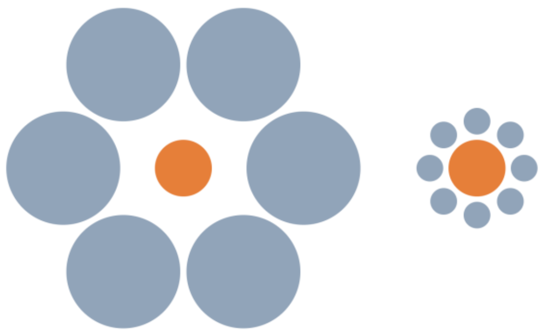
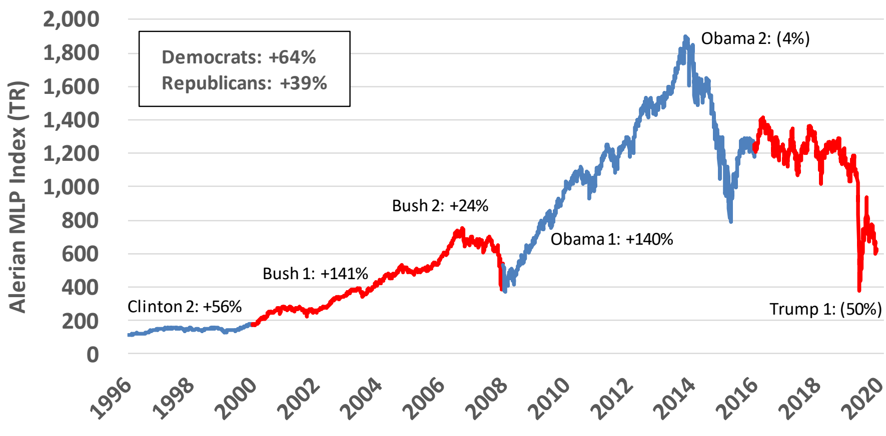
Is Midstream's Concern Of A Biden Presidency An Illusion?

The Ebbinghaus illusion shown below is an optical illusion of relative size perception. A casual glance would make the viewer believe the orange circle on the right is larger than the orange circle on the left, when in reality they are the same size. As we approach the 2020 Presidential Election there are concerns a Joe Biden administration would weigh further on traditional energy valuations, but are these concerns an optical illusion? Below we look at the statistics and how we believe Midstream management teams may strategically respond to potential pressure applied by a Biden administration.



Before we get into the fundamental and strategic implications of a potential shift to a Democratic administration it may help to first analyze performance data. Total returns for the Alerian MLP Index since the mid-1990s show in aggregate Midstream performed better during Democratic administrations (+64%) than Republican administrations (+39%). Since the mid-1990s each presidential term saw absolute levels of growth until the second Obama administration, which ended with the first OPEC supply shock that started what has been a six-year bear market for Midstream. At face value, stock price performance during Democratic administrations has been more supportive of Midstream than during Republican administrations and provides one reason why investors shouldn't concern themselves too much with a Democratic administration.

