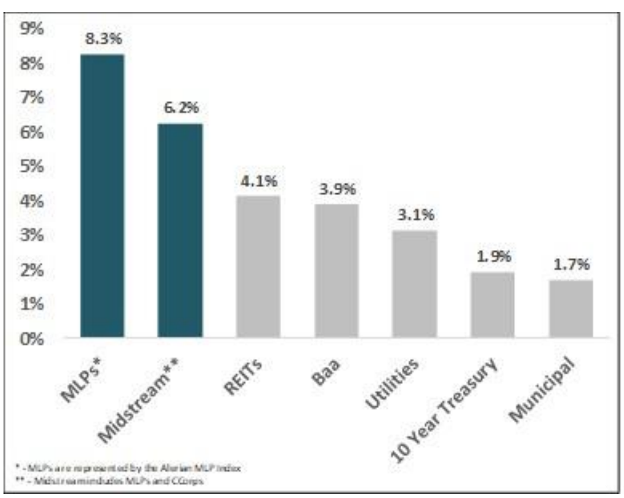
The Reports Of Midstream's Death Are Greatly Exaggerated

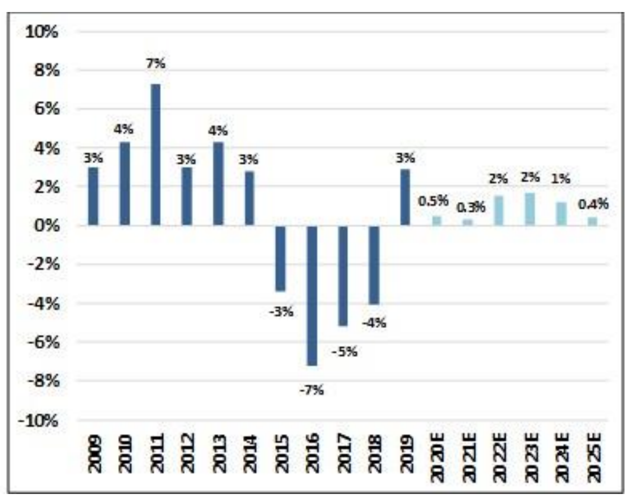
It's easy to understand why Midstream investors are so downtrodden given another year of underperformance. However, we continue to believe the signs are inevitable for recovery, and therefore we've compiled a David Letterman-esque list of the "Top Ten Signs That Midstream Is NOT Dead":

1) Dividend yields are attractive, sustainable, and poised to grow
2) Companies are consistently beating Street expectations
3) Declining capital expenditures
4) Management teams have a great problem, how to allocate excess cash
5) Energy demand is growing and with it the need for fossil fuels
6) Technological improvements at all points of the energy chain are lowering costs
7) Tax advantages, especially for MLPs, are intact
8) Growth extends its lead on Value, deepening Midstream's value proposition
9) The private sector values Midstream assets materially higher than the public market
10) Self-funding reduces capital markets risk and should reduce share price volatility

"Top Ten Signs That Midstream Is NOT Dead"

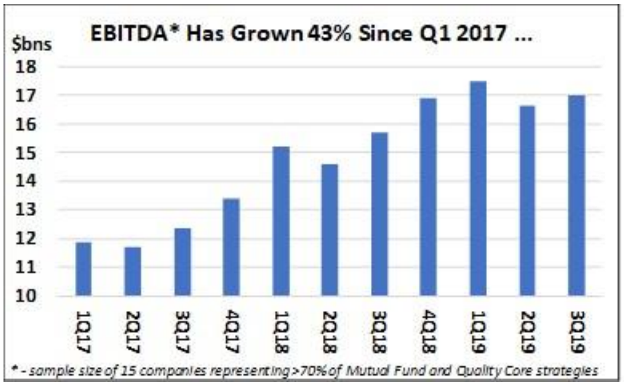
(1) Dividend yields are attractive, sustainable, and poised to grow. Over the past several years the most common response to our yield chart (below left) was the yield was compelling, but was it real? The reason why this was the most common response is summed up by the other chart (below right), as seemingly endless dividend cuts made the sector's attractive yield anything but believable. In our view, the number one sign Midstream is not dead is dividend growth returned in 2019. After four years of dividend cuts, dividends grew 3% in 2019. The Street also expects positive dividend growth over the long-term, and we think it's worthwhile to mention the reason why the forward growth rate isn't more attractive is because management teams are exploring other ways to enhance shareholder value (see Sign #4).

