All Cap Equity

Second Quarter | 2019

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Value investing is based on the potential for a company's stock price to rise based upon anticipated changes in the market or within the company itself. Value stocks have historically been sensitive to economic cycles and investor sentiment that can affect volatility and risk.

Market Overview[1]

Despite an escalation in the U.S.-China trade conflict and a slowing global economy, the U.S. equity market, as measured by the Russell 3000® Value Index, gained 3.7% during the second quarter. We believe the main catalyst was a perceived shift in the Federal Reserve's outlook regarding interest rates, signaling that no more rate hikes are expected this year, or perhaps even a rate cut if economic conditions deteriorate. This reduced the concern for a major policy mistake and raised the appetite for equities. Cyclical sectors performed best during the quarter, including financials, technology and materials. Defensive sectors, including healthcare, utilities and REITs posted positive returns but lagged most sectors.

Portfolio Review[1,2,3]

The All Cap Equity portfolios outperformed the Russell 3000 Value benchmark on a gross and net basis during the second quarter. Strong stock selection within information technology, industrials and communication services led performance. Stock selection in consumer staples, energy and consumer discretionary hurt performance.

Total System Services stock appreciated after the company entered into a merger agreement with Global Payments. The deal reflected an approximately 20% premium to the recent comparable closing price. We decided to sell the holding after the announcement to avoid any potential regulatory uncertainty.

Microsoft reported another impressive quarter, with most businesses performing well. Management also provided a high-level outlook for next fiscal year, with expectations for solid double-digit growth in revenues. Microsoft continues to win in the cloud business and grow margins as it achieves scale.

Intercontinental Exchange outperformed in the second quarter largely as a result of its solid financial performance in a volatile environment. Recall that the company benefits from market volatility through its ownership of the New York Stock Exchange (NYSE).

Citigroup outperformed largely due to the positive outcome from this year's regulatory stress tests and the associated capital actions. More specifically, the company announced it will raise its quarterly dividend 13% and will repurchase up to $17.1 billion in stock.

Lockheed Martin appreciated following a strong quarter. Management announced revenue and earnings well ahead of consensus and increased guidance for the remainder of the year. The company continues to benefit from the trend of government outlays catching up to budgeting authorizations.

Occidental Petroleum traded lower as the company embraced a bidding war with a much larger entity over a pure-play Permian exploration and production (E&P) company. The offer price was much larger than investors expected, leading to questions regarding the proposed synergy target.

Halliburton announced stronger earnings per share and revenues, however shares traded lower due to weakness in pricing. Large exploration and production companies have been cutting spending and, as a result, many energy service providers have been squeezed. Positively, management believes the worst in the pricing deterioration is now behind them.

Altria announced weaker-than-expected results due to an accelerating decline in cigarette volumes. For years, tobacco companies were able to overcome modest volume declines with higher pricing; however, these volume declines were stronger than expected. Positively, management reaffirmed full year guidance and also achieved FDA approval to sell its IQOS vape product in the United States.

Darling Ingredients announced earnings per share below consensus due to unfavorable hedges, pressure from African swine fever, and weather. However, the company announced record performance in its food segment.

Devon Energy traded lower with other energy companies. The company reported strong first quarter results with earnings, cash flow and oil production all coming in above expectations. Management also increased production guidance while maintaining the same level of capital spending.

Outlook

We just entered the longest U.S. economic expansion on record. July will mark the 121st month of growth since June 2009, when the last trough ended, as determined by the National Bureau of Economic Research (NBER). The previous record was 120 months of economic growth from March 1991 to March 2001.

Does that mean we should be concerned that the expansion is about to end? We do not believe so. Economic expansions don't just die of old age: Something has to happen to end it. Usually this would either be an external shock to the economy, or an asset bubble popping, or because the Federal Reserve may cause a slowdown or a recession by raising rates too much. We don't see any asset bubbles currently, and it looks like the Fed is on hold with rate hikes for now, so we believe this economic expansion still has legs.

More worrisome for investors in the near-term might be the recent slowing in manufacturing activity, which has been a weak spot for the U.S. and global economies as escalating trade concerns and tariffs have put downward pressure on the sector. Consequently, corporate earnings are expected to decline slightly versus last year in the second and third quarters of 2019. Fortunately, employment data has so far been unaffected and remained solid, but we will continue to monitor it closely. We expect earnings growth to gradually improve by year-end, which should be good news for equities in general.

We feel very confident about the way wehave positioned our strategy for the current economic backdrop.

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Top 10 Holdings

Intercontinental Exchange
Cisco Systems
Citigroup
Microsoft
Omnicom
AT&T
Procter & Gamble
Honeywell
JPMorgan Chase
Darling Ingredients

The information provided above should not be construed as a recommendation to buy, sell or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold or recommended for the composite. They are provided for informational purposes only. Eagle, its affiliates or their respective employees may have a position in the securities listed. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

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	Top Securities	Average Weight (%)	Security Contribution to Portfolio Return	Bottom Securities	Average Weight (%)	Security Contribution to Portfolio Return
All Cap Equity	Total System Services	2.22	0.63	Occidental Petroleum	1.82	-0.50
	Microsoft	4.26	0.56	Halliburton	1.39	-0.35
	Intercontinental Exchange	4.34	0.56	Altria	1.93	-0.35
	Citigroup	3.58	0.45	Darling Ingredients	3.06	-0.27
	Lockheed Martin	2.22	0.45	Devon Energy	1.79	-0.19

* as of June 28, 2019. The information provided above should not be construed as a recommendation to buy, sell or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold or recommended for the composite. They are provided for informational purposes only. Eagle, its affiliates or their respective employees may have a position in the securities listed. Please contact your financial advisor to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

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3. Source: FactSet.