Sabal Trust

Investment Environment & Outlook

November 2023

Volume 10, Issue 11

Market & Economic Environment

Stock and bond investors continued to experience elevated price volatility in October. The S&P 500 declined for the 3rd straight month. Higher yields were the primary driver of volatility. Our clients entrust us to protect their hard-earned wealth, especially during uncertain markets. We believe investing in high quality businesses that pay dividends adds value over long market cycles. This does not mean that we are unaffected by volatility. Despite the market disregarding high quality, low volatility dividend strategies in 2023, we will not compromise our proven investment philosophy. We will continue to exhibit patience as we apply our discipline in identifying the best long-term investment opportunities for our clients' portfolios.

3rd QUARTER EARNINGS

Many companies' 3rd quarter earnings have exceeded analyst expectations. While concerns about soft forward guidance created volatility, investors have rewarded companies with strong fundamentals. The companies in our strategy continue to report solid dividend increases, which confirms our thesis of owning high quality companies with durable cash flows.

3rd QUARTER GDP

Consumer spending fueled economic growth during the 3rd quarter. The economy surged at its fastest pace, +4.9%, in over two years. The sustainability of consumer spending and the durability of the economy will shape monetary policy in the coming months. Many investors expect economic growth to slow heading into the next year. The key question remains whether the Federal Reserve can pull off an economic "soft landing" as they fight inflation.

YIELD ON CASH

Low interest rates pushed investors to increase their exposure to riskier assets, such as stocks, to generate income. However, due to the sharp rise in interest rates, investors can earn +5% yield on their cash, the highest levels since 1999. Interest rates will not stay at these levels forever, and we are helping our clients plan ahead by adjusting portfolios and purchasing high quality bonds to lock in attractive income levels before rates eventually move lower.

LABOR MARKET

October's job report aligned with the Fed's expectations that higher interest rates would eventually impact the tight labor market. The unemployment rate increased to 3.9%, the highest level since January 2022 and the growth of average hourly earnings moderated. While October's labor report is unlikely to cause the Fed to reverse course from their "higher for longer" policy stance, it could signal that higher rates are finally dampening job growth.

MIDDLE EAST

The barbaric attack by Hamas terrorists on innocent Israeli citizens and the intense military response continues to play out in front of a global audience. Historically, markets look past geopolitical conflict, but the human, societal, and financial implications of a prolonged or expanded military conflict could change the calculus. Investors will monitor the U.S. policy response and signs of broader de-stabilization across the Middle East.

CONSUMER DEBT

The ability and willingness of consumers to spend generated solid economic growth in 2023. Consumers are relying more on credit card borrowings to fuel spending after depleting elevated savings. Credit card debt surged to more than $1 trillion in the 3rd quarter. Delinquency rates are rising and have surpassed pre-pandemic levels. These signals could be clouds on the horizon when combined with Fed's willing to inflict economic pain to reduce inflation.

Equity Strategy Commentary

PORTFOLIO DIVIDEND HIGHLIGHTS

- SDG companies grew their dividend streams at **+6.9%** y/y based on recent declarations. 5-year CAGR of **the SDG Portfolio is 5.8%****. 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 **26 years***.

- The top 10 stocks have increased their dividends consistently for approximately **52 years***.

- The SDG Portfolio pays a dividend equal to **200% of the S&P's dividend.**

COMPANY DIVIDEND HIGHLIGHTS

- ACN and AFL both grew their dividend by over 15% y/y. 31% of SDG companies produced double digit dividend growth.

- As we lap strong dividend growth, the growth rates are **slowing and normalizing**. This is expected with the ebb and flow of the economy and corporate earnings that are foundational to shareholder returns.

- The growth of variable dividends for COP have slowed leading to a flattening of dividend growth by the company. This manifested itself with y/y growth slowing from 125% to 76% and now to single digit growth.

- Dividend increase declarations included: MCD (+9.9%), and TXN (+4.8%).

