EAGLE GLOBAL ADVISORS

Quarterly Commentary Q4 2020

EGA U.S. Equity

From the EGA Portfolio Management Team

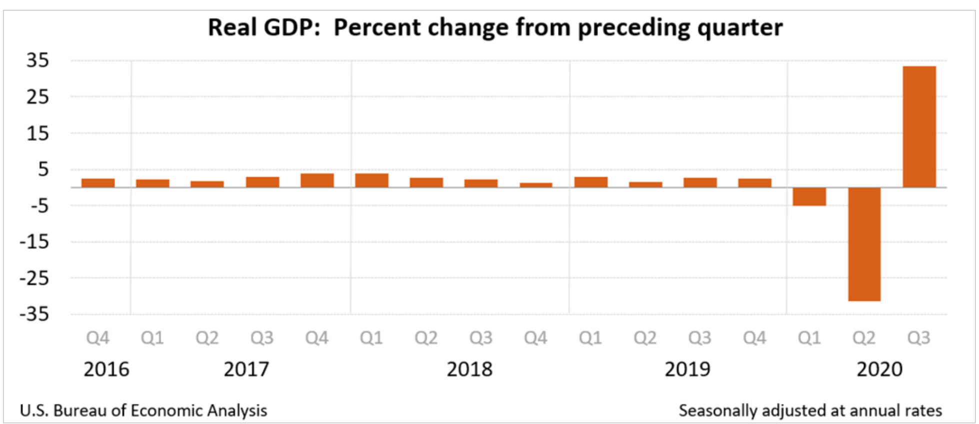
U.S. equities rallied in Q4, posting their third-straight quarter of gains with positive vaccine developments playing an outsized role in setting the tone of the markets. The S&P 500 Index finished the quarter up 12.2% and the year up 18.4%.

The general market optimism was underpinned by a better-than-expected Q3 earnings season, continued signs of economic rebound, and confidence in the central bank backstop. Political themes were a net positive, with the market seemingly comfortable with the prospects of a Biden presidency as seen by the unwinding of broad bearish bets on possible uncertainties following November's election. Additionally, the quarter ended with a $900 billion Covid-19 relief package which includes $600 direct stimulus checks, extended unemployment benefits, and another round of the Paycheck Protection Program (PPP).

Covid-19 vaccines are setting the stage for a new period of economic growth and the Federal Reserve is likely to remain accommodative on monetary policy, keeping short-term rates low over the next few years. Stimulative monetary and fiscal policy should support asset price inflation, higher income/savings and keep the economic engine going.

Economy: V-shaped recovery

Gross domestic product increased 7.5% from the prior period, or at an annualized rate of 33.4%. The record U.S. economic rebound in the third quarter was led by manufacturing, health care and restaurants i.e. the industries that benefited most from reopening after the initial pandemic lockdown.



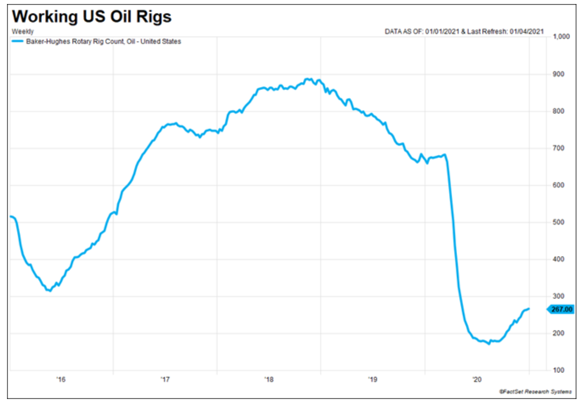
Labor markets have continued to heal. While the initial jobless claims have stabilized (albeit at elevated levels) between 700,000 to 800,000 new weekly claims since the end of third quarter, weekly continuing claims have recovered from 10 million at the end of third quarter to nearly 5 million at end of fourth quarter.

U.S. consumer spending and incomes fell more than forecasted in November as autumn's surge in Covid-19 cases dampened the economic recovery. Consumer spending, which accounts for a majority of the economy, dropped 0.4% last month - the first decline since April. Personal income decreased 1.1%, reflecting the winding down of several pandemic aid programs. Consumer confidence deteriorated in December, highlighting the fragility of the main engine of economic growth - household spending. A drop in the present situation measure was partially offset by a modest pickup in expectations. Vaccine distribution along with the latest fiscal stimulus package offer hope on the horizon.