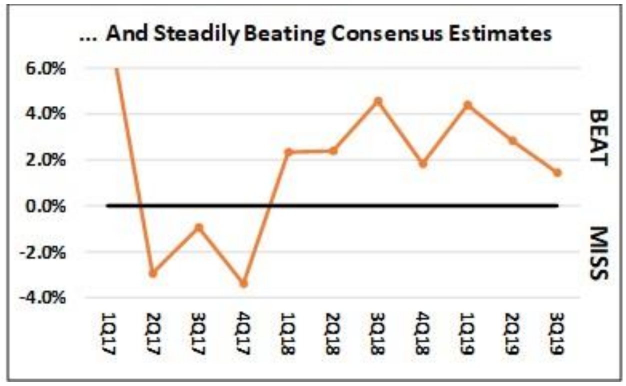




Sources: Bloomberg, Wells Fargo Research

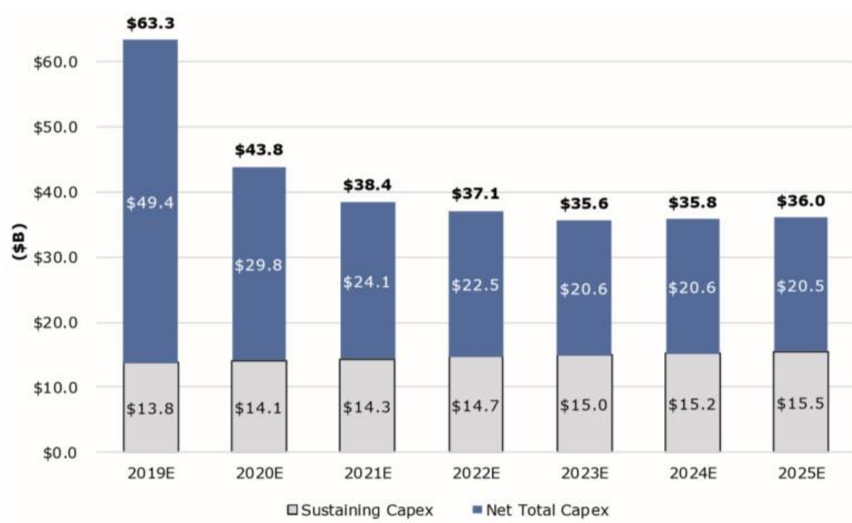
(2) Companies are consistently beating Street expectations. We analyzed 15 stocks that represent roughly 70% of our portfolio's exposure and found EBITDA has grown a remarkable 43% since 1Q17. In addition, these quarterly reports have beat Street expectations seven consecutive quarters and counting.





Sources: Bloomberg, Company Data

(3) Declining capital expenditures. Consistent with what we're seeing internally, Wells Fargo Research estimates a 40% reduction in growth capital spending for 2020, and an additional 20% in 2021. We believe this is a sign management teams are increasingly focused on harvesting cash flow, and therefore are either walking away from projects with lower return hurdles or are more willing to join other projects in the form of joint ventures. This should quell some concerns over the magnitude of what many believe is an infrastructure overbuild situation.