*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

- **Chevron:** CVX entered into a definitive agreement with Hess (HES) to acquire all of the outstanding shares of the company in an all-stock transaction valued at $53 billion. The acquisition of Hess upgrades and diversifies Chevron asset base and revenue stream. The Stabroek block in Guyana is HES's crown jewel with industry leading cash margins and low carbon intensity that is expected to deliver production growth well into the next decade. Hess also has Bakken assets.

- **Merck:** MRK announced an agreement with Japanese pharmaceutical company Daiichi Sankyo to jointly develop and commercialize three cancer drugs. MRK will pay Daiichi $4B upfront and $1.5B in additional payments over the next 12 months. There will be an additional $16.5B in payments based on future sales metrics. The companies plan to share development expenses. Daiichi will retain exclusive rights to the drugs while MRK will receive royalties.

SDG Dividend Tracker

unaudited as of 11/08/2023

Company	Position size	Yield	Declared	Date	Last quarter	Last year	Company growth YOY %	5 yr company growth	Proj 3 yr company growth
Aflac Incorporated	3.0%	2.5%	0.50	10/31/2023	0.42	0.42	19.0%	10.6%	7.0%
Accenture Plc Class A	3.0%	1.6%	1.29	9/28/2023	1.12	1.12	15.2%	10.8%	11.0%
UnitedHealth Group Incorporated	3.0%	1.4%	1.88	11/8/2023	1.88	1.65	13.9%	16.4%	13.0%
Bank of New York Mellon Corp	2.0%	3.7%	0.42	10/17/2023	0.42	0.37	13.5%	8.7%	10.0%
Fastenal Company	3.0%	2.4%	0.35	10/11/2023	0.35	0.31	12.9%	12.7%	9.0%
Paychex, Inc.	3.0%	3.1%	0.89	10/12/2023	0.89	0.79	12.7%	9.0%	5.0%
Mid-America Apartment Communities, Inc.	3.0%	4.6%	1.40	9/12/2023	1.40	1.25	12.0%	8.7%	3.0%
Microsoft Corporation	3.0%	0.8%	0.75	9/19/2023	0.75	0.68	10.3%	10.1%	10.0%
Prologis, Inc.	3.0%	3.3%	0.87	9/6/2023	0.87	0.79	10.1%	12.6%	10.0%
NextEra Energy, Inc.	2.0%	3.3%	0.47	10/13/2023	0.47	0.43	10.0%	11.1%	10.0%
PepsiCo, Inc.	3.0%	3.0%	1.27	7/20/2023	1.27	1.15	10.0%	6.9%	5.0%
Home Depot, Inc.	3.0%	2.8%	2.09	8/17/2023	2.09	1.90	10.0%	15.5%	12.0%
Nasdaq, Inc.	3.0%	1.7%	0.22	10/18/2023	0.22	0.20	10.0%	9.0%	8.0%
McDonald's Corporation	3.0%	2.5%	1.67	10/4/2023	1.52	1.52	9.9%	8.5%	6.0%
Amgen Inc.	2.0%	3.1%	2.13	10/24/2023	2.13	1.94	9.8%	10.3%	8.0%
Air Products and Chemicals, Inc.	2.0%	2.8%	1.75	7/21/2023	1.25	1.62	8.0%	10.1%	10.0%
Waste Management, Inc.	2.0%	1.7%	0.70	11/6/2023	0.70	0.65	7.7%	8.6%	5.0%
Xcel Energy Inc.	2.0%	3.5%	0.52	8/23/2023	0.52	0.49	6.7%	6.4%	6.0%
United Parcel Service, Inc. Class B	2.0%	4.6%	1.62	11/1/2023	1.62	1.52	6.6%	12.4%	8.0%
