EAGLE GLOBAL ADVISORS

Quarterly Commentary | March 31, 2024

Eagle U.S. Equity

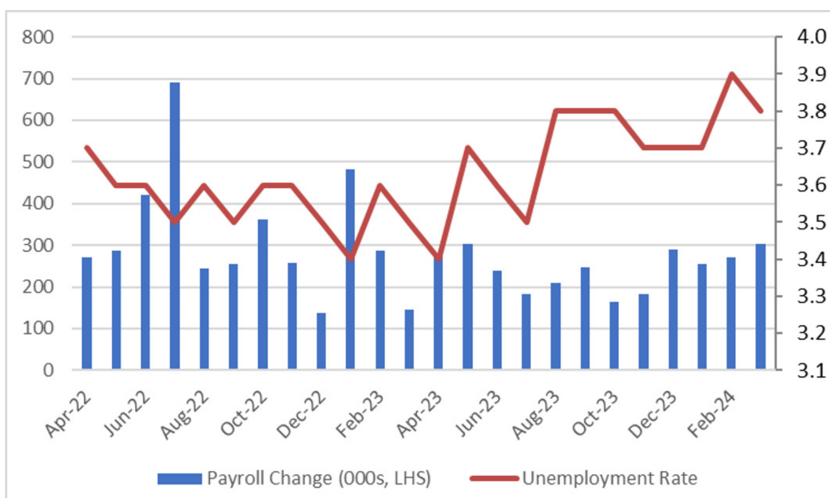
Equity and bond markets started the year on a strong note as an earnings rebound and strong economic statistics overcame fears of inflation and worries the Fed would keep interest rates higher for longer. U.S. stocks posted a strong 10.5% return for the quarter as measured by the S&P 500. Strong economic statistics and inflation readings that were higher than expected pushed out investors' expectations for a Fed interest rate decrease; in response, longer-term interest rates rose. As a result, the returns to longer-term fixed income securities were negative during the quarter although shorter-term securities earned their coupons.

ECONOMY: STRONG START TO THE YEAR

While the contractionary monetary policy that the Fed adopted nearly two years ago is having its intended effect of slowing economic activity, the strength in the economy in the face of higher rates has continued to surprise economic analysts. In its most recent economic projections from March, the Fed raised its forecast for real 2024 GDP growth; however, this time they also raised their expectation for inflation slightly this year. Manufacturing looks to be turning up with the most recent Purchasing Managers Index in expansion territory for the first time since 2022. Services still continue to be in expansion mode, although wage growth appears to be stabilizing there. For now, economic growth appears intact.

The labor market remains strong but also shows signs of moderation. The most recent employment report for March showed a robust increase of 303,000 new jobs (blue bars below). Job growth has continued to be strong, with average monthly new jobs averaging above 276,000 a month recently; at the same time, more people have entered the labor force leading to a rise in the unemployment rate in recent months (See red line below). This job growth in the face of higher interest rates supports the view that the economy is strong, yet the higher unemployment rate signals that the labor market is not so hot that more hawkish policy is necessary.

LABOR MARKET STATISTICS



Source: U.S. Bureau of Labor Statistics

Despite the strong growth in jobs, wage growth has moderated, falling to 4.3% year-over-year in March. While the Consumer Price Index did show an uptick in February, other measures of inflation like the Personal Consumption Expenditure (PCE) Price Index have continued to soften, with the most recent reading coming in at 2.5% year-over-year (See chart p.2.) Also, the fact that wages are now increasing more than prices means that worker purchasing power and real incomes are rising. This may be why consumer sentiment on the economy, which had shown low readings despite the strong job growth, has started to improve. However, oil and other commodity prices have increased in recent weeks, and that might show up in higher consumer prices for gas and other items this summer and fall. Stay tuned.

