EAGLE GLOBAL ADVISORS

Quarterly Commentary 2Q 2021

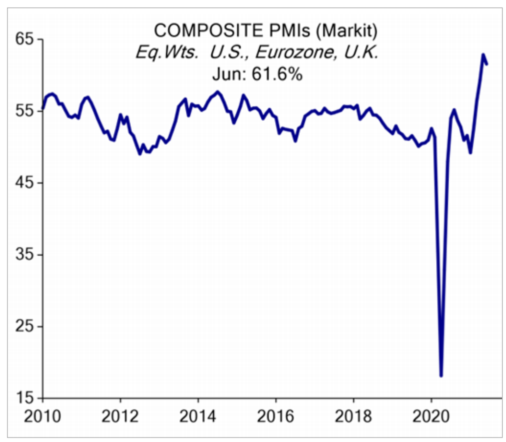
EGA International Equity ADR

From the EGA Portfolio Management Team

Markets Cheer Re-opening

Source: Evercore ISI

Global equity markets rallied in the second quarter as vaccination rates accelerated, economic growth strengthened, and corporate earnings surprised positively. Economic growth across the globe has bounced back quickly and sharply as the reopening of some developed economies took shape during the second quarter and as pent-up demand from consumers and businesses alike strengthened the trajectory of economic expectations. The Eurozone economic sentiment index rose to the highest level in 20 years as the Eurozone economy enters the third quarter on a strong footing. The pace of reopening is also expected to accelerate in the region as vaccination rates rise.



Source: Evercore ISI

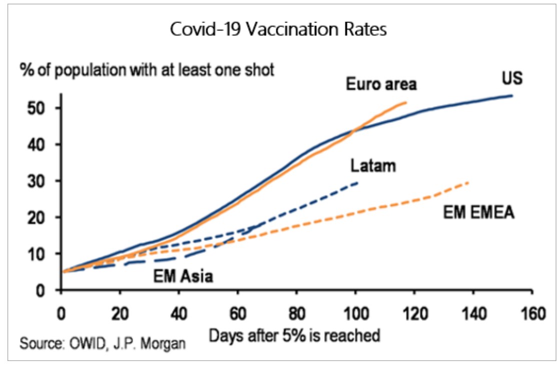
It is a global economic boom we are witnessing. The combined Composite Purchasing Manager's Index (PMIs) for the U.S., Eurozone, and the U.K. is at its highest level in more than 10 years. It is no coincidence that these are the markets with the highest rates of vaccination progress around the world. The key question investors are asking is if this is as good as it gets for economic growth and has it peaked? While there are merits to the argument that we may be at peak growth, it does not necessarily mean equity markets will not continue to be supported by strong corporate earnings the rest of this year and into 2022 as global economies re-open. There is still significant earnings momentum ahead of us as supply chains normalize, further vaccinations lead to additional re-openings, and pent-up demand boosts sales growth.

Equity markets responded with strong returns for the quarter with the MSCI EAFE Index appreciating by over 5% in USD-terms for the quarter. Inflation expectations have been the biggest debate for equity markets this year and this uncertainty remains. The Fed argues that inflation in 2021 is transitory, caused by easy comparisons to last year and supply constraints as the supply chain struggles to re-open while others argue the monetary and fiscal excesses as a reaction to the economic shutdowns will affect long-term inflationary expectations not appreciated by bond and equity markets. We are in the transitory camp but believe higher inflation could last longer than a one or two quarter event. The key will be how global central banks react to a near-term higher inflationary environment. Will they remain patient as inflation is above target, or will they begin to tighten policy sooner than expected?

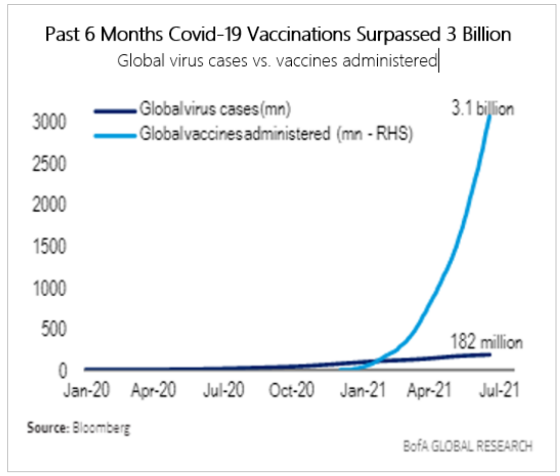
Vaccinations Accelerate

While the U.S. led other major developed economies out of the gate with its vaccinations, the Eurozone has quickly caught up as supply of vaccines reached the region in vast quantities during the second quarter. The U.S. has vaccinated close to 60% of its population and the Eurozone is not far behind with about 50% of its population vaccinated with at least one shot of the vaccine. This should be a tailwind for re-opening in Europe and should drive economic and corporate earnings growth in the second half of the year.

