Quarterly Commentary

EAGLE Asset Management

Equity Income

Second Quarter | 2024

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Market Overview

The S&P 500 Index traded 4.3% higher during the second quarter, but the bigger story was that the benchmark index closed out the first six months of 2024 with a whopping 15.3% advance. The remarkable performance in the first half of the year, which led the S&P 500 to break records, was primarily fueled by a strong surge in technology stocks driven by the artificial intelligence (AI) trend and progress toward a point when the U.S. Federal Reserve (Fed) can start reducing interest rates. Market breadth remained an issue, however, with the eight top-performing stocks contributing around 70% of total returns. By far, information technology and communication services were the strongest sectors, with most others trading closer to flat or down.

Portfolio Review[1,2]

The Eagle Equity Income Strategy underperformed the benchmark S&P 500 Index on a gross and net basis during the second quarter. Stock selection in financials, energy, and utilities contributed to relative performance. Negatively, an underweight position in information technology, as well as stock selection in consumer staples and real estate, hindered performance. Below-median dividend payers in the S&P 500 strongly outperformed their above-median paying peers, which created a headwind for our strategy of nearly 1,223 basis points.

Top-performing securities

Broadcom reported better than expected revenues and raised guidance. The company is a key beneficiary of AI spending, which continues to accelerate, and announced an unusually large stock split.

Analog Devices rebounded as management teams at several semiconductor companies in the analog space called the bottom, seeing improved conditions ahead. The analog semiconductor industry is a very cyclical business that has underperformed the broader semiconductor industry for several years.

AstraZeneca reported strong first-quarter financials, issued bullish long-term financial goals at the company's May investor day, and disclosed positive results from a handful of oncology clinical trials during the second quarter.

Texas Instruments, like Analog Devices, benefited from improving trends in the analog semiconductor industry.

Oracle stock rose to all-time highs after the company announced better than expected cloud infrastructure revenue. Oracle signed dozens of new customers, including two leaders in generative artificial intelligence. The backlog remains, and strong growth appears poised to accelerate.

Bottom-performing securities

Target's sales continue to feel the consumer softness in discretionary goods. In addition, while margins are recovering, they are not up to expectations. Encouragingly, sales are sequentially increasing and comparable sales are expected to get easier as Target enters the back half of the year.

Prologis detracted from performance as the company tempered its guidance outlook for 2024. More specifically, management noted that some clients have chosen

10 Largest Holdings

Microsoft

Broadcom

JPMorgan Chase

Chevron

Oracle

Goldman Sachs

Eaton

PNC

Merck

Texas Instruments

As of June 30, 2024. The information provided herein 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

to defer investment decisions given the uncertain economic environment. However, the company noted that proposal numbers have not declined, so client activity could reaccelerate in the near term.

Interest rates rose at the beginning of the quarter, putting pressure on Home Depot and other retailers. In addition, Home Depot completed its acquisition of SRS Distribution, introducing elevated execution risk for the company.

PPG shares lagged in the second quarter as softening macroeconomic data across several of its end markets (including autos, housing, and industrial) drove concerns that the path to sustainable sales volume growth was growing more difficult.

Medtronic's fundamental updates in the second quarter were mostly positive, including issuing solid quarterly results and reporting positive results from two cardiology clinical trials. However, there is some investor apprehension around the implied cadence of guidance for fiscal 2025, which was exacerbated by the recent departure of the company's CFO for a role in another industry.

Outlook

For financial markets, the first half of 2024 strongly resembled 2023. No doubt this was a function of the same key market drivers influencing both time periods. The most impactful of these was investors' preoccupation with the latest data point on inflation and its expected impact on Fed policy. Early second-quarter inflation readings supported a sustainably higher interest rate environment. Specifically, rental rates and payroll additions were key areas of concern. The 10-year U.S. Treasury yield reacted accordingly, peaking at 4.7% by mid-quarter. That was within 30 basis points of a multi-year high posted in the fall of 2023. Conversely, weaker Consumer Price Index, retail sales, and Institute for Supply Management manufacturing updates toward the back half of the second quarter supported a more tempered inflation backdrop. Resulting 10-year yields plunged 50 basis points by mid-June. We would not be surprised to see this level of volatility continue into the second half of 2024 until a clear direction in Fed policy is apparent.

