Investment Environment & Outlook

March 2023

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Sabal Trust

Market & Economic Environment

Risk-off, defensive stocks and sectors continue to underperform. Beaten down growth names, started the year at their best valuations in the last decade. This led to a surge of buying and a rotation out of safety and value stocks with relatively high valuations. The markets quickly turned in February. Stubbornly high inflation data forced investors to reprice rates higher for longer. As markets continue to exhibit volatility, we remain patient and disciplined on behalf of our clients in the pursuit of their unique goals. Patience involves recognizing the longer-term cyclical nature of the markets, while discipline incorporates a focus on long-term investment outcomes.

4th QUARTER EARNINGS OUTLOOK

4th quarter earnings reports remain mediocre. Corporate profits continue to compress due to higher input costs and a strong U.S. Dollar. Analysts lowered expectations of future earnings growth. However, companies in our strategy are reporting solid dividend increases. This confirms our thesis of owning high quality companies with durable cash flows supporting growing dividends.

RETAIL SALES

All eyes remain on the consumer against a backdrop of high inflation and a slowing economy. January's retail sales grew +3% and surprised even the most ardent optimist. This was the largest monthly increase since the beginning of 2021. Year-over-year, retail sales grew +6.5%. Consumers continue to exhibit financial flexibility, which could support 1Q23 economic growth.

RUSSIA - UKRAINE

The anniversary of Russia's invasion of Ukraine was a grim reminder of the human tragedy that continues to unfold. Historically, markets look past geopolitical shocks. However, NATO and Western leaders have drawn a clear in the sand with escalating military support. The ultimate geopolitical, economic, and financial impact of Russia's invasion remains unknown. Investors will carefully monitor the response from a nuclear-armed Russia.

LEADING ECONOMIC INDICATORS (LEI)

Leading Economic Indicators, including durable goods orders and consumer confidence, are highly correlated to the economic cycle. Recent readings confirm an economic slowdown. While labor markets and consumers remain strong the Federal Reserve is fueling recession risks as they attempt to reduce inflation. With a recession looming, investing in solid companies with stable cash flows and growing dividends is even more important.

INPUT COSTS

Producer prices are input costs. Higher producer prices reduce profit margins unless companies have pricing power and pass on these costs to consumers. The PPI signals the future direction of prices. Recently, producer prices increased more than expected +6.0% y/y due to continued global inflationary pressures. This reading, when combined with CPI data, confirms the Federal Reserve's resolve to maintain the tightening of monetary policy.

CHINA

U.S. – China relations deteriorated further after the shooting down of a spy balloon that floated across our nation's heartland. Will China's nationalistic push and partnering with Russia result in greater punitive responses from the West, including potential legislation, tariffs and executive orders? The ultimate answers will impact the economy, investor sentiment, and stock prices.

Equity Strategy Commentary

PORTFOLIO DIVIDEND HIGHLIGHTS

- SDG companies grew their dividend streams at **+10.3%** y/y based on recent declarations. 5-year CAGR of **the SDG Portfolio is 6.3%****. We expect a future 3-year annual growth rate of **+5.0%** for the SDG Portfolio as a whole.
- On average, SDG portfolio stocks increased their dividends consecutively for approximately **25 years***.
- The top 10 stocks have increased their dividends consistently for approximately **51 years***.
- The SDG Portfolio pays a dividend equal to **176% of the S&P's dividend.**

COMPANY DIVIDEND HIGHLIGHTS

- COP, PNC, TGT, PAYX, and ACN grew their dividends by over 15% y/y.
- As we lap strong dividend growth, we expect growth rates to **materially slow and normalize**. This is evidenced by only 31% of SDG companies increasing their dividends by double digits vs. almost 50% 2 months ago.
- With a full year of variable dividends for COP, slow to negative growth is expected from the company.
- Dividend increase declarations during January include PLD +10.1%, NEE +10.0%, HD +10.0%, WM +7.7%, XEL +6.7%, KO +4.5%, CSCO +2.6%, and O +3.2%,

*Calculation is based on number of consecutive calendar y/y dividend increases.
**Calculation was changed in 10/22 to reflect Portfolio level dividend growth.

