EAGLE GLOBAL ADVISORS

Market Review and Outlook

Q2 2018

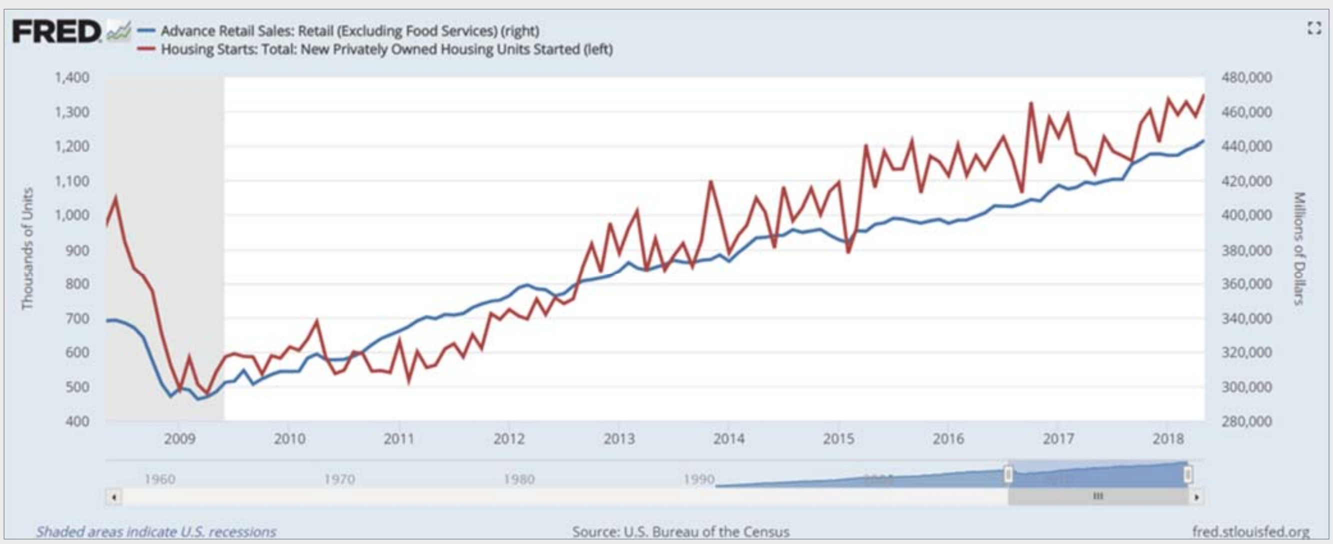
EGA U.S. Equity

From the EGA Portfolio Management Team

U.S. stocks rebounded to a strong close for the quarter. The S&P 500 Index returned 3.4% for the quarter leading to a 2.6% return for the year. International equities markets, as measured by the MSCI EAFE Index, declined -1.2% for the quarter bringing their return for the year to -2.8%. Interest rates rose along the yield curve leading to flat to negative returns for fixed income securities. We believe that current economic indicators in the U.S. are strong, but the potential for a trade war creates uncertainty that clouds the outlook for the global economy and markets.

Economy: *Economic Growth Continues*

Real gross domestic product (GDP) increased at an annual rate of 2.0% in the first quarter of 2018, following a 2.9% increase in Q4 2017. The deceleration in real GDP growth in the first quarter reflected decelerations in personal consumption expenditures (PCE), exports, government spending and a downturn in residential fixed investments.



Retail sales surged 0.8% in May, double the increase forecasted by economists, suggesting that American consumers are, in fact, utilizing income gains from the tighter labor market, the rise in wealth stemming from higher stock and home prices, as well as the windfall from the tax breaks implemented at the start of the year.

The housing market remains healthy overall, but recent reports have been mixed. Housing starts increased 5.0% in May, to a 1.35 million unit annual rate. Building permits declined 4.6% in May versus the expectation of a 1.0% decline. New home sales rose 6.7% in May, beating consensus estimates by a wide margin. However, home price appreciation, as represented by the Case-Shiller 20 City Composite, decelerated from a 0.4% monthly increase in March to a 0.2% increase in April. Additionally, existing and pending home sales missed expectations.

The ISM Manufacturing Index rose to 60.2, an increase of 1.5 percentage points from the May reading of 58.7. In the report, the chair of the ISM Committee pointed to robust demand while also citing overwhelming concern on tariff related activity.

