EAGLE GLOBAL ADVISORS

Market Review and Outlook

Q1 2019

EGA U.S. Equity

From the EGA Portfolio Management Team

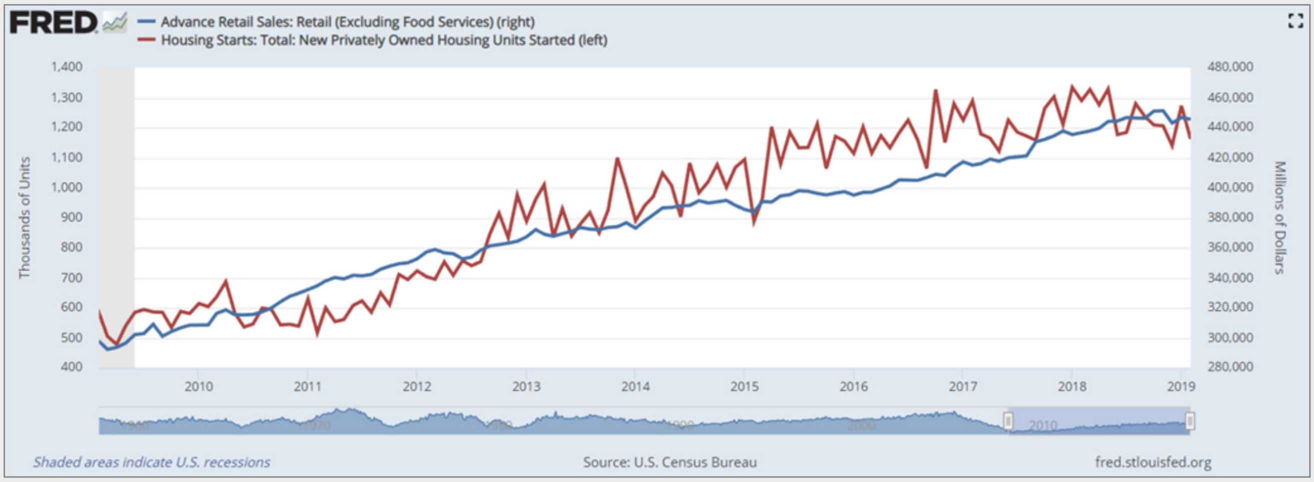
The S&P 500 Index rose +13.7% during the first quarter trending toward the all-time high from 2018. The market rally was fueled by a reverse in monetary policy direction by the Federal Reserve and an improved outlook for the U.S.-China trade negotiations. The market also benefitted as concerns faded about Russian collusion, protests in Europe, and the brief U.S. government shutdown. While we currently do not forecast a recession for the U.S. in 2019, we acknowledge that economic activity has slowed from the pace achieved in 2018. Long dated Treasuries rallied while short rates declined as the market reversed the expectations of the Federal Funds rate trajectory from rising to declining. Corporate spreads tightened on easing economic worries, leading to strong returns in fixed income.

Last quarter's economic weakness triggered the Fed's reversal in its rate hike stance and prompted the U.S. administration to not raise the tariffs any further on China. We believe this speaks to the self-correcting mechanisms in place to support the economy and the markets. Much of the rally this year has been built on market expectations that the Fed won't raise interest rates again at any point in the next few years and that the U.S. and China will come to some sort of a trade resolution. For the recovery in markets to continue, the weakness in global growth will also have to recede, which has been most stark in the manufacturing and export sectors. Chinese authorities are now stimulating domestic demand with a package of tax cuts, infrastructure investment and measures designed to support bank credit growth. The European Central Bank has deferred its rate hike plans until at least next year. The Fed has pivoted to patience mode. A combination of easier monetary policy, government stimulus and less disruptive trade policies should continue to support markets for the rest of 2019.

Economy: *Economic Growth Decelerates*

U.S. economic growth cooled by more than initially reported last quarter on revisions to consumer and government spending. Real Gross Domestic Product (GDP) grew at an annual rate of 2.2% in the fourth quarter of 2018, decelerating from 3.4% in Q3 2018. Personal consumption growth decelerated from 3.5% in Q3 2018 to 2.5% in Q4 2018. Government spending decelerated from a growth of 2.6% to a decline of -0.4%.

U.S. February retail sales fell -0.2%, missing estimates of a 0.2% gain. The decline follows an upwardly revised 0.7% increase in January, which was previously estimated at 0.2%. Weaker than expected retail sales in February signal that consumer spending growth will significantly slow in the first three months of the year compared with prior quarters. This is likely a result of the lingering impact of the government shutdown, the year-end market selloff and an earlier slump in consumer confidence. Excluding gasoline and automobile sales, retail sales fell sharply (-0.6%), significantly below the consensus estimate for a 0.3% increase.



