4th Qtr. 2022

NAVIGATING TURBULENT MARKETS

Our View

A QUARTERLY NEWSLETTER *from* SABAL TRUST

Centuries ago, sailors circumnavigating the world faced uncertainty during their journeys. They constantly dealt with the unknown, as changing conditions could quickly turn a calm body of water into a frothy, dangerous environment. Investors find themselves in a similar position when markets exhibit periods of elevated volatility. Fluid markets rise and fall like the tides, requiring investor vigilance and discipline.

Talk of Recession

Recessions are a natural part of any economic cycle. Every recession possesses distinct characteristics including causes, severity and length. Second quarter GDP, the broadest measurement of the economy, fell by -0.9%. This marks the second consecutive quarter of decline, indicating the economy is in a "technical recession." However, this does not necessarily foreshadow the kind of pain endured during past recessions.

We own companies like Aflac that generate robust cash flows and display less sensitivity to the economic cycle.

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

Above & Beyond

RETIREMENT PLANNING

Determining retirement goals — and the actions and decisions necessary to achieve those goals — is the first step in a successful retirement plan. However, it does not end there. A good plan needs to adjust along the way, adapting to changing circumstances. From managing assets and maximizing cash flows to dealing with deteriorating health and the expenses that go with it, Sabal Trust can provide expertise and guidance through it all.

Inflation

Elevated energy, transportation and labor costs continue to push the prices of goods and services higher. Future inflation readings over the coming months will be critical toward shaping future interest rate policy. Higher prices reduce consumer flexibility and impact discretionary spending decisions. The degree that consumers choose to pull back spending will impact the trajectory of economic growth.

Companies in our strategy, including United Health, continue to protect margins and grow their dividends to shareholders.

"Don't Fight the Fed"

The Federal Reserve influences the economy, markets and investor sentiment. "Don't fight the Fed" implies investors should not try to outguess policy directives by betting against policy makers. Investors failed to heed this mantra during the strong market rally this past summer. Chairman Powell's Jackson Hole speech served as a stark reminder that policy makers remain committed to raising interest rates.

Even as growth slows, Federal Reserve officials appear willing to risk tipping the economy into recession to reduce inflationary pressures.

Mid-Term Elections

Politics shape decision-making of individuals and impact how businesses allocate resources. Political initiatives influence capital markets by creating winners and losers in the marketplace. Battle lines will be drawn in advance of November's mid-term elections. Voters' choices will influence public policy and how political leaders handle a slowing economy marked by high inflationary pressures.

Regardless of the election's outcome, in the longer-term, the markets will remain resilient and continue to follow their cyclical patterns.

Dividends

Dividends remain a building block of our investment strategy. We believe companies growing a stream of cash flows for distribution to their shareholders instill a level of discipline that endures across all market cycles. Amidst a volatile market, the income in our clients' portfolios continues to grow. During 2022, even with a less-sanguine economic and market backdrop, owning dividend-paying companies like McDonald's has benefitted our clients.

Dividends will remain a buffer against volatility in the second half of 2022.

Fixed Income Opportunities

Rising interest rates place downward pressure on bond prices. These price declines recover if bonds are held to maturity. During the COVID crisis, slashing rates reduced the attractiveness of bonds from an income perspective. Investors moved into other asset classes to capture income and position for potential returns. Today, the pendulum is swinging in the other direction because of higher interest rates, which offer investors more attractive investment opportunities.

Our clients are in a better position to boost income as we selectively reinvest money by purchasing high-quality bonds at higher rates.

Inflation Reduction Act

During August, the Administration signed the Inflation Reduction Act (IRA). The legislation focuses on climate change versus true, short-term inflation reduction measures as highlighted by the analysis from the Congressional Budget Office. Provisions of the IRA include extending carbon capture tax credits, emission reduction incentives, energy efficiency rebates and EV purchase tax credits.

Companies including Duke Energy will benefit from the electric grid buildout as will Air Products, the largest blue and green hydrogen producer in the world.

Outlook

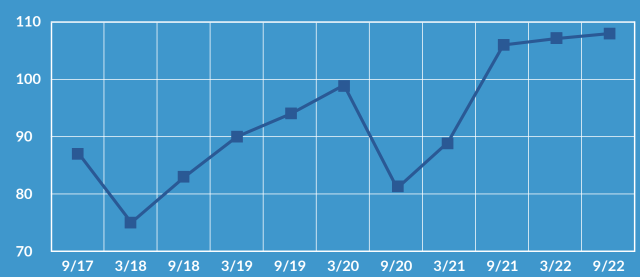
Current market pricing better reflects the risks surrounding a slowing economy and rising interest rates. During the recent earnings reporting season, management teams discussed a more challenged economic environment ahead. It is unknown how long this period will last. Just as the ancient mariners used sextants and quadrants to navigate the high seas, we use tools such as asset allocation, high-quality investments and growing dividends to help our clients navigate turbulent markets and successfully reach their ports of destination.

STOCK FOCUS:

Duke Energy

Stock Symbol: **DUK** Market Capitalization: **$83.7B** Dividend Yield: **3.7%** Long Term Earnings: **5.2%** 2023 P/E: **18.9x** 10yr Dividend Growth: **9.7%**

DUK is the largest electric power holding company in the U.S. It operates in geographies with growing populations and solid economies. The Clean Energy transition and electrification of the economy will boost demand and support the company's 5% to 7% long-term earnings growth. DUK's healthy and constructive regulatory relationships are important for future rate cases and should provide an earnings buffer. DUK anticipates the future growth of its well-covered dividend to be +4%.



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