AUGUSTINE ASSET MANAGEMENT

October 2019

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MARKET SUMMARY

Equities

MSCI AC World	520.7
Price / Earnings	17.8x
Dividend Yield	2.6%
S&P 500	2,977
Price / Earnings	19.5x
Dividend Yield	1.9%

US Treasury

2 Year Yield	1.6%
10 Year Yield	1.7%
30 Year Yield	2.1%

US Corporate Spreads

Investment Grade	1.3%
High Yield	4.8%

Equity Volatility

CBOE SPX Volatility	16.2

US Economic Figures

GDP Growth 2Q19	2.0%
Unemployment	3.5%
Inflation (core)	2.4%
Fed Funds Rate (mid)	1.9%
3 Month LIBOR	2.1%

Commodities

Oil (Brent)	$60.78
Natural Gas	$2.33
Copper ($/lb.)	$2.56
Gold ($/oz.)	$1,472

Foreign Exchange

Euro	$/€	1.09
Japanese Yen	¥/$	108
Chinese Yuan	元/$	7.14

Market summary data as of:
September 30, 2019

Hard Bargain

They're still at it. The drivers for the economy and capital markets have continued along the directions we previously described: Further threats and negotiations on trade between the US and China. Further easing by central banks to support financial markets. Further slowing in the economy and uncertainty among investors on how it will all shake out.

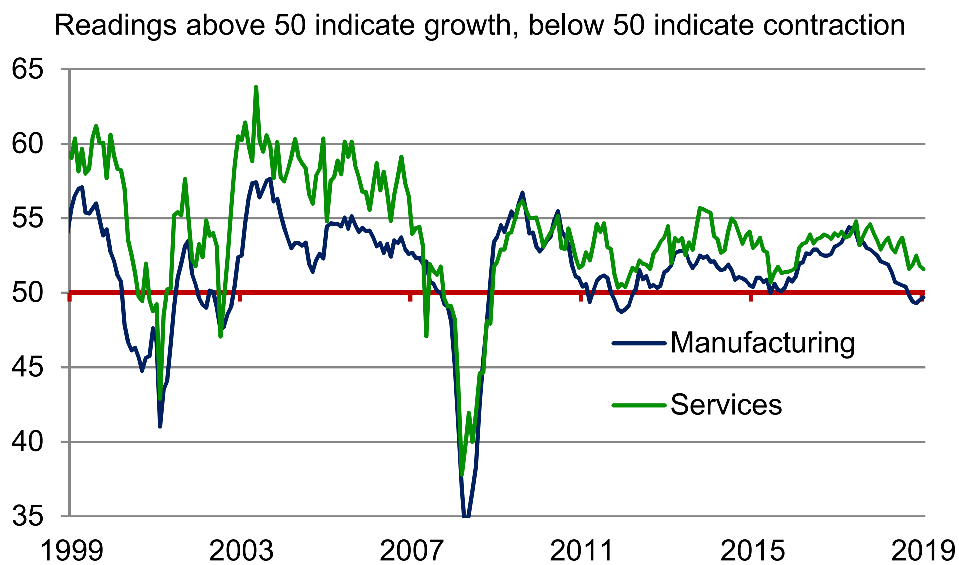
Since our last quarterly letter, the primary risk to the economic and market outlook - trade between the US and China - has worsened. Tariffs covering a wider range of goods are higher as is the amount of tough talk. Both countries are posturing as bargaining hard and the more prepared to outlast the economic effects of reduced trade.

Plans for corporate capital investment have weakened further, spurring central banks to act. The US Federal Reserve and the European Central Bank, perhaps the two most important central banks, have taken steps to ease. The Fed reduced short-term interest rates, and both have restarted their asset purchase programs. Though modified from prior rounds of bond purchases by the Fed and the ECB, quantitative easing is back.

Faced with countervailing effects of a growth-suppressing trade war and asset price-inflating monetary policy, markets have taken on a dissociative identity. Headlines trigger alternating bouts of optimism and pessimism, and markets have whipsawed between bullishness and bearishness. The equity market, near its record high, suggests an expected resolution of the trade dispute and re-acceleration of growth, while the bond market yield near its record low suggests a darker outcome.

Weaker leading economic data shows that the trade war is starting to bite. Worldwide manufacturing activity is now contracting, and growth in services has softened.

Exhibit 1: JP Morgan Global Manufacturing & Services PMIs



The International Monetary Fund reduced it's forecast for global growth to 3.0% in 2019 and 3.4% in 2020 and summarized the trend in its semi-annual World Economic Outlook:

> *Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade. A notable shift toward increased monetary policy accommodation — through both action and communication — has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth. That said, the outlook remains precarious.*

We expect the economy to grow at the diminishing but positive pace we previously described. The margin of error, however, has thinned in recent months. The economic cycle is slowing and is now more sensitive to unpredictable geopolitical events. How, then, to allocate capital at an appropriate risk stance? With both the stock and bond markets trading at historically rich levels and with cash yields below the rate of inflation, investors face a hard bargain without an easy generic answer. The traditional de-risking alternatives – bonds instead of stocks, defensive sectors such as utilities, real estate, and consumer staples within equity portfolios, and government issues within bond portfolios – are all challenged by expensive valuations supported by interest rates manipulated by government policy.