Chevron Corporation	2.0%	4.2%	1.51	10/27/2023	1.51	1.42	6.3%	6.0%	5.0%
Merck & Co., Inc.	2.0%	2.8%	0.73	7/25/2023	0.73	0.69	5.8%	8.7%	5.0%
Johnson & Johnson	2.0%	3.2%	1.19	10/19/2023	1.19	1.13	5.3%	5.9%	5.0%
JPMorgan Chase & Co.	2.0%	2.9%	1.05	9/19/2023	1.05	1.00	5.0%	10.3%	5.0%
Texas Instruments Incorporated	3.0%	3.6%	1.30	9/21/2023	1.24	1.24	4.8%	13.8%	13.0%
General Dynamics Corporation	2.0%	2.2%	1.32	8/1/2023	1.32	1.26	4.8%	7.5%	8.0%
AbbVie, Inc.	3.0%	4.3%	1.55	10/27/2023	1.48	1.48	4.7%	10.5%	9.0%
Best Buy Co., Inc.	2.0%	5.7%	0.92	8/29/2023	0.92	0.88	4.5%	16.6%	9.0%
Coca-Cola Company	2.0%	3.2%	0.46	10/19/2023	0.46	0.44	4.5%	3.4%	2.0%
Duke Energy Corporation	2.0%	4.7%	1.03	10/23/2023	1.03	0.99	4.1%	2.3%	4.0%
J.M. Smucker Company	3.0%	3.9%	1.06	10/19/2023	1.06	1.02	3.9%	5.2%	3.0%
Verizon Communications Inc.	3.0%	7.5%	0.67	9/7/2023	0.67	0.64	3.9%	2.0%	1.0%
PNC Financial Services Group, Inc.	2.0%	5.2%	1.55	10/2/2023	1.55	1.50	3.3%	12.4%	6.0%
Realty Income Corporation	2.0%	6.0%	0.77	10/10/2023	0.77	0.74	3.2%	3.0%	5.0%
Procter & Gamble Company	2.0%	2.5%	0.94	10/10/2023	0.94	0.91	3.0%	5.6%	5.0%
Cisco Systems, Inc.	2.0%	3.0%	0.39	8/16/2023	0.39	0.38	2.6%	3.9%	5.0%
Pfizer Inc.	2.0%	5.3%	0.41	10/4/2023	0.41	0.40	2.5%	3.7%	5.0%
BlackRock, Inc.	2.0%	3.1%	5.00	7/20/2023	5.00	4.88	2.5%	11.8%	10.0%
ConocoPhillips	2.0%	2.0%	1.14	11/2/2023	0.46	1.11	2.3%	31.4%	2.0%
Target Corporation	2.0%	4.0%	1.10	9/20/2023	1.10	1.08	1.9%	11.7%	8.0%
Medtronic Plc	2.0%	3.9%	0.69	8/17/2023	0.69	0.68	1.5%	7.4%	5.0%
Union Pacific Corporation	2.0%	2.5%	1.30	7/26/2023	1.30	1.30	0.0%	12.2%	8.0%
U.S. Bancorp	2.0%	5.5%	0.48	9/12/2023	0.48	0.48	0.0%	8.6%	10.0%
		3.37%					6.9%	9.6%	7.0%

*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.

Sabal Trust

Interest Rate Observations

The Federal Reserve held interest rates steady at their October FOMC policy meeting. Policy makers remain focused on keeping interest rates higher for longer due to elevated core inflation and economic growth that is exceeding expectations. The Federal Reserve left the policy rates static for two consecutive meetings. We believe this signals the Terminal Rate is reached with a moderate risk of one more 25bps rate hike. While the path to rate cuts in 2024 remains murky, we are looking for opportunities to adjust client portfolios. Specifically, we will opportunistically and gradually extend the duration of our clients' bond portfolios to lock in attractive yields for years to come and to prevent reinvest risk. As always, we remain focused on investing only in high quality investment grade companies with low credit risk.