The pace of vaccines across the globe are important as new variants of the Covid-19 virus surface. Research indicates the Alpha variant which appeared earlier in the year was 50% more contagious than the original variant while the newest Delta variant is 50% more contagious than the Alpha variant. The Delta variant also appears to increase the risk of hospitalizations. The good news is that vaccinations across the globe have accelerated and now over 3 billion people have received at least one dose.

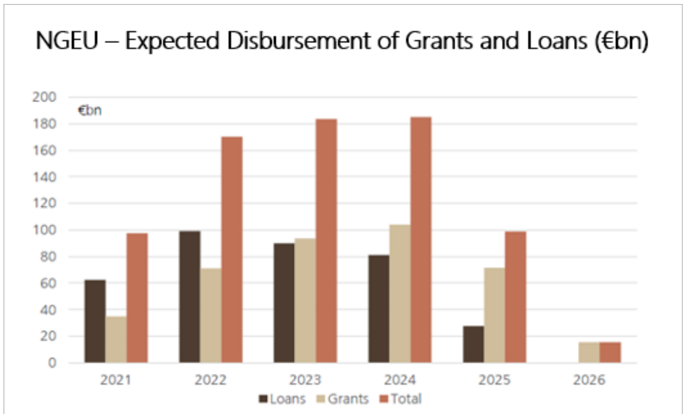


Research from the United Kingdom on the Delta variant provides optimistic results as well. Scientists currently project that the Pfizer and Moderna vaccines appear to be at least 80% effective against the Delta and Alpha variants. The vaccines also seem to reduce hospitalizations for both variants more than 90% of the time. Equity markets appear to believe that the pace of vaccinations is now in front of the virus and the variants and that even though some re-openings around the globe may take longer, we will be successful in severely slowing the spread of the virus and control the devastating economic impact.



Europe's Response

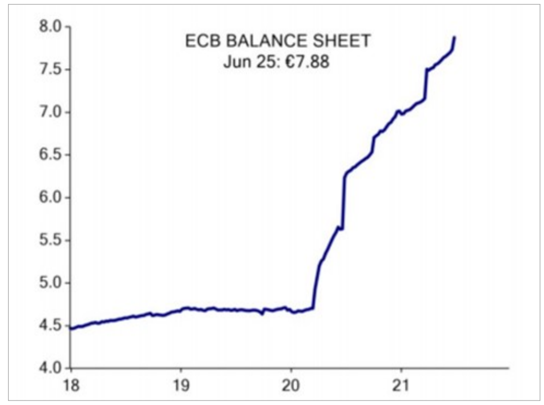
While much ink is given to the vast amounts of fiscal stimulus in North America, including the looming infrastructure plan, Europe's plans should not go unnoticed. Last year's agreement in the European Union for its recovery fund known as the Next Generation EU (NGEU) plan is worth **€**750bn (5.5% of GDP) and is scheduled to begin in the second half of 2021. 90% of the plan is known as the Recovery and Resilience Facility (RRF) where more than 2/3 of the facility is to be spent on green transition and digitalization. It has taken longer than other countries to implement though as the EU asked each member country to submit their plans on how they would spend the monies allocated to each country.



Source: UBS estimates based on the European Commission Proposal in May 2020 and adjusted for the expected disbursement of 13% of all loans and grants in 2021.

The big boost for economic growth from the NGEU should start in 2021 but fully felt in 2022 and onwards as the grants and loans that are part of the plan begin to be rolled out. This economic boost in combination with the accelerating vaccination rollout in Europe should be supportive for European corporate earnings momentum over the coming 18 months.

However, the key debate globally remains inflation and the pace at which central banks will take away the stimulus punch bowl. While inflation in Europe will be higher than the average over the last 10 years, it is by no means expected to shoot up out of control. The statistical impacts of the pandemic and the rapid rise of commodity prices, such as rising oil prices, will lead to a near-term bump in inflation for the EU. The flash Eurozone CPI rose 1.9% year-over-year in June, slightly below consensus but is expected to rise above 2.0% in the second half from these one-off effects. Labor costs are also already high in Europe but are not rising as much as they are in the U.S. The EU is feeling the effects of supply shortages and goods inflation, but this is likely to be transitory until supply chains normalize.



Source: Evercore ISI

The concern now is when will the European Central Bank (ECB) begin to rein in/taper bond purchases given the sharp rise in the bank's balance sheet. Thus far during the monetary stimulus exercise throughout the pandemic, the ECB's balance sheet has risen by more than 3 Trillion euros from about €4.5Tr to just under €8Tr. Money supply has risen in the region, but its growth will slow in the months ahead as the base effect takes hold. We also expect the Federal Reserve to begin tapering well ahead of the ECB given inflation is running hotter in the U.S. and Europe is a few months behind the U.S. with its economic re-opening.

Portfolio and Stock Highlights

MSCI EAFE large caps outperformed mid-caps and small caps for the quarter, while growth outperformed value for the quarter but still trails for the year-to-date period. The best performing MSCI EAFE markets for the quarter were Austria, Denmark and Switzerland while the worst were New Zealand, Singapore, and Japan.

