EAGLE GLOBAL ADVISORS

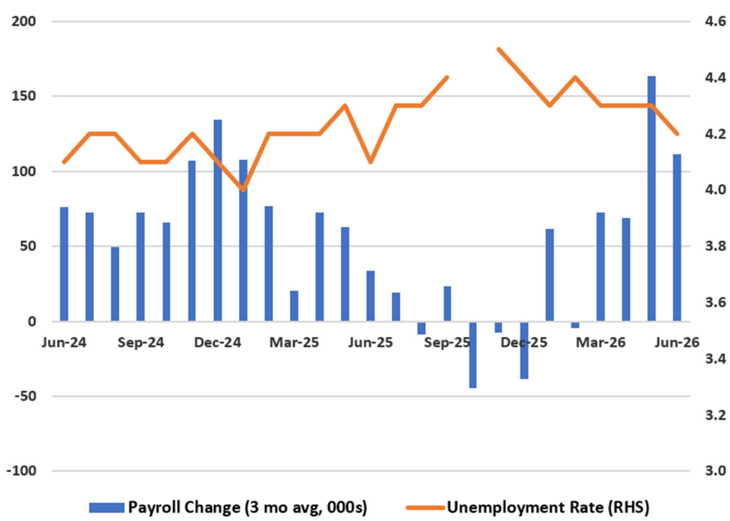
Eagle U.S. Equity

Markets rebounded strongly in the quarter as hostilities in the Persian Gulf subsided and the Strait of Hormuz reopened to trade. The S&P 500 Index posted a 15.2% return for the quarter, bringing its return for the year to positive territory at 10.2%. Higher inflation, primarily from energy prices, but solid economic growth readings underpinned expectations that the Fed might raise rates this year. Interest rates rose slightly during the quarter; as a result, fixed income portfolios showed flat returns.

ECONOMY: ECONOMIC GROWTH CONTINUES

After slowing in the wake of economic policy uncertainty in 2025, the economy has picked up in 2026 despite higher prices and disruptions from the war in Iran. The jobs market in particular looks to have picked up this spring. The three-month average of additions to Total Nonfarm Payrolls was above 100,000 for May and June, a meaningful rise from prior months. The unemployment rate ticked down to 4.2% in June, a level most economists consider to be full employment. While there has also been evidence that layoffs are increasing, we are still at levels below prior periods; we continue to believe we are in a “low hire, low fire” environment where businesses are being careful about adding or shedding employees, given the uncertain economic outlook.

LABOR MARKET STATISTICS



Source: U.S. Bureau of Labor Statistics

Tech investment continues to power growth in the U.S. economy. Technology and AI-Related investment have grown to about 50% of all capital spending, up from less than 20% five years ago (per Empirical Research Partners). And this trend seems set to continue, with the tech firms leading this investment announcing a 60% increase in AI investment for 2026 over 2025 during the first half of this year. Without the boom in AI investment (including investment in energy infrastructure to power the new data centers), capital spending would have shown no growth in 2025 and much less growth in 2026. At the same time, capital investment is being spurred by the need to reshape the global supply chain and a renewed focus on defense.

Inflation is the most significant near-term headwind to the economy. The Iran War drove the price of oil above $100 a barrel in April and prompted many countries to tap strategic reserves and launch energy conservation programs. While the price of oil has come down significantly in the wake of the ceasefire and negotiations for a longer-term peace, oil is still more than 20% above its price at the beginning of the year. Despite the rapid drop in energy prices, there will be some lasting effects on inflation. For example, the war led to a significant rise in fertilizer prices during planting season, which should result in lower crop yields and higher food prices in the fall. Consumer Price Inflation (CPI) rose over 4.0% annually in the wake of the energy price spike; however, core prices (excluding oil and food) were more measured, rising from 2.5% prior to the conflict to 2.8% annually in May.

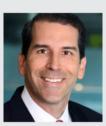
ABOUT US

- Located in Houston, TX
- Founded in 1996
- $3.4B in AUM*
- 24 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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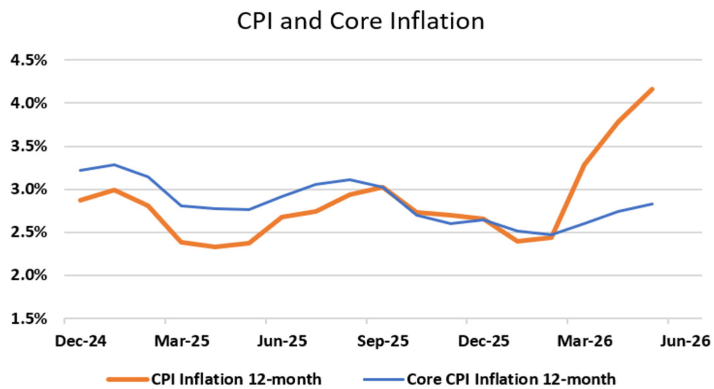
**AUM data is inclusive of both discretionary and non-discretionary client assets.*



Source: Federal Reserve Bank of St. Louis

Furthermore, while there is hope that the investment in Artificial Intelligence will lead to productivity gains in the economy that will hold down prices, in the short term, the intensive investment in data centers and energy infrastructure is creating inflationary pressures on silicon chips, electronic goods, and electricity prices. While we hope the inflationary pressures are temporary, we are watching this aspect of the economy closely.

