FOURTH QUARTER 2013

OUR VIEW

A QUARTERLY NEWSLETTER FROM SABAL TRUST COMPANY

"ELEVATED INTEREST"

Swift and severe investor reaction to Federal Reserve language regarding "tapering" illuminated the realities of fixed income market risk and the uneven path to interest rate normalization. Subsequently, bond markets experienced their greatest volatility since the financial crisis and market dislocations of 2008 and 2009. ***In the face of this volatility and uncertainty, remaining focused on long-term goals and objectives is an extremely challenging proposition, yet essential for long-term investment success.***

ECONOMY:

Rising home prices, strong auto sales, resilient consumer spending, and a gradual thawing of business confidence bode well for underlying demand. However, 2nd quarter GDP growth of 2.5%, coupled with downward revisions of data from the last two quarters, confirm the uneven nature of the current economic environment. Prudent investors must cast a wary eye on the data due to elevated unemployment, large budget deficits, lower capacity utilization, lack of sustainable demand traction, and strained productivity measures that could compress future margins and profits. ***Yet, on balance, the economic cycle continues to evolve by displaying more positive attributes.***

GLOBAL MARKET INFLUENCES:

Elevated tensions in Egypt and Syria represent a stark reminder of the political, societal, and economic instabilities across the Middle East. The moderation of emerging market growth expectations, the eurozone region's lingering economic and political challenges, and the gradual transformation of China's economic engine from an investment-based infrastructure to a consumption-oriented model continue to have global economic ramifications. ***These and other global variables will likely damper the global economic recovery process and weigh on market expectations.***

LABOR MARKETS AND INFLATION:

Rising interest rates traditionally result from inflationary pressures or policy decisions related to accelerating economic growth. ***Until inflation materially picks up and the employment picture brightens, policy-makers will remain accommodative.*** Labor market slack, a key influencer of the employment picture, is evident as unemployment hovers around 7.4% and the labor force participation rate remains under pressure despite unprecedented policy stimulus. The subsequent lack of wage inflation is a primary contributor to the benign inflation environment characterized by headline CPI of 1.8%, which is well within policy makers' comfort zone.

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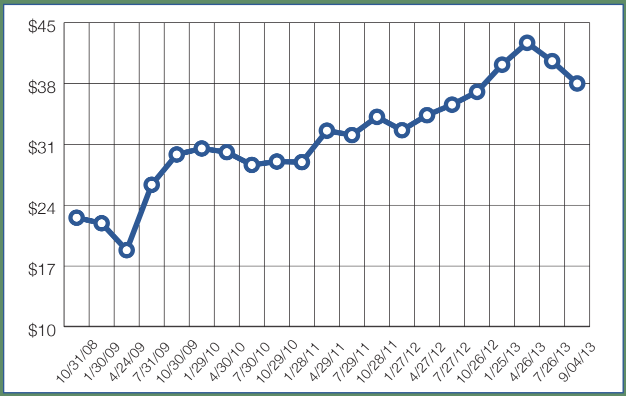
STOCK FOCUS: UNILEVER

Stock Symbol: UL
Market Capitalization: $50.6B
Dividend Yield: 3.6%
Long Term Earnings: 5%
2013 P/E: 19.9x
Return on Equity: 13.2%

Unilever, one of the larger global consumer products companies, owns an impressive portfolio of branded products in the food, personal care, and home care lines. Unilever generates annual sales in excess of $50 billion balanced well throughout the world with only about 25% from the United States. This British / Dutch company, known for its aggressive environmental impact initiatives, has generated consistently positive financial results over the past decade. Unilever's strong financial position supports the solid dividend, which has exceeded 7% growth over the past five years.



"POLICY TALK":

Recently, dramatic upward changes in bond yields roiled the financial markets and put investors on notice that price volatility truly exists across the fixed income spectrum. During the market's recent dissection of "Policy Talk," the fixed income markets under-appreciated the fact that Federal Reserve policy makers remain committed to accommodation. They do not plan to force short-term interest rates higher due to an external environment characterized by subdued inflation, modest economic growth, and elevated unemployment. ***The subsiding of heightened volatility reflects more rational thinking; however, it is a sign the lingering policy uncertainty will continue to influence the markets.***

PORTFOLIO STRATEGY:

Employing income-biased strategies provides financial flexibility allowing investors to better immunize their portfolios against excessive periods of volatility. High-quality, dividend-paying stocks offer greater stability and predictability. Furthermore, a growing dividend stream cushions a portfolio against the impact of rising interest rates. As we move along the path from historically low interest rates to a more normalized rate environment, extending bond maturities in search of higher yields is not viable strategy for defensive portfolios. Fixed income portfolios should carry a shorter maturity structure and duration measure. Entering a more volatile rate environment, the protection of principal garners a higher priority for fixed income investors.

OUTLOOK:

The perpetual reliance on monetary stimulus creates an unhealthy dynamic within the financial system and establishes the potential for future dislocations fueled by speculative activity. Against this backdrop of policy change, financial market expectations will adjust causing different opportunity sets to emerge, potentially producing more attractive entry points into high-quality investments. Volatility will likely remain a fixture across the investment landscape, especially within the bond markets. ***While it is impossible to completely eliminate monthly fluctuations associated with the markets, the continued focus on managing conservative portfolios that hold high-quality equity and fixed-income instruments to weather this uncertain investment environment is the most prudent course of action.***

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