SECOND QUARTER 2013

OUR VIEW

A QUARTERLY NEWSLETTER FROM SABAL TRUST COMPANY

"POSITIONED FOR CHANGE"

Encouraged by recent stock market gains and pressured by low bond yields, investors in need of higher returns are increasingly acquiescing to the inherent risks of owning stocks. As markets reach new highs, enthusiastic investors appear to be discounting some of the uncertainties associated with modest economic growth, ever-present geopolitical risks, the lingering Eurozone crisis, and domestic political dysfunction. While the demand for stocks escalates, these and other challenges are unlikely to disappear any time soon.

ECONOMIC CYCLICALITY:

Economic cyclicality remains firmly entrenched, and the economy, healthier today than a year ago, has now achieved 13 quarters of positive growth. Every business cycle is unique and growth in the current recovery, uneven and characterized by stops and starts, is only half that of the average recovery since the 1940's. The severe financial crisis, debt overhang, and extreme market dislocations contributed to the recessionary declines and subsequently to the slow pace of recovery. Anemic corporate and consumer demand, as well as lack of support from traditional sources such as state and local governments and the depressed condition of the housing market during the previous four years, have exacerbated the subdued recovery cycle.

ECONOMIC ENVIRONMENT:

Recent economic data reveals a surprising deceleration of topline revenue growth and a continued slow recovery. Contributing factors include delayed spending because of uncertainty over the Fiscal Cliff, sequestration, and the threat of a government shutdown. Lower government spending and a reduction of business inventories were also contributors. However, a closer look reveals positive takeaways. ***Increased spending on business equipment and consumer durable goods suggests that pent up demand could be slowly filtering its way back into the economy.***

MONETARY POLICY:

Federal Reserve policy makers remain committed to further accommodation in an attempt to reduce high unemployment rates and ignite an economy growing below-trend while keeping inflation contained. Labor costs are a key consideration. Increased labor costs pressure corporate profit margins and in response, businesses pass on these costs to the consumer through higher prices. Productivity gains over the last decade, combined with high unemployment in the aftermath of the financial crisis and recession, continue to hold income and wages in check. ***Little evidence exists that labor costs in the near-term will alter the Federal Reserve's benign outlook on inflation.***

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STOCK FOCUS: TARGET

Stock Symbol: TGT

Market Capitalization: $43B

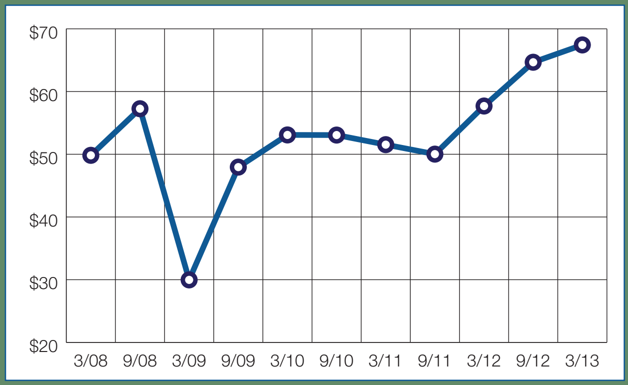
Dividend Yield: 2.2%

Long Term Earnings: 10.5%

2013 P/E: 13.3x

Return on Equity: 18.5%

Target, the third largest U.S. retailer, traditionally focused its operations on the United States, but the company recently made a major entry into Canada. As a discount retailer, Target navigated extremely well through the challenging economic times of the past half-decade. During this time, the company successfully entered the grocery business through its PFresh division, which also created synergies with its other store divisions. Target enjoys a strong balance sheet and is committed to returning capital to its shareholders with dividend growth, which has averaged 19% during the past 5 years.



UNINTENDED CONSEQUENCES:

The fact that interest rates can do little but rise in the future places pressure on investors to accept lower interest payments on their fixed income investment positions or seek higher risk assets. In part, this has exerted a real effect on investors who require current income. ***Unfortunately, we have reached a tipping point where the costs of abnormally low interest rates to savers outweigh the benefits to the economy, which clearly elevates the likelihood of negative unintended consequences.***

POLITICAL ENVIRONMENT:

Political brinksmanship continues to weigh on the financial markets. Uncertainty surrounding the November Presidential election gave way to the near fiasco associated with the Fiscal Cliff and tax code debate. ***Fortunately, the resulting tax environment for dividends is not overly discriminatory and has subsequently boosted demand for dividend-paying stocks relative to low-yielding fixed income and non-dividend paying equities.*** Investors must now digest the sequester's impact, while keeping a watchful eye on the looming debt ceiling debate. Thus far, markets have responded favorably to the prospect of reduced government spending and partisan divide.

OUTLOOK:

Investment decisions should not be based on short-term distractions associated with elevated market volatility and the potential psychological pitfalls created by events and fears over which investors have little or no control. Consequently, we continue to favor a diversified portfolio of industry leading companies that share a significant portion of their earnings with shareholders through dividends and have the ability to routinely increase those payouts over time. Despite low yields, fixed income should continue to play a role in most investors' portfolios. While higher interest rates appear inevitable, the timing is uncertain. Risks presented by a higher interest rate environment can be mitigated by controlling portfolio duration. ***An investor's time horizon for achieving investment goals, appetite for risk, and their income needs should drive decision making.***

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