Eagle **Insight**

EAGLE Asset Management
AN AFFILIATE OF CARILLON TOWER ADVISERS

Large Cap **Core**

Second Quarter | 2019

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The risks associated with Large Cap Core investing are based on the expectation of positive price performance due to continued earnings growth or anticipated changes in the market or within the company itself. However, if a company fails to meet that expectation or anticipated changes do not occur, its stock price may decline. Moreover, as with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. Investing in growth-oriented stocks involves potentially higher volatility and risk than investing in income-generating stocks. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Market Overview[1]

During the second quarter of 2019, the optimism from the first quarter continued, and, for the most part, equities rallied (or climbed a wall of worry?) across the globe, albeit with a sharp selloff in May.

In some ways, the weakness in the fourth quarter of 2018 set the stage for the recovery in 2019. Confronted by the market selloff, weaker economic data, risks to the trade outlook and low inflation, the Federal Reserve (Fed) and the European Central Bank (ECB) indicated that their next moves would likely be further monetary stimulus. Because of central banks' reaction functions, this year, bad economic news has been "good news" for markets.

Most economic data has yet to reflect a significant impact from the U.S. trade war with China, but that is unlikely to last if the stalemate drags on, and/or if the next round of tariffs kick in. An important question is whether or not the Fed has sufficient ammunition to fight a trade-related slowdown. Chairman Jerome Powell said the Fed was weighing a rate cut because economic "cross currents" have led to "greater uncertainty," but Powell added that he was "mindful that monetary policy should not overreact to any individual data point or short-term swing in sentiment."

While global growth remains positive, on average, it has become more uneven, and many major economies appear to have moved later in their business cycles. The United States is firmly late in the economic cycle, and while valuations are stretched, there is likely only low near-term risk of recession. However, macro events could quickly change our opinion. Valuations are more reasonable outside the United States in both developed and emerging market economies.

China's growth recession weighed on its export partners, but policy stimulus appears to have begun stabilizing the world's second-largest economy. That said, while China's policymakers stepped up the pace of stimulus this quarter, credit growth remains subdued,[i] and the policy actions' ability to reaccelerate China's economy remains in question, implying high debt levels may still be inhibiting the government's actions.

Oil prices have fluctuated lately over a variety of concerns, including slowing global growth, disruptions to supply because of attacks on tankers in the Gulf of Hormuz, and U.S. sanctions on Iran. In addition, the potential for military conflict between the United States and Iran has increased macro volatility. Over the past 12 months, Iranian oil exports have fallen by 90%, much of that coming in the past two months.[ii] Markets would be well served by a de-escalation in bluster and violence.

The Fed completed the second round of its annual stress tests, which assess the nation's 18 biggest banks. The tests were created as part of the Dodd-Frank Act implemented after the 2008 financial crisis. The Fed found all 18 banks able to withstand a financial crisis, allowing them the flexibility going forward to increase dividends and/or repurchase shares. This is positive news as the flatter yield curve has challenged banks' profitability by shrinking the gap between lending rates and funding costs.

Like the rest of the world, we have no idea what is happening with Brexit. The story changes daily and is more unpredictable than ever. In times of such macro uncertainty, maintaining balanced portfolio positioning to the alternate outcomes, and the associated alternate risks, remains paramount.

Portfolio Review[1,2]

During the second quarter, the Large Cap Core portfolio underperformed its S&P 500 Index benchmark. Stock selection and sector allocation

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both detracted from performance. Underweights to materials and financials detracted from performance while an overweight to information technology and an underweight to communication services contributed to performance. Stock selection was weakest within consumer discretionary and utilities, but strong within financials and industrials.

At the start of the quarter, as compared to its S&P 500 benchmark, the Large Cap Core portfolio was most overweight in the information technology and utilities sectors, and most underweight in consumer staples and materials. By the end of the quarter, the portfolio continued to be most overweight in the information technology and utilities sectors and was most underweight in materials and consumer discretionary. Within the universe of S&P 500, financials and materials had the strongest returns, while energy and healthcare were weakest.

Microsoft showcased a blockbuster lineup of anticipated games and unveiled its next-generation Xbox, saying the video game console will be four times more powerful than the current version.

Walmart agreed to pay the Department of Justice and SEC to finally settle a 7-year-old bribery investigation. In addition, the company announced plans to offer one-day shipping in response to a competitor who announced the same offering just weeks before. Walmart also reported stronger-than-expected quarterly earnings, highlighting margin strength.

JPMorgan Chase surged along with other big bank stocks after the Federal Reserve signaled an openness to cutting interest rates if necessary. Facebook rose following reports that it's making progress toward its cryptocurrency ambitions.

