AUGUSTINE ASSET MANAGEMENT

April 2017

1551 Atlantic Boulevard, Suite 103 Jacksonville, FL 32207
Telephone: (904) 396-6944 Fax: (904) 396-7275

Great Expectations

MARKET SUMMARY

Equities

S&P 500	2363
Price / Earnings	21.8x
Dividend Yield	2.0%

US Treasury

2 Year Yield	1.3%
10 Year Yield	2.4%
30 Year Yield	3.0%

US Corporate Spreads

BBB	1.6%
High Yield	3.4%

Volatility

CBOE Market Volatility	12.4

US Economic Figures

Real GDP Growth (4Q16)	2.1%
Unemployment	4.5%
Inflation (Core CPI Y/Y)	2.2%
Fed Funds Rate	1.00%
3 Month LIBOR	1.15%

Commodities

Oil (Brent Crude)	$52.83
Natural Gas	$3.19
Copper ($/lb.)	$2.65
Gold ($/oz.)	$1,288

Foreign Exchange

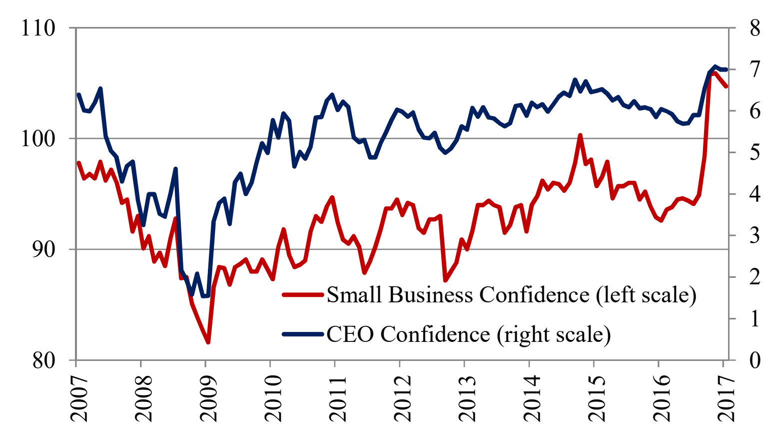
Euro	$/€	1.07
Japanese Yen	¥/$	107
Chinese Yuan	元/$	6.89

Market summary data as of:
March 31st, 2017

Capital markets are off to a strong start in 2017 with gains for investors across a wide range of asset classes. International equities led with a 7.9% gain in the first quarter, followed by domestic stocks which returned 6.1%. The US bond market, meanwhile, returned 0.8%, an improvement from the loss during the final months of last year. The buoyant market for stocks extends the cyclical rally to eight years since the crisis lows in 2009 with a particularly sharp upswing since last year's election.

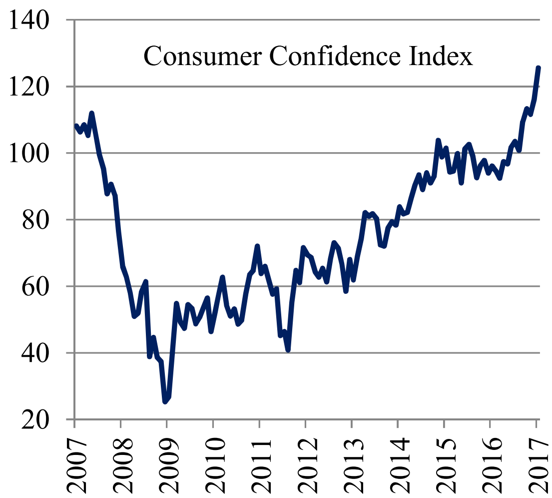
Sentiment for the economy and for the stock market is running very high. Businesses optimism, which jumped immediately after the election, has continued to rise at an unusually quick pace. According to CEO Magazine, confidence in the economy among corporate chief executives has risen to the highest level in over 10 years. Small businesses, which represent nearly two-thirds of new job creation, are also of much better mood. The National Federation of Independent Business' index of small business optimism has also surged to the highest level in over a decade.

