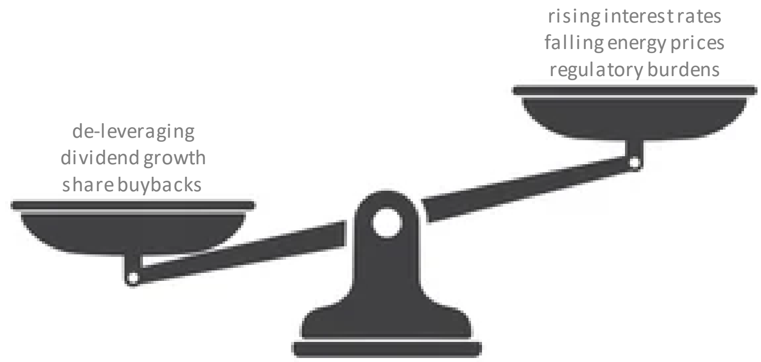
Quarterly Commentary
3Q 2022

EGA Energy Infrastructure

From the EGA Portfolio Management Team

Midstream Holds The Line

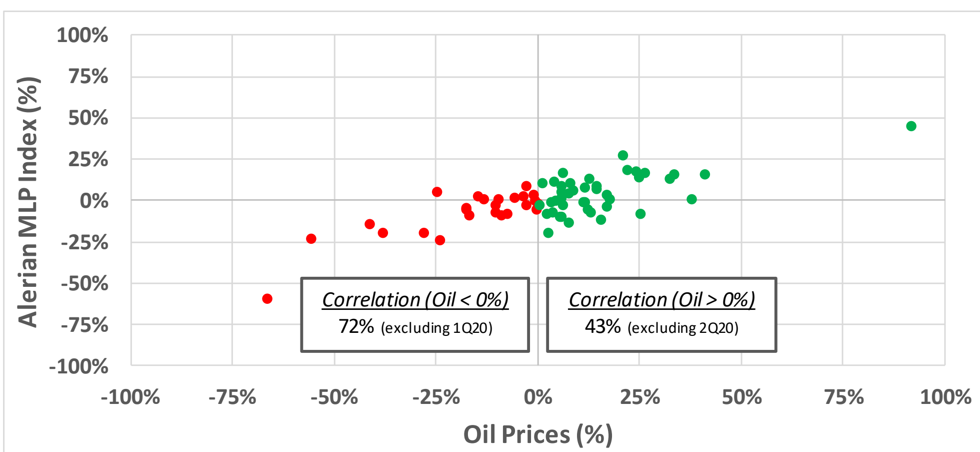


Oil prices fell 25% in the third quarter, breaking a remarkable streak of nine consecutive quarterly gains. In fact, the last time oil prices fell for a quarter was during the pandemic chaos of Q1 2020 when spot prices briefly traded below zero (!). Also, during the quarter interest rates continued to surge higher as the Federal Reserve fights to rein in multi-decade high rates of inflation, and Congress passed the clean energy-heavy Inflation Reduction Act (IRA). You wouldn't be crazy to assume Midstream stocks underperformed in the face of so much weak data, but alas the Alerian MLP Index shook all of this off and posted a solid quarter (AMZ: +6.0%, S&P 500: -5.0%). Perhaps this is a one-off and not indicative of any trend. Or, perhaps Midstream resiliency is backed by a current business model that prioritizes balance sheet strength and offers a plethora of shareholder friendly initiatives. Yeah, let's go with that.

