Sabal Trust

Investment Environment & Outlook

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TRUST SERVICES | INVESTMENT MANAGEMENT | FAMILY OFFICE | ESTATE SETTLEMENT

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Market & Economic Environment

During the 1st quarter, stock markets experienced their best start since 2019. Even as investors reduced their rate cut expectations, stock momentum surged. The market continued to broaden out, which is a healthy signal. Even so, outperformance of momentum and growth factors persisted. The well-anticipated recession remains elusive due to the strength across the economy. Yet, there are growing consumer-related pressures including depleted savings and growing delinquency rates that require monitoring. Moving into the second quarter, the focus remains on when the Federal Reserve will start cutting interest rates.

EXPECTATIONS

Investor expectations shape asset prices. They reflect the collective sentiment about future economic conditions. Expectations that fail to converge with reality lead to volatility. Typically, strong economic growth is a positive signal for stock investors. But if coupled with rising oil prices, it can stoke inflation fears. This poses a dilemma for the Federal Reserve, which might further delay cutting interest rates, upsetting stock and bond investor expectations.

LABOR MARKET

A strong labor market persisted in March adding to investor anxiety about the timing of interest rate cuts. The unemployment rate held steady at 3.8% and the growth of average hourly earnings remained at an annualized pace of 4.1%. While higher rates have started to dampen job growth, March's report highlights the Federal Reserve's challenge as they continue to push toward their 2% inflation target.

MARKET VALUATION

The S&P 500 achieved 22 record highs in the 1st quarter. Driven by pure multiple expansion, these moves took place amidst analysts reducing their overall earnings outlook for the S&P. The S&P 500 trades at 21.1x forward earnings (NTM P/E). By way of comparison, the NTM P/E for the S&P in 4Q23 was 19.7x and in 4Q22 was 16.8x, in-line with the 30-year average. Valuation matters and parts of the market are priced for perfection leaving little margin for error.

INTEREST RATES

The Federal Reserve held interest rates steady in their March FOMC meeting. They acknowledged a healthy economy and reconfirmed their 2% inflation goal. Policy makers continue to telegraph three rate cuts in 2024, but the magnitude and timing remain unknown. Investors started the year expecting 6 rate cuts. They now anticipate 3 cuts, in line with Federal Reserve policy makers. The further adjustment of expectations will impact market pricing.

PREFERRED INFLATION GAUGE

The Federal Reserve's preferred inflation gauge is the Personal Consumption Expenditure (PCE) because it measures the prices of a broader variety of goods and services. The PCE data, more timely and robust strips out the more volatile food and energy measurements. Recent PCE measures showed signs of cooling, which was a welcome reprieve after other inflation measures (CPI and PPI) were higher at the start of the year.

MIDDLE EAST

The war between Israel and Hamas rages on. Tensions continue growing across the Middle East as Iran pledges to retaliate for the recent missile strike on their consulate in Syria. Oil prices are up +20% this year and a spreading conflict across the region could further increase prices. Higher energy prices will flow into the cost of goods and services resulting in an inflationary effect, complicating the Federal Reserve's attempt to reduce inflation.

Equity Strategy Commentary

PORTFOLIO DIVIDEND HIGHLIGHTS

- SDG companies grew their dividend streams at **+7.0%** y/y based on recent declarations. 5-year CAGR of **the SDG Portfolio is 8.1%****, which materially increased because of great dividend growth from banks, a special dividend from FAST and lapping 2018 slower growth. We continue to 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*,** reflecting the recent trades dividend prowess.

- The top 10 stocks have increased their dividends consistently for approximately **53 years***.

- The SDG Portfolio pays a dividend equal to **221% of the S&P's dividend.**

COMPANY DIVIDEND HIGHLIGHTS

- ACN, FAST, JPM and AFL grew their dividend by over 15% y/y. 27% of SDG companies produced double digit dividend growth.

- UNP is our sole holding that has not increased its dividend in the last 12 months, now extending for 8 quarters. This is typical during cyclical slowdowns, and we expect them to increase the dividend within the next couple of quarters.

- FAST special dividend of $0.38 boosts their yield to 2.6% for 2023 and increases the 1-year dividend growth. This is a benefit now. but will turn to a dividend growth headwind by year end 2024.

- Dividend increase declarations included: JPM (+15.0%), GD (+7.6%), WM (+7.1%), O (+1.5%).

*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

- **Johnson & Johnson:** JNJ's MedTech division is partnering with NVDA to leverage artificial intelligence (AI). Specifically, JNJ supports 75mm surgical procedures each year and plans to use NVDA's AI platform to aid surgery activities through real-time data analysis and broader AI applications.

- **Microsoft:** MSFT and NVDA are partnering to boost generative AI in enterprises. Azure will integrate NVDA's Grace Blackwell Superchip to enhance AI services. Microsoft Copilot will benefit from NVDA's AI and computing technologies. Additionally, Azure AI will feature new NVDA AI Microservices tailored for enterprise, developer, and healthcare sectors.

