AUGUSTINE
ASSET MANAGEMENT

January 2020

1551 Atlantic Boulevard, Suite 103 Jacksonville, FL 32207
Telephone: (904) 396-6944 Fax: (904) 396-7275
inquiries@augustineasset.com

MARKET SUMMARY

Equities

MSCI AC World	565.2
Price / Earnings	19.8x
Dividend Yield	2.4%
S&P 500	3,231
Price / Earnings	21.5x
Dividend Yield	1.8%

US Treasury

2 Year Yield	1.6%
10 Year Yield	1.9%
30 Year Yield	2.4%

US Corporate Spreads

Investment Grade	1.0%
High Yield	4.2%

Equity Volatility

CBOE SPX Volatility	13.8

US Economic Figures

GDP Growth 3Q19	2.1%
Unemployment	3.5%
Inflation (core)	2.3%
Fed Funds Rate (mid)	1.6%
3 Month LIBOR	1.9%

Commodities

Oil (Brent)	$66.00
Natural Gas	$2.19
Copper ($/lb.)	$2.80
Gold ($/oz.)	$1,517

Foreign Exchange

Euro	$/€	1.12
Japanese Yen	¥/$	109
Chinese Yuan	元/$	6.96

Market summary data as of:
December 31, 2019

High Altitude Climbing

A few months ago, a new mountaineering speed record was set by Nepalese climber Nirmal Purja, who reached the summit of the world's 14 highest mountains in a series of ascents over six months. It's an achievement that took the previous record holder years to accomplish. Purja noted that "anything is possible with some determination, self-belief, and positivity."

Capital markets in 2019 entered the year with a cautious tone but ended it with Purja-style belief and positivity. Global equity markets returned 26.6%, and US fixed income returned 9.9% -- outcomes that far exceed historical average returns.

A low starting point helped. 2018's 9.4% loss in global stocks and 0.1% loss in US fixed income placed markets in a position to recover in 2019 if the prior year's bugbears -- tightening monetary policy's effect on financial risk appetite and escalating trade tension's effect on economic growth -- either improved or, at least, stopped getting worse.

Concern with central bank policy was the first to turn. "Tightening" in 2018 turned to "pausing" in early 2019 and then "easing" in the second half. The hoped-for normalization of monetary policy, that would bring the Federal Funds interest rate back above the rate of inflation and shrink the Fed's bloated balance sheet, was abandoned. By the end of 2019, the Federal Reserve had cut its policy rate three times and restarted its bond purchase program at enormous scale. It was an unprecedented flip that proved the Fed's commitment to prop up financial asset prices.