RECENT COMPANY NOTES

- **Realty Income:** Realty continues with its deal making. They will acquire 415 single-tenant convenience store properties located in the U.S. from EG Group with an estimated cap rate of 6.9% and a transactional value of $1.5Bn. Convenience store industry and the EG Group are expected to represent approximately 11.3% and 2.9% of O's tenant base.
- **JM Smucker:** SJM is selling several pet food brands to Post Holdings, Inc. (POST). The transaction is valued at approximately $1.2B. This portfolio optimization is a continuation of SJM shedding slower growing brands and reinvesting into higher growing products.

SDG Dividend Tracker

unaudited as of 3/06/2023

Company	Position size	Yield	Declared	Date	Last quarter	Last year	Company growth YOY %	5 yr company growth	Proj 3 yr company growth
ConocoPhillips	2.0%	2.0%	1.26	2/2/2023	0.46	0.57	121.1%	36.1%	10.0%
PNC Financial Services Group, Inc.	2.0%	3.9%	1.50	1/4/2023	1.50	1.25	20.0%	16.5%	6.0%
Target Corporation	2.0%	2.6%	1.08	1/12/2023	1.08	0.90	20.0%	11.0%	8.0%
Paychex, Inc.	3.0%	2.8%	0.79	1/20/2023	0.79	0.66	19.7%	10.0%	3.0%
Accenture Plc Class A	3.0%	1.7%	1.12	12/16/2022	1.12	0.97	15.5%	10.5%	11.0%
UnitedHealth Group Incorporated	3.0%	1.4%	1.65	2/27/2023	1.65	1.45	13.8%	17.4%	13.0%
Mid-America Apartment Communities, Inc.	3.0%	3.5%	1.40	12/13/2022	1.40	1.25	12.0%	7.1%	3.0%
Nasdaq, Inc.	3.0%	1.4%	0.20	1/25/2023	0.20	0.18	11.1%	9.9%	8.0%
Union Pacific Corporation	2.0%	2.5%	1.30	2/9/2023	1.30	1.18	10.2%	14.8%	8.0%
McDonald's Corporation	3.0%	2.3%	1.52	2/2/2023	1.38	1.38	10.1%	8.3%	6.0%
Prologis, Inc.	3.0%	2.7%	0.87	2/23/2023	0.79	0.79	10.1%	12.4%	10.0%
NextEra Energy, Inc.	2.0%	2.5%	0.47	2/17/2023	0.43	0.43	10.0%	11.4%	10.0%
Home Depot, Inc.	3.0%	2.8%	2.09	2/21/2023	1.90	1.90	10.0%	16.4%	12.0%
Amgen Inc.	2.0%	3.6%	2.13	12/12/2022	1.94	1.94	9.8%	10.8%	8.0%
Microsoft Corporation	3.0%	1.1%	0.68	11/29/2022	0.68	0.62	9.7%	9.9%	10.0%
