

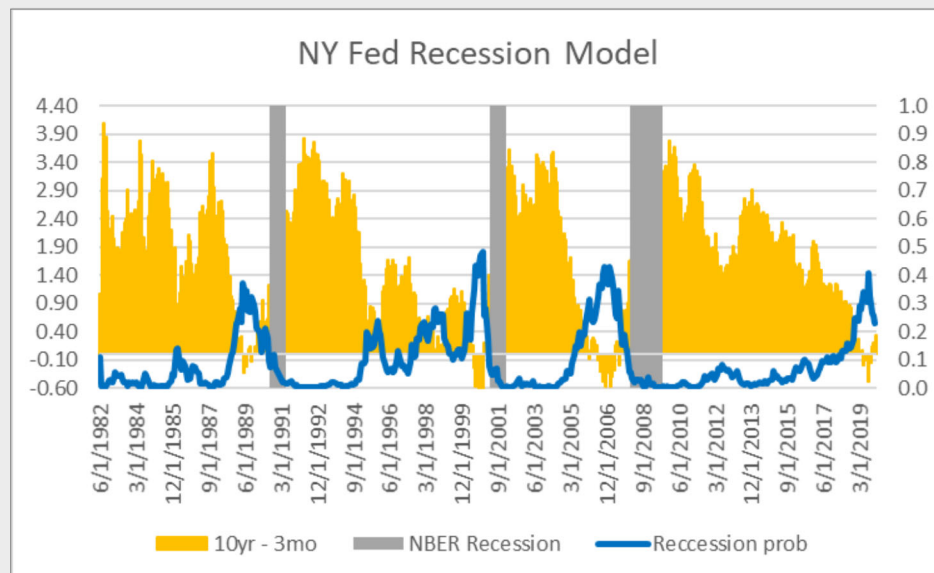
### EGA U.S. Equity

From the EGA Portfolio Management Team

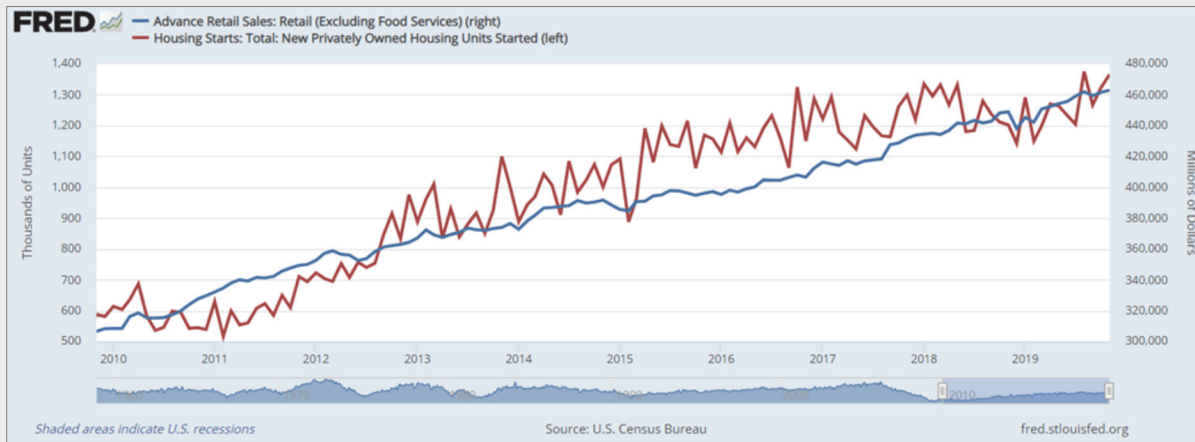
The S&P 500 Index rose +9.1% during the fourth quarter, helping stocks close out one of their best years over the past decade. An improving economic outlook coupled with agreement between the U.S. and China on the first phase of the trade deal supported the advance in stocks. For the year, U.S. stocks returned 31.5% as the pivot last year by the Federal Reserve to reverse their course to raise interest rates in late 2018 averted a policy induced recession in the U.S. For now, it looks like the reversal of policy was made in time to avoid the worst case, but concerns over trade, the Iranian situation, and the upcoming election may keep the economy on edge and investors wary.