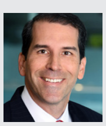
ABOUT US

- Located in Houston, TX
- Founded in 1996
- $2.2B in AUM*
- 22 employees including 10 investment professionals

INVESTMENT HIGHLIGHTS

- Focus on companies with global scale
- Industry leaders that possess sustainable competitive advantages
- Optimal combination of proprietary quantitative tools and fundamental research
- Sustainable Growth-oriented businesses trading at attractive valuations (SGARP)
- Allocations driven primarily by stock selection—45 to 60 high conviction holdings
- Benchmark sensitive—R^2 over 90%
- Low turnover—15% to 30% annually
- Long track record of competitive returns since inception

PORTFOLIO MANAGEMENT



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Senior Partner,
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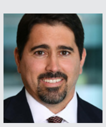
32 Years of Experience



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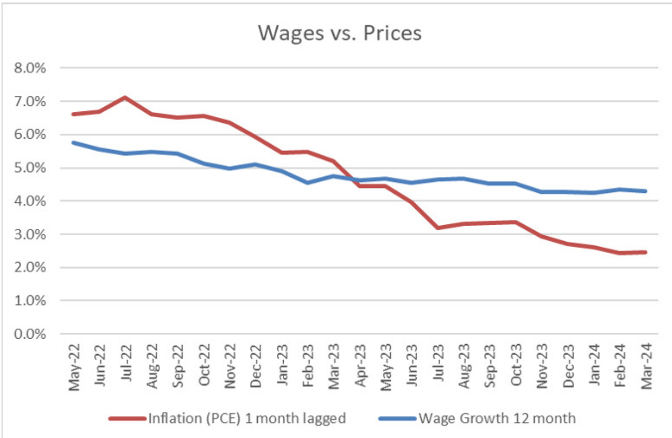
**AUM data is inclusive of both discretionary and non-discretionary client assets.*



Source: U.S. Bureau of Labor Statistics

The Federal Reserve increased its expectation of inflation for 2024 to 2.6% in its March forecast, which is not too far from its long-term target of 2.0%. Progress on inflation will be the key to how fast or even whether the Fed lowers its policy interest rates, so their actions will continue to be a focus of investors in 2024.

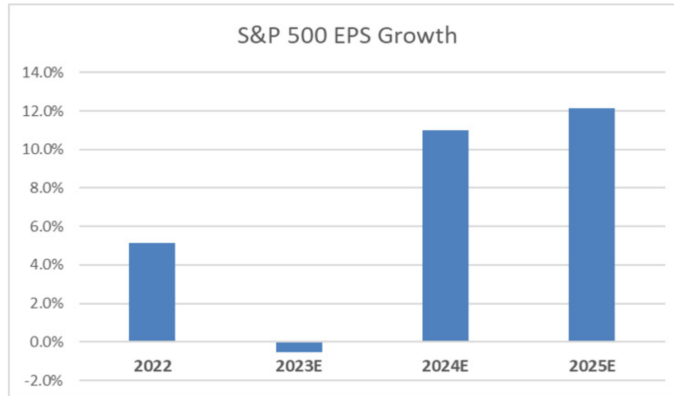
FEDERAL RESERVE: STILL EXPECT RATE CUTS THIS YEAR

After the Fed pivot in December to signal that lower policy rates should come later this year, much concern has been voiced that the strong economic statistics and wobbles on inflation would change their tune. Following the late March FOMC meeting, Chairman Powell indicated that their expectations for three rates cuts later this year were still intact. Market participants, as measured by the Fed Funds futures, which had been predicting six interest rates decreases, pulled back their expectations to more modest decreases in the wake of the economic statistics in the first quarter. In their March release, the Fed maintained their forecast of a Fed Funds rate of 4.6%, and Fed Funds futures are now in line with that prediction.

As expectations by the market for rates cuts was tempered, market interest rates increased. The 10-year Treasury rate increased from 3.9% to 4.3% over the course of the quarter. As the short-term policy rates remained flat, the yield curve became less inverted.

CORPORATE PROFITS: EARNINGS CONTINUE TO REBOUND

Analysts expect an earnings rebound in 2024. Earnings for the full year 2024 are expected to be up 11% over 2023 and up 12% again in 2025 (See chart to the right). At current levels of the S&P 500, the forward 12-month P/E is expected to be 20.9x, above its 5-year average of 19.1 and above the forward P/E ratio of 19.5 at the end of Q4 2023. It appears analysts are assuming a "soft landing" for the economy, that is, that the Fed will be able to engineer the economy to achieve its 2.0% inflation target without sparking a recession.



Source: FactSet

Also of note is that analysts expect earnings growth, which was concentrated last year in a few, very large tech companies (sometimes called the Big 6 TECH+) to broaden out to the rest of the market this year. By the fourth quarter, analysts expect earnings growth for the Big 6 TECH+ will moderate to 15% while the rest of the market should show earnings growth of 14%. This quarter the S&P 500 should show modest earnings growth of 3.6%, according to FactSet. Seven of eleven sectors are expected to record positive earnings growth, led by the Utilities, Information Technology, Communication Services, and Consumer Discretionary sectors. Four sectors are expected to record negative year-over-year earnings growth this quarter led by Energy and Materials.

