EAGLE GLOBAL ADVISORS

Quarterly Commentary
2Q 2021

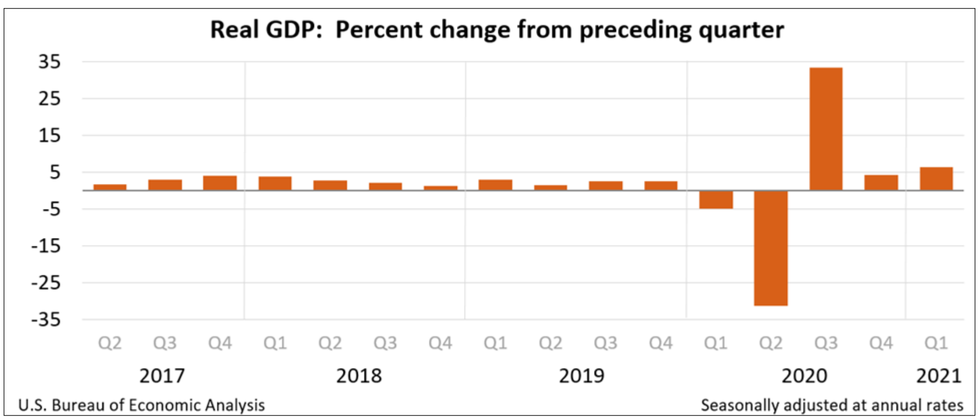
EGA U.S. Equity

From the EGA Portfolio Management Team

U.S. equities continued their rally in Q2 with the S&P posting its fifth straight quarterly gain. Growth outperformed value, reversing a good chunk of the underperformance seen in the first quarter. The quarterly gains were supported by tailwinds from central bank liquidity, fiscal stimulus, vaccine progress, reopening momentum, a strong corporate profit backdrop and robust equity inflows. Inflation dominated the headlines with concerns about price increases in commodities and many consumer goods, but the Federal Reserve remained consistent in its messaging around the transitory nature of price increases. Despite the concerns about rising inflation, long-term bond yields declined. We believe a synchronized global economic recovery is on track and that the relative value of global equities versus bonds remains favorable.

Economy: V-shaped recovery

U.S. GDP increased at an annual rate of 6.4% in the first quarter of 2021, accelerating from the fourth quarter's pace of 4.3% increase. We would not be surprised if subsequent revisions to the GDP estimates raise the early estimates of growth higher towards 9% to possibly 10% growth. The increase in first quarter GDP reflected the continued economic recovery, reopening of establishments, and continued government response related to the Covid-19 pandemic.



Total nonfarm payroll employment rose by 850,000 in June, with payrolls increasing by the most in 10 months, suggesting firms are having a greater success recruiting workers to keep pace with the economy's reopening. The unemployment rate edged up to 5.9% because people voluntarily left their jobs and the number of job seekers increased. The gain in payrolls, while above expectations, doesn't markedly raise pressure on the Federal Reserve to pare monetary policy support for the economy. Even with the latest advance in payrolls, total payrolls are still 6.76 million below the pre-pandemic level.

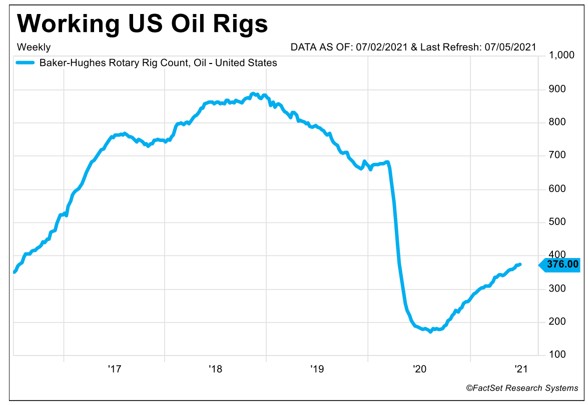
Households increased spending in May on services they shunned earlier in the pandemic, helping position the economic recovery for a strong summer as more businesses fully reopen and consumers unleash pent-up demand. Spending was flat last month as consumers cut back on purchases of big-ticket items and rotated more of their money toward in-person services. Despite that, this spring shaped up to be a solid one for spending. April expenditures were upwardly revised to a 0.9% month-over-month increase from a previously reported growth rate of 0.5%. Overall spending in May was well above pre-pandemic levels, with spending on goods up *nearly 20%* from February 2020 and services down about 1.0%.

U.S. home prices surged at their fastest pace ever in April as buyers competing for a limited number of homes on the market pushed the booming housing market to new records. The S&P CoreLogic Case-Shiller National Home Price Index, which measures average home prices in major metropolitan areas across the nation, rose 14.6% in the year that ended in

April, up from the 13.3% annual rate the prior month. April marked the highest annual rate of price growth since the index began in 1987. Home prices have surged this year due to low mortgage-interest rates, which have spurred strong demand, and a continued shortage of homes for sale. Many homes are getting multiple offers and selling above asking price. The home-price surge is widespread around the U.S., affecting buyers and sellers in big cities, suburbs and small towns.