SDG Dividend Tracker

unaudited as of 4/08/2023

Company	Position size	Yield	Declared	Date	Last quarter	Last year	Company growth YOY %	5 yr company growth	Proj 3 yr company growth
Fastenal Company	2.0%	2.0%	0.49	1/17/2024	0.35	0.35	38.6%	17.9%	9.0%
Aflac Incorporated	2.0%	2.4%	0.50	11/1/2023	0.42	0.42	19.0%	10.9%	7.0%
Accenture Plc Class A	2.0%	1.5%	1.29	3/21/2024	1.29	1.12	15.2%	11.6%	11.0%
JPMorgan Chase & Co.	3.0%	2.3%	1.15	3/19/2024	1.05	1.00	15.0%	7.5%	5.0%
UnitedHealth Group Incorporated	2.0%	1.6%	1.88	2/23/2024	1.88	1.65	13.9%	15.9%	13.0%
Bank of New York Mellon Corp	3.0%	3.0%	0.42	1/12/2024	0.42	0.37	13.5%	8.6%	10.0%
Paychex, Inc.	3.0%	2.9%	0.89	1/19/2024	0.89	0.79	12.7%	9.7%	5.0%
Prologis, Inc.	3.0%	3.1%	0.96	2/22/2024	0.87	0.87	10.3%	12.6%	10.0%
Microsoft Corporation	3.0%	0.7%	0.75	3/12/2024	0.75	0.68	10.3%	10.2%	10.0%
NextEra Energy, Inc.	2.0%	3.2%	0.52	2/16/2024	0.47	0.47	10.2%	10.9%	10.0%
PepsiCo, Inc.	2.0%	3.0%	1.27	2/7/2024	1.27	1.15	10.0%	6.4%	5.0%
Nasdaq, Inc.	2.0%	1.4%	0.22	1/31/2024	0.22	0.20	10.0%	8.4%	8.0%
McDonald's Corporation	2.0%	2.5%	1.67	2/7/2024	1.67	1.52	9.9%	8.0%	6.0%
General Mills, Inc.	2.0%	3.4%	0.59	1/30/2024	0.59	0.54	9.3%	3.3%	3.0%
American Water Works Company, Inc.	2.0%	2.4%	0.71	12/6/2023	0.71	0.66	8.0%	9.2%	11.0%
Chevron Corporation	2.0%	4.1%	1.63	2/2/2024	1.51	1.51	7.9%	6.2%	5.0%
Home Depot, Inc.	3.0%	2.5%	2.25	2/20/2024	2.09	2.09	7.7%	13.9%	12.0%
General Dynamics Corporation	2.0%	1.9%	1.42	3/6/2024	1.32	1.32	7.6%	7.3%	8.0%
Waste Management, Inc.	3.0%	1.5%	0.75	3/1/2024	0.70	0.70	7.1%	8.4%	5.0%
Amgen Inc.	2.0%	3.4%	2.25	3/6/2024	2.13	2.13	5.6%	9.8%	8.0%
Merck & Co., Inc.	2.0%	2.4%	0.77	1/23/2024	0.77	0.73	5.5%	7.8%	5.0%
Coca-Cola Company	2.0%	3.3%	0.49	2/15/2024	0.46	0.46	5.4%	3.5%	2.0%
Johnson & Johnson	3.0%	3.1%	1.19	1/2/2024	1.19	1.13	5.3%	5.7%	5.0%
Xcel Energy Inc.	2.0%	4.1%	0.55	2/21/2024	0.52	0.52	5.3%	6.4%	2.0%
Mid-America Apartment Communities, Inc.	2.0%	4.5%	1.47	3/19/2024	1.47	1.40	5.0%	8.8%	3.0%
Texas Instruments Incorporated	3.0%	3.1%	1.30	1/18/2024	1.30	1.24	4.8%	12.8%	13.0%
AbbVie, Inc.	2.0%	3.6%	1.55	2/15/2024	1.55	1.48	4.7%	8.7%	9.0%
Exxon Mobil Corporation	2.0%	2.0%	0.95	2/2/2024	0.95	0.91	4.4%	2.5%	2.0%
Apple Inc.	1.0%	0.6%	0.24	2/1/2024	0.24	0.23	4.3%	5.6%	7.0%
PNC Financial Services Group, Inc.	3.0%	3.9%	1.55	4/3/2024	1.55	1.50	3.3%	11.3%	6.0%
Procter & Gamble Company	2.0%	2.4%	0.94	1/9/2024	0.94	0.91	3.0%	5.6%	5.0%
Southern Company	2.0%	4.0%	0.70	1/18/2024	0.70	0.68	2.9%	3.1%	8.0%
Pfizer Inc.	2.0%	6.3%	0.42	12/14/2023	0.41	0.41	2.4%	3.6%	5.0%
Best Buy Co., Inc.	2.0%	4.6%	0.94	2/29/2024	0.94	0.92	2.2%	14.9%	9.0%
U.S. Bancorp	2.0%	4.5%	0.49	3/12/2024	0.49	0.48	2.1%	6.6%	10.0%
BlackRock, Inc.	2.0%	2.6%	5.10	1/12/2024	5.00	5.00	2.0%	10.1%	10.0%
Duke Energy Corporation	2.0%	4.3%	1.03	1/11/2024	1.03	1.01	2.0%	2.1%	4.0%
Verizon Communications Inc.	3.0%	6.4%	0.67	2/29/2024	0.67	0.65	1.9%	2.0%	1.0%
L3Harris Technologies Inc	2.0%	2.2%	1.16	2/23/2024	1.14	1.14	1.8%	11.8%	9.0%
Medtronic Plc	3.0%	3.3%	0.69	3/7/2024	0.69	0.68	1.5%	6.7%	5.0%
Stanley Black & Decker, Inc.	2.0%	3.4%	0.81	2/27/2024	0.81	0.80	1.3%	4.4%	7.0%
Realty Income Corporation	2.0%	5.8%	0.26	3/13/2024	0.26	0.26	0.8%	2.9%	5.0%
United Parcel Service, Inc. Class B	2.0%	4.3%	1.63	1/30/2024	1.63	1.62	0.6%	12.0%	8.0%
International Business Machines Corporation	1.0%	3.5%	1.66	1/30/2024	1.66	1.65	0.6%	1.1%	2.0%
Union Pacific Corporation	2.0%	2.1%	1.30	2/8/2024	1.30	1.30	0.0%	10.1%	8.0%
		3.09%					7.0%	8.2%	6.9%