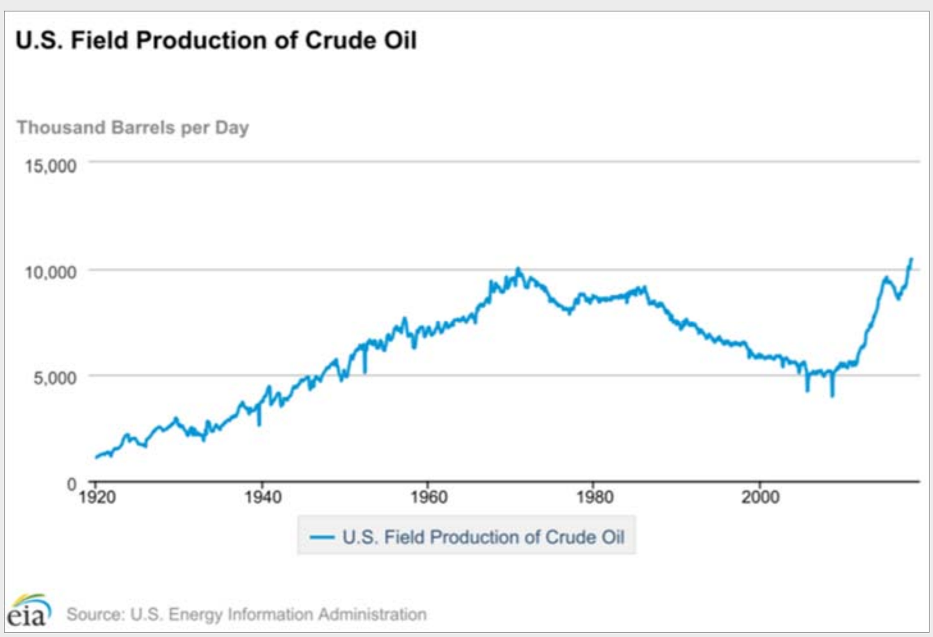
The conference board's Consumer Confidence Index fell from 128.8 in May to 126.4 in June. Despite the modest pullback this month, confidence is near the highest level since December 2000 and is historically consistent with above-trend economic expansion.

The NFIB Small Business Optimism Index, a gauge of optimism among U.S. small-business owners, rose to a 34-year high amid increasingly sunny expectations for sales and profits.

The labor market continues to improve with the unemployment rate declining to 3.8% in May from 3.9% in April. The broad measure of unemployment rate, U-6, which includes marginally attached workers and those working part time for economic reasons, fell from 7.8% in April to 7.6% in May. A tight labor market has not led to inflationary wage growth as average hourly earnings rose at a rate of 2.7% ahead of a year ago, only slightly ahead of inflation.