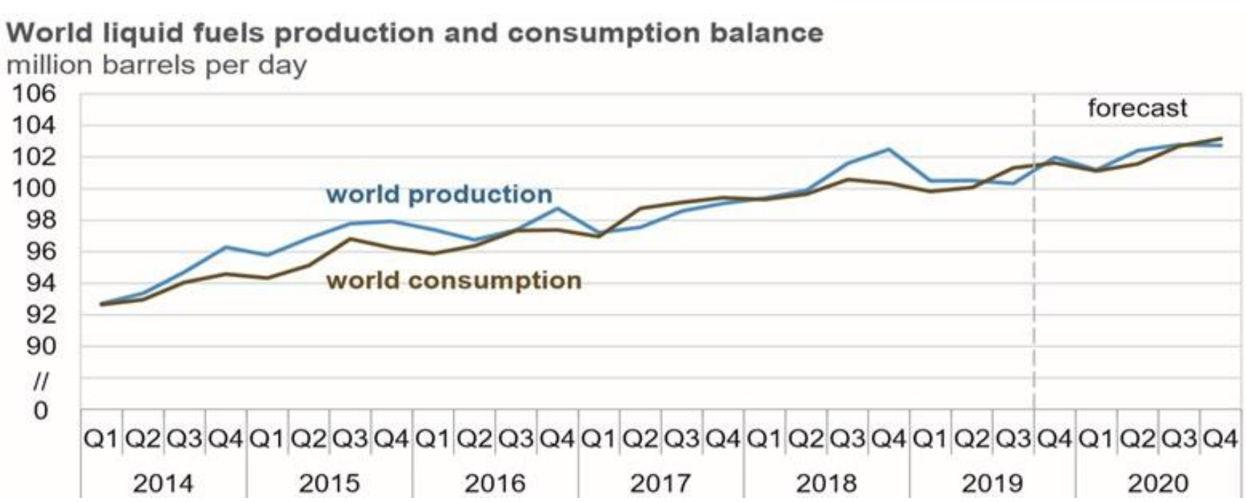


Sources: Wells Fargo Research

(4) Management teams have a great problem, how to allocate excess cash. Historically excess cash flow was directed into dividend increases, a major cog of the pre-oil price cash virtuous cycle. Today the overwhelming view among management is that dividend growth is unrewarded. As companies close in on leverage targets they're left with the choice of de-levering below their target (unlikely), raising dividends (unrewarded), or share buybacks. Some companies like Magellan Midstream (MMP) are polling investors on a policy of irregular special dividends. We believe we're going to see a wide array of shareholder enhancing initiatives, which when taken in aggregate may finally attract external capital back to Midstream.

(5) Energy demand is growing and with it the need for fossil fuels. The regular drumbeat of energy demand growth will continue its upward march, supported by a global market that desires modernization. For those who question traditional energy's role in an increasingly "woke" society, we revive a quote from Jim Robo, the CEO of prolific renewable energy developer NextEra Energy:

"So the thing that mystifies me, like for example the opposition to the East Coast pipelines MVP and ACP, the piece of it that mystifies me, and this is coming from the largest owner of renewables in the world, the thing that mystifies me is these pipelines are enabling shutting coal plants down. Enabling 30%, 40%, 50% reductions in those states of CO2 emissions, and so it is a complete head scratcher for me. Natural gas is going to be an important part of the equation for a long time. This country has literally hundreds and hundreds and hundreds of years of natural gas. Remember there is still a ton of fuel oil that's burned in the Northeast that can be replaced by natural gas, that would be a huge CO2 improvement. You still need natural gas for heating in a lot of places. The opposition to it honestly mystifies me. I guess folks want to be cold in the winter and burn a lot of coal. I think it is really misguided. But it's real. It's real. Hopefully we're going to be able to start to have a more rational discussion about energy policy in this country. Energy policy has been very polarizing."



Sources: Energy Information Administration (EIA)

(6) Technological improvements at all points of the energy chain are lowering costs. Only a few Midstream companies are highlighting cost cutting initiatives, and even less are willing to quantify what it could mean for their business. However, it seems clear that for management to earn its keep in the face of a reduced growth program it will need to control (and cut) costs to enhance margins. Already doing this for some time, DCP Midstream's "DCP 2.0" initiative has been working toward a goal of increasing centralization via automation and stronger pipeline control. While there is a limit to how much this can achieve, margin enhancement can meaningfully move the needle and to the extent this is communicated properly can drive stock price outperformance.