U.S. new home starts fell in February by the most in eight months on weakness primarily in single-family homes. We believe this weakness is temporary and anticipate housing could be a source of strength in the economy later this year as mortgage rates reflect recent lower interest rates. Housing starts surged in January as warmer than usual weather boosted activity. Normalizing temperatures in February led to a slowdown in starts. We expect the pause in rate hikes and ongoing strength in wage growth to lift demand later this year, providing a modest second wind to the housing market. Contract signings to purchase previously owned U.S. homes, (pending home sales), fell 1% from the prior month and 5% from a year earlier. On the positive side, new home sales jumped 4.9% in February to an annualized rate of 667,000, an increase from an upwardly revised 636,000 in January (previously estimated at 607,000). The December result was also revised higher (to 652,000 from 588,000).

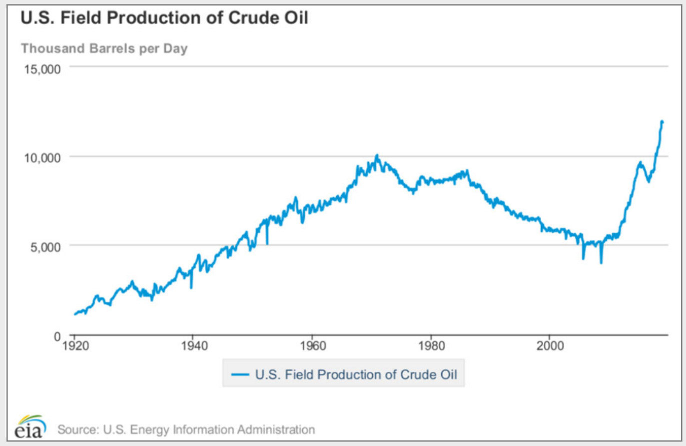
The ISM Manufacturing Index rose to 55.3 in March from 54.2 in February. Among survey components, new orders rose to 57.4 vs. 55.5 in February and production increased to 55.8 from 54.8, both partially reversing February's declines. However, new export orders continued to moderate to 51.7 from 52.8. Imports also cooled to 51.1 from 55.3. The ISM employment component rose sharply in March to 57.5 from 52.3 in February. This is an encouraging signal for manufacturing payrolls, which registered a weak 4,000 growth in February versus 21,000 in January.

Employers added 20,000 jobs during the month of February, missing economist estimates. This is likely due to unfavorable weather and payback from outsized gains in prior months. The unemployment rate declined to 3.8% and average hourly earnings rose 3.4%, both beating economist estimates. The U-6, or underemployment rate, declined to 7.3% from 8.1%. This measure includes part-time workers who want a full-time job and people who are less active in seeking work.

U.S. consumer confidence declined for the fourth time in five months on dimmer assessments of present conditions, suggesting that weak first quarter growth and slower job gains in February are weighing on attitudes and potential spending. The Conference Board's Consumer Confidence Index fell to 124.1 from 131.4. Present situation confidence fell from 172.8 to 160.6. The NFIB Small Business Optimism Index, a gauge of optimism among U.S. small-business owners, rose to 101.7 in February from a two year low of 101.2 in January.

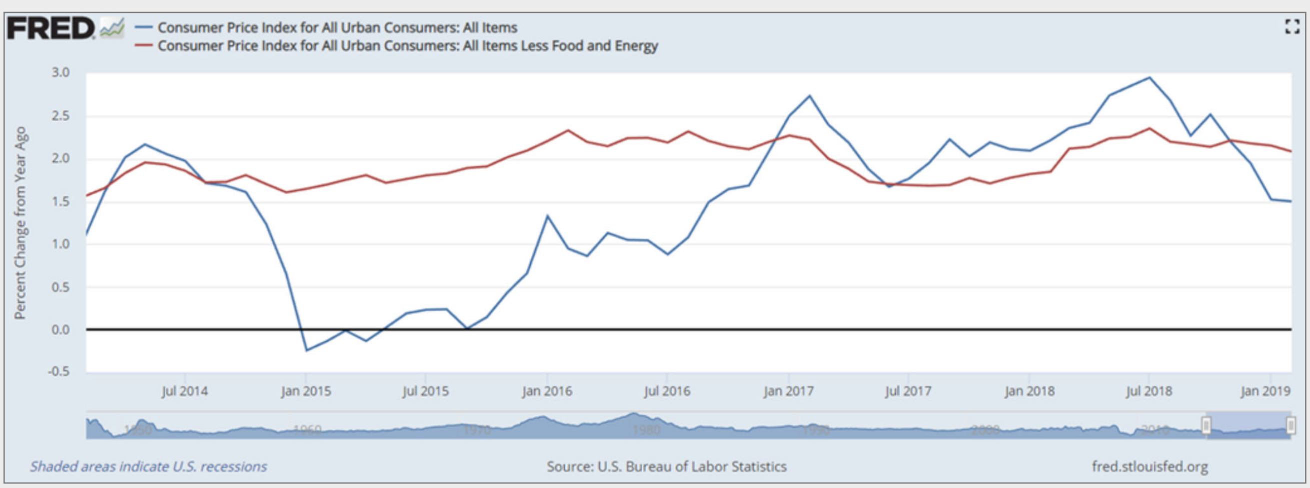
Oil: *Crude Oil Stages a Steady Recovery*