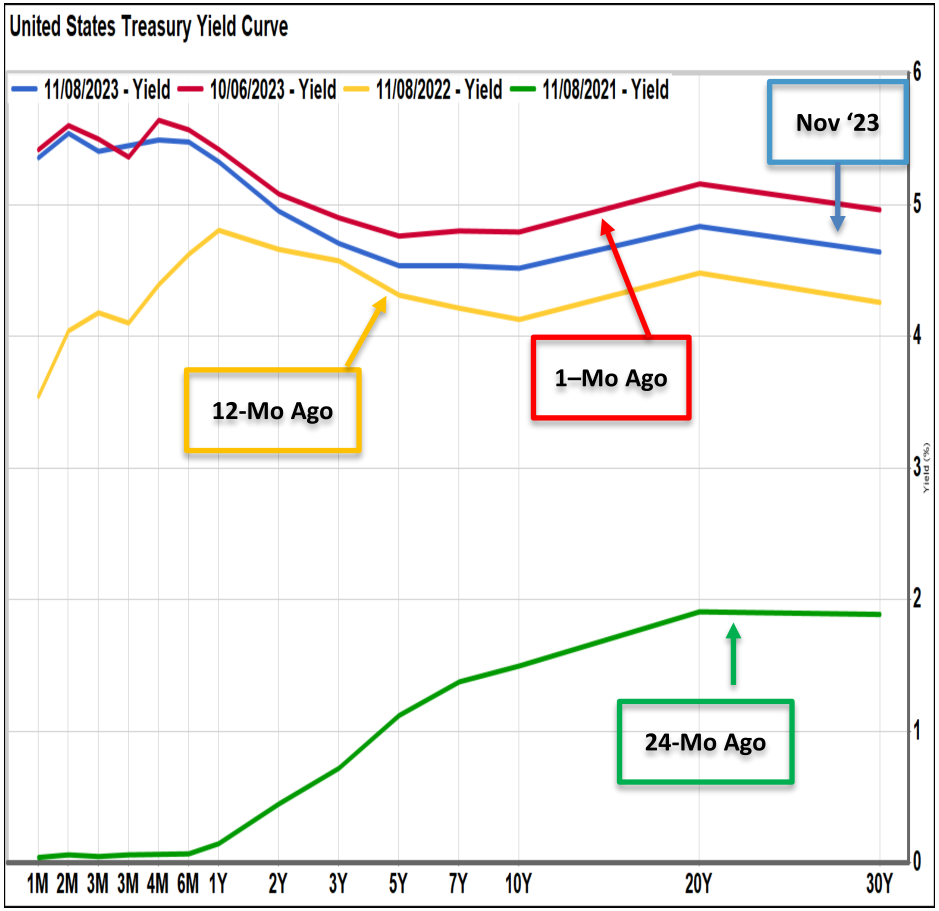
YIELD CURVE

- The Federal Reserve's commitment to retaining their optionality of future rate increases roiled the stock and bond markets in October. Their hawkish tone pushed yields higher causing bond prices to fall. Bonds have now declined for 6 consecutive months as the Bloomberg U.S. Aggregate Bond Index plunged (-1.85%) in October.

- The spread between the 2-year and 10-year Treasuries remains inverted. However, surging 10-year yields hit 5% briefly in October resulting in a dis-inversion of the yield curve that almost normalized.

- The rapid rise in yields strained the entire fixed income market. The stress levels were elevated to the point that the U.S. Treasury reduced the amount of bonds originally scheduled to be sold into the markets. Reduced bond issuance should slow the rise in yields and reduce bond market volatility. Lower volatility in bond markets is historically good for both stocks and bonds.

- Eventually, the Federal Reserve will cut rates. With that in mind, we know that 5% rates earned on cash will quickly dissipate. We are actively working with clients to move some of their cash holdings back into high quality bonds.



Volume 10, Issue 11 November 2023

Sabal Trust

SABALTRUST.COM