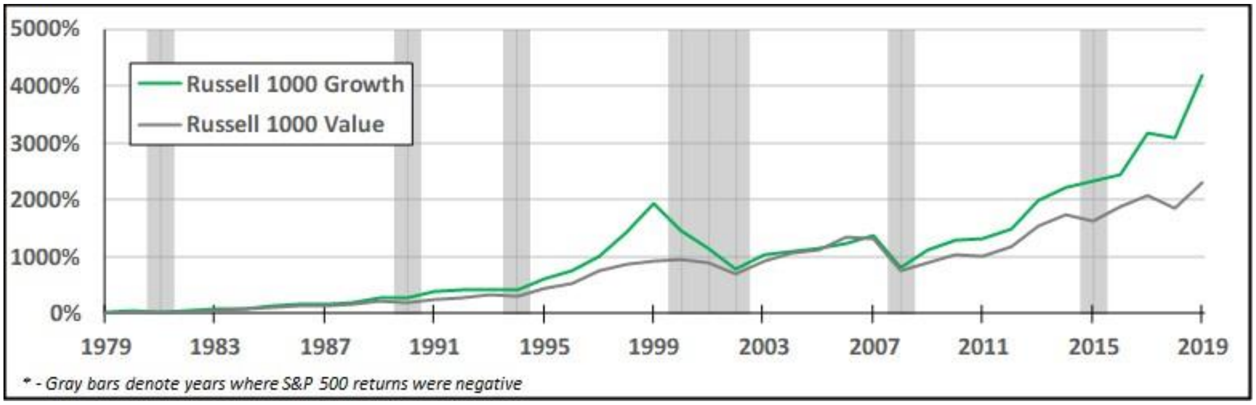
Beyond Midstream we believe technological improvements will continue up and down the energy chain. What this all does is help the United States (already the #1 producer) compete more effectively against international competitors, potentially smoothing out the production growth curve into a more predictable future that our Midstream companies can then use to limit infrastructure overbuild risk.

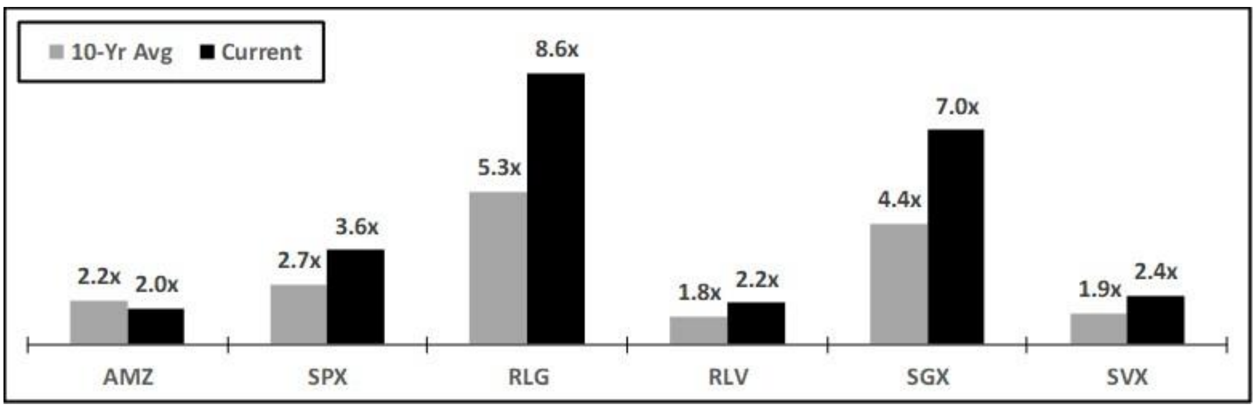
Country	Million barrels per day	Share Of World Total
United States	17.9	18%
Saudi Arabia	12.4	12%
Russia	11.4	11%
Canada	5.4	5%
China	4.8	5%
Iraq	4.6	5%
Iran	4.5	4%
United Arab Emirates	3.8	4%
Brazil	3.4	3%
Kuwait	2.9	3%
Total Top 10	**71.2**	**71%**
World Total	**100.9**	

Sources: Energy Information Administration (EIA)

(7) Tax advantages, especially for MLPs, are intact. Lost in the noise over the last several years is that Midstream remains tax advantaged relative to other sectors. It's a hard argument to make these days that it wasn't the MLP vehicle itself that drove stocks lower, but rather management malpractice on how to properly run a capital-intensive business. The attractive attributes that drew investors to the sector in the first place are still there. In addition, Midstream C-Corps have tax shields for multiple years that protect them from corporate level taxation. While not necessarily an explicit sign we can point to, we merely highlight that an increase in corporate tax rates would have a positive effect on Midstream and MLPs.

