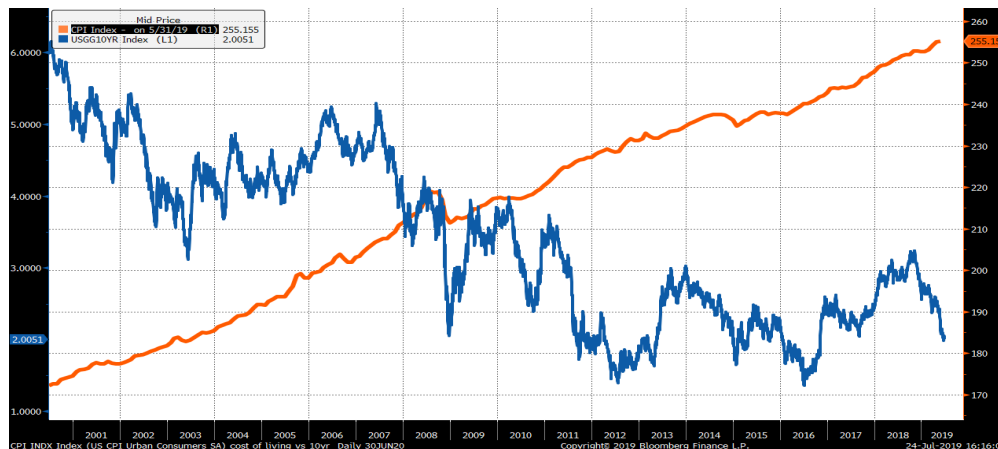


Where's my Yield?

Investors live in an income starved world. A decade has passed since the Great Recession when the U.S. government targeted 0% interest rates to stimulate the economy. GDP growth has rebounded from the trough of -8.4% in the fourth quarter of 2008 to quarterly growth in the 2-4% range in recent years. Meanwhile, investors' buying power has steadily eroded relative to their ability to generate income from their investments. As shown in the chart below, CPI has grown, while fixed rates have declined, creating a dilemma for income-oriented investors.

U.S. Consumer Price Index vs. 10 Year Treasury

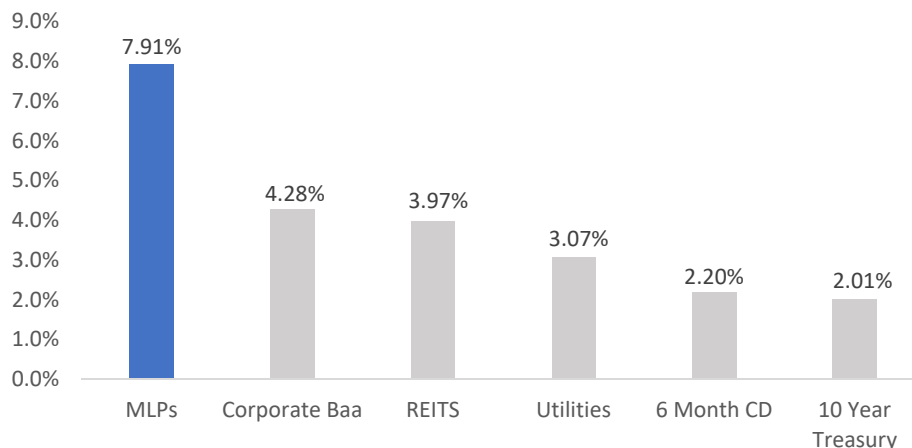


Source: Bloomberg

To further exacerbate the low rate environment, it appears the Fed is now on course to shift to a policy of monetary easing with their recent lowering of rates by 25bp. Why? Their goal is to extend the long running expansion, yet they also want an insurance policy against an economic slowdown sparked by rising trade tensions and weakening manufacturing activity. Additionally, a 2% Ten Year Treasury is below their stated target of 2.25%-2.50% for the Fed Funds rate, so lowering rates should reinvert the yield curve to reduce recession risk.

How can investors generate income in an income starved world? The impact of lower interest rates will be felt across asset classes as yields will be further depressed from current levels. The chart below highlights the current spread disparity between MLPs/Midstream relative to other yield-oriented investments.

Current Yields as of 7.31.2019



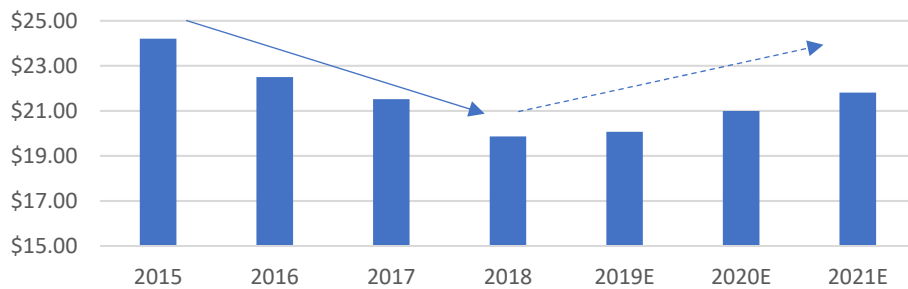
Source: Bloomberg. See detailed source on page 3.

What are MLPs/Midstream investments and what aren't they? MLPs/Midstream are investments that take advantage of the continued production and consumption growth of energy in North America. They facilitate the transfer of oil, natural gas and natural gas liquids through their ownership of pipelines, storage tanks and processing facilities. Products are moved from the wellhead to your home or more recently to the coast to be exported.