Energy Prices Slide, Though Still Healthy

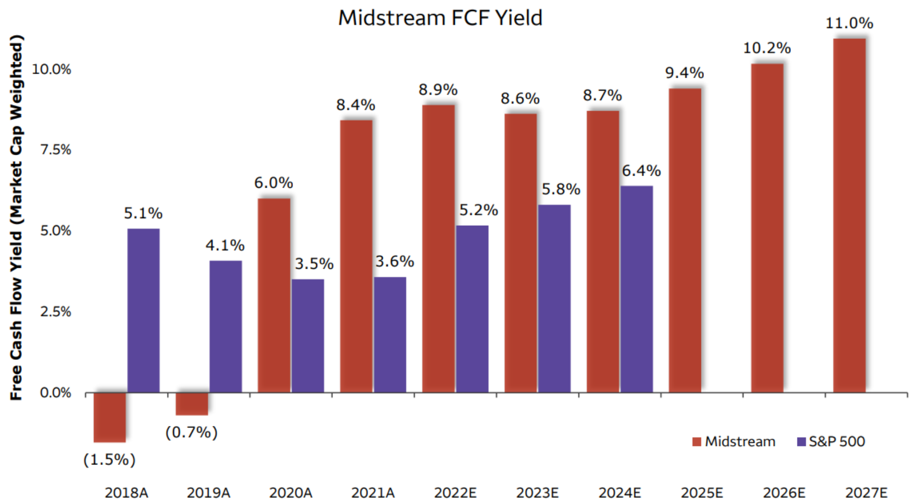
On June 30, 2022 WTI oil closed at $105.76 per barrel as the global energy crisis spread after years of underinvestment was compounded by Russia's surprise invasion of Ukraine. Three months later oil prices closed the quarter at $79.49 per barrel, down 25% since the prior quarter and off 36% from the 2022 closing day peak of $123.70 per barrel. Noteworthy to us is Midstream's resilience (+6.0%) during this quarter's turmoil, given the sector's track record. The maddening correlation between crude oil and Midstream stock prices was finally broken.

Historically correlations between oil prices and Midstream equity has been higher on the way down and lower on the way up, much to the chagrin of investors. Since 2006 there have been 25 quarters where oil prices declined, and in 16 of those quarters the Alerian MLP Index (Alerian) fell as well. However, of the top ten percentage declines only once has the Alerian increased and that was Q3 2022. The correlation between oil and the Alerian is 83% over these 25 quarters, and 72% excluding the extreme volatility from the pandemic influenced Q1 2020. On the flip side oil prices have risen in 42 quarters, and in 29 of those quarters the Alerian rose as well. The correlation between oil and the Alerian is 64% over these 25 quarters, though only 43% excluding the extreme volatility from the pandemic influenced Q2 2020. *Excluding the pandemic quarters of the 1H 2020 the Alerian's correlation to oil prices is 72% on the way down and 43% on the way up.*



Source: Bloomberg

So, what changed in Q3 2022 to break this trend of higher correlation? Today, Midstream's direct commodity price exposure is far lower than what it was. Management teams are also more focused on enhancing shareholder returns via de-leveraging, dividend growth, and share buybacks, while at the same time limiting the overhang of multi-year, multi-billion dollar growth projects. Add to this the sector's attraction as an inflation hedge, its increasing medium-term (via the energy crisis) and long-term viability (via energy transition), and its compelling valuation relative to historical measures and Midstream is impossible to ignore.



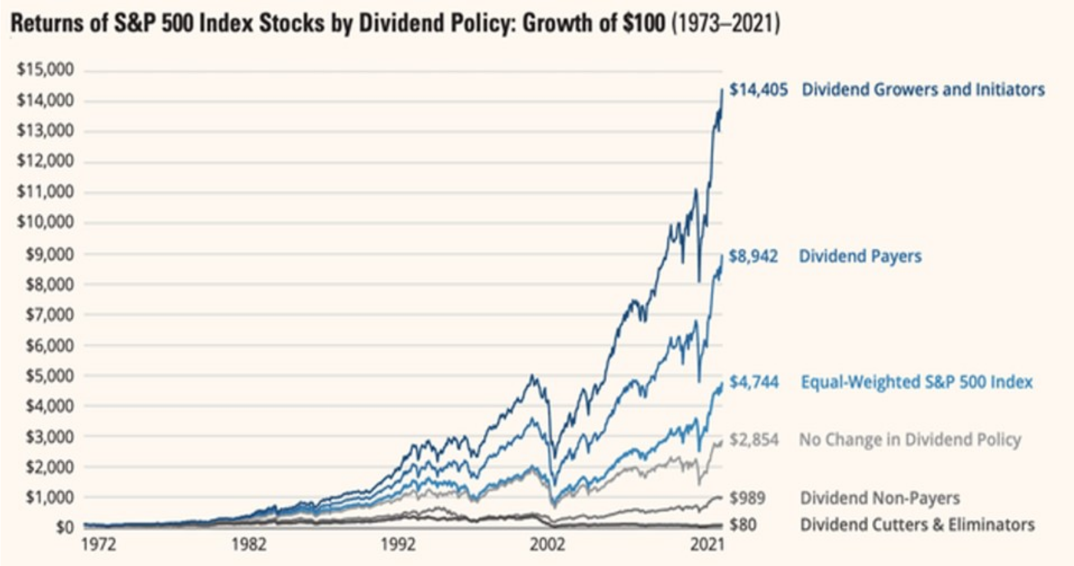
MLP Valuations Versus Energy and Yield Securities