FEDERAL RESERVE: NEW SHERIFF IN TOWN

Kevin Warsh was confirmed as the new Federal Reserve Chair just in time to preside over the June Fed meeting. At that meeting, most Fed governors signaled they expect to increase the Fed Funds rate at least one time before the end of the year. Also, the new Fed Chair Warsh expressed concern that inflation was above the Fed's 2.0% target after the meeting, which the market took as a signal that he is more inclined to support rate increases over rate cuts in the near term. Warsh also announced the Fed will rethink its communications with the market going forward. He has expressed concern in the past that the Fed is too open with its views on the economy and policy. He has said he would prefer the market to communicate with the Fed rather than the Fed communicating with the market. Still, Warsh's openness to raising rates is a good sign for Fed independence, as it conflicted with President Trump's many statements that he believes the Fed should reduce interest rates. Fed independence is critical to maintaining confidence that the institution will fight inflation, even when doing so may be politically unpopular in the short run.

CORPORATE PROFITS: DOUBLE-DIGIT GROWTH FOR 2026

FactSet surveys show that analysts currently expect companies to report double-digit earnings growth for 2026 and 2027. Earnings for the full year 2026 are expected to be up +24% over 2025 and up +17% again in 2027. At current levels of the S&P 500, the forward 12-month P/E ratio is 20.4x, slightly below its 5-year average of 21x and above the 10-year average of 19x. This quarter, the S&P 500 is expected to show earnings growth of 23.3% (year-over-year), according to FactSet. It will mark the seventh consecutive quarter of double-digit (year-over-year) earnings growth for the index, as analysts have increased earnings growth estimates by 3.4% for Q2 2026. This increase in Q2 earnings expectations has been concentrated in the Information Technology and Energy sectors.

Ten of the eleven sectors are expected to record positive earnings growth, led by the Information Technology and Materials sectors. In contrast, the Health Care sector is the only sector expected to record negative year-over-year earnings growth this quarter. Of course, current uncertainty about future earnings and economic activity may weigh negatively on domestic valuation metrics. However, optimism over deregulation, Artificial Intelligence (AI) efficiencies, and reduced policy uncertainty could provide a tailwind for corporate earnings and markets in the medium term.

FIXED INCOME: INTEREST RATES RISE

Interest rates rose sharply when the Iran War broke out and continued to rise until the market saw signs that a ceasefire might be reached and that the Strait of Hormuz would reopen. The 10-year Treasury began the quarter around 4.3% and rose in yield to above 4.6% in May, before retreating to about 4.4% at the end of June. The 2-year yield, which reflects expectations of future short-term rates, rose from 3.8% at the end of March to 4.1% at the end of June. This is consistent with expectations that the Fed might increase the Fed Funds rate by 25 basis points or more before the end of the year. Credit spreads were unchanged during the quarter as economic growth seemed well supported.

The market is also concerned about the increase in government debt and deficits, which look to worsen on the back of Federal tax cuts and a proposal for a massive increase in defense spending. While we are hopeful that many of the current inflationary pressures are temporary, we are concerned about the government's long-term fiscal policy. For now, we prefer to stay in shorter-term bonds, as uncertainty is high, and obtain yield from corporates, as we view default probabilities as low.

STOCK AND PORTFOLIO HIGHLIGHTS

Eagle portfolios performed strongly in the quarter absolutely, but were slightly behind the S&P 500. Performance in the Health Care, Industrials, Communication Services, and Consumer Discretionary sectors was outstanding; the Information Technology and Energy sectors underperformed their S&P 500 counterparts. We were underexposed to the highly volatile memory chip securities in the Information Technology sector, and Energy sold off as the situation in Iran improved. UnitedHealthcare, Eli Lilly (a recent purchase), Caterpillar, GE Vernova, and Alphabet were standouts to the upside; ExxonMobil and Chevron gave back some of their first-quarter gains in the second quarter.