Eagle International portfolios matched the MSCI EAFE benchmark for the quarter even as some of the holdings that had provided significant alpha over the previous 12 months took a breather. Despite this, the portfolio remains ahead of the benchmark for the year-to-date period even after a huge outperformance in 2020.

Outperformers: Higher quality and defensive areas of the market outperformed the index for the quarter with the best performing MSCI EAFE sectors being Health Care, Consumer Staples, and Information Technology. Despite being underweight Health Care and Consumer Staples, Eagle portfolios benefitted from this trend with good stock selection in all three sectors. In Health Care, Lonza Corp and Novo Nordisk had a great quarter while Diageo in Consumer Staples and SAP in Information Technology bounced back nicely. From a country standpoint, good stock selection in the U.K., Switzerland, and Denmark helped performance.

Disappointments: Sector allocation proved more challenging this quarter as an overweight to the underperforming Communications Services sector hurt performance and an underweight to Consumer Staples also detracted from relative performance. Key underperforming stocks for the quarter included Softbank (Japan-Communications Services), Sony Group (Japan-Consumer Discretionary), and Tencent Holdings (China – Communications Services). From a country standpoint, an allocation to underperforming China was negative while stock selection was detrimental to performance in France and Italy.

Purchases / Additions The Quarter

Compass Group PLC (CMPGY) SECTOR: Consumer Discretionary, COUNTRY: United Kingdom. Compass Group is a high-quality scaled catering company with growth and margin expansion opportunities. We believe re-opening of offices is going to be a tailwind for the company. It also has a huge opportunity in healthcare where care homes are likely to outsource more amid tightened food regulations as well as in the education sector, which remains underpenetrated. Dark kitchens for corporate canteen could be an astute idea that lowers fixed cost while preserving the cafeteria model for commercial buildings that prefer to have a canteen (we believe most will). Compass is also a big player in vending (vending machines or security camera driven food shelves), which generates superior margins.

Royal Dutch Shell PLC (RDS.A) SECTOR: Energy, COUNTRY: United Kingdom. We added to our position in Royal Dutch as we favor Shell's strategy to focus its energy transition capital toward its marketing footprint, where we expect better economic returns relative to other energy transition expenditures. Shell continues to be the most-exposed supermajor to LNG, which we believe positions RDS well for the energy transition. We also expect Shell to remain the strongest generator of free cash flow among its peers.

Taiwan Semiconductor (TSM) SECTOR: EM-Information Technology, COUNTRY: Taiwan. Taiwan Semiconductor Manufacturing (TSMC) has a total foundry market share of 57% and it is the largest semiconductor foundry in the world. TSM is the leader in process technology or nodes and will continue to widen its lead compared with other foundries. TSMC benefits from economies of scale, a strong industry growth cycle and secular growth drivers: CPU, networking, AI accelerator, 5G, Autos, IoT (Internet of Things) and is gaining share at the leading edge. It also benefits from being in a duopoly market at the leading-edge of technology and gaining share.

Sells / Trims This Quarter

Ashtead Group PLC (ASHTY) SECTOR: Industrials, COUNTRY: United Kingdom. While we continue to like Ashtead's execution, we chose to reduce our exposure due to considerable strength in the shares and redeploy to other assets. We believe the current valuation implies too high a probability that significant benefits from an infrastructure bill accrue to Ashtead.

Takeda Pharmaceutical (TAK) SECTOR: Health Care, COUNTRY: Japan. Takeda, Japan's largest pharmaceutical company, has been executing well on the sale of non-core assets post its acquisition of peer Shire Pharma. Yet, its drug pipeline has not convinced it will be able to replace the large revenue losses from upcoming patent expirations. Takeda's revenue growth over the coming years may be significantly challenged. The company may be forced to significantly increase its R&D expenditures or go after high risk inorganic growth to compensate for the stagnant revenue prospects.

Techtronic Industries (TTNDY) SECTOR: Industrials, COUNTRY: Hong Kong. Techtronic continues to execute on a high level and increase market share. Recent fiscal year sales grew an astounding 28% putting any fears of the pandemic impacting operations on the back burner. Growth was led by new products and continued cordless penetration in the power tool industry with Milwaukee leading the professional line and Ryobi the DIY segment. Techtronic has grown into our biggest position following stellar performance with the stock up over 200% since the depths of the pandemic. With both current expectations high and valuation full on the latest rerating, we thought it was an opportune time to take some profits.

Valeo SA (VLEEY) SECTOR: Consumer Discretionary, COUNTRY: France. Valeo is a global auto supplier based in France. Valeo has fallen out of our Smart IQ filter causing a fundamental review in which we determined to sell out of the remaining position. Although Valeo is geared toward the move to hybrids with their market leading 48V technology, questions remain on their ability to capture the same market share for full electric vehicles. More OEMs are taking the motor in house. At the same time competition is increasing with more players entering the space pressuring Valeo's competitive position in the future as the move to full electric vehicles accelerates.