FIXED INCOME: LONG RATES RISE

As noted above, the first quarter saw a material rise of longer-term interest rates. Short-term Treasuries rates stayed flat as the Fed maintained policy rates at their current levels. Corporate and mortgage bond yields rose as well, but credit spreads narrowed slightly as economic strength surprised to the upside. Despite the strong economic statistics, the Fed signaled that it still expects to start to reduce policy rates in 2024. For now, credit is strong and corporate spreads are at average levels. We are somewhat concerned that the tight financial conditions will start to create some distressed credits. We continue to maintain high quality portfolios with short to intermediate maturities in this environment.

STOCK AND PORTFOLIO HIGHLIGHTS

Eagle portfolios slightly underperformed the S&P 500 Index during the quarter mainly due to underweights to some strong performers in the tech sectors. Sector allocation was somewhat positive, but cash was a drag in a strong market. Stock selection in Industrials (Uber, Trane Technologies, not owning Boeing), Consumer Discretionary (not holding Tesla), and Financials (American Express, J.P. Morgan) were favorable. Underweights to semiconductors and insurance, and an overweight to health insurers detracted from returns.

PURCHASES / ADDITIONS IN THE QUARTER

ABBVIE, INC. (ABBV): AbbVie is a large pharmaceutical company with exposures to immunology, neuroscience, aesthetics, and oncology. Having dealt with the worst of the losses of exclusivity on Humira and Imbruvica in 2023, AbbVie is now well-positioned to generate peer-leading growth as Skyrizi and Renvoq experience significant ramp-ups. In addition to the aforementioned drugs, AbbVie has ten other treatments that are expected to generate at least $1B in sales each by 2027. Across these ten treatments, sales are expected to collectively grow at nearly 9% between 2023 and 2027. This gives AbbVie a diversified, growing portfolio that is protected by long-dated patents. AbbVie's track record as a successful acquirer of drugs and their stature as an industry-leading distributor positions the company well to take advantage of additional growth opportunities.

ADOBE INC. (ADBE): Adobe's large and diversified product set across its digital media and digital experiences offerings positions the company as a multi-year compounder in the software landscape with a premium business model and leading brand awareness, providing Adobe with a strong competitive moat across creative professionals, content creators, developers, advertisers, and publishers. Generative AI has lowered the barriers to content ideation. We believe the exponential growth of content ideated using generative AI platforms will result in an increased usage of platforms that integrate content into software layers at scale in a brand consistent and safe manner.

PAYPAL HOLDINGS, INC. (PYPL): We believe PYPL's pivot to narrow its investment and innovation focus on Branded checkout, Braintree (unbranded), and Venmo monetization could enable the company to re-establish itself as a leader in ecommerce and mobile payments. In the near-term, PYPL needs to demonstrate its ability to drive better margins in unbranded transactions via moving to smaller merchants and expanding internationally. As proof-points to the success of this strategy emerge, we believe the stock could begin to re-rate higher.

SELLS / TRIMS IN THE QUARTER

APPLE INC. (AAPL): We trimmed our position in Apple considering the slowing product growth outlook and multiple upcoming regulatory events and milestones that may impact the growth trajectory of its services segment. At the current valuation multiple, Apple is not pricing in the potential of a prolonged overhang on its future earnings growth.

CISCO SYSTEMS, INC. (CSCO): We exited our position in Cisco due to increased competition that is resulting in share losses in its core verticals. We were also disappointed by the performance of recent acquisitions, the quality of assets acquired, and the price paid for those acquisitions. As the organization has gotten larger and more complex, we struggle to find areas where Cisco is growing its leadership position.

LOCKHEED MARTIN CORPORATION (LMT): Given Lockheed's continued inability to convert backlog into near-term growth as well as the company's repeated cash flow disappointments, we took advantage of a positive move in the shares and closed our position.

DISCLOSURES

The indices shown are for informational purposes only and are not reflective of any investment. They are unmanaged and shown for illustrative purposes only. The volatility of the indices are likely materially different than the strategy depicted. Eagle Global's U.S. Strategy includes buying and selling various U.S. equity companies. Holdings will vary from period to period and U.S. equity companies can have a material impact on the performance.

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