

1st
Qtr.
2023



PIVOT, PROFITS
& PRICE

Our View

A QUARTERLY NEWSLETTER
from SABAL TRUST

Attempting to predict the future is an age-old practice. Analysts, economists and strategists try to play the role of Nostradamus as they prognosticate what is to come. Unfortunately, no crystal ball exists that offers clairvoyance. Investing involves making decisions with imperfect information. How do you improve your probability of success? Being aware of the factors influencing the markets is a good first step. Second, relying on portfolio diversification, the use of high-quality investments and a growing stream of income will better position you for investment success.

Patience

We take the long view when investing for our clients by using a methodical approach built on growing dividends from high-quality, stable businesses. For example, we own Proctor & Gamble stock which has increased its dividend for 66 consecutive years. Aesop's Fable: The Tortoise and the Hare is an important lesson of "Slow and steady wins the race".

Patient investors are better equipped to accomplish the goals that support their family legacies.

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

Above & Beyond TRUST ADMINISTRATION

The importance of choosing the right Trustee is often overlooked in the estate planning process. The benefits of an experienced corporate trustee to ensure your wishes are handled appropriately and timely can make all the difference. As an appointed corporate trustee, Sabal Trust's dedicated professionals recommend courses of action and make prompt decisions on behalf of clients and their beneficiaries. From impartial and confidential execution of document provisions to providing financial expertise customized for each client – Sabal Trust handles all responsibilities with sensitivity and care.

Politics

The anticipated "Red Wave" failed to materialize during the midterm elections. However, Republicans captured a narrow majority in the House of Representatives. The stage is set for a divided government, which historically markets have favored. Since the 1950's, the average annual return of the S&P 500 with a Democratic President and a split Congress is +16% versus the average of +12.5% for all other combinations of leadership.

As the process of governing commences, the markets will turn their attention to the fall of 2024 and the Presidential election.

Profits

Earnings drive stock prices. Companies continue to report lower profits due to higher input costs and a strong U.S. Dollar. Also, analysts and company management teams are lowering expectations of future earnings growth amidst a more challenged economic environment ahead. One of our stocks, McDonald's, recently reported solid earnings and revenues as well as a healthy dividend increase.

Our strategy involves owning high quality businesses with durable cash flows supporting their future dividends.

Pricing

Inflation and interest rates directly influence stock valuations, which is the price investors are willing to pay for earnings. Generationally high inflation caused the Federal Reserve to aggressively push interest rates higher. These policy moves resulted in a meaningful re-rating of stock prices. Today the S&P 500 P/E is 17.7x, down from 23.7x last year compared to an average P/E of 16.1x since 1950 and 15.2x since 1882.

The market's repricing is an opportunity to purchase high-quality companies trading at more reasonable valuations.

Pivot

Federal Reserve policy makers move global markets with their words and actions. Four sequential 75 basis points (0.75%) interest rate increases last year battered stock and bond markets. Investors cheered when Chairman Powell discussed slowing the pace and magnitude of future rate increases. The Fed remains committed to maintaining higher rates for as long as necessary to combat inflation, while investors continue to anticipate a policy pivot.

This difference of viewpoints and the actual path of policy will shape markets in 2023.

Bond Market Reality

For decades, bond investors enjoyed the benefits of declining interest rates. However, investors experienced price volatility this past year not seen in a generation due to higher rates.

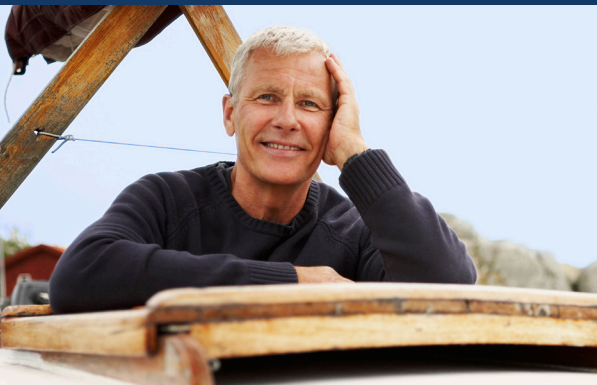
Our clients benefitted from high-quality, shorter-duration bonds that reduced volatility.

Today, higher interest rates allow investors to lock in higher income, and reduce credit risk, which we view as a positive and healthy development.

Portfolio Balance

Due to the extreme bouts of stock and bond market volatility over the last few years, asset allocations could be out of balance. Entering 2023 with elevated unknowns makes reviewing asset allocation critical.

We work with each client to ensure their asset allocations are at the optimal levels for their family's evolving needs.



Outlook

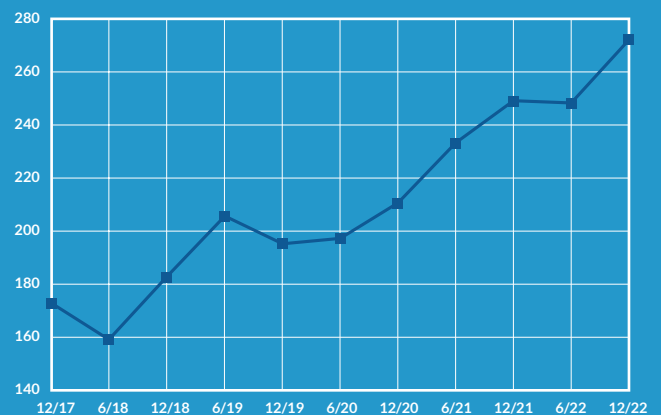
The New Year always brings a sense of optimism. While challenges will remain in place as investors wake up on January 1st, it is a chance to focus on your unique investment goals. Understanding your objectives is fundamentally important as it will help guide your decision making in an imperfect world. In 2023, pay attention to when the Federal Reserve signals a pivot or change in their interest rate strategy, the durability of corporate profits, and the pricing of assets.

STOCK FOCUS: McDonald's

Stock Symbol: **MCD**
Market Capitalization: **\$200B**
Dividend Yield: **2.2%**

10yr Dividend Growth: **+7.6%**
Long Term Earnings: **+7.2%**
2023 P/E: **26.1x**

McDonald's is a global operator of both franchised and company-owned stores within the quick serve restaurant space. MCD possesses both offensive and defensive characteristics due to an excellent management team, stellar brand recognition, and operational scale. Strategic investments into their Experience of the Future stores, digital, drive-through, and delivery alternatives are fueling robust earnings growth. Solid free cash flow each year continues to support 46 years of consecutive dividend growth enjoyed by their investor base.



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