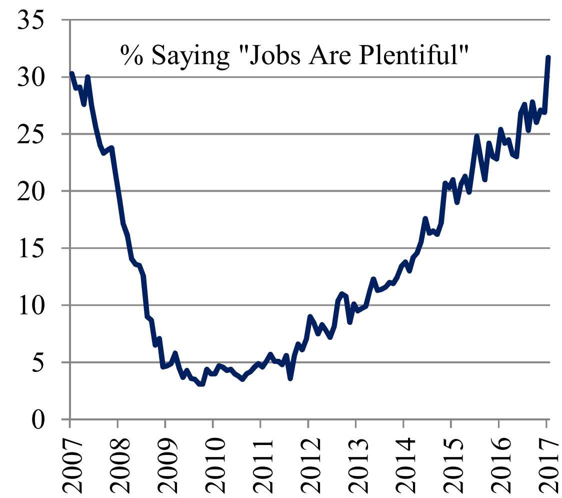
Exhibit 1: Surge in Business Confidence



Consumers, enjoying historically low unemployment and a return to growing wage rates, are also feeling much better. Conference Board surveys of overall consumer confidence and workers' sense that jobs are plentiful have jumped to levels not seen since the peak of prior economic cycles.

Exhibit 2: Consumer Confidence at a 10-Year High





Investor sentiment has likewise improved with an increasingly bullish tone. According to fund flow tracker EPFR Global, individual investors were heavy buyers of stocks during the first quarter, with one week in March posting the highest level of inflows into mutual and exchange traded funds in the last 17 years. According to brokerage TD Ameritrade, the level of stock purchases by retail investors reached successive record highs from January through March versus their data going back to 2010. Meanwhile, the Conference Board's survey of consumer expectations for an increase in the stock market has risen to the highest level in 13 years.

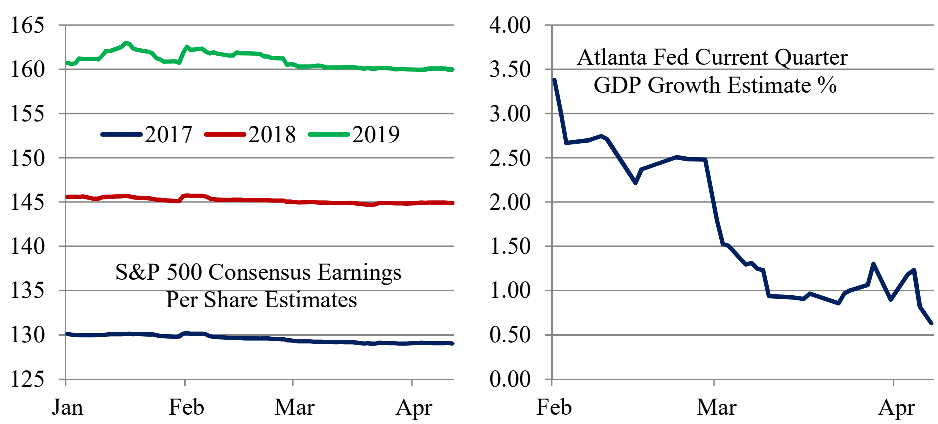
Exhibit 3: Investor Sentiment is Very Bullish

As we discussed in our last quarterly letter, much of the renewed animal spirits among businesses, consumers, and investors emerged following the US presidential election. That dynamic and its influence on financial asset prices continued in the first quarter, with most of the quarter's gains in stocks coming after the administration promised in early February that it would "announce something...over the next two or three weeks that will be phenomenal in terms of tax" and again after the president's joint address to congress in which he reiterated promises of lower taxes, lower regulation, and a very large fiscal stimulus program.