The housing market appears to be taking a breather. In October, home prices in 20 U.S. cities climbed 8.0% versus the prior year, but November pending home sales fell for the third consecutive month, suggesting higher prices and limited inventory are slowing momentum in the housing market despite record low borrowing costs. Compared with a year earlier, pending sales were up 16.0%, indicating continued elevated demand as buyers seek more space. November new home sales also tumbled to a five month low.

Oil: Vaccine led rally

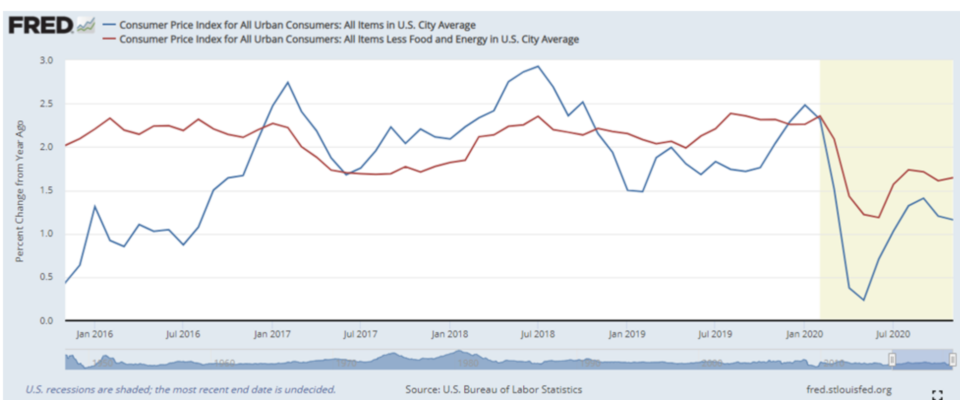
Crude oil notched solid gains (21% for WTI and 26% for Brent) during the fourth quarter in response to Covid-19 vaccine announcements. In the near-term, investors are concerned about rising infection rates, new lockdowns and delays in vaccine rollouts, but the medium-term demand outlook appears to be improving with higher probability of improved mobility in the second half of 2021. OPEC supply should remain constrained in the first part of 2021 as Saudi Arabia announced on January 5th to cut production and bolster prices. U.S. producers are also maintaining supply as indicated by weekly production numbers while the rig count is rising again. The U.S. Energy Information Administration (EIA) expects Brent prices to average $49/bbl in 2021. The forecast for higher crude oil prices next year reflects EIA's expectation that while inventories will remain high, they will decline with rising global oil demand and restrained OPEC+ oil production.



Source: FactSet

Inflation: Tame inflation

Core U.S. inflation, which excludes food and fuel costs, increased 1.6% in November compared to the prior year. While services costs picked up by the most since July, a broadening of inflation will likely take time as the nation awaits distribution of Covid-19 vaccines. Covid-19 has curbed demand for services, which make up about 60% of the overall CPI and 75% of the core measure. November Core PCE inflation grew 1.4% versus the prior year. Forecasters surveyed by Bloomberg generally expect inflation to temporarily rise above 2.0% in the second quarter of 2021 on an annual basis before settling back at or slightly below that level.



Corporate Profits: Upward revisions continue

For the fourth quarter, the estimated earnings decline for the S&P 500 is -9.2% versus on September 30th, when the estimated earnings decline for Q4 2020 was -12.8%. Since then, 8 of 11 sectors have seen upward revisions. Next quarter (Q1 2021) the S&P 500 is expected to revert to 16.0% earnings growth. For 2021, S&P 500 earnings are projected to increase 22.0% with revenue growing 7.8%. The forward 12-month P/E ratio for the S&P 500 is 22. While the P/E ratio is above its 5-year average (17.4) and the 10-year average (15.7), after adjusting for higher growth rates and lower than usual interest rates, the valuation gap relative to historical data may be justified. In addition, we believe that the economy could surprise many with its strength and that would translate into materially higher corporate earnings. If that occurs, then stocks are not as expensive as many believe.