Exhibit 1: Federal Reserve Policy Rate Forecast
It's Much Easier to be Easy

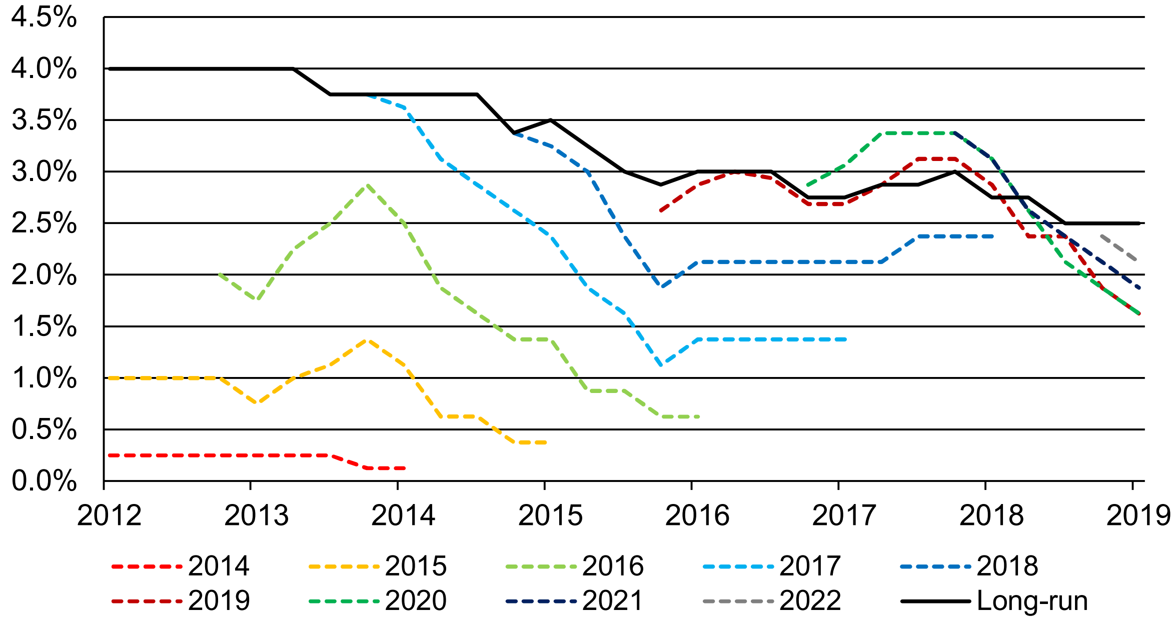
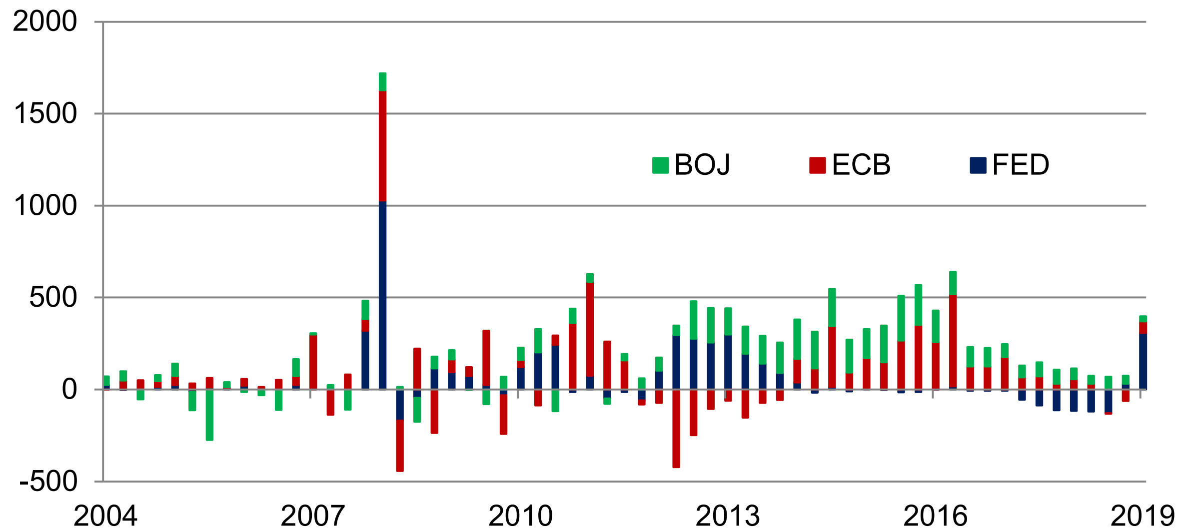
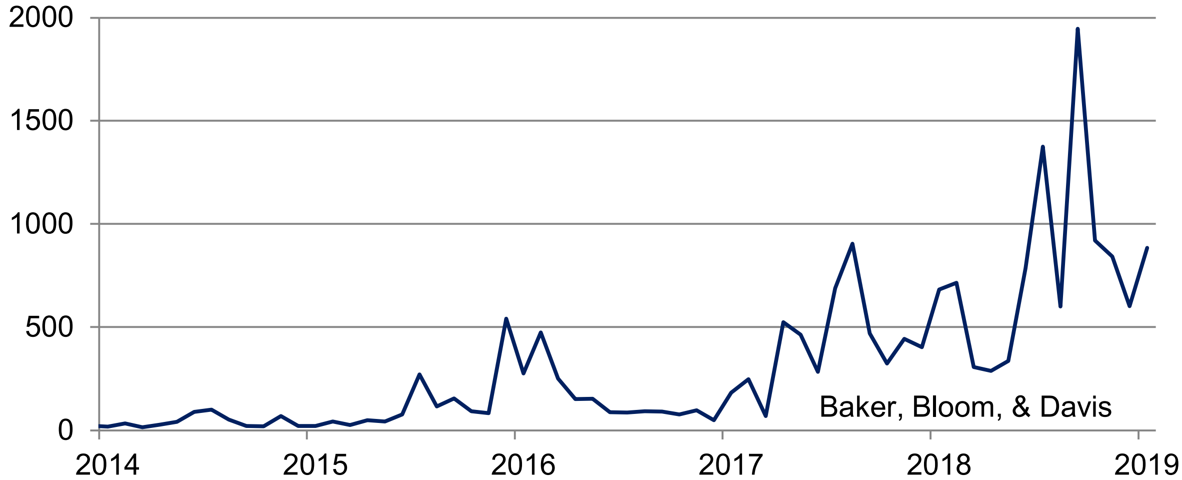