Bank of New York Mellon Corp	2.0%	2.9%	0.37	1/13/2023	0.37	0.34	8.8%	9.8%	10.0%
Air Products and Chemicals, Inc.	2.0%	2.4%	1.75	1/26/2023	1.25	1.62	8.0%	11.3%	10.0%
Medtronic Plc	2.0%	3.3%	0.68	3/2/2023	0.68	0.63	7.9%	8.1%	5.0%
Texas Instruments Incorporated	3.0%	2.9%	1.24	1/19/2023	1.24	1.15	7.8%	16.4%	13.0%
Waste Management, Inc.	2.0%	1.9%	0.70	2/6/2023	0.65	0.65	7.7%	8.9%	5.0%
PepsiCo, Inc.	3.0%	2.7%	1.15	2/1/2023	1.15	1.08	7.0%	7.4%	5.0%
Xcel Energy Inc.	2.0%	3.2%	0.52	2/22/2023	0.49	0.49	6.7%	6.3%	6.0%
Johnson & Johnson	2.0%	2.9%	1.13	1/3/2023	1.13	1.06	6.6%	6.1%	5.0%
United Parcel Service, Inc. Class B	2.0%	3.5%	1.62	1/31/2023	1.52	1.52	6.6%	12.7%	8.0%
Chevron Corporation	2.0%	3.6%	1.51	1/25/2023	1.42	1.42	6.3%	5.8%	5.0%
General Dynamics Corporation	2.0%	2.2%	1.26	12/7/2022	1.26	1.19	5.9%	8.4%	8.0%
Merck & Co., Inc.	2.0%	2.6%	0.73	1/24/2023	0.73	0.69	5.8%	8.2%	5.0%
Procter & Gamble Company	2.0%	2.6%	0.91	1/10/2023	0.91	0.87	5.0%	5.8%	5.0%
Aflac Incorporated	3.0%	2.5%	0.42	11/8/2022	0.40	0.40	5.0%	12.1%	7.0%
AbbVie, Inc.	3.0%	3.8%	1.48	2/16/2023	1.48	1.41	5.0%	16.8%	12.0%
Best Buy Co., Inc.	2.0%	4.5%	0.92	3/2/2023	0.88	0.88	4.5%	20.9%	9.0%
Coca-Cola Company	2.0%	3.1%	0.46	2/16/2023	0.44	0.44	4.5%	3.5%	2.0%
U.S. Bancorp	2.0%	4.1%	0.48	12/13/2022	0.48	0.46	4.3%	10.1%	10.0%
Realty Income Corporation	2.0%	4.7%	0.76	2/14/2023	0.74	0.74	3.2%	3.1%	5.0%
J.M. Smucker Company	3.0%	2.7%	1.02	1/20/2023	1.02	0.99	3.0%	5.6%	3.0%
Cisco Systems, Inc.	2.0%	3.2%	0.39	2/15/2023	0.38	0.38	2.6%	5.6%	5.0%
Pfizer Inc.	2.0%	4.0%	0.41	12/9/2022	0.40	0.40	2.5%	4.4%	5.0%
BlackRock, Inc.	2.0%	2.9%	5.00	1/25/2023	4.88	4.88	2.5%	13.6%	10.0%
Duke Energy Corporation	2.0%	4.2%	1.01	1/4/2023	0.99	0.99	2.0%	2.6%	3.0%
Verizon Communications Inc.	3.0%	6.8%	0.65	3/2/2023	0.65	0.64	2.0%	2.1%	1.0%
JPMorgan Chase & Co.	2.0%	2.8%	1.00	12/13/2022	1.00	1.00	0.0%	13.5%	10.0%
Digital Realty Trust, Inc.	3.0%	4.6%	1.22	2/22/2023	1.22	1.22	0.0%	5.6%	6.0%
		3.00%					10.3%	10.4%	7.2%