Investment portfolios that are differentiated from the broad markets can help in this kind of environment. Our equity investment process favors fundamentally strong companies whose stocks trade at lower valuations relative to both industry peers and historical levels. That selectivity provides a degree of conservatism and defensiveness compared with the overall market. Technology, healthcare, and financial stocks feature prominently in our equity strategies and provide attractive “quality at reasonable prices” alternatives to traditional defensive sectors.

Exhibit 2: Global Equity Sectors Return on Equity Spread Versus Market

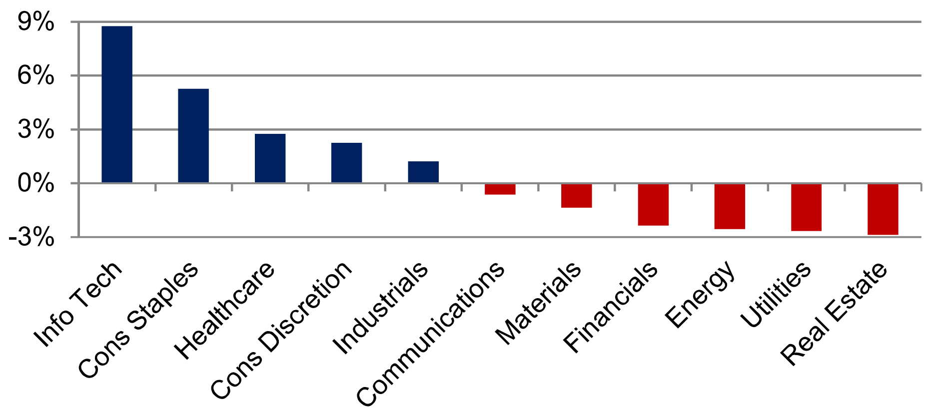


Exhibit 3: Global Equity Sectors Debt to Asset Ratios

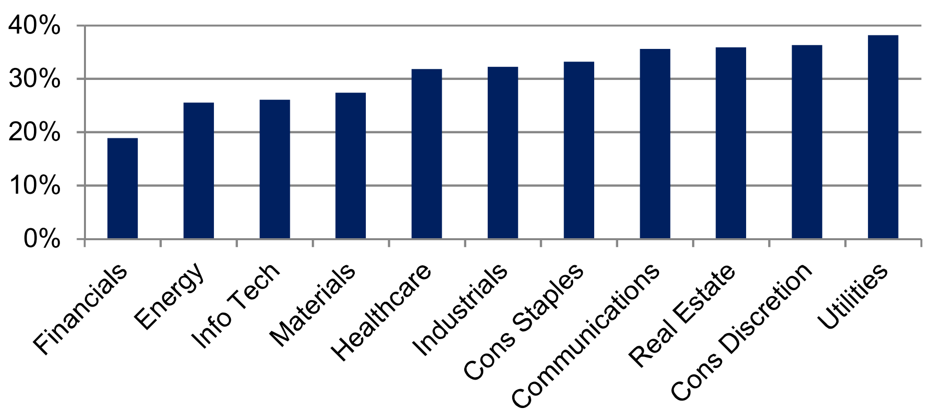
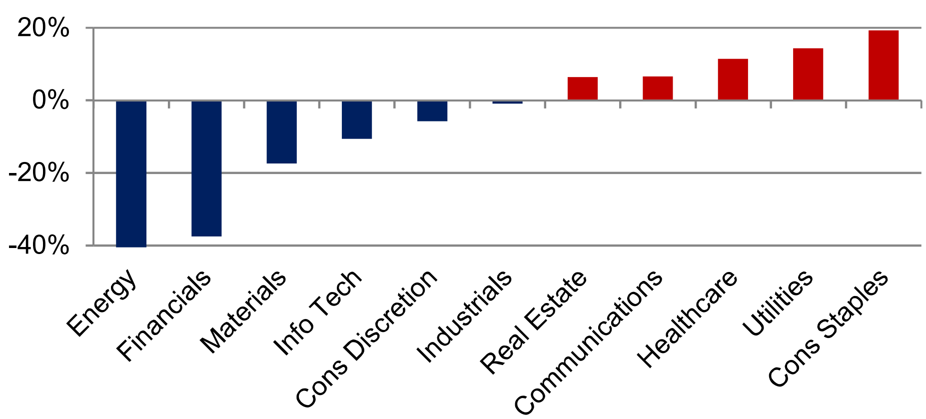


Exhibit 4: Global Equity Sectors Discount/Premium to 25 Year Average Relative P/E



Our fixed income investment process follows a similar fundamentals-based approach that favors bonds of credit-worthy issuers offering yields that are attractive versus similarly rated issuers and versus interest rate risk. Carefully vetted corporate bonds with short and medium term maturities represent the largest portion of our bond portfolios and offer better returns per unit of interest rate risk compared with treasury, government agency, and municipal bonds that are traditionally considered lower risk and bonds of all types that have long term maturities.