Crude oil prices climbed steadily through the quarter, closing above $60 for WTI and $67 for the Brent Index. The combination of slowing U.S. shale oil drilling, production cuts and U.S. export restrictions on Venezuela, sanctions on Iran, and the OPEC+ production cuts continue to outweigh the bad economic news that may someday lower demand. The latest monthly Energy Information Administration (EIA) data reported average daily U.S. crude production slipped during January for the first time in nearly six months falling to 11.87 million b/d from 11.96 in December. This number is likely to be more accurate than the weekly estimates that are based more on trends than actual production numbers. Given the severe weather across North Dakota during the last two months, it seems unlikely there will be an increase in Bakken production until spring. The U.S. oil rig count continues to slide, falling from 885 on January 1st to 816 at the end of March. This situation suggests that we may not see another 1.8 million b/d gain in shale oil production like happened in 2018.



Inflation: *Eases Slightly*

U.S. consumer prices increased 0.2 percent in February on a seasonally adjusted basis after being unchanged in January. In the 12 months through February, the CPI rose 1.5 percent, slowing from January's 1.6 percent rise. Excluding the volatile food and energy components, the so-called core CPI increased 2.1 percent in February after climbing 2.2 percent in January. The shelter index increased 3.4 percent. The medical care index rose 1.7 percent over this span, as the hospital services index increased 2 percent. The Federal Reserve's preferred inflation measure, the Core PCE Price Index excluding food and energy, increased 1.8 percent year-over-year in January, after growing 2% in the prior month.



Corporate Profits: *Valuation Attractive Against Strong Profit Growth*

After benefitting from corporate tax reform in 2018, earnings are set to decelerate from 24% growth in 2018 to 3.4% in 2019. The estimated year-over-year revenue growth for Q1 2019 is 4.8% but estimated year-over-year earnings are expected to decline in Q1 2019 by -3.9%. Nine of the eleven sectors are expected to report revenue growth. For earnings estimates, Energy, Materials, and Information Technology are leading the decline. After the market rise, we calculate the forward 12-month P/E for the S&P 500 is 16.3x, which is slightly lower than the 5-year average of 16.4x but above the 10-year average of 14.7x.

Interest Rates: *A Shallower Path of Rate Hikes*

The Federal Open Market Committee (FOMC) decided to maintain the current target range for the federal funds rate at 2.25%-2.50%. The FOMC will be patient when evaluating future increases in the federal funds rate. The Fed will reduce balance sheet redemptions of Treasury securities beginning in May by $15 billion per month—while continuing to redeem mortgage-backed security purchases by up to $20 billion per month. The committee intends to conclude its balance sheet runoff at the end of September 2019.

Fixed Income: *Long Rates Fall and Yield Curve Inverts*

The Fed's pivot to a more accommodative stance during the quarter led to a strong rally at the long end of the yield curve. The 10-year Treasury yield fell from a high of 2.72% at the end of February to 2.42% by the end of March. Short rates stayed pretty much unchanged with the 3-month T-bill at about 2.40% over the quarter. Since quarter end the 10-Year yield has continued to decline to the point where it is slightly below the 3-month T-Bill rate, giving rise to a condition known as an "inverted yield curve." While the inversion between the 10-year and 3-month bill is slight, at maturities from two to five years, the inversion is more pronounced. This has raised concerns since an inverted yield curve has preceded every recession for the past 60 years, although there have been a few false alarms. The logic is that since interest rates fall in recessions, when bondholders lock in a lower return at a longer maturity this reflects their strong opinion that short rates will fall in the near-term, perhaps reflecting weakness in the economy. We believe that concerns about weakness in the U.S. economy are overblown and that the Fed is likely to keep rates unchanged or even cut rates later this year. So we expect long rates to rise relative to short rates. We are keeping our bond portfolios short in duration although we are increasing the quality of the holdings.