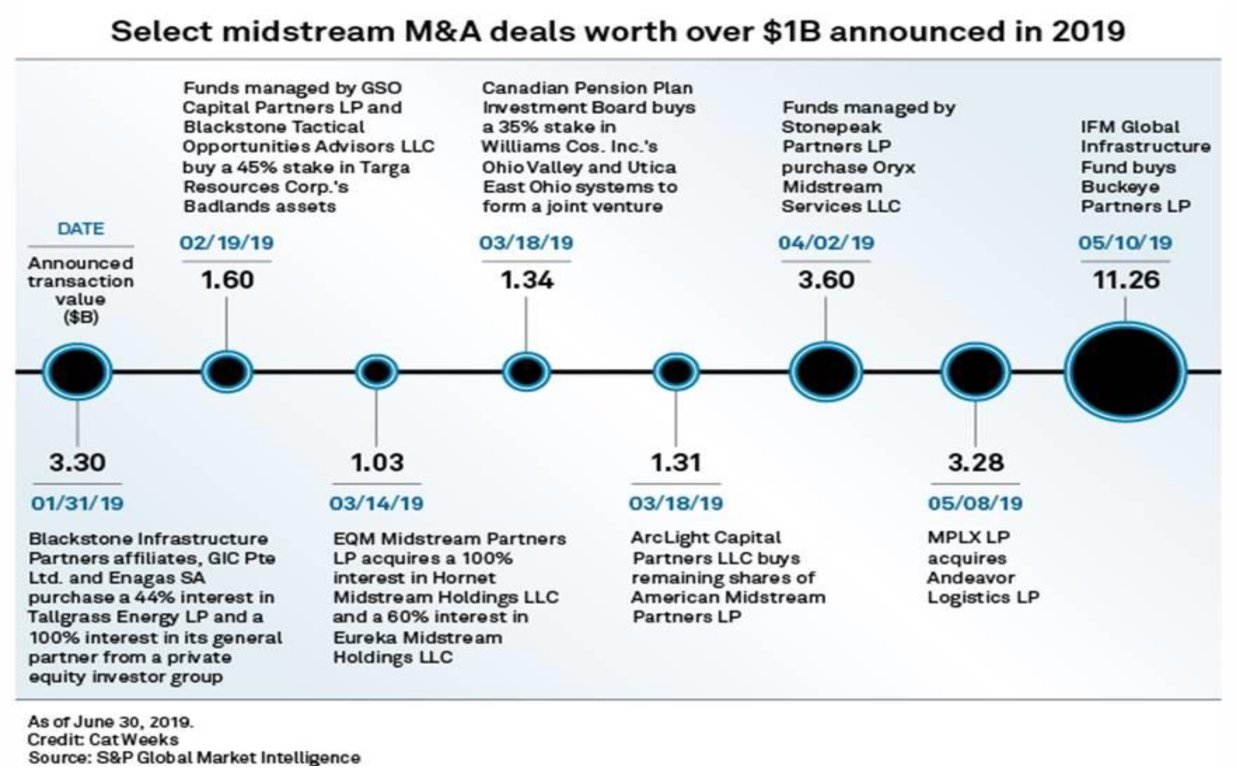
(8) Growth extends its lead on Value, deepening Midstream's value proposition. In yet another sign ignored by the general public, the increasing valuation gap between Growth and Value stocks is due for mean reversion if history is any precedent. We make two points, shown in the charts below: (1) Growth stocks extended their lead on Value stocks in the fourth quarter, and (2) Midstream stocks continue to be one of the only sectors that trades at a discount to its 10-year average.