#### Economy: *Economy dodged a bullet in 2019*

Let's recall where we were a year ago at this time. The Federal Reserve had instituted its fifth interest rate increase of the year at its December 2018 meeting to 2.5% and signaled it would increase interest rates at least two more times in 2019. JP Morgan President Jamie Dimon warned that businesses should prepare for long-term interest rates to rise to 5.0% in 2019. But after the policy rate increase in September 2018, the S&P 500 plunged 13.5% in the fourth quarter. The New York Fed's model predicting recession probability in the next 12 months increased to 25% in December, and leading economic indices started to roll over. In January, Federal Reserve President Jerome Powell said the Fed would be "patient" at considering more rate increases; this was widely described as the "pivot" in Fed policy. Investment markets took off, and were correct to do so as the Fed reversed course and began to lower interest rates in June, concluding with its third rate decrease in December.



Source: Federal Reserve Bank of New York, Eagle Global Advisors



Retail sales showed strength and interest rate sensitive sectors like housing reacted positively when rates started to fall.

Keeping the economy on pace in 2019 was the consumer, which showed resilience when investment markets rebounded. The trade war with China negatively impacted net exports and investment spending in 2019 as companies were unsure about where and how much to add to capacity.

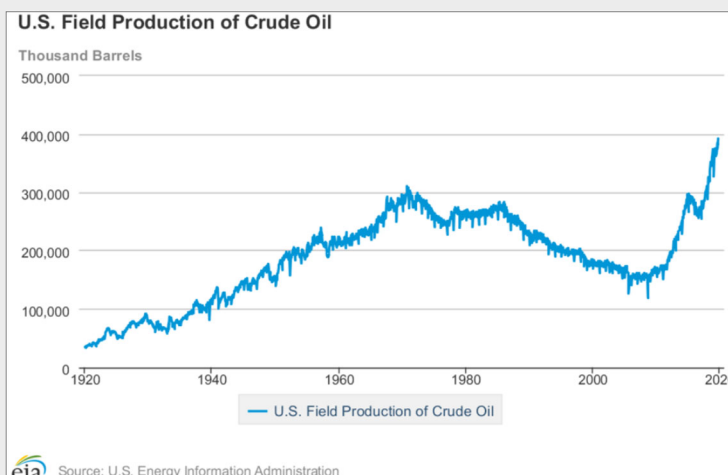
U.S. housing starts jumped to a seasonally adjusted annual rate of 1.36 million units in November 2019, the highest level since June 2007. Both single-family and multi-family starts rose similarly. Building permits rose 1.4% from a month earlier to a seasonally adjusted annual rate of 1.48 million units, the highest level since May 2007. Contracts to buy previously owned homes in the U.S. jumped 1.2% in November from the prior month.

Still, the U.S. manufacturing sector closed out a tumultuous year with the weakest monthly performance since the end of the recession, with orders shrinking and factories continuing to dial back production. Business psychology is still fragile. According to a recent survey by the Duke/Fuqua Business School a majority (52%) of private and public company CFOs report that they expect a recession to begin by the end of 2020. The ISM's purchasing managers' index fell to 47.2 in December from 48.1 in the prior month, marking the fifth straight month of contraction. The deterioration was driven by weakness in new orders and production due to lingering trade issues, unplanned factory closures and extended holiday periods. Good news on the announcement of a Phase One trade deal with China may be undercut by the potential of greater conflict with Iran after the killing of a major Iranian leader by the U.S. in early January.

Employment is still a bright spot for the economy as U.S. employment grew strongly in November, adding 266,000 jobs after revising the prior two months up by a total of 41,000 jobs. Average hourly earnings climbed 3.1% from November 2018, enough to keep worker earnings well above the inflation rate. The pay measure has now been above the 3.0% threshold for more than a year after lagging for much of the expansion. The unemployment rate rounded back down to 3.5%. The labor force participation rate was little changed at 63.2 percent in November. The U-6 or underemployment rate, decreased to 6.9% from 7.0%.