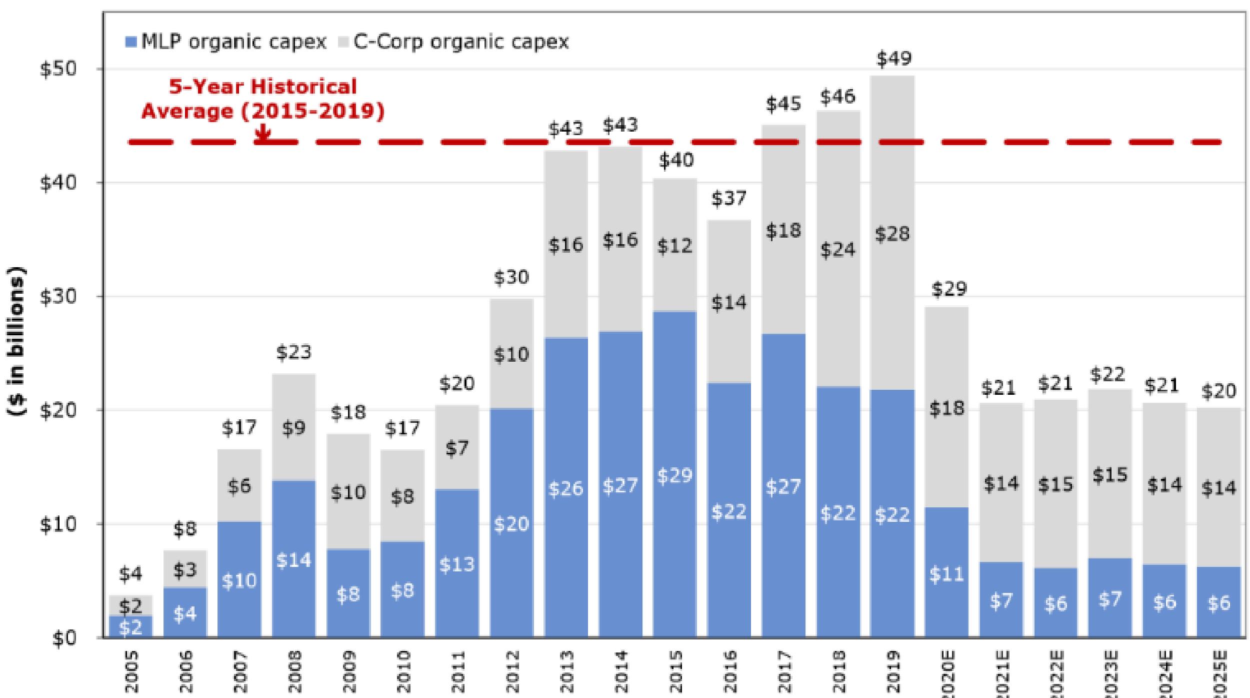


Source: Bloomberg

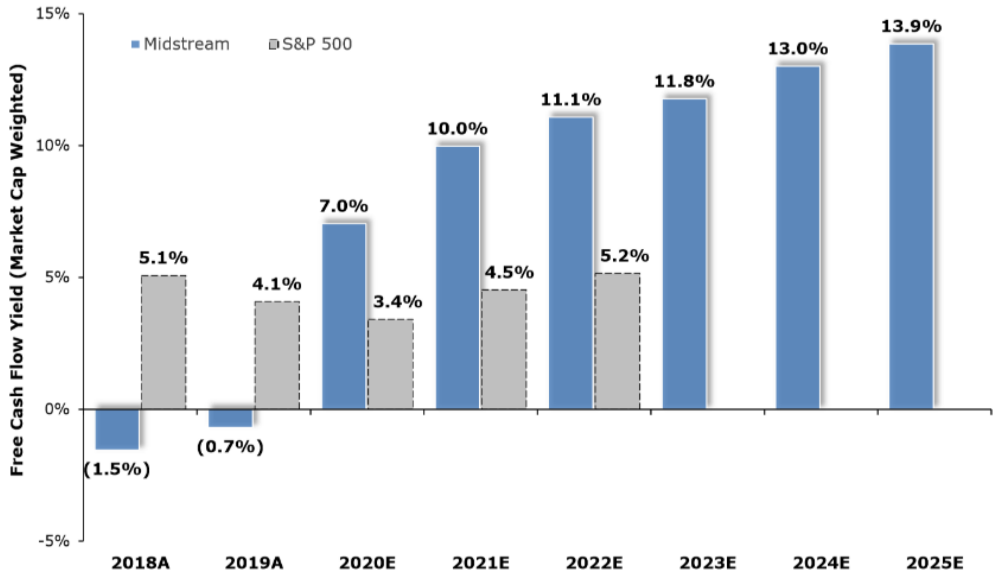
Of course, fundamentals drive stock price performance and not intangibles like political leanings or which league won the World Series last year. As an example, it was the fracking revolution's lowering of natural gas prices that "killed coal" and not President Obama, and it is similarly impossible for President Trump to "save coal". However, the federal government can have a psychological impact on how management teams approach different markets. It is certainly possible that a friendly, pro-business government may nudge a company to pursue projects they're on the fence about building. If management is wrong about market conditions the decision to move forward on these projects can exacerbate the severity of a downturn, especially if other management teams came to a similar conclusion about competing projects. On the other hand, a less friendly government may nudge the same management teams to reject these same projects, and potentially reduce the severity of a future downturn. It's worth highlighting that a more restrictive development regime would drive up premiums for those companies that already have steel (infrastructure) in the ground. So not only would they be harvesting cash flow, but the assets they own would also be worth more.

An argument could also be made about regulatory scrutiny. A less business friendly government tends to more closely scrutinize development, on sociological and environmental grounds. The fact is people tend to be more careful and detail oriented when they're under the watchful eye of parents than their "cool" Uncle or Aunt. This is basic human nature, and the main focus of Behavioral Science as applied to management.

Looking forward the question remains: Would a Biden presidency be bad for Midstream investors? If it means more oversight that leads to sector consolidation, additional balance sheet improvement, more cost cutting and less profligate spending, then it could possibly be good. This all matters because free cash flow metrics and financial strength are resonating with generalist investors, as we've heard from a variety of sources. Perhaps the only thing holding back a Midstream recovery are concerns of repeating the same mistakes, and a Democratic administration may help management teams avoid this.