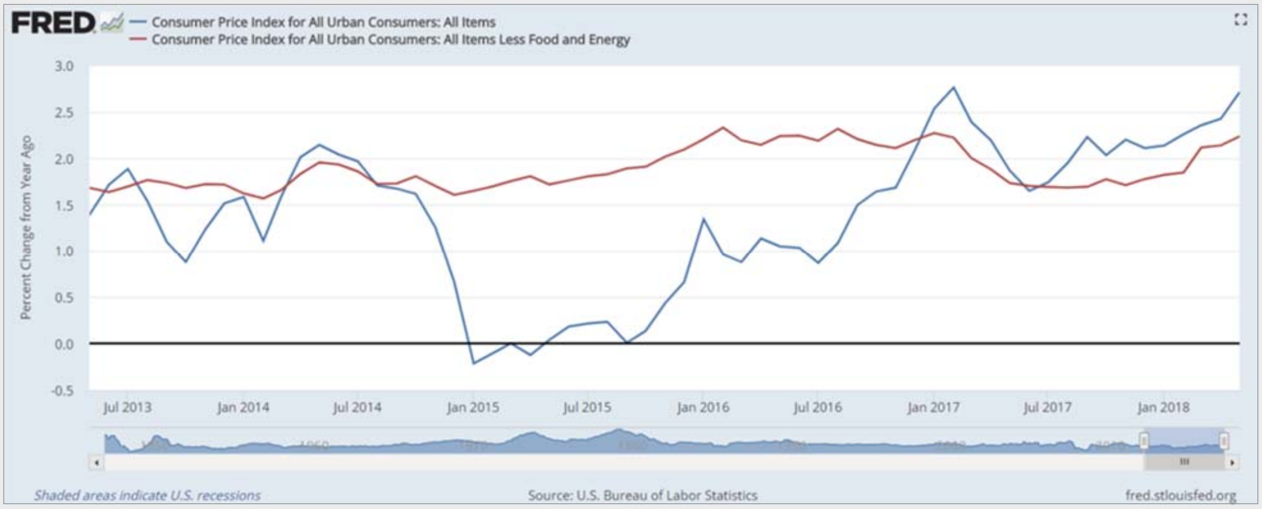
Oil: *WTI Continues To Rally*

Crude prices rose sharply in the second quarter as geopolitics weighed on supply, helping to drain bulging inventories and promising continued strength in the months to come. West Texas Intermediate, the U.S. crude benchmark, ended the quarter 14% higher at $74. Those gains came as an agreement between the OPEC and other major producers capped their output while Venezuelan production dwindled and bottlenecks in the U.S. kept some U.S. oil off the market. Also, the unilateral withdrawal by the United States from the Iranian Nuclear Deal and subsequent efforts to keep Iranian oil supply off the world market impacted the price. These factors are likely to stay in place. In June, the International Energy Agency said commercial petroleum inventories in the Organization for Economic Cooperation and Development - a group of industrialized, oil-consuming nations that includes the U.S. - fell to 27 million barrels below the average over the past five years, a key metric for assessing the oil-market rebalancing.



Inflation: *Accelerating*

In May, the Consumer Price Index (CPI) increased 2.8%, up materially from 2.5% in the previous month. Core CPI, which excludes food and energy prices, rose 2.2% year-over-year, an acceleration from 2.1% in the prior month. Shelter prices rose 3.5% and medical costs increased 2.4%. The Personal Consumption Expenditure excluding food and energy (PCE), a price measure watched closely by the Federal Reserve, hit the central bank's 2.0% target in May after running below it every month for six years. The Federal Reserve prefers that measure because it strips out categories that make it hard to see underlying inflation trends.



Corporate Profits: *Profits Growth Expected To Be Strong*

According to Factset, Q2 earnings for the S&P 500 Index are estimated to grow 20% versus last year. All sectors are expected to report year-over-year earnings growth, led by Energy, Materials and Telecom Services. With the S&P 500 Index currently near 2713, the Price-to-Earnings Ratio of the market is around 16.9 times the 2018 mean earnings estimate, slightly above its long-term average. While valuations are just a bit above average levels, stocks do not appear expensive relative to bonds and inflation. Also supporting valuations is robust expected earnings growth. According to Factset, S&P 500 earnings are expected to grow 20.6% in 2018 and a 10% increase in 2019.

Interest Rates: *A Steeper Path Of Rate Hikes*

As expected, the FOMC raised interest rates for the seventh time this cycle, moving the target range for the Federal funds rate up by 25 bp to 1.75%-2.0%. The Fed is now projecting a steeper path of rate hikes. The projection for the 2019 Federal funds rate was raised from 2.9% to 3.1%. The steeper path is supported by expectations for improved unemployment and inflation rates.

Fixed Income: *Rates Rise*

Short-term rates rose during the quarter, capped by the decision of the Federal Reserve to raise the Fed funds rate by 25 basis points in June. Longer-term rates rose less than short-term rates leading to a flattening yield curve in the quarter. Credit spreads continued to decline to low levels by historic standards. This led to flat returns overall in the intermediate fixed income market with coupons compensating investors for small declines in prices. At Eagle, our portfolios generally outperformed with our emphasis on shorter maturities and a higher exposure to bonds with credit spreads. During the quarter we decided to reduce our exposure to lower rated bonds and raised the quality of our portfolios.

Stock and Portfolio Highlights

Outperformers: Eagle domestic equity portfolios outperformed the S&P 500 Index for the quarter. Information Technology and Health Care were the top performing sectors relative to the benchmark. On an absolute level, Information Technology stocks performed best, followed by Energy stocks.

Disappointments: Stocks in the Energy and Consumer Discretionary sectors lagged in performance relative to the benchmark.

Purchases / Additions In The Quarter

Caterpillar Inc.: Following 4 years of revenue declines, sales down 30% from the 2012 peak and with close to 50% exposure to North American infrastructure, Oil & Gas, and mining, Caterpillar is set to benefit from a rebound in these markets with additional upside from the tax cut/ accelerated depreciation driven investment spending that will drive a prolonged replacement cycle. Plus, there is potential for more upside from the infrastructure bill. The company has changed its long-term incentive metric from EPS growth to ROIC, which should encourage management to focus on execution rather than growing via acquisitions.