MLP/Midstream business models are mainly impacted by volumes flowing through their pipes and the associated fees. Higher volumes result in more fees and higher cash flows, which can be used for distributions (commonly known as dividends), reducing debt or to buy back stock.

MLPs/Midstream are not fixed income investments, but rather equities with a similar risk profile paying variable distributions. Historically, distributions have been on a steady upward trajectory due to strong growth and high cash flows. However, midway through 2014, the sector came under pressure from a sharp decline in oil prices. This resulted in lower volumes, reduced cash flow, increased leverage and distribution cuts. Capital discipline, self-funding and reduced leverage has led to improving coverage ratios supportive of more stable distribution growth going forward. A recent UBS research note highlights investor confidence is increasing in the sustainability of distribution increases “due to positive changes and sentiment in credit ratings being a signal the distribution is relatively safer.”

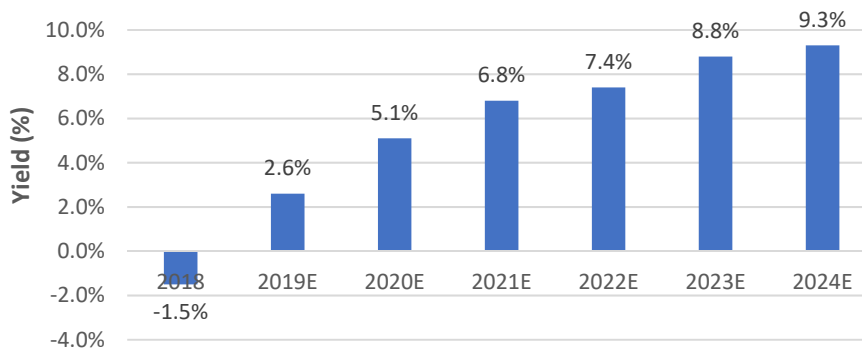
AMZ Distribution



Source: Bloomberg, UBS

As shown in the chart below, free cash flow forecasts for 2019 and beyond are predicted to grow at a healthy pace. We believe the period where MLP/Midstream management teams used cash flow to improve their balance sheets and fund growth projects is near the end of the cycle and should transition to paying out their equity holders.

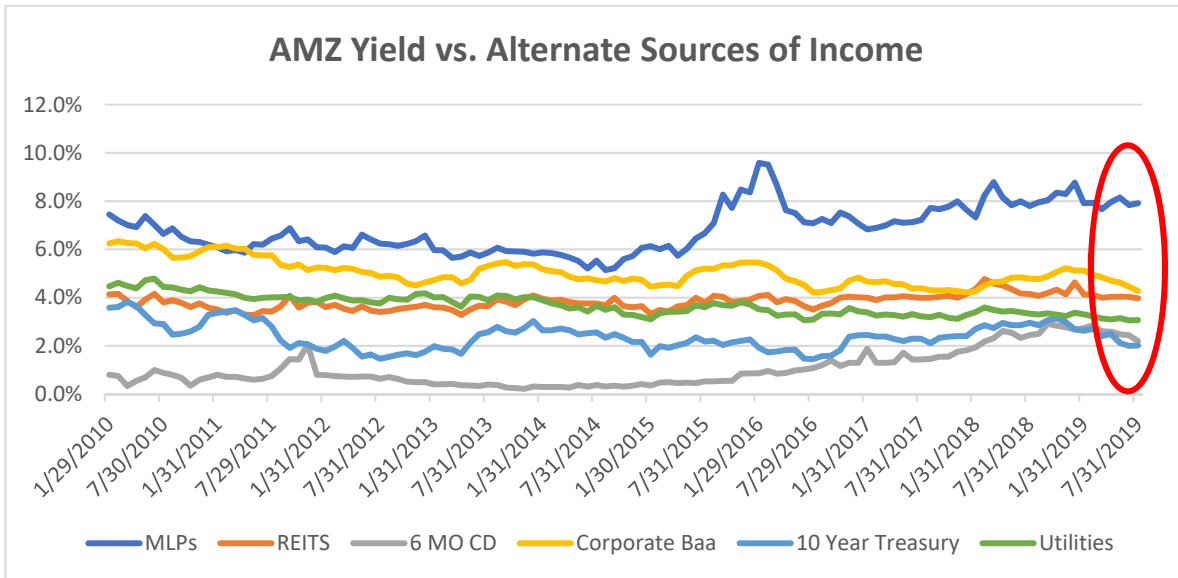
Midstream Median Free Cash Flow Forecast



Source: Wells Fargo Securities, LLC.

It should be noted MLP distributions are not without risk. Distribution cuts among bell weather MLPs could have an adverse effect across the sector; poor capital discipline could negatively impact free cash flow generation; and MLPs could use cash flow for reinvestment or further deleveraging versus paying distributions to investors longer than anticipated.

We believe MLPs/Midstream provide investors who are wondering “Where’s my yield?” with an attractive investment opportunity to generate income. As shown below, the yields of many income-oriented investments have declined over recent years, while MLPs have trended higher resulting in a historically high yield advantage.



Source: Bloomberg as of 06/30/19; MLPs are represented by the Alerian MLP Index; Baa is represented by the Moody’s Seasoned Baa Index; REITs are represented by the FTSE NAREIT Equity REIT Index; Utilities is represented by the Dow Jones Utility Index; 6 Month CD is represented by the U.S. 6 Month CD rate; 10 Year Treasury is the U.S. Government 10 Year Treasury Bond. Past performance is not indicative of future results.

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