Interest Rates: Fed should stay accommodative

As part of their unprecedented stimulus, the Federal Reserve has been buying $80 billion in Treasuries and $40 billion in mortgage bonds a month since June while pledging to maintain those purchases "over coming months." At the December meeting, the Fed confirmed those purchases would continue "until substantial further progress has been made" toward broader employment and inflation goals. The recent minutes show most of Governors expect the Fed to hold short-term rates near zero for at least three more years despite a somewhat more optimistic economic outlook than they had in September, before the Covid-19 vaccine announcements.

Fixed Income: Interest rates rise

As expectations for an end to Covid-19 related economic slowdown rose on the positive news of vaccine efficacy, interest rates rose as well. The 10-year Treasury yield rose from 0.6% in September to 0.9% at the end of the year. After the surprising Democratic sweep of the Georgia races, giving the Democrats control of the Senate in addition to the House and Presidency, expectations for more near-term fiscal stimulus rose and the 10-year Treasury yield jumped over 1.0% for the first time since the pandemic began. We would expect longer-term rates to rise as the effects of the pandemic on the economy recede in the next year. We intend to stay short in our fixed income portfolios and maintain our exposure to corporate credit, which should benefit from a return to more normal economic conditions.

Stock and Portfolio Highlights

Eagle portfolios outperformed the S&P 500 Index during the fourth quarter driven by the Industrials, Consumer Staples and Communication Services sectors.

Purchases / Additions In The Quarter

AT&T Corp. (T): We initiated a position in AT&T keeping with our barbell approach on valuation of portfolio constituents. Over the last six years, acquisitions (DirectTV and Warner Bros.) and capital expenditures have added debt to the balance sheet and put pressure on the dividend. At the current price, we believe investors are underappreciating the value of HBO streaming assets in combination with the content studios of Warner Bros. Warner Bros. recently announced that its entire 2021 slate would arrive simultaneously in theaters and its sibling streaming service. With that announcement, AT&T has flipped the script on streaming and carved a differentiation that gives them a chance to accelerate subscriber growth.

Boeing (BA): Boeing is one of two major global airframers, manufacturing aircraft for both commercial and military applications. In addition to producing aircraft, Boeing provides various defense-related products and services as well as various aftermarket products and services. While Covid-19 and the grounding of the 737-MAX have led to significant underperformance for Boeing over the last twenty months, we believe that recent vaccine news and the FAA's rescission of the grounding order both remove significant headwinds to Boeing's future operations. With successful vaccines, we expect a resurgence in global air travel and a return to secular GDP-plus growth for the commercial aerospace industry as demand in emerging economies increases global per capita air traffic. This trend, coupled with Boeing's leading position in a duopolistic business, should allow the company to regain its status as a compounder of profitable growth. We believe the dislocation between the company's share performance and economic outlook provides an attractive entry into the shares.

Salesforce.com (CRM): Salesforce.com is the leader in business applications delivered on the web using a software-as-a-service (SaaS) delivery model. Its products are focused on customer relationship management applications used by sales reps, marketing agents, service professionals, and others. We like its exposure to attractive secular trends around digital transformation initiatives with a strong defensible competitive position given its sizable first-mover advantage and aggressive innovation focus. We believe the acquisition of Slack, albeit expensive, is built on a sound strategic rationale of building an operating system for its backend system of record. Salesforce.com's historical track record in MuleSoft and Tableau lends it the credibility for making value accretive large strategic acquisitions. We also believe the recent underperformance of Salesforce.com's stock price adequately prices the dilution of the announced acquisition of Slack.

Sells / Trims In The Quarter

iShares Aerospace & Defense ETF (ITA): With positive news on vaccines and the announcement of the Boeing 737 MAX's return to service, we decided to sell out of this diversified aerospace ETF and redeploy proceeds directly into Boeing following its improving risk reward profile.

Twitter (TWTR): We consolidated our holdings in digital advertising linked businesses within the Communication Services sector to limit to companies that we believe are the best of breed in their ad technology, resilience to economic fluctuations and nimbleness to pivot in trying times. That resulted in the sale of our remaining Twitter position.

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