Oil: Demand returns

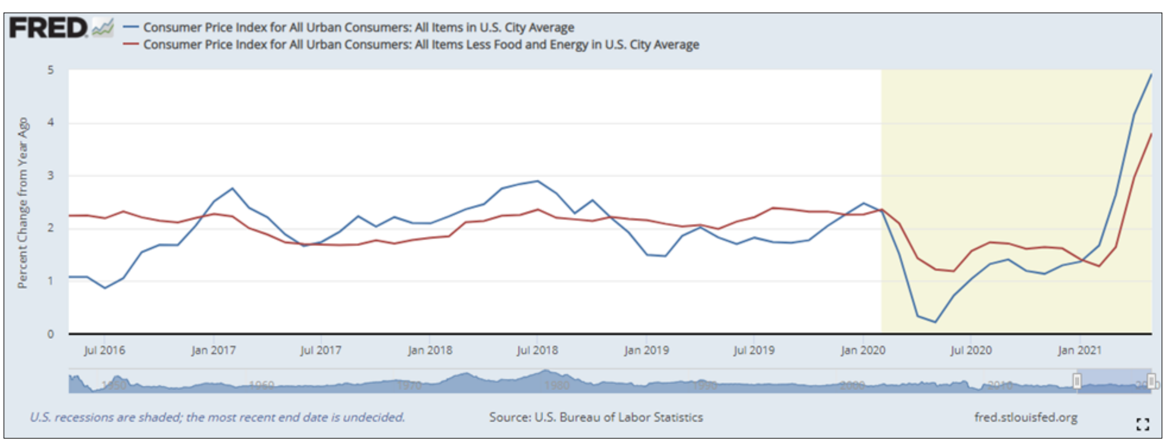
Crude oil prices continued their rally from Q1 with WTI rising 24% in Q2 2021 as demand for oil products recovered more quickly than forecast. Oil prices are now at their highest since late 2018. All three of the world's main forecasting agencies — OPEC, the International Energy Agency and the U.S. Energy Information Administration — expect a demand-led recovery to pick up speed in the second half of 2021. Recent OPEC talks ended inconclusively, after the United Arab Emirates objected to keeping production constraints in place as Saudi Arabia proposed. The group has cut 9.7 million barrels a day of production since the start of the pandemic and has so far restored about 4 million barrels a day. The U.S. is lobbying OPEC to increase production to keep oil prices in check. While the near-term prospects for higher oil prices are positive, longer-term we expect excess OPEC capacity to keep a lid on the price of oil.



Source: FactSet

Inflation: Runs hot, at least partly due to base effect

The Core Consumer Price Index, which excludes volatile food and energy costs, increased 3.8% in May versus the prior year. Core PCE inflation for May grew 3.4% versus the prior year, which was stronger than the 3.1% year-over-year increase in April. The strength in the top line indices was driven largely by categories that have been heavily impacted by the pandemic and remain under pressure from supply chain disruptions. The more persistent categories of inflation — the ones that do a better job of capturing the sustainable trend — are relatively subdued.



Corporate Profits: Strong rebound

For Q2 2021, the estimated earnings growth rate for the S&P 500 is 63.6% year-over-year, largely due to a small base effect of Q2 2020 earnings, which were negatively affected by the pandemic. The forward 12-month P/E ratio for the S&P 500 is 21.4 based on current consensus earnings. This P/E ratio is above the 5-year average (18.1) and above the 10-year average (16.1). However, given the strong momentum in the economy, we expect earnings for the second quarter to come in well over current estimates, and if trends persist, earnings for the full year 2021 should set a record for the S&P 500.

Interest Rates: Lower till 2023, likely higher thereafter

The Fed delivered a hawkish surprise at the June FOMC meeting, with the discussion shifting to when the Fed would end its super-accommodative policy. Some policymakers suggested early 2022 as the time for an increase in the Federal Funds rate, sooner than previously expected. While Fed Chair Powell reiterated the standard view that the current rise in inflation is transitory, he also conceded that the rise in inflation could be more persistent. Chair Powell said the central bank will not raise rates preemptively because of fears about the possible onset of inflation but will allow inflation to exceed its target of 2.0% for a period of time before shifting to a less accommodative policy stance.

Fixed Income: Interest rates fall

Despite the evidence of higher inflation and expectations of a less accommodative Fed, most interest rates actually fell in the quarter, with the 10-year Treasury rate falling from 1.74% on March 31st to 1.45% on June 30th. Corporate spreads were mainly flat. As many measures of inflation are currently trending above 3.0%, real interest rates (nominal interest rates after inflation) are trending negative. While the positive outlook for the economy is a factor for higher interest rates, U.S. households and corporations are posting record cash balances. Many interest rates in Europe and Japan continue to be negative. While the current low domestic interest rates seem to be unsustainable in the face of record high current government budget deficits, the large pool of world savings is keeping interest rates low for the time being. We are maintaining our relatively high exposure to corporate credit in our bond portfolios as the upswing in economic activity should benefit credit metrics and keep defaults low.

Stock and Portfolio Highlights

Eagle portfolios performed in line with the S&P 500 Index in the second quarter. Portfolio returns were driven by stock performance in Communication Services, Consumer Staples and Information Technology sectors.

Purchases / Additions In The Quarter

Pioneer Natural Resources Co. (PXD): Pioneer is a leading E&P company in the U.S. The company is effectively a pure-play on the Permian basin. This low-cost asset base has no exposure to federal land. In January, Pioneer acquired another high-quality Permian peer - Parsley Energy, at a 33% discount to its peak market capitalization. Pioneer has also acquired another Permian company – DoublePoint. Pioneer has a track record of profitable growth that is amongst the best in the group. It's low-cost asset base and strong track record lends confidence in current expectations for growth and profitability that are at the top of the industry.

Sells / Trims In The Quarter

Invesco QQQ Trust Series 1 (QQQ): The desire to increase our energy weight drove the reduction in Invesco QQQ, a broad index holding of NASDAQ 100 companies.