

3rd
Qtr.
2022

RESPECTING RISK

Our View

A QUARTERLY NEWSLETTER
from SABAL TRUST

Transition and volatility shaped the first half of 2022. Slowing economic growth, higher interest rates, reduced fiscal support measures, and compressing profit margins continue to fuel volatility. The uncertainty is elevated due to central bank policy makers who remain committed to increase interest rates as they fight inflation while attempting to navigate a “soft landing” for the global economy.

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

History of Volatility

Volatility shapes market history. Crandall, Pierce & Company's research identified that the S&P 500 has experienced a correction or bear market on average every two years since the 1940s. However, they highlight an upward bias to the markets in which the S&P spends an average of 5.9 years in bull markets versus declining periods that average 7.4 months. Being aware of these statistics does not make experiencing volatility any easier.

Yet, embracing volatility allows our clients to remain disciplined and focused on their long-term investment plans.

Emotions

Stock prices fluctuate based on cyclical influences, company fundamentals, and exogenous shocks. Investor psychology also plays a role in shaping stock prices. Specifically, emotions sway back and forth like a pendulum whose movement can be lazy and gradual or quick and exaggerated in nature. Rarely do investor emotions remain in balance, which fuels the pendulum's motion.

Being aware of your emotions positions you to make sound decisions in the face of uncertainty.

Premium Pricing

For any asset, price discovery occurs when buyers and sellers agree to transact at a given price. There are times when a company's stock price trades at a premium to its peer group or the overall market. We believe certain circumstances justify paying a premium. Companies that maintain strategic advantages over their competitors, consistently execute, and exhibit greater operational stability than their peers are deserving of a premium valuation.

We own companies like Waste Management and Coke that possess these characteristics.

Above & Beyond

MULTI-GENERATION PLANNING

Sabal Trust's experts often work with generations of families, providing trusted advice on family wealth and proactively helping to meet families' current needs, as well as protecting wealth across generations.

From offering guidance on the most tax-advantaged ways to pass along wealth in line with your current goals, as well as educating the younger generations on the potential and preparation for sudden windfalls, we are there to help provide for a streamlined transition of wealth and goodwill from one generation to another.

Respect

Risk is complex and requires respect. *We help our clients focus on risk from a multi-dimensional perspective.* By identifying a willingness to take risk, we understand their feelings and emotions that might surface during periods of volatility. The second layer is that of their ability to take risk. Will their lifestyle change if markets experience a meaningful or prolonged downturn? Finally, do our clients need to take risk in the capital markets to accomplish their goals and objectives?

Inflation Hedging

To mitigate the impact of rising prices, we implemented inflation hedges in our clients' portfolios. Owning stocks that pay a growing stream of dividends from companies such as Home Depot and UPS are the most effective hedge. The second approach includes owning companies with valued brands such as Pepsi that have pricing power (the ability to pass price increases along to customers). Finally, an additional hedge includes our overweight in REITS, Energy and Industrials, which historically have outperformed during inflationary periods.

Portfolio Positioning

We manage our clients' assets through balanced, diversified portfolios, which offer protection during periods of volatility. Our portfolios maintain sector weightings that skew toward safety. Staples, Health Care, and Utilities — sectors of the economy traditionally most resilient in times of market and economic distress — represent 34% of our portfolio vs. 24% for the S&P. Also, our exposure to the Technology sector — traditionally the most volatile of market sectors — is about 15% below that of the S&P.

Bond Positioning

Rising interest rates continue to negatively impact bond performance. Bond prices are inversely related to interest rate changes, but downward pressure on bond prices is temporary if held to maturity. Additionally, in a rising-rate environment as bonds mature, we can reinvest for our clients at higher rates. At this point in the rate cycle, we continue to hold high quality, shorter duration, individual bonds.

This conservative strategy is adding value for client portfolios by minimizing the price impact of interest rate volatility.



Outlook

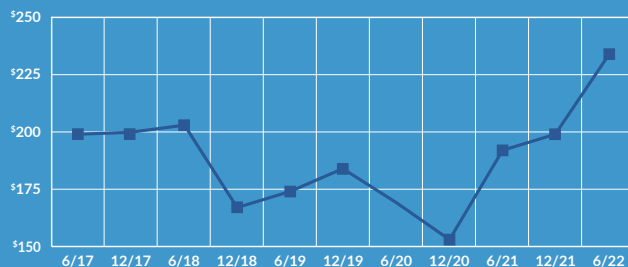
As a fiduciary, we have a profound respect for risk. Markets inevitably cycle, and during periods of instability, we collaborate with our clients to maintain a long-term focus to achieve their desired goals. While our client portfolios are not completely immune to price fluctuations, they have held up extremely well against broader market volatility. We control what we can by remaining diversified, using high quality dividend-paying companies and investment-grade bonds that build a robust stream of cash flows into portfolios.

STOCK FOCUS:

General Dynamics

Stock Symbol: **GD** Market Capitalization: **\$63.7B** Dividend Yield: **2.2%** Long Term Earnings: **11.8%** 2022 P/E: **18.9x** 10 Yr Dividend Growth: **9.7%**

GD is a global aerospace and defense company. They manage a diverse portfolio of products and services in business aviation, ships, submarines, land combat vehicles, weapons systems and munitions. GD is the market leader in business jets and has a robust backlog for their Gulfstream aircraft. They enjoy solid revenue and earnings visibility. The company has elevated global demand for their products and services which should be supportive of future earnings, cash flow and dividend growth.



Sabal Trust

Visit our website at SABALTRUST.COM

St. Petersburg
727.824.8700
101 Central Avenue
St. Petersburg, FL 33701

Sarasota
941.556.0760
1800 Second Street
Suite 103
Sarasota, FL 34236

Tampa
813.229.2180
4211 W. Boy Scout Blvd.
Suite 190
Tampa, FL 33607

The Villages
352.751.2199
1060 Lake Sumter Landing
The Villages, FL 32162