Quarterly Commentary
1Q 2021

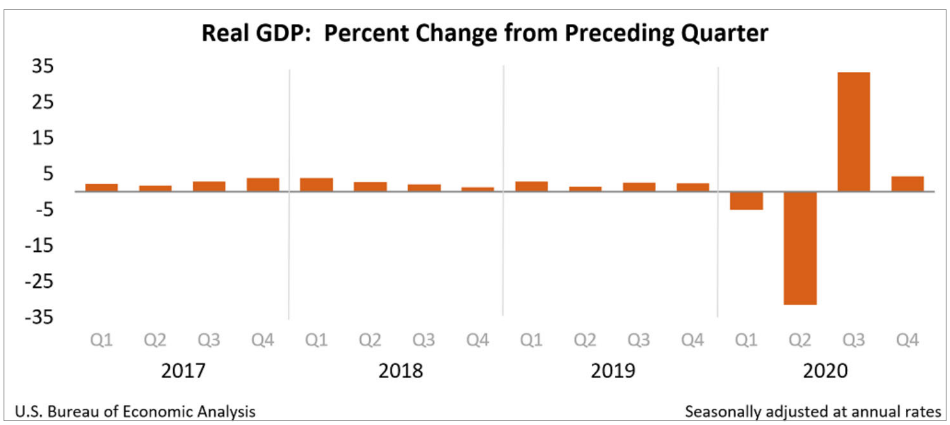
EGA U.S. Equity

From the EGA Portfolio Management Team

Stocks encountered volatility but powered ahead in the first quarter. We continue to be optimistic on the outlook for equities as the economic recovery from the pandemic looks set to accelerate in mid-2021, particularly in the U.S., following a massive fiscal stimulus plan, although a high degree of unevenness and uncertainty persists. Cyclical stocks - those sensitive to economic momentum - continued to lead, building on outperformance that began with positive vaccine news in November of last year. The S&P 500 Index finished the quarter up 6.2%. Stronger economic growth and rising concerns about future inflation led to increases in interest rates and poor returns for bonds in the quarter.

Economy: V-shaped recovery

The economy grew at a 4.3% pace in the final three months of 2020. The increase in real GDP reflected increases in exports, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and private inventory investment, which were partly offset by decreases in state and local government spending as well as federal government spending. The influx of new government stimulus efforts and accelerated vaccine distribution could lift growth in the current quarter, ending in March, to 5.0% or even higher.



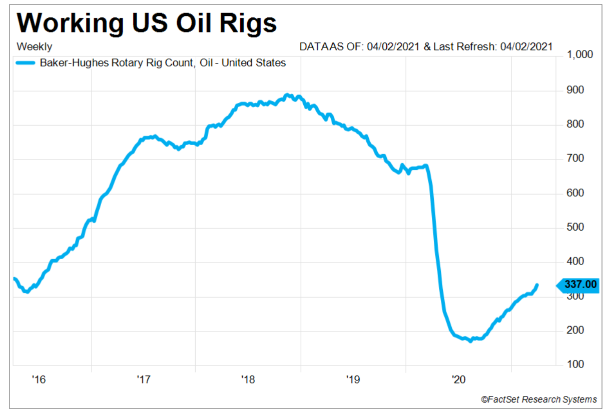
Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6.0%. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the pandemic. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction. The number of unemployed persons, at 9.7 million, continued to trend down in March but is 4.0 million higher than in February 2020.

U.S. consumer spending fell the most in 10 months in February as a cold snap gripped many parts of the country and the boost from a second round of stimulus checks to middle and lower income households faded. The February pullback in income and spending is seen as a temporary blip. We expect the combination of rising vaccination rates and a new round of stimulus checks from another large stimulus package will provide a powerful lift to consumer spending in March.