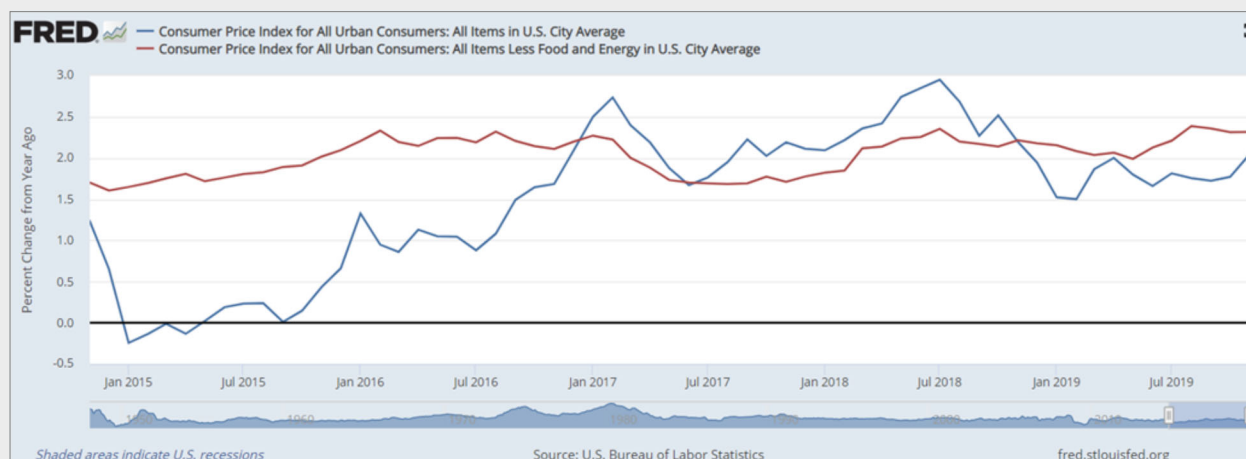
### Oil: *Crude oil rallies*

Oil prices rose after OPEC agreed to additional production curbs of 500,000 barrels a day in November. The cuts would mean OPEC will hold back a total of roughly 1.7 million barrels a day from global oil markets, deepening the current curb of 1.2 million barrels a day. Brent futures rose 8.6% since the end of September, while WTI rose 12.9%, closing at \$66 and \$61 respectively on December 31st. The prices were further supported by reports of progress in U.S.-China trade talks.



### Inflation: *Core inflation remains steady*

Core U.S. inflation, which excludes volatile categories such as food and energy, remained steady in November at a 2.3% increase over the prior year. The Core PCE Price Index rose 1.6% y/y, remaining below the Fed's inflation target of 2.0%. Consumers expect minimal price pressure over the long-term. The University of Michigan's measure of long-term inflation expectations matched the record low in the preliminary December survey.



### Corporate Profits: *Profit rebound pushed out*

After benefitting from corporate tax reform in 2018, earnings growth for S&P 500 constituents is set to decelerate from 21.0% in 2018 to 0.6% in 2019. We expect earnings in 2020 to grow 9.6%, making for easy comparisons to 2019. The estimated year-over-year earnings growth is expected to be -1.4% in Q4 2019 and then grow 5% in Q1 2020. The forward 12-month P/E for the S&P 500 is 18x, which is about 8% above the 5-year average of 16.6.

### Interest Rates: *Monetary policy on hold*

The Federal Open Market Committee (FOMC) left interest rates unchanged in December and signaled it would stay on hold through 2020, keeping it on the sidelines in an election year while also opening the possibility it might buy short-term coupon-bearing securities to ease money market strain. The Fed, in its first unanimous vote since May, said it will continue to monitor the implications of data for the economic outlook “including global developments and muted inflation pressures.” Fed Fund Futures show the market is expecting one more additional cut in 2020 around the middle of the year.