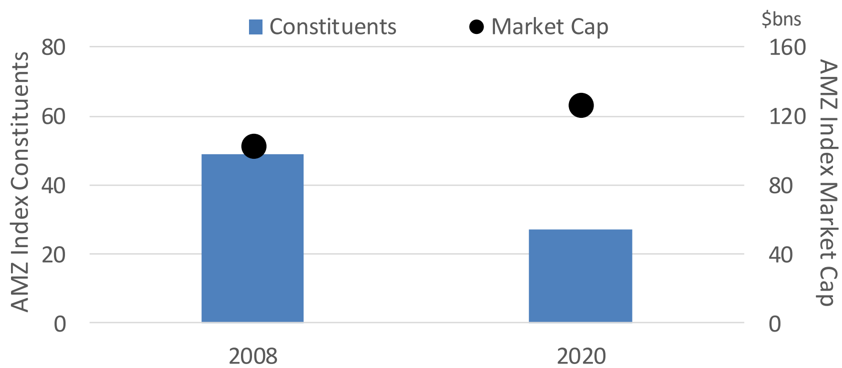


Source: Wells Fargo



Source: Wells Fargo

We also want to address the possibility a Democratic administration may decide to eliminate the MLP structure in its entirety, even if to date this issue has not been raised. To state the obvious this would be negative for those MLPs that remain, though such a move would have been more impactful if this was 2008 and not 2020. In 2020 many companies have already converted to C-corps (see below chart), have right-sized balance sheets and distributions during this multi-year downturn, and have guided to further reductions in operating costs and capital expenditures in 2021. As our portfolios remain focused on quality we would expect only minimal disruption to current operations and, in the absence of a distribution cut, perhaps a slower rate of deleveraging and share buybacks over the long-term to account for the inevitability of federal taxation.

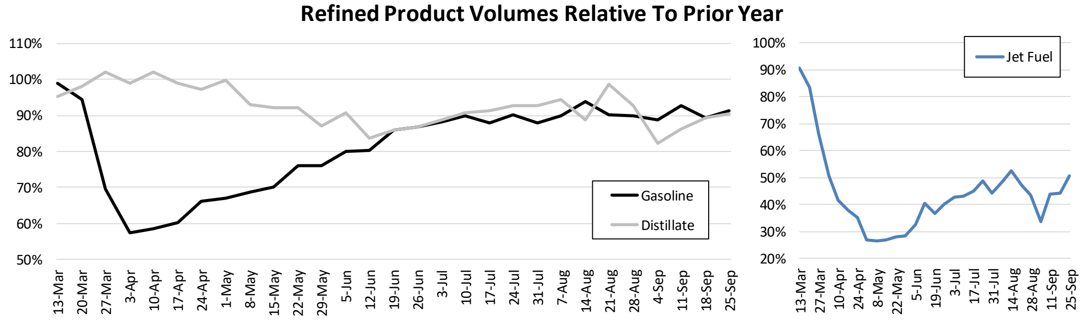


Sources: Bloomberg

Refined Product Volume Recovery Slows; Recovery In Air Travel Will Take Time

The good news is refined product demand modestly grew in the third quarter relative to the second quarter. This was driven especially by improvements in gasoline demand where it averaged 90% of last year's volumes compared to the June rate of 83%. Similarly, distillate demand improved to an average of 91% of last year's volume compared to the June rate of 87%. However, a similar improvement in jet fuel demand masks what is still a terribly depressed air travel market. Yes, it's true jet fuel demand improved to 45% of last year's volumes compared to the June rate of 37%, though at 45% the implication is air travel demand is still a ways off from full recovery. What may not be fully appreciated is the impact weak jet fuel demand is having on refining economics, where excess jet fuel supply is rejected back into the distillate pool as a result of weak demand. This negatively impacts refining economics and puts enormous strain on refiners' balance sheets that may reverberate down the infrastructure chain if the situation goes past the point of no return (i.e., bankruptcy, refinery shutdowns). However, there is a view that a jet fuel recovery to 70%-80% of last year's level would be enough to help refiners get past these unprecedented times, and subsequently remove the overhang associated with Midstream companies tied to refineries.

Refined Product Volumes Relative To Prior Year



* - % of total refinery output (gasoline: 60%-65%, Distillate: 35%-40%, Jet Fuel: 10%-15%)

Sources: Department of Energy

We remain cautiously optimistic about the economic recovery and believe its fragility is intertwined with the country's ability to safely push past this pandemic. It's for this reason we continue to focus on quality for our Midstream strategies, as we believe these companies are best positioned to not only make it through the downturn but also perhaps add significant fundamental and shareholder value on their way through.

Outlook

We continue to focus on the research and portfolio execution effort and are in constant dialogue with industry experts and management teams. We continue to believe oil and natural gas will play a major and increasing role in the global economy, and owing to healthier balance sheets, higher coverage, and heightened discipline are optimistic about the long-term viability of Midstream as a sector for investors who prioritize income.

Economic conditions remain highly uncertain and there is no guarantee that these opinions or forecasts will come to pass.

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 Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies.

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.

6185-NLD-10/29/2020