Eagle **Insight**

EAGLE | Asset Management
AN AFFILIATE OF CARILLON TOWER ADVISERS

Large Cap **Growth**

First Quarter | 2018

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The risks associated with Large Cap Growth investing are that growth-oriented companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

Market Overview

January's record highs gave way to fear of a trade war, a more hawkish Federal Reserve and the long-awaited return of volatility. A swift mid-quarter retreat in leading technology names rattled investors and motivated many to shift from a "risk-on" to a "risk-off" approach.

One of the main takeaways from the first quarter is that volatility is back. The VIX index (a volatility metric derived from the price of S&P 500 options) had the lowest annual average on record in 2017i. Many investors were caught off guard as strategies designed to capitalize on the long-standing low-volatility environment were part of a violent unwind. Volatility spiked and the VIX ended the quarter at more than double its 2017 average.

Portfolio Review[1,2,3]

Eagle's Large Cap Growth portfolios outperformed (on a gross basis) the benchmark Russell® 1000 Growth Index. Sector allocation contributed the majority of performance while stock selection was negative. Underweight positions in telecommunication services and real estate contributed to performance. Stock selection was strongest within information technology (IT) and materials and weakest within consumer discretionary and consumer staples.

Amazon.com, the world's largest online retailer, benefitted from strong retail sales in North America. Its revenue results exceeded consensus expectations, driven by performance in its higher-margin advertising business.

Microsoft's focus on cloud computing and its Azure cloud platform contributed to strong growth and margins for the company.

Visual computing company NVIDIA benefitted from strong global demand for video games, cloud computing, self-driving cars and artificial intelligence (AI). NVIDIA's AI technology is used in self-driving car simulation testing.

Mastercard got a boost from demand for payment processing. Strong economic conditions and the continuing expansion of the digital economy also proved beneficial.

Northrop Grumman increased its dividend and is expected to benefit from increased defense spending. The company's pending acquisition of Orbital ATK, which is expected to boost revenue, also prompted upgrades.

Facebook was hurt by concerns regarding user data after it was revealed that Cambridge Analytica violated Facebook rules, collected user data using the Facebook app and lied about deleting it.

Building materials company Owens Corning saw its share price sink due to weaker margins in the company's insulation segment.

Homebuilder D.R. Horton released above-expectations earnings, but fell along with other homebuilders due to a reported slump in new-home sales and rising industry costs.

Thor Industries sells recreational vehicles (RVs). A slowdown of wholesale industry shipments and retail weighed on the share price, despite a strong backlog. The company is positioned to benefit from favorable economic conditions and demographic trends as the baby-boomer generation ages.

McDonald's stock suffered due to concerns over industry conditions and sales growth. However, the company reported strong earnings, highlighting comparable-restaurant and system-wide sales growth.

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Outlook[2]

Stocks may face hurdles in the short term, even when macroeconomic news is positive.

Much of the recent news for the U.S. economy remains bullish. In the short term, the new tax cuts will benefit many Americans, the spending bill should add to economic growth and in the long-term it is difficult to forecast the impact of larger deficits. FactSet estimates that first-quarter S&P 500 earnings grew by 17.3 percent, which would be the highest earnings growth since the first quarter of 2011.

Some investors may be concerned that the economy is nearing the end of the cycle as valuations become increasingly stretched after eight years of growth. The combination of central bank tightening, rising inflation, and geopolitical risks means that volatility is almost certain to be higher in 2018. That said, economic growth and earnings still appear strong and many surveys of U.S. investors still suggest plenty of optimism, even after the recent market correction. Adding to the already complicated picture, the government has enacted substantial fiscal stimulus at a time when the economy is at essentially full employment.

The Federal Open Market Committee (FOMC) indicated a continued steady pace of interest rate increases as well as an upward trajectory in its economic projections. However, the timing of the fiscal stimulus – coming much later in the cycle than is typically the case – does elevate the risk of inflation, which could push the FOMC to tighten more quickly.

President Donald Trump significantly shifted U.S. policy by proposing tariffs on steel, aluminum and Chinese imports. U.S. businesses source roughly 40 percent of their revenues from overseasii so any disruption in global trade could be very damaging. We also see this as a dangerous development for global markets as trade wars tend to be stagflationary: often simultaneously slowing growth and stimulating inflation. We are hopeful that the situation won't deteriorate further, as both Canada and Mexico are exempt and it appears the United States is also negotiating exemptions for the European Union (EU) and Australia. Regardless, the saber-rattling on all sides has clearly unnerved some investors.

On the plus side, the U.S. economy – in our view – should have a tailwind due to the tax cuts that Americans are now incorporating into their budgets. We avoided another government shutdown as a new spending bill passed. The bill's merits can be debated but it should add to near-term economic growth.

The market of 2017 that let negative news just roll off its back now appears to have given way to one that is more sensitive to a variety of issues. But, as we've noted, last year was the exception and this year is closer to the norm. In our view, sell-offs and increased volatility are indicative of a healthier investing environment that could help extend the current growth cycle. Valuations, which were somewhat extended at the end of 2017, have had the chance to consolidate in part due to the market correction and the strength in corporate earnings. Our outlook for 2018 remains positive.

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Top 10 Holdings

Microsoft
Apple
Amazon.com
Facebook
UnitedHealth
Alphabet (Class A&C)
Home Depot
Applied Materials
Northrop Grumman
McDonald's

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	Top Securities	Average Weight (%)	Security Contribution to Portfolio Return	Bottom Securities	Average Weight (%)	Security Contribution to Portfolio Return
Large Cap Growth	Amazon	4.83	0.87	Facebook	4.27	-0.39
	Microsoft	5.37	0.36	Owens Corning	1.68	-0.20
	NVIDIA	1.85	0.30	D.R. Horton	1.38	-0.19
	Mastercard	1.73	0.24	Thor Industries	0.76	-0.18
	Northrop Grumman	1.89	0.24	McDonald's	2.05	-0.18

* as of March 31. 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.

[2] 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 principle.

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[3] Source: FactSet

[i] Source: Reuters

[ii] Source: Bloomberg