	EV-to-EBITDA Multiples	Current	5-Year Average	Premium (Discount)	10-Year Average	Premium (Discount)
Midstream	**MLPs**	**7.8x**	**9.5x**	**(17%)**	**11.9x**	**(34%)**
Midstream	**Midstream C-Corps.**	**8.9x**	**10.7x**	**(17%)**	**12.9x**	**(31%)**
Energy	Exploration & Production	4.1x	5.5x	(26%)	5.9x	(31%)
Energy	Refiners	5.5x	6.3x	(13%)	5.7x	(4%)
Energy	Integrated Exploration & Production	4.3x	6.3x	(32%)	5.7x	(25%)
Energy	Oilfield Services	6.6x	9.7x	(32%)	9.4x	(30%)
Yield	Utilities	10.7x	10.4x	3%	9.6x	11%
Yield	REITs	16.1x	19.0x	(15%)	18.0x	(11%)
Market	S&P 500	10.8x	12.4x	(13%)	10.8x	0%

Source: Wells Fargo

"The Many Benefits Of Dividend Growth Investing"

In September we published a white paper titled "The Many Benefits of Dividend Growth Investing". Dividends are an often-overlooked driver of stock market returns. This is particularly true when equity markets are on the upswing as has been the case for much of the past decade. Stock price weakness in 2022 has caused investors to reconsider a "growth at any cost" mindset. The data clearly shows companies that consistently pay and grow their dividends have historically outperformed non-dividend stocks over a full market cycle. This is not entirely surprising. The ability to pay and grow a dividend is a strong sign of financial health. It demonstrates the companies' ability to earn a return over cost with enough cushion to return cash to shareholders. Companies that not just maintain but grow their dividends are able to grow both the top and the bottom line.



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data Sources: Ned Davis Research and Hartford Funds, 2/21.

The full white paper can be found here: https://www.eagleglobal.com/the-many-benefits-of-dividend-growth-investing/

Permitting Reform: Down, But Not Out

On September 27th Senator Joe Manchin pulled the infrastructure permitting reform bill he hoped to pass as part of the continuing resolution to fund the government. As context, Senator Manchin signed on to the clean energy-heavy Inflation Reduction Act that was passed in August in exchange for a vote on reforming infrastructure permitting, which in recent years has bogged down approvals for large projects. Currently the most glaring example of this issue is Equitrans' (ETRN) Mountain Valley Pipeline or MVP for short. MVP is approximately 90% complete and requires only a few more approvals from various agencies to complete the project. Despite the immense benefits the pipeline has for West Virginia's producers (Manchin's home state) and customers/exporters the project has been litigated to a near standstill.

We believe there is strong support for a bipartisan agreement on infrastructure permitting reform, because not only does it benefit traditional energy but also energy transition. The hidden truth is that permitting approvals for large scale renewable energy (e.g., wind, solar) and absolutely critical long-distance electric transmission is being delayed longer and longer and by a wider and wider range of opposition. Therefore, we remain optimistic that with a few tweaks and with midterm elections safely in the rear view mirror this important piece of legislation will cross the finish line.

Energy Infrastructure Team Update

There were no significant team related news items to highlight this quarter. We continue to focus on the research and portfolio execution effort and are in constant dialogue with industry experts and management teams. We continue to believe oil and natural gas will play a major and increasing role in the global economy, and owing to healthier balance sheets, higher coverage, and heightened discipline are optimistic about the long-term viability of Midstream as a sector for investors who prioritize income.

We look forward to communicating the results of your investment next quarter and thank you for your continued patronage and confidence in Eagle Global Advisors.

- The Eagle Energy Infrastructure Team

Disclosures

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