S&P CoreLogic Case-Shiller National Home Price Index increased 11.2% year-over-year in January after rising 10.4% in the prior month, the largest gain since February 2006. The trend of accelerating prices that began in June 2020 has now reached its eighth month. However, U.S. pending home sales fell in February by the most since April 2020 as rising home prices and a shortage of available properties deterred buyers. Surging home prices and low inventory are slowing the pandemic-era housing boom, evidenced by declines in contract signings in all four U.S. regions. In addition, severe winter weather limited purchases during February. At the same time the average rate for a 30-year fixed-rate mortgage has been increasing, which may affect buyer demand in the coming months. After falling to an all-time low of 2.65% in January, the 30-year fixed-rate mortgage recently hit 3.17%, the highest level in more than nine months.

Oil: Vaccine led rally

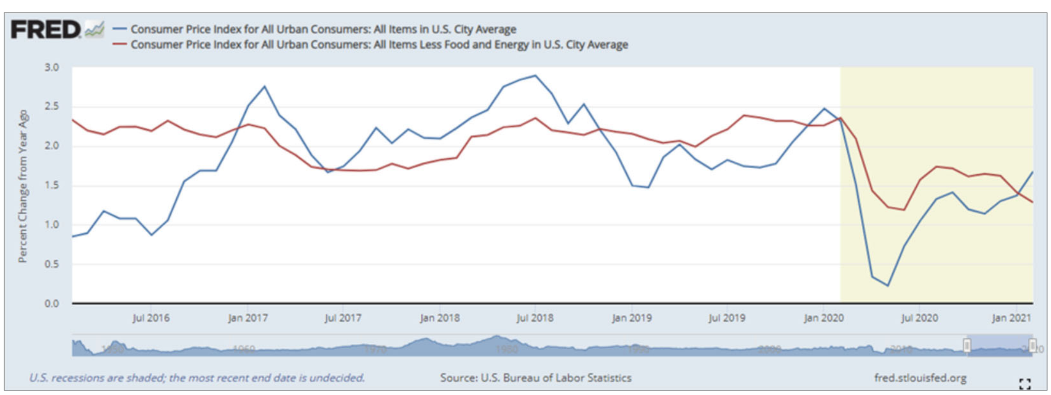
Crude oil price action staged a remarkable rally during Q1 2021 with WTI rising 22%. The strong bid beneath crude oil broadly tracked market optimism surrounding Covid vaccine developments, massive fiscal stimulus packages and improved outlook for global GDP growth. OPEC and an alliance of other top oil producers agreed to boost their collective production by more than two million barrels a day over the coming months, betting on resurgent demand as they and the rest of the world assess the economic consequences of the pandemic's trajectory. Traders took the OPEC easing in stride, with analysts saying the boost was measured. U.S. oil producers have started to increase their drilling activity and the oil rig count in the U.S. has turned up. Brent, the international crude benchmark, was up 1.2% to $63.52 a barrel.



Source: FactSet

Inflation: Expected to accelerate

The Core Consumer Price Index, which excludes volatile food and energy costs, increased 1.3% in February versus the prior year. February Core PCE inflation grew 1.4% versus the prior year, which was slower than the 1.5% year-over-year increase in January. Many investors have grown worried about a potentially sharp rise in inflation this year due to factors including the Fed's easy money policies, forecasts of strong economic growth, recent supply chain disruptions and robust federal spending.



Corporate Profits: Upward revisions continue

For Q1 2021, the estimated earnings growth rate for the S&P 500 is 23.8%. If 23.8% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q3 2018 (26.1%). On December 31st, the estimated earnings growth rate for Q1 2021 was 15.8%. The forward 12-month P/E ratio for the S&P 500 is 21.9. This P/E ratio is above the 5-year average (17.8) and above the 10-year average (15.9).

Interest Rates: Lower till 2023, likely higher thereafter

The Federal Reserve kept its easy money policies in place and vowed to maintain them until the U.S. economy recovers further from the effects of the pandemic, while officials also highlighted an improved outlook for growth. Central bankers voted unanimously to maintain overnight interest rates near zero, where they have been set for the past year, and to continue purchasing at least $120 billion of Treasury bonds and mortgage-backed securities monthly. Fed officials expect the economy to recover more quickly than they did a few months ago, according to new projections released. They sharply raised their forecasts for economic growth and inflation, anticipating that the vaccination campaign and trillions of dollars of fiscal stimulus will propel the U.S. economy to its fastest expansion since the early 1980s. Even so, most Fed officials still expect to maintain ultralow interest rates through 2023. Just seven of 18 policy makers at Wednesday's meeting anticipate lifting rates in 2022 or 2023, up from five in December.