Cisco Systems Inc.: CSCO is successfully implementing its recipe for gaining back share in the switching market, by separating the commoditized hardware from rich and differentiated software features that brings clients savings in addition to bringing ease of use and increased security to the network. Software is billed on a recurring basis, which makes client relationships stickier and reduces volatility in earnings. The company is only two quarters into this transition and has a long way to go to penetrate its large client base. Additionally, the success from software driven strategy in switching can be replicated in other segments of CSCO's business.

CVS Health Corporation: CVS Health Corporation's transaction with Aetna is expected to close in the second half of 2018. It is expected to improve customer services, allow cross selling, increase customer retention and share of wallet. We have high confidence in the transaction winning regulatory approval after recent court rulings, which allowed AT&T to acquire Time Warner Inc. In April, it appeared Amazon had decided against pursuing drug distribution after letting some of its pharmacy licenses lapse. Amazon was also in the news for its interest in selling medical supplies to hospitals and other health care providers through its existing e-commerce operation aimed at businesses. As a result, fears of Amazon's impending entry into the prescription drug market started to ebb and CVS began to outperform. However, subsequent to our CVS purchase, Amazon announced the acquisition of PillPack, which gives Amazon an entry into the nationwide prescription drug market. The valuation on CVS is inexpensive at 9 times next twelve months price-to-earnings, 7 times next twelve months EV/EBITDA, and 0.8 times next twelve months price-to-earnings-to-growth. Dividend yield at 3.3% is also attractive relative to its 10-year history.

DowDuPont Inc.: Dow-Dupont continues to post solid numbers, yet the stock has pulled back on macro concerns. We saw it as a good opportunity to add. DWDP exceeded expectations in every segment except Agriculture, where management expects some of the first quarter shortfall to roll to Q2. Separation/spins are no longer so far out, as management reiterated separation dates that should act as positive catalysts to the shares. CEO Ed Breen indicated that he will remain with the company through the separations, putting to rest concerns that Breen would not be able/allowed to fully enact transformation. Synergies exceeded expectations, and management increased the total 2018 synergy target by 20%.

East West Bancorp Inc.: EWBC will continue to expand on its primary position as a U.S. based middle market lender to both Chinese-American domestic customers as well as to commercial cross-border trade customers in Asia. The company is seeing better loan growth versus peers as they are gaining share. They also have better profitability and asset sensitivity than the mid cap bank group.

Facebook Inc.: The Cambridge Analytica (CA) controversy and concerns related to a new privacy law in Europe led to a sell-off, making Facebook shares very attractive from a valuation standpoint. Early signals indicated little impact on platform usage because of the CA controversy. Our view on General Data Protection Regulation (GDPR) is that it may be disruptive to all internet companies in the short-term, but it is likely to be least disruptive to larger companies that have more resources to manage around the regulation. In the long-run, it is likely to make large social media companies more valuable, while leaving the growth in online ad budgets unchanged.

PPL Corp.: The Office of Gas and Electricity Market's (OFGEM) decision to forgo a mid-period review regarding RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) model for network regulation removes near-term overhang which caused significant underperformance in the shares in late 2017. Shares now offer above-peer-average earnings growth at a below-average P/E as well as a top-quartile 5.7% yield.

Sells / Trims In The Quarter

Altria Group Inc.: The company's performance was impacted by rising rates, staples falling out of favor and poor performance from its key brand, Marlboro. Competition from JUUL in e-vapor remains very strong. A slowdown in adoption of IQOS manufactured by Philip Morris International for the heat not burn market in Japan reduced expectations for its success in the United States.

CF Industries Holdings: We sold CF for valuation reasons. The share price was fully appreciating in strong nitrogen prices at the onset of a seasonally weak period. Urea Prices usually peak in winters because of inventory fill for spring application and a cut in Chinese capacity to manage air pollution.

Gilead Sciences Inc.: Gilead's earnings for the first quarter disappointed with considerable pressure in HCV (Hepatitis C), which was down 30% sequentially. The $11 billion acquisition of Kite Pharma in the CAR-T cell therapy space increases company's complexity while pipeline success becomes key to Gilead's share price, increasing overall risk.

Hartford Financial Services: Shares reached our price target after our investment thesis played out with good second quarter 2017 earnings and some ROE improvement in the Property & Casualty segment (core business). Rumored sale of Talcott would be dilutive to book value.

PPL Corp: We chose to sell our original tranche of PPL for tax-loss harvesting purposes.