### Fixed Income: *Bond yields dip*

The U.S. 10-year Treasury declined from about 2.7% at the end of 2018 to a low of about 1.5% in late August/early September as the Fed cut rates and concerns about U.S. economic growth declined. Still, credit spreads stayed narrow showing that the market remains somewhat sanguine about possible credit losses, even with a slowing economy. From the lows in September, the 10-year Treasury rate has risen to about 1.8%. While this is above the lows for this cycle, it is still below the core current inflation rate of about 2.3%. The Federal deficit is expected to rise from 4.6% in 2019 to 4.9% in 2020, driven by increases in spending and dramatic reductions in taxes following the massive corporate tax cut in 2017. While rates in the U.S. are low relative to its history, U.S. rates are still the highest in the developed world with 10-year government interest rates in Germany, France, Japan, and Switzerland below or near zero. We have recently reduced our exposure to Treasuries and increased our credit exposure as we believe that the more accommodative Fed, solid employment picture and diminished recession fears should favor credit in this environment.

### Stock and Portfolio Highlights

Eagle portfolios outperformed the S&P 500 Index in the fourth quarter, driven largely by stock selection in Health Care and Industrials. Sector allocation was also positive, primarily driven by the underweight positions in Consumer Staples and Real Estate.

### Purchases / Additions In The Quarter

**American Express Co. (AXP):** American Express is the fourth ranked credit card network by volume (behind China UnionPay, Mastercard, and Visa), it has a somewhat unique business model of operating a closed-loop fully integrated payments company which results in AXP participating in both the Payments and Credit Card sectors. It is a card issuer, payment network and merchant acquirer. We like that 81% of revenue is generated from fees which make them less sensitive to rates compared to banks and credit card companies. It benefits from a better economy and more importantly from the secular shift from cash and checks to electronic payments. Credit quality is better than peers as they focus on high FICO scores and target affluent customers. We expect better revenue growth relative to peers driven by growth in new cards, increased wallet-share and initiative to grow SME's cards (low penetration at 20%) as well as strong international growth. Attractive valuation: 12.8x FY2P/E for 12% growth.

**Salesforce.com (CRM):** Salesforce.com dominates the sales force automation space but still only controls 30% in a highly fragmented market that continues to grow double digits each year. The company has added legs to the overall growth story, including customer service, marketing automation, e-commerce, analytics, and artificial intelligence. Salesforce.com's margins are subscale, with a runway to more than 100 basis points of operating expansion annually.

**UBER Technologies (UBER):** Uber is a truly global platform with multiple large addressable markets. Its profitability is targeted to come a year earlier than analysts had expected, following improvement in the ride share business. Long-term, Uber's platform approach will allow it to rapidly expand into new business lines (Eats, Freight) and leverage shared expenses.

**Visa (V):** Visa will continue to be a key beneficiary of the secular shift from cash and checks to electronic payments, with a highly defensible market position. Market share and pricing opportunities from Visa Europe position it to accelerate its growth profile over several years. Visa Direct and Earthport offer a longer-term revenue opportunity in B2B payments.

### Sells / Trims In The Quarter

**Emcor Group, Inc. (EME):** Emcor reported middling results that raised concern. Particularly, remaining performance obligations posted a sequential decline in every segment and appear to have peaked. That, when coupled with weaker ABI and Dodge data, suggests the risks to operations have grown. Given Emcor's proximity to our price target, we sold the position to de-risk the portfolio.

**Wells Fargo & Co. (WFC):** We sold Wells Fargo as we believe the Cease & Desist (C&D) order will continue to weigh on the outlook for the company. We expect no significant cost saving program this year, slower revenue growth and slower buybacks going forward.

### Purchases / Sells For Tax Loss Harvesting

**EOG Resources Inc. (EOG):** EOG remains an elite operator of some of the best geologic assets in the United States. We have maintained our exposure to EOG, but used challenging energy trading conditions in 2019 to opportunistically manage tax implications.