Stock and Portfolio Highlights

Eagle portfolios trended with the S&P 500 index in the first quarter. Stock selection was positive for Consumer Staples, Communication Services, and Energy sectors and negative for Health Care, Consumer Discretionary, and Information Technology sectors. Sector allocation was a headwind due to an overweight in Financials and no exposure to Real Estate while the underweight in Health Care helped.

Purchases / Additions In The Quarter

Facebook Inc.: We again added to Facebook. Facebook has retained its network effect of loyal users and advertisers who continue to generate above average ROIs on the platform. We believe that some form of regulation is now imminent, but do not expect that to reverse incremental ad budget flows into digital advertising or impact Facebook significantly more than its other digital media peers. At 20 times 2019 earnings, the stock more than discounts the expense ramp for 2019 while it is expected to grow annual revenue at 20% or above for next 3 years.

Visa Inc.: Visa, Inc. engages in the provision of payment services. It also facilitates global commerce through the transfer of value and information among global network of consumers, merchants, financial institutions, businesses, strategic partners, and government entities. In addition to its strong competitive moat in payments and the ongoing growth in the digital payments market, upside to Visa is supported by Visa Europe accretion. Expected growth rates in the 15% range look very attractive compared to others in the IT sector, where growth begins to fade in 2019.

Intercontinental Exchange Inc. (ICE): ICE was founded in 2000 as an OTC energy market and has since expanded both organically and through acquisitions across trading, clearing, and data. We view ICE as well positioned, with the strategic benefits of the NYSE Euronext transaction, for a pickup in trading volumes (equities, rates and energy). Furthermore, we believe ICE will be able to accelerate growth, continue to remove costs, and further capitalize on the growing value of its data content as it introduces new products and services.

Arthur J. Gallagher: It is the world's fourth largest insurance broker, providing insurance brokerage and risk management services via a network of subsidiaries. It continues to experience solid organic growth in both businesses. The brokerage unit is performing well as the economy starts to improve and the pricing outlook is a bit brighter. Risk management continues to generate good growth. We anticipate the company to be more active in its M&A program with a focus on small bolt-on deals rather than larger sized deals. This growth, along with good expense discipline, should allow for continued margin improvement.

CVS Health Corp: Tax loss driven selling pressure after the acquisition of Aetna and subsequent reduced guidance provided an attractive entry point to add to our CVS position. CVS is trading at 7x 2020 earnings, yields 3.8% and most other valuation metrics are at or close to historic lows. Key risks include reimbursement rate pressure, cost savings, health plans not buying into new model, Amazon headline risk, managed care consolidation, and lost PBM contracts. Four directors have purchased shares at $54.26 in a strong showing of positive sentiment. The company also plans to use the roughly $5 per share in annual free cash flow to pay down debt transferring value to equity over time. Share repurchases should resume once the 3.5x leverage ratio target is reached in 2021.

Purchases Due To Tax Loss Harvesting

East West Bancorp: Highly profitable, niche focused, and shareholder friendly. It is the largest Asian niche bank in the country, the bank of choice for new immigrant Chinese- Americans (retail & commercial) and provides valuable and unique expertise to aid cross border business between the U.S. and Greater China companies. We believe EWBC will continue to generate above average EPS, loan, dividend growth and core profitability better than peers.

Sells / Trims In The Quarter

Intel Corp.: We exited Intel admitting to the risks that surfaced from the delays in the launch of Intel's 10nm product. Even if Intel successfully transitions to 10nm by the end of 2019, it will be behind its competition in process technology for the 2020 product lineup.

Qualcomm: The sale of Qualcomm was made to de-risk before a potential unfavorable legal outcome against FTC. We believe that Qualcomm failed to make a strong case for why it shouldn't be asked to separately license its standard essential patents (SEPs) for modem technology to modem chip manufacturers (Mediatek, Samsung, Intel) and license its non-standard essential patents to OEMs (Apple and other smartphone manufacturers). If forced to do so, Qualcomm could see a significant negative impact to its earnings power.

Financial Select Sector SPDR: Last December we invested in the Financial Select Sector SPDR Fund to maintain our exposure to the Financial sector with the proceeds from tax loss harvesting of our financial positions in East West Bancorp, Goldman Sachs, and Bank of America. We plan to sell down the Financial SPDR as we reinvest mainly in financials like the additions made to Intercontinental Exchange, Arthur J. Gallagher and the repurchase of East West Bancorp.