PURCHASES / ADDITIONS IN THE QUARTER

ELI LILLY AND COMPANY (LLY): We bought Eli Lilly, a leading pharmaceutical company with products in oncology, immunology, and neuroscience, because of its strong position in weight-loss and diabetes treatments. Its core franchise is anchored by Zepbound and Mounjaro. After a year of debate over competition and pricing in the GLP-1 market, we believe Lilly has emerged as the clear leader and is well-positioned to benefit from a treatment category expected to grow significantly into the 2030s. The company has patent protection through the late 2030s and continues to develop highly effective weight-loss therapies. In addition, potential expansion of Medicare coverage for GLP-1s could provide a meaningful incremental growth opportunity.

NETFLIX, INC. (NFLX): We bought Netflix because of its strong underlying subscriber and earnings momentum, which is driven by several expanding growth opportunities. The company's ad-supported tier is growing rapidly, with its global audience surpassing 250 million monthly viewers and ad revenue expected to double to approximately $3 billion in 2026. Additionally, Netflix is deepening its push into live sports by securing more NFL games through 2029, a strategic move that enhances its global reach and further bolsters advertising revenue. Despite its position as the streaming leader, the company still has a massive runway for expansion, as it currently captures only about 5% of global TV viewership and under 45% of its total addressable market.

TECHNIPFMC PLC (FTI): We bought FTI given its position as a leading provider of subsea equipment and services, playing a critical role in the development of offshore oil and gas projects. FTI's industry has undergone significant consolidation over the last decade, leaving FTI as one of two fully integrated subsea architects. Globally, oil and gas development is experiencing an offshore renaissance with capital spending shifting back to large deepwater projects. This shift is driven by developments in Guyana, Brazil, and West Africa and is expected to drive mid-term spending growth of 5-8% per year. We expect this will exceed the broader oil and gas industry average. While the offshore renaissance was underway prior to the Iran War, damaged infrastructure and heightened instability in the Middle East add additional supply concerns that are likely to be a tailwind for global offshore capex.

VERTIV HOLDINGS CO. CLASS A (VRT): We bought Vertiv as it is a dominant leader in both thermal management and power distribution, two key areas in the development of AI data centers. Vertiv has a broad integrated offering that positions the firm for "grid-to-chip" dominance. Vertiv offers industry-leading traditional air-cooled systems but is also the leader in direct liquid cooling, a critical technology for modern data centers, where power per rack has increased more than tenfold when compared with recent history. Power intensity, which requires innovative thermal management, is likely to continue to increase. Beyond its current offerings, Vertiv is well-positioned to be a leader in the transition to 800 VDC power architecture. Vertiv is co-developing an 800 VDC infrastructure portfolio with Nvidia and is considered a likely leader in solid-state transformers.

SELLS / TRIMS IN THE QUARTER

BUILDERS FIRSTSOURCE, INC. (BLDR): Mortgage rates have remained higher for longer, and this has impaired our thesis for BLDR. Without lower rates, we do not expect an imminent pickup in U.S. homebuilding and associated products. Therefore, we chose to allocate capital elsewhere.

CHEVRON CORPORATION (CVX): Post the Hess merger, we expect Chevron's growth to lag peers. Given this outlook, we chose to exit our position and redeploy the proceeds into FTI.

DISNEY (DIS): We decided to sell our position in Disney and reallocate the capital to Netflix. From the launch of Disney+ through Bob Iger's return in late 2022, Disney's direct-to-consumer (DTC) subscribership exploded. However, this rapid expansion came at a steep price, costing the company over $4 billion in annual cash losses. To correct course, Disney shifted its focus strictly toward profitability. Through aggressive price increases and cost reductions, they successfully achieved their goal of pushing DTC EBIT margins above 10%. The cost of that newly found profitability was top-line momentum. U.S. subscriber and engagement growth has essentially flatlined. While Disney is still trying to balance its streaming identity, Netflix is already executing flawlessly. They consistently drive double-digit revenue growth through a proven, self-sustaining flywheel: growing content value drives user engagement, which directly fuels continued revenue growth.

T-MOBILE US, INC. (TMUS): We exited our position in T-Mobile as we became increasingly concerned with deteriorating competitive dynamics and reduced pricing power in the broadband segment at a time when subscriber growth and market share gains in the wireless business appear increasingly mature. Additionally, we are monitoring the longer-term implications of satellite-based connectivity, which could incrementally lower barriers to entry and increase competition over time. We also view reports that Deutsche Telekom may pursue a fuller ownership stake in T-Mobile as a potential risk and overhang on the stock's premium valuation multiple. With valuation already reflecting expectations for sustained above-peer growth, and competitive pressures beginning to rise, we felt the risk/reward had become less compelling and chose to redeploy capital into more attractive opportunities.