Eagle Insight

EAGLE Asset Management
AN AFFILIATE OF CARILLON TOWER ADVISERS

Equity Income

Second Quarter | 2019

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*as of July 1.
The risks associated with Equity Income investing are based upon the identification of companies that possess both moderate growth rates as well as higher-than-average and consistent dividend distributions. There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest-rate risk and high dividends can sometimes signal that a company is in distress. Historically, dividend yields have been relatively constant and therefore have created a cushion for investors when stock prices have declined. However, as with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will

Market Overview

Despite an escalation in the U.S.-China trade conflict and a slowing global economy, the U.S. equity market, as measured by the S&P 500, grew 4.3% 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]

The Equity Income portfolios underperformed the S&P 500 benchmark during the quarter. Stock selection contributed in the industrials, health care and utilities sectors. Meanwhile, stock selection in the energy, communication services and consumer staples detracted from performance.

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.

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.

JPMorgan traded higher due to the positive outcome of this year's regulatory stress test and the associated capital actions. More specifically, the company announced it will raise its dividend 12.5% and will repurchase up to $29.4 billion in stock.

PNC outperformed in June, also largely due to the positive outcome from this year's regulatory stress tests and the associated capital actions. PNC announced it will raise its quarterly dividend 21% and will repurchase up to $4.3 billion in stock.

Honeywell reported financial results with revenue and earnings per share nicely ahead of consensus. This is in contrast to most industrial companies that are struggling to hit expectations due to weak U.S. industrial macro data. The company was still able to produce an acceleration in organic growth despite these issues.

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.

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.

3M missed expectation targets due to slowing conditions in several end markets. The company also lowered full year guidance and management announced a restructuring plan in an effort to lower costs. Despite this temporary weakness, the company has an innovative product pipeline that could propel further growth.

Cinemark suffered from lower year-over-year box office revenues, but outperformed the industry box office. Management remains very excited about box office lineup for the rest of 2019.

Carnival announced stronger than expected revenues and earnings; however, the company lowered guidance due to voyage disruptions and regulatory changes. While advanced bookings are running ahead of last year, pricing on new bookings has been running behind due to weakness in Europe and Alaska.

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 we have positioned our strategy for the current economic backdrop.

1. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principal.

Top 10 Holdings

Microsoft
JPMorgan Chase
Cisco Systems
Honeywell International
Lockheed Martin
PNC Financial Services
Procter & Gamble
Union Pacific
Chevron
McDonald's

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
Equity Income	Lockheed Martin	3.29	0.66	Occidental Petroleum	1.90	-0.53
	Microsoft	4.55	0.63	Altria	2.29	-0.41
	JPMorgan Chase	3.99	0.42	3M	1.77	-0.32
	PNC	3.37	0.41	Cinemark	3.47	-0.31
	Honeywell	3.83	0.38	Carnival	2.74	-0.20

* 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 are shown for informational purposes only and are 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.

based on market and other conditions. The accuracy of the content and its relevance to your particular circumstances is not guaranteed.

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2. Source: FactSet.