Exhibit 4: Many Promises

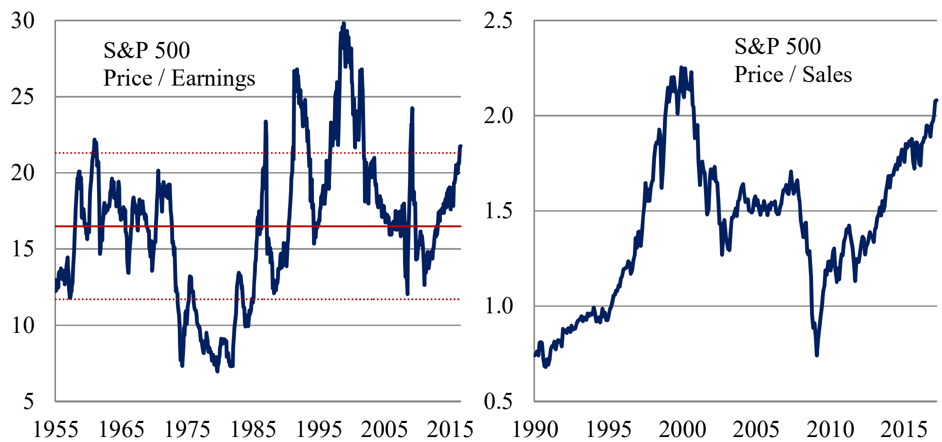
Actual performance of the economy and the outlook for corporate earnings growth have been much lower than sentiment indicators. According to researchers at the Atlanta Federal Reserve, the pace of first quarter economic growth may repeat softness observed at the beginning of recent years. Consensus earnings expectations, meanwhile, have not risen despite management outlook statements that showed a materially higher degree of optimism.

Exhibit 5: Fundamentals Are Lagging Sentiment and Stock Prices



The gap between highly elevated sentiment and more muted actual results has created a debate in the market regarding the divergence between so-called "soft data" versus "hard data". It's a reasonable question, in light of the strong rally that had taken stock valuations to levels that are high versus historical norms. Something ultimately has to give. The economy and earnings need to accelerate to meet lofty sentiment, or asset prices and fund flows may be caught offside and need to moderate to a lower level.

Exhibit 6: Stock Market Valuation is High Versus History



For now, we're giving the fundamentals the benefit of the doubt. Sentiment gauges have a long history of being leading indicators to subsequent fundamentals. As such, we're willing to let stock prices and sentiment "fake it" until the fundamentals "make it", within our conservatively positioned and value-sensitive portfolios and our normal process of monitoring the economy for changes in its cyclical risk profile.

Given the policy-driven nature of the post-election rally and the broader influence of central banks on asset prices in recent years, we're watching with particular interest progress between the executive and legislative branches in Washington toward their promises to reform the tax code, reassess regulation of business, and invest in the nation's infrastructure. The initial attempt at changing healthcare regulations shows the difficulty of getting anything done quickly in Washington, even when a party controls the executive branch and both houses of congress.

We're also mindful of the effect that further tightening by the Federal Reserve will have on the economy and financial asset prices. Chairman Yellen and her colleagues appear prepared to raise short-term rates a few more times this year, and their recent comments about beginning to reverse their $4 trillion quantitative easing program suggest stronger commitment to make monetary policy less unconventional. Such eventual reduction in liquidity may bring more risk to financial markets.

Elevated expectations in a context of highly valued markets and substantial policy uncertainty require us to be careful in how we deploy client capital and argue for our preference for securities that exhibit both fundamental quality and attractive valuations. For further discussion of our outlook and strategy and your portfolio, please contact us. We welcome your call!