Of course, investment risk is heavily determined by price. In the current low rate environment, bonds that are normally considered "risk free" are risky if they have longer maturities and rates rise. The 10 year US treasury bond fits that description. Its price has risen to the point where the bond yields less than the rate of inflation – a point where its risk/reward and subsequent returns have historically proven to be a hard bargain for investors.

Exhibit 5: US Bond Market Yields per Unit of Interest Rate Risk

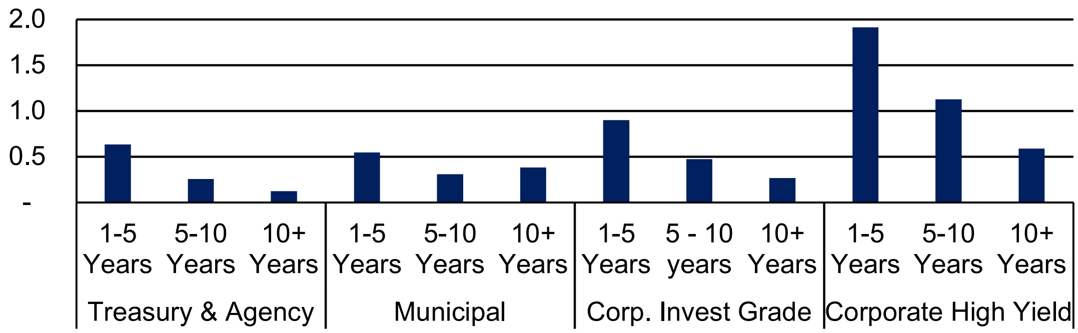
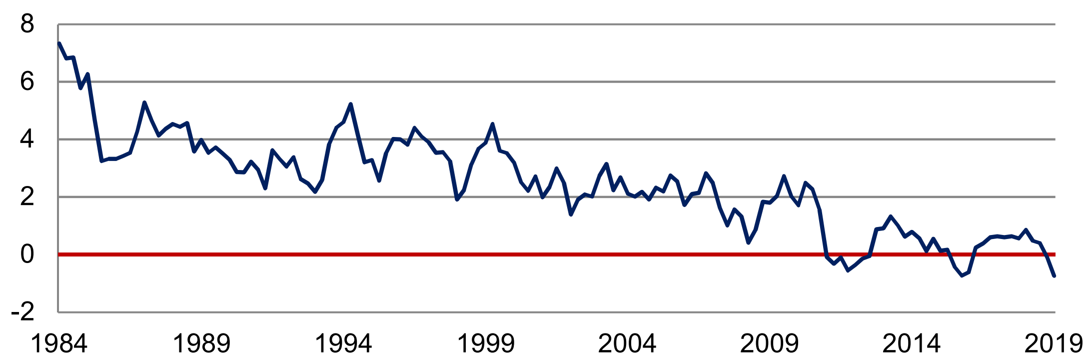


Exhibit 6: US 10 Year Treasury Yield % After Inflation



We appreciate your trust in our management of your capital and would welcome further discussion of our outlook and the strategy reflected in your portfolio. Please contact us with any questions. We welcome your call or email.

Best regards!

Jeffrey E. Bernardo CFA | Gregory M. Estes CFA | Steven M. Herbert CFA

Milena D. Spasova CFA CIPM | Neil J. Sullivan CFA | Frederick M. Blum | Franco Cirelli CPA CFP®