*COP initiated a special dividend that will be determined quarterly and paid out between the regular dividend. Through the year we are taking the average and adding the special dividend to the quarterly dividend.

Interest Rate Observations

The decade long tailwinds enjoyed by bond investors quickly evaporated last year due to higher interest rates. Fixed income investors witnessed first-hand the price volatility that a more conservative asset class could bring. However, we continue to believe bonds play an important diversification role in portfolios. With growing recession risks and a Federal Reserve willing to instill economic pain to reduce inflation, interest rates will likely stay elevated longer than investors currently anticipate. Inflation pressures remain and there is now the expectation that policy makers could increase rates by 0.50% in March instead of the previously anticipated 0.25%.

YIELD CURVE

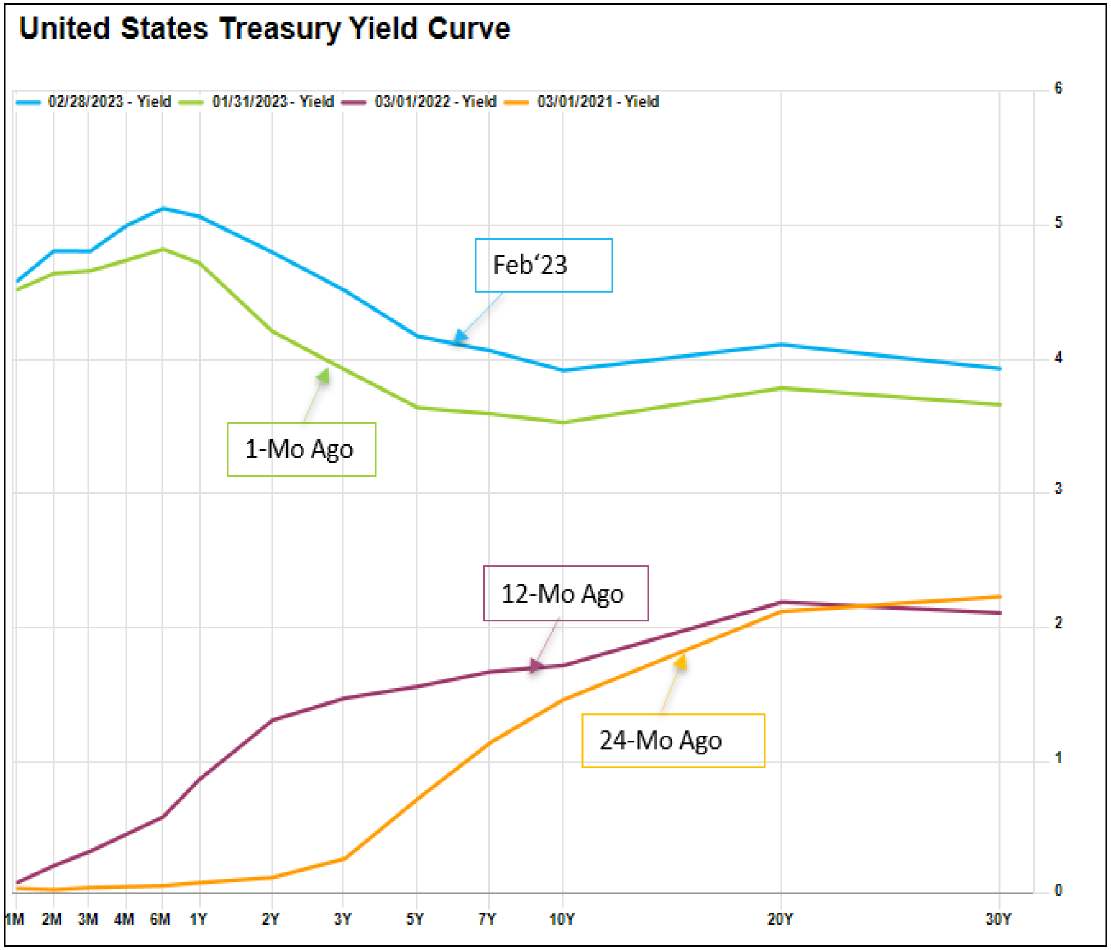
- Persistently strong employment data and sticky inflation dramatically changed the tone in Treasury markets, rendering the minutes from last FOMC meeting irrelevant.

- Investors now anticipate higher rates for a longer period. The projected path for the Federal Reserve continues to reprice higher. Expectations for peak rates have climbed to ~5.50%.

- As markets readjusted, Treasury yields pushed higher. The entire yield curve lifted anywhere between 30bps-65bps during February.

- 10-yr Treasury yields climbed over 3.9%, while the 2-yr broke past October highs, deepening the 2s10s inversion.

- The Federal Reserve remains data dependent. As markets digest new inflation, we expect sustained volatility in the coming months.



Bond Market Statistics

SPREADS TO 5 YEAR TREASURY

Fixed Income Class	Spread on 5 Yr Tr		
Taxable	Current	Prev	Change
CDs	0.57%	0.74%	-0.17%
Agencies	0.25%	0.20%	0.05%
Corporates	0.60%	0.56%	0.04%
Taxable Municipals	0.52%	0.58%	-0.06%
Preferred Securities	-1.72%	-0.15%	-1.57%
High Yield	4.50%	4.11%	0.39%
Tax-Exempt			
T.E Municipals	-1.54%	-1.50%	-0.04%