Fixed Income: Interest rates rise

Interest rates rose sharply in the first quarter with the U.S. 10-Year Treasury yield rising from 0.92% at the end of December to 1.74% at the end of March. Despite corporate spreads falling a bit in the quarter, investment grade bonds and intermediate Treasuries had one of the worst first quarters in decades. Intermediate and longer-term Municipal bonds also saw negative returns in the quarter. Eagle portfolios, with generally shorter maturities and a greater emphasis on corporates, typically held up better than the indices. While bonds may take some time to digest the recent increases, we remain wary of the signs pointing to rising inflation, so we prefer to continue our emphasis on short to intermediate bonds with a greater emphasis on corporates.

Stock and Portfolio Highlights

Eagle portfolios performed in line with the S&P 500 Index in the first quarter. Portfolio returns were driven by the Energy, Financials and Communication Services sectors.

Purchases / Additions In The Quarter

American Express Co. (AXP): American Express is a leading issuer of personal, small business, and corporate credit cards. The company will benefit from the reopening of the economy and the wide vaccine distribution as it should enable more Travel and Entertainment (T&E), a key driver for its earnings growth. It also benefits from lower unemployment and a better economy leading to an improving customer spend, higher balances and faster card spend as well as lower reserve build and/or reserves release.

American Tower Corporation (AMT): The sale of SBA Communications was motivated by tax loss harvesting. We monetized the loss in SBAC and put the proceeds into AMT, which is another tower company.

Thermo Fisher Scientific (TMO): Thermo Fisher Scientific, Inc. engages in the provision of analytical instruments, equipment, reagents and consumables, software and services for research, analysis, discovery, and diagnostics. The modest guidance for 2021 and market related "sell the winners" put pressure on the stock allowing us to buy at an attractive entry price. Share repurchases in January and March signal underlying value for long-term holders. By redirecting coronavirus-related cash flow windfall toward M&A, TMO is likely to emerge stronger post pandemic.

Wells Fargo (WFC): Wells Fargo & Co. is the third largest U.S. bank by deposits with significant market share in commercial banking, mortgage banking, and retail brokerage. It is a turnaround story with upside potential on the costs savings program as well as capital deployment given the excess capital on the balance sheet. We believe the efficiency ratio could decrease from 77% (2021) to around 60% over next 5 years. The bank is asset sensitive and benefits from the improving outlook for rates. Its strong balance sheet with good asset quality should lift net income through reserve release. Also, we are seeing steady improvement on the regulatory front even though there is no clarity on the timing of the removal of the asset cap and consent order. Valuation is attractive at 0.8x P/B.

Sells / Trims In The Quarter

Arthur J. Gallagher (AJG): We believe AJG's stock is fairly valued at current expectations. The current valuation is near historical highs and above the levels of peers. The high valuation is pricing in strong execution during the pandemic, robust margin expansion and a resilient organic growth trend.

CVS Health Corp. (CVS): The recent outperformance of CVS provided Eagle an attractive exit price helping reduce our overweight in health care providers and service companies also called MCOs. We are maintaining our investments in UNH and ANTM, which are competitors to Aetna, the MCO "Managed Care Organization" division of CVS. The proceeds were invested in TMO, a leading Life Science Tools & Service Health Care Company.

SBA Communications Corp. (SBAC): The sale of SBA Communications was motivated by tax loss harvesting. We monetized the loss in SBAC and put the proceeds into AMT, which is another tower company.

Eagle Global Advisors, LLC 1330 Post Oak Blvd., Suite 3000, Houston, TX 77056 713-952-3550 www.eagleglobal.com