THIRD QUARTER 2013

OUR VIEW

A QUARTERLY NEWSLETTER FROM SABAL TRUST COMPANY

"A WINDING ROAD TO NORMAL"

Reaching the midpoint of the year presents investors with the opportunity to examine their portfolios against the backdrop of the fluid market and economic environments. The first half of 2013, characterized by strong equity markets, an improving economy, lingering political uncertainty, and an intense focus on Federal Reserve policy makers, ended with increased bond market volatility.

ECONOMIC ENVIRONMENT:

Trends reflecting improved consumer and small business confidence, increased manufacturing activity, signs of a housing recovery, and continued policy accommodation are positive drivers of the economic environment. Yet, challenges and hurdles remain as seen by a lower velocity of money, continued domestic budget deficits, questionable demand traction, and global cyclical challenges. ***As the business cycle matures, the Federal Reserve is setting the stage for reducing monetary stimulus amidst mixed-message data points.***

CONSUMER:

Facing uncertainty, the consumer, a critical driver of economic growth, remains resilient as seen by strong spending data and declining savings rates. ***Consumer confidence recently reached a 6-year high, which further fueled consumption.*** However, consumer spending, historically a catalyst for economic recoveries, remains supportive of the current economic cycle but has not matched previous levels seen during recovery periods.

UNWINDING FED POLICY:

Unprecedented monetary policy accommodation injects risk into the markets and is likely to have consequences unrecognizable against the backdrop of today's policy making activity. Currently, the removal of injected liquidity from the financial system has market participants on edge. ***The inevitability of interest rate normalization and the subsequent market adjustments remain a reality for all fixed income investors.*** As interest rates rise, bond prices will come under pressure. Any removal of liquidity and monetary accommodation will take multiple quarters to implement and execute, which hopefully will give the markets adequate time to adjust their expectations.

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Sabal Trust Company

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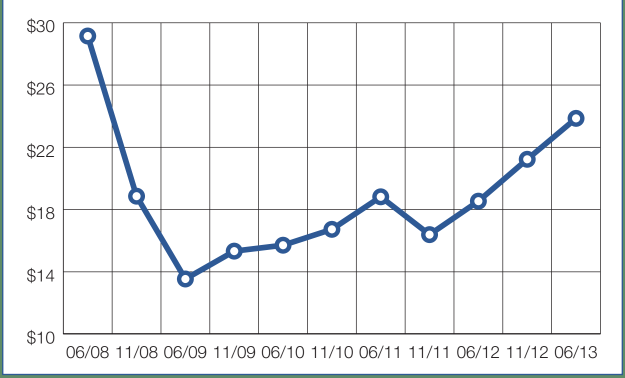
STOCK FOCUS: GENERAL ELECTRIC

Stock Symbol: GE
Market Capitalization: $242B
Dividend Yield: 3.3%
Long Term Earnings: 11%
2013 P/E: 15.2x
Return on Equity: 13.1%

GE, a global diversified manufacturer, offers goods and services to a wide range of industries, including aviation, health care, energy and power generation, transportation and capital services. The well-run company possesses a strong capital base, an excellent balance sheet, and produces substantial cash flows that support the firm's healthy dividend. Synergies created by GE's diverse business platform lower operating costs and boosts profitability. The company enjoys significant barriers to entry in the different markets in which it operates.



INFLATION:

As the Federal Reserve continues to take unprecedented steps to spur economic growth and reduce unemployment, a growing chorus warns inflation is inevitable and the direction of price change receives intense focus. The deployment of various policy tools remains under intense scrutiny as policy makers determine the course of interest rates and other open market operations designed to influence the economy. ***Despite elevated levels of monetary stimulus over the last several years, inflation has been contained.*** To date, labor market and demand slack across the economy have not led to these dynamics unfolding.

FIXED INCOME STRATEGY:

Following a multi-decade bull market in bonds, investors may be underappreciating the risks across the fixed income landscape. The potential for not just price volatility but real capital loss exists should interest rates begin to climb. Building laddered fixed income portfolios with shorter maturities and durations is an essential step in mitigating interest rate risk. Secondly, controlling credit risk by purchasing investment-grade quality bond instruments further injects volatility stabilizers into a given portfolio. ***Building prudent, conservative bond portfolios will add incremental value as interest rates begin to rise and bond prices come under pressure*** since shorter maturity bonds exhibit less price sensitivity to interest rate fluctuations.

STOCK MARKET VALUATIONS:

History is marked by periods of investor irrational exuberance resulting in asset classes reaching over-valued states with unsustainable valuations. Even in the face of modest economic growth, policy uncertainty, and a Eurozone that is seemingly in perpetual crisis, stock prices have reached all-time highs. As markets eye even loftier levels, investors are asking: "Have we reached an elevated state today?" ***Current fair valuations indicate that further multiple expansion could be constrained by modest revenue and earnings growth.*** This development does not signal that a major correction is imminent; however, it does mean that greater attention should be paid to valuation metrics.

OUTLOOK:

Risks permeate all asset classes and long-term investment success is predicated on minimizing those accepted risks within the portfolio construction process. Balanced portfolios consisting of high-quality stocks and bonds allow for the successful navigation through choppy, uncertain markets. ***When at a crossroads in the investment cycle, investors will be rewarded by exhibiting patience and maintaining a long-term perspective.***

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