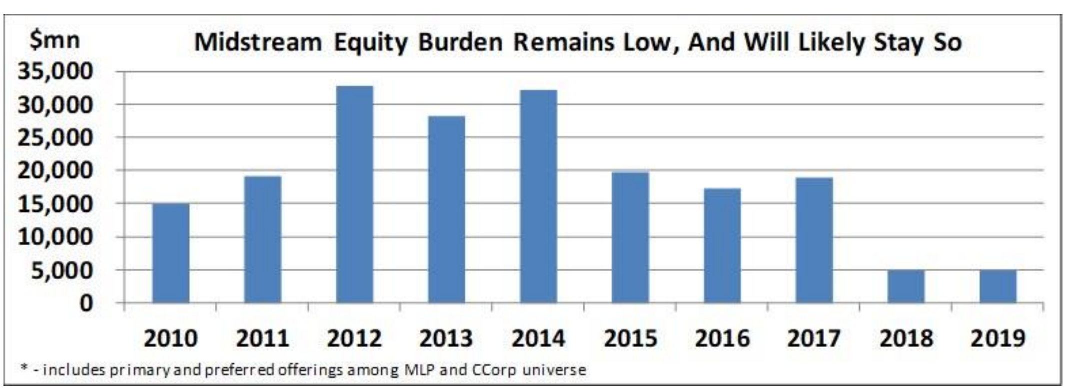
Sources: Bloomberg

(9) The private sector values Midstream assets materially higher than the public market. We believe this is likely the result of a yield starved investor community. Midstream assets generate stable cash flows, typically at yields above other hard assets and certainly stocks in the market. Like the mean reversion we expect in Growth versus Value investing, we believe the signs are there for public valuations to be valued in line with what the market will pay for them.



Sources: Eagle Global Advisors, Factset

(10) Self-funding reduces capital markets risk and should reduce share price volatility. In 2019 the market raised $4.8 billion of conventional equity capital, matching 2018. However, this does not include at-the-market (ATM) equity capital raises, where we estimate there was roughly $2 billion raised in 2018 and de minimus in 2019. It's all connected of course, given EBITDA has grown significantly at a time when capital expenditures are declining. However, lost in the mix is the defensive impact this self-funding trend should have on Midstream stock price volatility. We realize one data point doesn't make a trend, but we're optimistic the outperformance Midstream stocks had relative to E&P and Oil Services stocks during the recent cyclical weakness isn't in isolation, perhaps allowing Midstream to finally deliver on the promise to be a more defensive vehicle to invest in traditional energy.

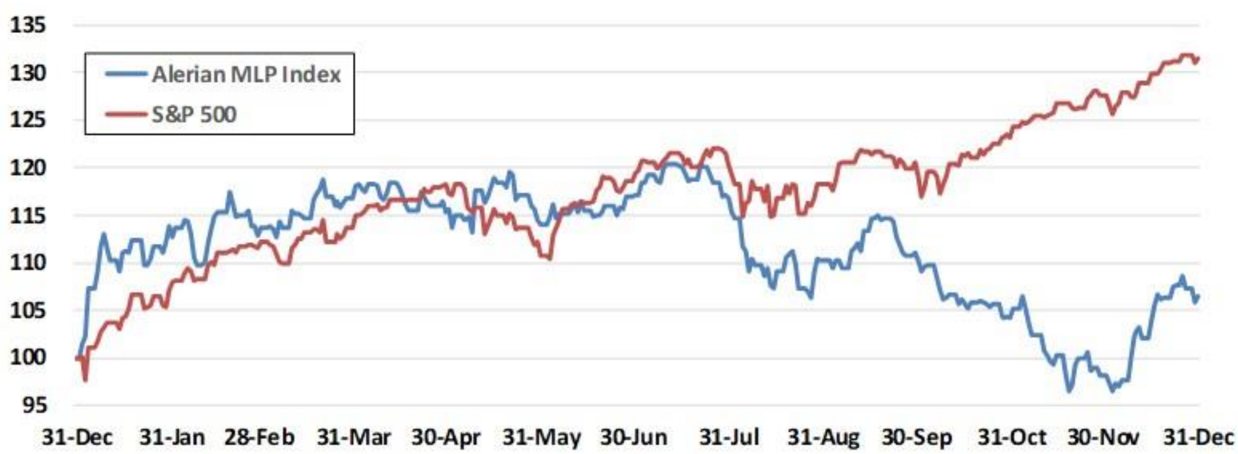


Sources: Company data

As a quick conclusion to this Top 10 list, the inevitable question we will receive is what will get these stocks working again. While many are willing to give their opinions on exactly what needs to be done, the truth is these people (us included) don't know. What we do know is the setup remains excellent. The sector's corporate structure and strategy have never been better positioned to take advantage of when the recovery does happen. With multiple valuation metrics further supporting our thesis, we maintain our long-term constructive view on Midstream.