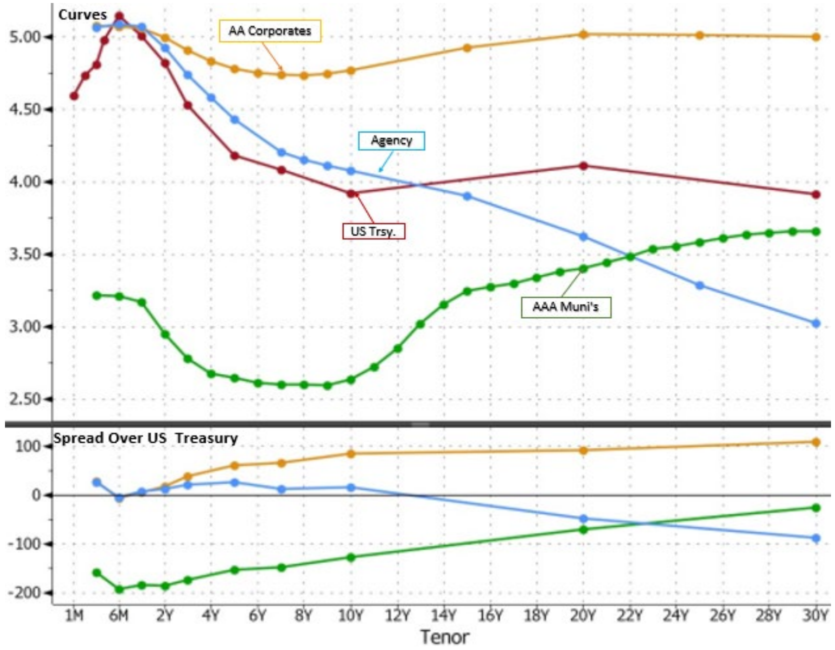
OBSERVATIONS

- Stronger than anticipated economic data and hotter inflation caused investors to readjust expectations across the board. This triggered a sell off across credit markets. Soaring yields weighed on performance. After a solid start to the year, bond markets reversed most of their earlier gains. The U.S. Aggregate Index posted its worst February performance in years.

- With an uptick in volatility, Corporate bond spreads were mixed across the curve. HY bond spreads were little changed in February. We still believe there is room for widening as recession fears grow and the outlook for risky borrowers declines.

- Tax Exempt Municipal bonds were not immune to the sell off. Yields lifted and spreads widened slightly. However, yielding 66% of comparable Treasuries. These bonds are still expensive by historical standards.

CROSS MARKET SNAPSHOT



ACTIONABLE ITEMS

- The Federal Reserve's interest rate path, inflation projections and changes in growth expectations will determine the course of the credit markets. As markets recalibrate to new data and predict policy adjustments, we expect volatility to remain elevated over the coming months.

- The process of recovery from inflation is going to be turbulent. To minimize its impact on client portfolios, it is imperative to stay discipled. We recommend focusing on high quality credit with the use of duration management and yield curve positioning strategies at the individual account level.

February Credit Events

Intel Corp.

Moody's downgraded Intel's senior unsecured rating to A2 from A1, expressing skepticism over the company's ability to execute on their long-term strategy. The outlook is negative.

Once a semiconductor leader, Intel experienced headwinds leading to the loss of market share and profitability. Intel's new long-term strategy requires substantial investments.

Moody's negative outlook reflects Intel's poor operational execution over the last several years, which negatively impacted management's credibility.

Actionable Item: Issuer still maintains an Investment Grade rating. No action is needed at this time. However, we will closely monitor for any further deterioration.

Kraft Heinz Co.

S&P upgraded Kraft Heinz Co.'s senior unsecured debt rating to 'BBB" from 'BBB-' on organic growth. The outlook is stable.

Kraft’s business strategy includes divestitures, which reduced exposure to competitive private label products and more volatile commodities. These initiatives fueled strong 2022 organic revenue growth and profit margins, despite dramatically higher commodity costs.

The Stable outlook reflects expectations that organic revenue growth will continue while Kraft maintains healthy leverage ratios.

Actionable Item: We continue to hold bonds in accounts currently owning the issuer's credit.

3M Company

S&P lowered 3M's credit ratings to A from A+ on litigation concerns and weaker profitability. The rating remains on negative watch.

Amidst a year full of product and environmental litigation, 3M reported lower sales and decreasing EBITDA margins for fiscal 2022. 3M is divesting their health care business to mitigate some of the litigation overhang.

S&P expects the health care business spinoff will leave the legacy company with a smaller base of cash flow to support settlements from litigation. Moreover, lower margins and sales will continue negatively impact leverage ratios.

Actionable Item: Issuer still maintains strong Investment Grade rating. No action is needed at this time. However, we will closely monitor for further deterioration.

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