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Qtr.  
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DEFENSE IS THE  
BEST OFFENSE

# Our View

A QUARTERLY NEWSLETTER  
from SABAL TRUST

A human tragedy is unfolding at the hands of armed Russian invaders inflicting an unconscionable toll on the Ukrainian people. Global inflationary implications of punitive economic sanctions make solving the complicated inflation puzzle challenging. However, the U.S. consumer strength remains a beacon of light. Central Banks, poised to increase interest rates, face a delicate balancing act. They must factor in economic disruptions from the conflict as they address an already challenging inflationary environment.

*Each quarter, we'll highlight one of the many ways we help enrich your life and legacy.*

## Above & Beyond

ESTATE ADMINISTRATION  
AND SETTLEMENT

The estate settlement process can be overwhelming, and the multifaceted and often time-consuming tasks involved in settling an estate require experienced counsel. Detailed work occurs between the gathering of estate assets, filing tax returns and making final distributions to beneficiaries, and personal representatives are faced daily with legal and tax decisions. It is important to select a fiduciary who fully understands the complexity of state law and the tax issues surrounding estate administration. Equally important is selecting someone who has the compassion to work closely with surviving family members during a difficult time. Sabal Trust has the depth of resources and professional experience needed to handle the complex and detailed responsibilities associated with your unique estate, including the expertise to settle estates with closely held businesses, commercial real estate and other unique assets.

## What is Inflation?

Prices naturally fluctuate. When demand exceeds supply, companies raise prices knowing consumers will pay more because of product scarcity. Increased input costs also influence prices. To preserve margins, companies will attempt to pass on higher costs (energy, commodities, labor, transportation, etc.) to consumers. Also, the mere expectation of higher input costs could result in companies pre-emptively increasing prices.

*Many of the stocks we own, including P&G and Pepsi, implemented price increases to offset higher input costs.*

## How Did We Get Here?

COVID-19 inflicted immense societal, economic and financial costs. Coordinated global shutdowns, near-zero interest rates, historic government support programs and vaccine development by brilliant scientists pulled us through the last two years. As global economies re-opened, pent-up consumer demand surged, while disruptions plagued global supply chains. It will take time for manufacturing to return to pre-pandemic operational performance. Sabal stocks have robust cash flows allowing them to make the investments in technology and achieve operational flexibility.

*From this position of strength, companies we own, such as Texas Instruments, can adapt and limit the effects of supply chain bottlenecks.*

## Russia - Ukraine

Geopolitical risks can lay dormant for long periods and resurface unpredictably. Russia's invasion of Ukraine and its horrible human tragedy will permanently alter history's trajectory. The swift, unified response from the global community condemning the Russian atrocities includes punitive economic sanctions, military aid and weapons.

*The innocent citizens of Ukraine and the interconnectivity of the global economic system are highly dependent on a timely diplomatic de-escalation of fighting.*

## Commodity Complex

Commodity costs influence the prices we pay for goods and services. Russia's armed incursion into Ukraine is shaping the global commodity complex by limiting the supply of a substantial commodity exporter, pushing prices dramatically higher. Russia directly influences the global production of oil, gas, aluminum, titanium, potash, zinc, wheat, nickel, palladium, and uranium to name a few.

*Disruptions to the global commodity markets pose risks to inflation and economic growth directly impacting our wallets.*

## An Inflation Hedge

In an inflationary environment, we all pay more for the same goods and services. How do investors protect themselves against the impact of higher inflation? Companies with pricing power generate consistent, durable earnings growth that supports dividend growth and combats the effects of inflation. Our clients enjoy growing cash flows from companies such as Home Depot, Prologis and UPS that mitigate the effects of higher prices.

*We actively seek high-quality companies that pay growing dividends, so our clients enjoy a stable, ever-increasing stream of income.*

## Policy Response

The Federal Reserve is responsible for economic price stability. It adjusts interest rates as a primary tool to accomplish this mandate. Given the armed conflict in Ukraine, could the Federal Reserve pivot and adjust its planned policy-tightening cycle? Delaying or slowing future rate moves could dampen the impact of a global growth shock.

*Today, the markets do not expect any meaningful shift in the current policy path, which involves multiple rate hikes by December 2022.*

## Defense is the Best Offense

Uncertainty creeps up when least expected, spurring protection from stable, predictable companies. We believe that defense is the best long-term offense. We continually review our clients' asset allocations to ensure that the mix of stocks, bonds and cash is appropriate. Our equity strategy tilts towards revenues generated domestically, including companies such as Waste Management, Duke Energy and NextEra.

*Our dividend-growth companies have strong brands and significant financial flexibility.*



## Our Outlook

Historically, markets look past geopolitical shocks, but thinking about the human, economic and financial implications of a prolonged or expanded military conflict changes that calculus. Time is required for supply chains to unclog, policy initiatives to take hold and for the natural economic influences to bring supply and demand into balance. Our clients are well positioned to deal with this type of volatility given the fiduciary lens through which we view the world.

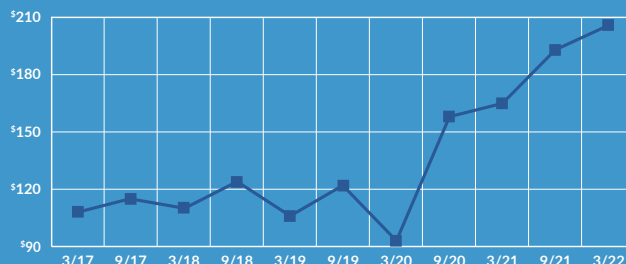
*It is in times like this that we will remain patient and focus on what we can control.*

### STOCK FOCUS:

## UPS

Stock Symbol: **UPS** Market Capitalization: **\$182B** Dividend Yield: **2.9%** Long Term Earnings: **12.5%** 2022 P/E: **16.4x** 10 Yr Dividend Growth: **7%**

UPS generates earnings from global ground and air freight delivery, supply chain management and logistics services. In recent years, strategic investments boosted productivity and earnings. When coupled with strong consumer and business shipping demand, UPS generates robust cash flows that are supportive of their attractive, growing dividend. The compounded annual dividend growth rate over the last 10 years is 7%.



# Sabal Trust

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