2019: Another Year, Another Dashed Dream For Midstream Recovery

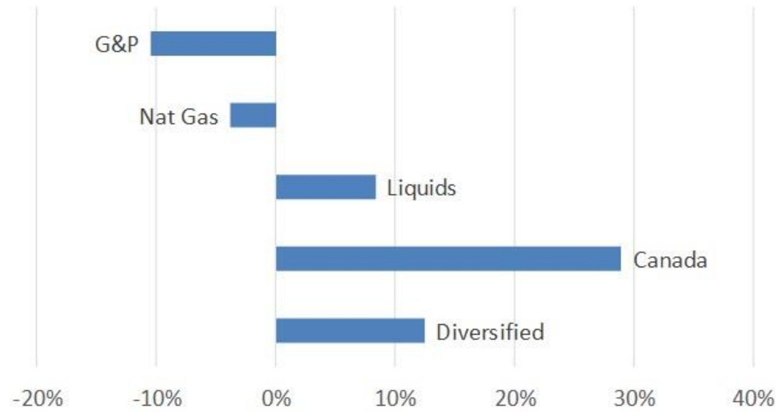
After an astonishingly strong start to the year we were hopeful 2019 would finally realize the long-awaited recovery. Alas, this was not the case. To put it as straightforward as we can, Midstream's checkered past and strategic missteps have alienated investors, causing them to sell on strength and say "I told you so" on weakness. The sector remains in the penalty box, and will be there until, well, basically until it's not.



Sources: Bloomberg

Among the sector winners were Canadian stocks and Diversified Midstream, which likely benefited from the market's view of their defensive attributes. Canadian stocks by virtue of their separation from the hyper-competitive U.S. market, and Diversified Midstream by owning integrated chains, being exposed to multiple types of energy, or the "utility like" nature of what they do own.

Among the sector losers were Natural Gas Gatherers & Processors (G&Ps), where close proximity to the more volatile well head caused investors to bail on these stocks as conditions deteriorated in the producer market. This was especially apparent for G&Ps exposed to natural gas and natural gas liquids (NGLs), which seemed to deteriorate more than those exposed to oil.



Sources: Bloomberg

MLP/Midstream Team Update

In December 2019, Eagle Global promoted Alex Meier and Michael Cerasoli to Co-Portfolio Managers for the firm's MLP/Midstream strategies. Both Alex and Michael have served in the PM/Analyst role for the past three years and have a combined 39 years of industry experience. They have extensive knowledge in the Midstream sector and have also demonstrated a strong competency in the management of the firm's MLP/Midstream portfolios. The firm is highly confident in Alex and Michael's ability to manage the strategies as they have been top alpha generators to strategy performance during their tenure with Eagle. Malcom Day, Senior Strategist, Curt Pabst, Managing Director and Senior Analysts, Will Shen and Steve Sherowski will remain in their current roles.

Disclosures:

Investors should carefully consider the investment objectives, risks, charges and expenses of the Eagle MLP Strategy Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-888-868-9501 or visiting www.eaglemlpfund.com. The prospectus should be read carefully before investing. The Eagle MLP Strategy Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. This is an actively managed dynamic portfolio. There is no guarantee that any investment (or this investment) will achieve its objectives, goals, generate positive returns, or avoid losses. The information provided should not be considered tax advice. Please consult your tax advisor for further information. Eagle Global Advisors, Princeton Fund Advisors, LLC and Northern Lights Distributors, LLC are not affiliated.

A master limited partnership (MLP) is a limited partnership that is publicly traded on a securities exchange. It combines the tax benefits of a limited partnership with the liquidity of publicly traded securities. To qualify for MLP status, a partnership must generate at least 90 percent of its income from what the Internal Revenue Service (IRS) deems "qualifying" sources, generally relating to the production, processing or transportation of natural resources, such as oil and natural gas.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology.