Chart 1: S&P 500 Index

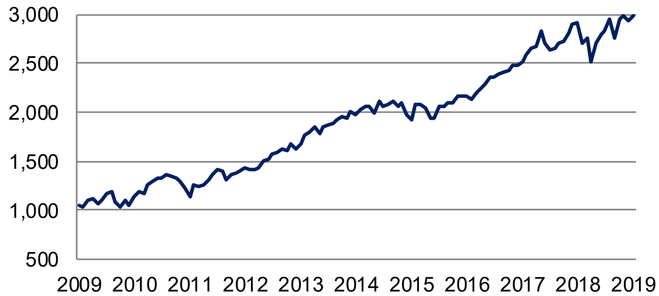


Chart 2: US Treasury 10 Year Yield %

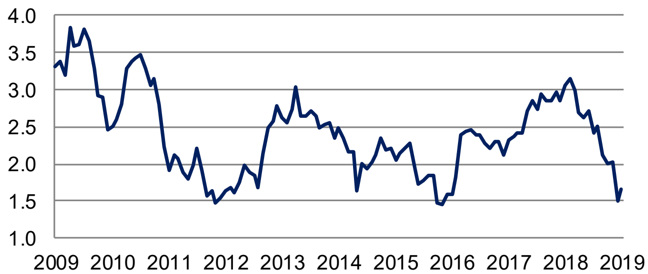


Chart 3: US Annualized GDP Growth %

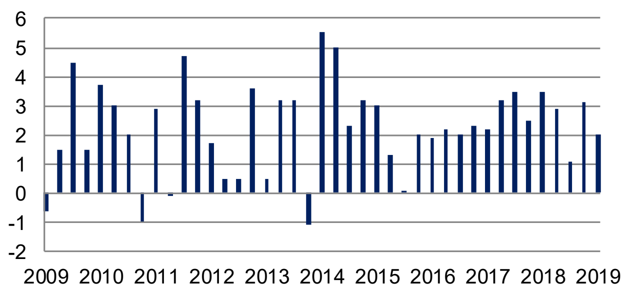


Chart 4: US Core Consumer Price Index %

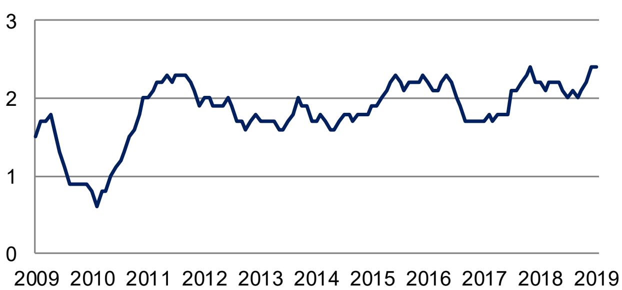


Chart 5: Trade-Weighted US Dollar Index

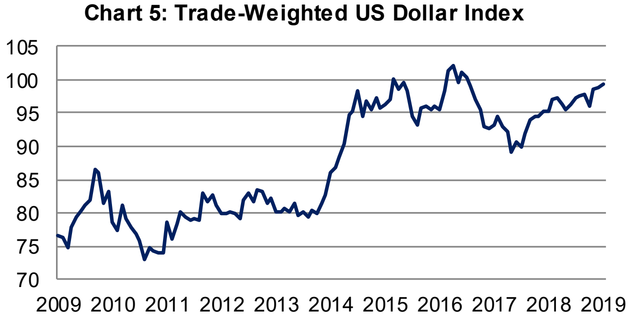


Chart 6: US Unemployment Rate %

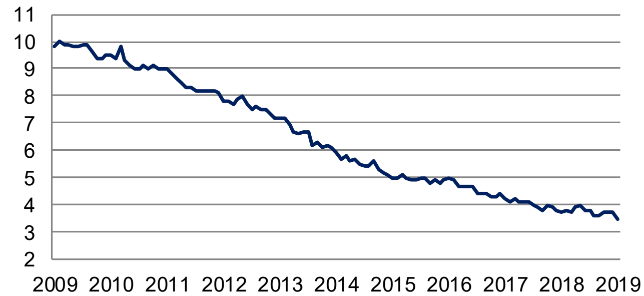


Chart 7: US Consumer Confidence Index

Chart 8: US Retail Sales Growth %

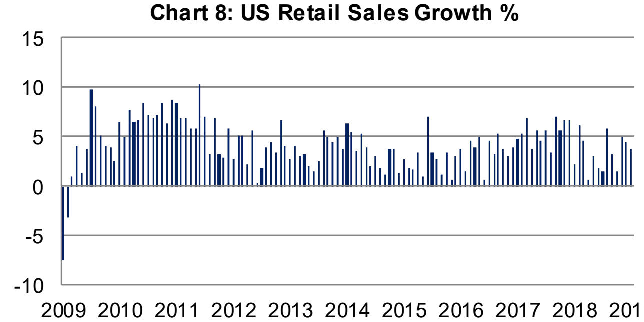


Chart 9: US ISM Manufacturing Index

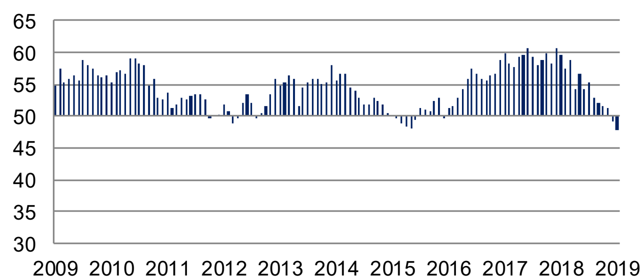


Chart 10: Conference Board Leading Index