Interestingly, investor expectations regarding Fed interest rate cuts did not fluctuate nearly as much as the underlying economic data. Throughout the quarter, expectations remained steady at one to two rate cuts for the full year of 2024. Note that at the end of 2023 investors had expected five to six rate cuts in 2024, per Bloomberg. The good news is that we see clear progress on easing inflation across most key categories, ranging from lower commodities to improving supply chain fluidity. Housing rents remain closely watched. Importantly, we have not observed a level of economic data that reflects a rising risk of recession in the near term. That said, our primary concerns surround a persistently tight employment market and corresponding sustained wage growth. The Fed may be forced to keep interest rates higher for longer in that scenario, most certainly increasing the risk of a material slowdown in economic growth.

The combination of erratic inflation data, uncertain Fed policy, and opaque future economic growth have likely exacerbated key trends within financial markets. The most noteworthy is the extreme

Equity Income

Performance[2] as of June 30, 2024

		Second Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (July 1, 1981)
Eagle Equity Income	Gross	0.65%	7.68%	13.62%	6.72%	9.66%	9.44%	10.90%
Eagle Equity Income	Net	-0.10%	6.09%	10.30%	3.58%	6.45%	6.23%	7.67%
S&P 500® Index		4.28%	15.29%	24.56%	10.01%	15.05%	12.86%	11.79%

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial professional or visit eagleasset.com.

Past performance is not a guarantee of future results. The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). The net returns reflect the application of the highest wrap fee of 3% annum.

Performance Disclosures [2]

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Securities shown should not be considered recommendations or solicitations and may not have been, or in the future be, profitable. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results.

narrowness of the equity markets favoring large-cap growth companies. Clearly, investors are rewarding equities with visible, multi-year growth versus those more reliant on a resurgence of the global economy, as evidenced in the areas of artificial intelligence, glucagon-like peptide 1 agonists (GLP-1s) in healthcare, and reshoring of manufacturing in the United States. As we enter the second half of the year, we do not expect that trend to abate. Furthermore, as we observed at the end of June, the U.S. presidential election will likely add to financial market volatility.

With such a challenging backdrop, we suggest the time has never been better to own a portfolio of high-quality, dividend-paying equities. We believe our holdings of profitable, well-managed, and dominant companies are well positioned to perform in today's environment. We expect these companies to continue paying and – equally important, to raise – their dividends annually given their strong cash flow generation and reasonable financial leverage. Our intent is to participate in periods of strong market returns with an eye toward downside risk mitigation during more challenging market environments.

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.

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2. Source: Bloomberg.

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. Dividends are not guaranteed and must be authorized by the company's board of directors.

Dividend-issuing companies are subject to interest-rate risk. 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 occur, both of which may adversely affect investment results. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Definitions

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a "narrow" selection of companies. An index supported by "broad" market movements is one where the median is closer to the mean.

Calling the bottom is a saying used in finance to describe the point when the price of a security or group of securities has hit its low point for the cycle, with higher prices to follow.

Comps, short for comparables, carries different meanings depending on the industry and context, but generally entails a comparison of financial metrics – often for two different time periods – or other factors to quantify performance or determine valuation.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Cyclical stocks have prices influenced by macroeconomic changes and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Dividend payers are the companies that distribute a portion of their profits to shareholders in the form of a dividend.

Enterprise spending describes the money a company invests on infrastructure and other capital investment.

Execution risk, in mergers and acquisitions, is used to describe the potential that the combined company will encounter problems as it works to mesh sytems, personnel, processes, and technologies from two or more previously separate firms.

Generative artificial intelligence (AI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

GLP-1 weight-loss drugs, formally known as glucagon-like peptide 1 agonists, comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Guidance refers statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses and why.

The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) measures the prevailing direction of economic trends in the manufacturing sector. It consists of an index summarizing whether market conditions as reported in a monthly survey of supply chain managers are expanding, staying the same, or contracting.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

Reshoring describes an effort to bring manufacturing and other services back to the United States from overseas operations.

Sequential metrics compare a company's recent performance in a particular category to its performance in the period immediately before.

A stock split takes place when a company raises the number of its shares to enhance the liquidity of its stock. Typically, stock splits provide shareholders with multiple shares of stock for each share they held before the split.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

Visibility reflects the degree to which a company's management or the analysts who follow it can reliably estimate future near- or long-term performance.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

Indices are unmanaged, and one cannot invest directly in an index.

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