*FAST initiated a one time special dividend in 2023. The total dividend paid out, special dividend and the quarterly dividend are averaged.

Interest Rate Observations

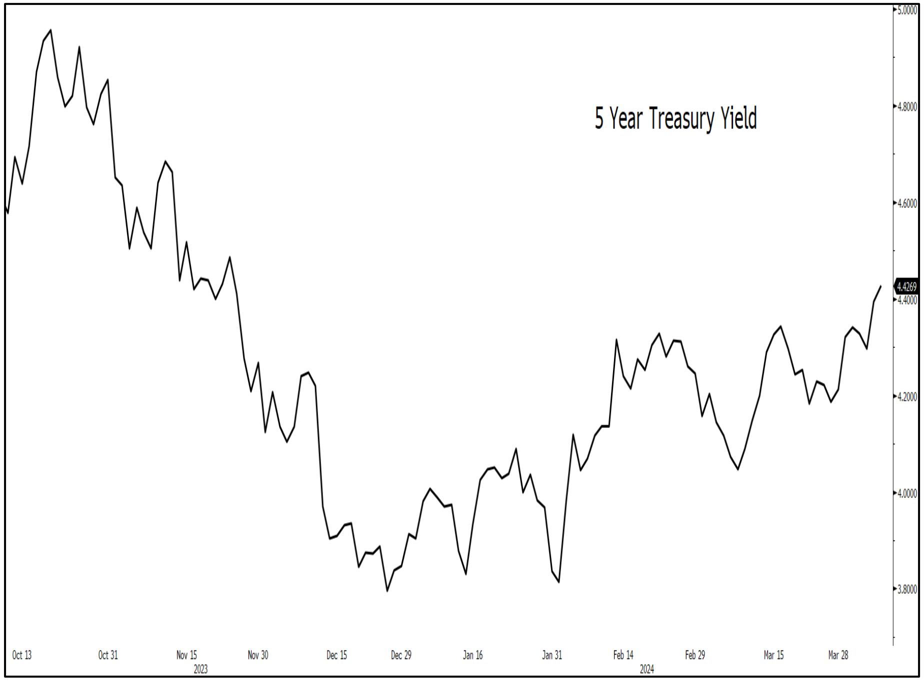
Since the start of 2024, bond yields have steadily increased. These upward moves continue into the early stages of April. Recall that when yields rise, bond prices fall. This is a notable development as bonds have been giving back gains made during the impressive rally they staged during the last two months of 2023.

Several factors are increasing uncertainty for bond investors which is reflected in rising yields. Economic data has been strong across the board with respect to higher prices paid, strong jobs gains and unemployment remaining low. Inflation expectations in March remain above the Federal Reserve's 2% target. One-year forward inflation expectations are 3%, three-year forward expectations climbed to 2.9% and five year forward expectations declined to 2.6%. The March's inflation expectations remained resilient as inflation measures in January and February remained above estimates.

During March's FOMC meeting, Federal Reserve policy makers were hesitant to read too much into back-to-back months of higher inflation data. They still plan on cutting three times this year. However, if a third month of higher-than-expected inflation is reported, they could reconsider their stance on the number of rate cuts for 2024.

YIELD CURVE

- During the month of March, the 10-year Treasury yield decreased -46bps to 4.20%. Through the first week of April, the 10-year yield surged back to 4.40%, which is indicative of the yield volatility experienced by investors this year.
- In the chart on the right, you can see the 5-Year Treasury yield plunged from the peak in October 2023 to the end of the year only to systematically rebound through April 8.
- While rising yields mean falling bond prices, it is a good reminder to stress the importance of a well-constructed bond ladder. As shorter-term bonds mature, these funds can be re-invested to lock in high yields that will be more resilient to interest rate risk and provide higher income and a greater total return.
- As we approach the end of the rate hiking cycle, we continue reviewing cash balances and identify opportunities to purchase high quality bonds before rate cuts take place.



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