

OUR VIEW

A QUARTERLY NEWSLETTER FROM SABAL TRUST COMPANY

“SUSTAINABLE ADVANCE”

The U.S. economy continues to grow and is healthier today than six months ago, which is reflected in steadily higher stock indexes. Several factors exist to help sustain growth, including a better capitalized banking system and an accommodative Federal Reserve, which has signaled low interest rates for at least two more years. Furthermore, pending domestic and global elections create additional incentives to maintain economic momentum. **Investors should be mindful of ever-present market risk; however those who have remained on the sidelines may want to review cash positions by focusing on tactical adjustments in-order to meet longer-term objectives.**

EMPLOYMENT

The employment picture, influenced by both cyclical and structural issues, remains mixed. From a cyclical standpoint, the current recovery is characterized as “jobless” due to elevated unemployment rates. Labor market slack resulted in corporations delaying hiring as they attempt to frame a vision of the future shaped by political, regulatory and economic uncertainty. Structurally, an immobile labor force, due to the lingering housing crisis, and technical skills deficiencies could keep upward pressure on unemployment rates. Recently, job growth has accelerated. However, the underlying data reveal that this growth primarily occurred in the entry-level service sector. **While the unemployment rate has moderated slightly over the last few months, labor force participation rates remain depressed as people have dropped out of the labor pool.** Only the variable of time allows the system to clear and the employment picture to normalize.

INFLATION

Inflation, with the exception of energy prices, remains muted specifically as it relates to labor costs and capacity utilization. However, it should be noted that the Consumer Price Index by its nature understates the level of inflation experienced by the typical consumer. Yet, even with higher energy prices, the Federal Reserve, attempting to navigate monetary policy against the backdrop of a choppy economic recovery, will maintain their hold on lower interest rates. **By extending their accommodative policy language through 2014, Federal Reserve officials believe that promoting sustainable economic growth and improving the employment picture are their highest priorities.**

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STOCK FOCUS: SPECTRA ENERGY

Stock Symbol: SE

Long Term Earnings: 8%

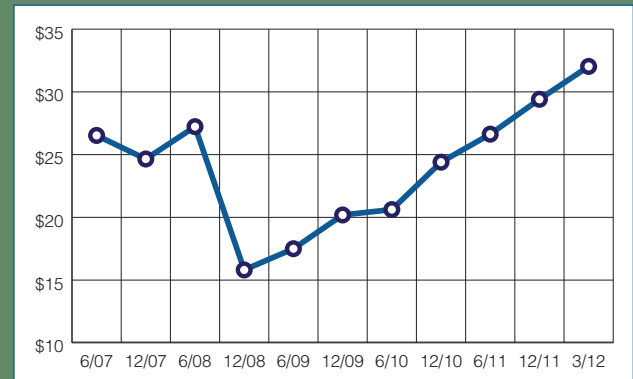
Market Capitalization: \$20.6B

2012 P/E: 17.8x

Dividend Yield: 3.5%

Return on Equity: 13.9%

Spectra Energy (SE) owns and operates a diversified portfolio of natural gas assets including processing, transmission, distribution and storage businesses. Geographically diversified across the United States and Canada, SE maintains steady, predictable cash flows from its regulated energy businesses. Spectra boasts solid financials, high returns on invested capital, a healthy dividend yield and attempts to maintain a 65% dividend payout ratio. Furthermore, high barriers to entry within the industry provide SE with a strategic competitive advantage.



GEOPOLITICAL ENVIRONMENT

Geopolitical shocks are unpredictable, but global markets adjust to the unexpected. Over the years, factoring on-going threats of geopolitical disruptions into overall market expectations and long-term investment decision-making processes has become commonplace for investors. **Global political, economic, and social events will always influence the investment environment.** Consequently, current events in the Middle East and Iran, as well as the Korean peninsula will continue to capture the market's attention and impact investors' decision making.

ENERGY MARKETS

Rising energy costs, in the face of Iranian discord, are a direct result of concerns over a potential global oil supply shock. The resulting premium pricing for oil could pressure domestic and international consumers since high-energy prices dampen consumer demand and alter consumption behaviors. During an election year, it is unlikely that a long-term, comprehensive energy policy that reduces our dependence on foreign oil will be crafted by lawmakers. **Given the backdrop of the tension in the Middle East, it is likely that energy prices will remain high as we move through the summer months.**

EUROZONE CRISIS

The saga across the Eurozone continues to unfold as European leaders attempt to contain the fallout from the Greek debt crisis. While recent events at the ECB and Germany with respect to the largest sovereign debt restructuring has calmed the markets, it should be noted that Europe's debt levels require fundamental repair which will take several years to return to a fiscally sound position. **A combination of austerity measures and fiscal prudence is required across the region to pave the road to recovery.**

OUR OUTLOOK

Investors constantly encounter circumstances that are believed to impact and shape the economic, financial and global geopolitical landscapes. While the current environment has its share of challenges, catalysts are forming which are generating greater optimism and potentially higher returns. **The passage of time will continue to increase the confidence of market participants, especially those who adopt a longer-term focus.**

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