With best wishes and warm regards,

Jeff | Neil | Greg
Jeffrey E. Bernardo | Neil J. Sullivan | Gregory M. Estes

Fred | Austen | Milena
Frederick M. Blum | Austen P. Cornell | Milena D. Spasova

Chart 1: S&P 500 Index

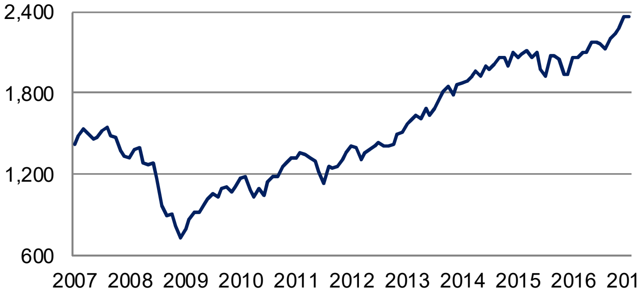


Chart 2: US Treasury 10 Year Yield %

Chart 3: US Annualized GDP Growth %

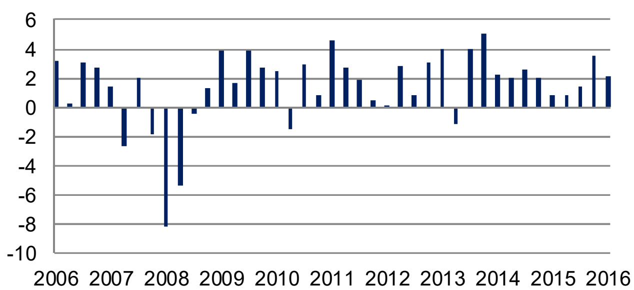


Chart 4: US Core Consumer Price Index %

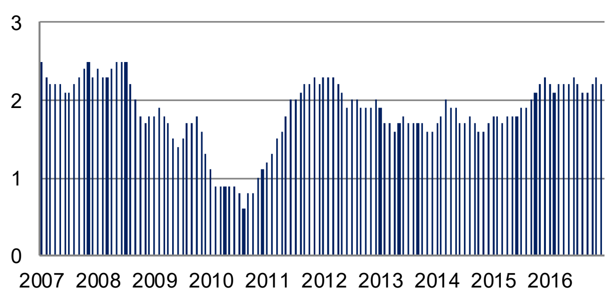


Chart 5: Trade-Weighted US Dollar Index

Chart 6: US Unemployment Rate %

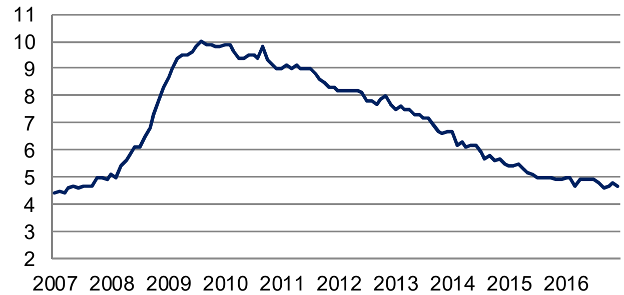


Chart 7: US Consumer Confidence Index

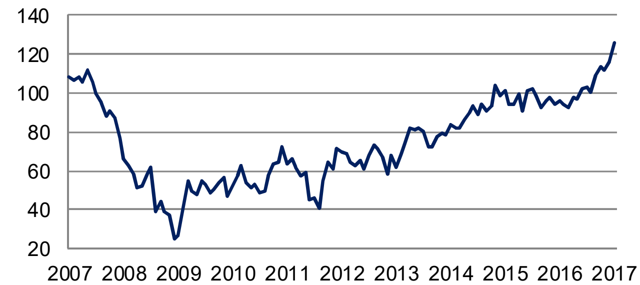


Chart 8: US Retail Sales Growth %

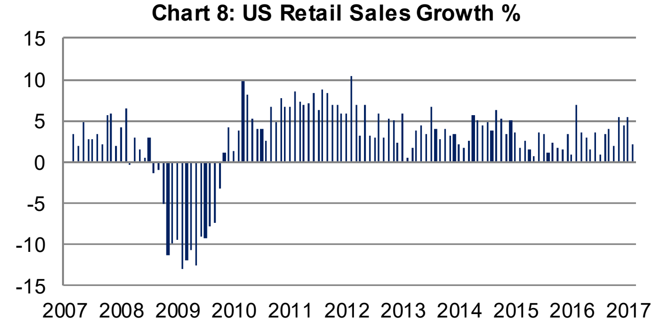


Chart 9: US ISM Manufacturing Index

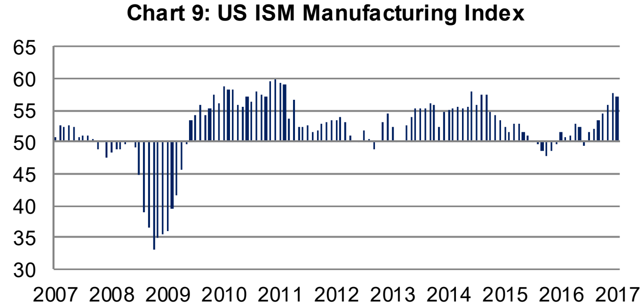


Chart 10: Conference Board Leading Index