
Market Capitalization: \$40B

P/E (2015 Est.): 22.5x

Dividend Yield: 2.7%

Return on Equity: 13%

Enbridge transports, generates and distributes energy in Canada and the US. The company's pipeline system is favorably positioned to transport crude from rapidly developing resource areas of Western Canada and the US to refineries in the Gulf Coast and Midwest. ENB benefits from favorable regulation, long-term contracts and limited commodity price exposure. Expanding its existing pipeline network is part of its growth strategy. Dividends are expected to grow significantly over the next several years.



## ELECTION OUTLOOK

Since it is an even-numbered year, our thoughts turn to politics and the realization that over the next several months we will be bombarded with candidate commercials and other solicitations. What impact will this year's election have on future government policy? Typically, during mid-term elections, the opposition party to the administration gains seats in Congress. This is particularly true when it happens to be the sixth year of a Presidency. This election cycle should follow a similar path, with demographics playing a key role. As several Democrat Senators retire in traditionally Republican states, the GOP is likely to score several Senate wins. **With a more balanced upper chamber, there will be greater incentive to reach compromise on legislative initiatives.** Whether the Oval Office will be supportive of this more functional spirit in Congress is unknown at this point. In the meantime, investors can take comfort in knowing that stocks have historically outperformed during mid-term election years, when members of Congress are away from Washington focusing on their campaigns.

## SABAL'S DEFENSIVE STRATEGY

In an environment of tepid economic growth, shifting monetary policy, and increased tension around the world, **we continue to believe investing with an eye toward downside protection is in the best interest of our clients.** As we head toward a more normal rate environment, allocating bond portfolios to the short and intermediate portions of the yield curve provides a balance between current income needs and principal protection. For equity investors, dividend-paying companies—particularly those with the earnings sufficient to support a growing dividend—offer the best opportunity to participate in the higher long-term returns associated with stocks, with greater downside protection and a hedge against future inflation.

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