The S&P 500 Index is a capitalization-weighted index that measures the performance of 500 U.S. large-capitalization domestic stocks representing all major industries.

The Barclays Capital U.S. Aggregate Index provides a measure of the performance of the U.S. investment grades bonds market.

Enterprise Value-to-EBITDA is a multiple used to determine the value of a company. It shows the value of a company based on a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA).

Price-to-Distributable Cash Flow is a valuation ratio calculated by dividing a company's current stock price by its distributable cash flow per share.

Standard Deviation is a statistical measurement of volatility risk based on historical returns.

Risk Factors:

Credit Risk: There is a risk that note issuers will not make payments on securities held by the Fund, resulting in losses to the Fund. In addition, the credit quality of securities held by the Fund may be lowered if an issuer's financial condition changes.

Distribution Policy Risk: The Fund's distribution policy is not designed to guarantee distributions that equal a fixed percentage of the Fund's current net asset value per share. Shareholders receiving periodic payments from the Fund may be under the impression that they are receiving net profits. However, all or a portion of a distribution may consist of a return of capital (i.e. from your original investment). Shareholders should not assume that the source of a distribution from the Fund is net profit. Shareholders should note that return of capital will reduce the tax basis of their shares and potentially increase the taxable gain, if any, upon disposition of their shares.

ETN Risk: ETNs are subject to administrative and other expenses, which will be indirectly paid by the Fund. Each ETN is subject to specific risks, depending on the nature of the ETN. ETNs are subject to default risks. Foreign Investment Risk: Investing in notes of foreign issuers involves risks not typically associated with U.S. investments, including adverse political, social and economic developments, less liquidity, greater volatility, less developed or less efficient trading markets, political instability and differing auditing and legal standards.

Interest Rate Risk: Typically, a rise in interest rates can cause a decline in the value of notes and MLPs owned by the Fund.

Liquidity Risk: Liquidity risk exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations.

Management Risk: Eagle's judgments about the attractiveness, value and potential appreciation of particular asset classes and securities in which the Fund invests may prove to be incorrect and may not produce the desired results. Additionally, Princeton's judgments about the potential performance of the Fund's investment portfolio, within the Fund's investment policies and risk parameters, may prove incorrect and may not produce the desired results.

Market Risk: Overall securities market risks may affect the value of individual instruments in which the Fund invests. Factors such as domestic and foreign economic growth and market conditions, interest rate levels, and political events affect the securities markets.

MLP Risk: Investments in MLPs involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. Depending on the state of interest rates in general, the use of MLPs could enhance or harm the overall performance of the Fund.

MLP Tax Risk: MLPs, typically, do not pay U.S. federal income tax at the partnership level. Instead, each partner is allocated a share of the partnership's income, gains, losses, deductions and expenses. A change in current tax law or in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP. Thus, if any of the MLPs owned by the Fund were treated as corporations for U.S. federal income tax purposes, it could result in a reduction of the value of your investment in the Fund and lower income, as compared to an MLP that is not taxed as a corporation.

Energy Related Risk: The Fund focuses its investments in the energy infrastructure sector, through MLP securities. Because of its focus in this sector, the performance of the Fund is tied closely to and affected by developments in the energy sector, such as the possibility that government regulation will negatively impact companies in this sector. Energy infrastructure entities are subject to the risks specific to the industry they serve including, but not limited to, the following: Fluctuations in commodity prices; Reduced volumes of natural gas or other energy commodities available for transporting, processing, storing or distributing; New construction risk and acquisition risk which can limit potential growth; A sustained reduced demand for crude oil, natural gas and refined petroleum products resulting from a recession or an increase in market price or higher taxes; Depletion of the natural gas reserves or other commodities if not replaced; Changes in the regulatory environment; Extreme weather; Rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities; and Threats of attack by terrorists.

Non-Diversification Risk: As a non-diversified fund, the Fund may invest more than 5% of its total assets in the securities of one or more issuers. Small and Medium Capitalization Company Risk: The value of a small or medium capitalization company securities may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. Structured Note Risk: MLP–related structured notes involve tracking risk, issuer default risk and may involve leverage risk. Mutual Funds involve risk including possible loss of principal.

5151-NLD-1/23/2020