Ingersoll-Rand, a world leader in creating comfortable, sustainable, and efficient environments, rallied after declaring its quarterly dividend of $0.53 cents per ordinary share after strong first-quarter revenue beat expectations and the firm issued bullish guidance.

Alphabet, the parent company of Google, traded lower after the company reported disappointing revenue growth. The stock was also hurt by news that the federal government plans to launch antitrust investigations into tech giants including Alphabet.

Foot Locker, the athletic shoe and sportswear retailer, missed expectations on the top- and bottom-line and lowered its earnings growth outlook on lower share repurchases.

NRG Energy produces, sells, and distributes energy and energy services. The company agreed to acquire Stream Energy's retail electricity and natural gas business for $300M in an all-cash transaction. Weak Texas power prices negatively impacted the company's wholesale power generation business.

Steel Dynamics, one of the largest domestic steel producers and metals recyclers, expects earnings from its steel operations to decrease, primarily related to lower profitability from the company's long product steel operations.

PVH, which designs and markets apparel through Calvin Klein and Tommy Hilfiger, fell after releasing generally in-line earnings and softer-than-expected guidance.

Top 10 Holdings

Microsoft
Apple
Amazon.com
UnitedHealth
Cisco Systems
Home Depot
JPMorgan Chase
Mastercard
Adobe
Walmart

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
Large Cap Core	Microsoft	5.94	0.78	Alphabet **	3.78	-0.32
	Walmart	1.71	0.23	Foot Locker	0.87	-0.31
	JPMorgan Chase	2.17	0.23	NRG Energy	1.23	-0.29
	Facebook	1.64	0.22	Steel Dynamics	0.53	-0.25
	Ingersoll-Rand	1.29	0.21	PVH	0.64	-0.25

* 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.
**Combined A and C share classes.

Outlook[1]

Stock investors have been on a wild ride the past year: Markets have gone from record highs, to being on the cusp of a bear market, to returning to recent peaks. This has left some investors feeling defensive as valuations appear stretched by some metrics. Conversely, many also worry about missing the next leg up in the now decade-long bull market.

U.S. stocks are hovering around all-time highs, kept afloat by hopes that the Fed will begin cutting rates as soon as its July meeting. Investors are questioning whether or not rate cuts will be sufficient to help what is ailing the economy. Absent a comprehensive trade deal, it's difficult to imagine that many companies will be confident enough to expand capital spending, one of the primary reasons given for the 2018 corporate tax cut.

According to a June report from the World Bank, global economic growth is forecast to ease to a weaker-than-expected 2.6% in 2019 before inching up to 2.7% in 2020. Growth in emerging markets and developing economies is expected to stabilize next year, as some countries move past periods of financial strain, but economic momentum remains weak.[iii]

Similarly, the Congressional Budget Office (CBO) forecasts U.S. economic growth will slow to 2.3% for 2019 from 3.1% in 2018, as the effects of President Donald Trump's tax cuts fade and the federal budget deficit climbs to nearly $900 billion. The government's latest estimate for first-quarter GDP was unchanged at 3.1%. While any extremely long-term forecasts are to be taken with a large grain of salt, the CBO predicts that persistently large deficits will push federal debt to 93% of GDP in 2029, its highest level since immediately after World War II, and to about 150% of GDP by 2049.

In the United Kingdom, odds suggest that Boris Johnson is a strong favorite to be the next prime minister. Regardless, we believe parliament is still likely to prevent a no-deal Brexit, unless a general election or referendum takes place and provides a strong mandate from the population. At the moment, polls suggest only about 30% of U.K. voters want to leave the EU without a deal.[iv] Whoever it is, how the next prime minister hopes to solve the Brexit debacle remains to be seen.

The G20 meeting in June resulted in the United States and China agreeing to keep talking about trade, with no escalation in tariffs, but also without significant signs of progress. While the lack of further escalation avoids the worst-case scenario for the moment, the ongoing uncertainty and potential for a further breakdown in negotiations will continue to weigh on business sentiment. In addition, we've seen that new trade uncertainties can flare up at a moment's notice, including Mexico, Canada, India, and the EU. To date, the effects appear to have been relatively muted; however, the upcoming earnings season will provide new information.

Based on the 2019 rally, the fourth-quarter dip in stocks did little to dent investor confidence. Continued trade uncertainty and the potential for a limited Fed reaction could weigh on stocks in the near term, while an easing of trade tensions could keep the rally alive. Given an inverted yield curve, trade uncertainty, Brexit, and slowing economic growth, we believe investors need to remain disciplined and diversified and, as always, continue to avoid trying to time volatile markets.

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.

2. Source: FactSet.

i Source: Reuters

ii Source: Reuters

iii Source: Bloomberg

iv Source: Bloomberg