Exhibit 2: Major Central Banks Balance Sheets, Quarterly Change $ Billions
Massive Injection of Liquidity in the Last Three Months



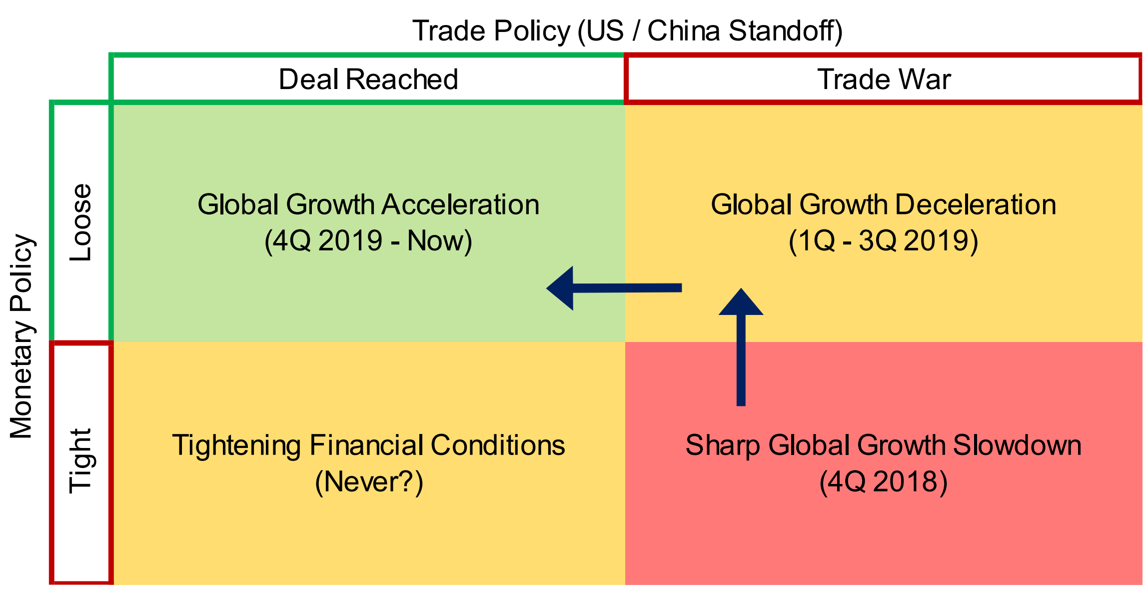
Trade tensions and concerns with the economy likewise turned. Brinkmanship softened with commitment to ease frictions and call a truce in the trade war that affected economies around the world. By year end, the US and China were perceived to have stepped back from the brink of a recessionary outcome. Threats of higher tariffs were followed by promises to lower tariffs in a step toward reconciliation.

Exhibit 3: Trade Policy Uncertainty Index
Back From the Brink



As such, the two critical issues for financial markets we highlighted in recent letters have shifted in favor of financial markets. Markets priced in the risk of a sharp global growth slowdown a year ago, spent much of 2019 anticipating a softer landing, and in recent months have come to expect an acceleration.

Exhibit 4: Trade Policy & Monetary Policy
The Sentiment Story that Drove 2019 Returns



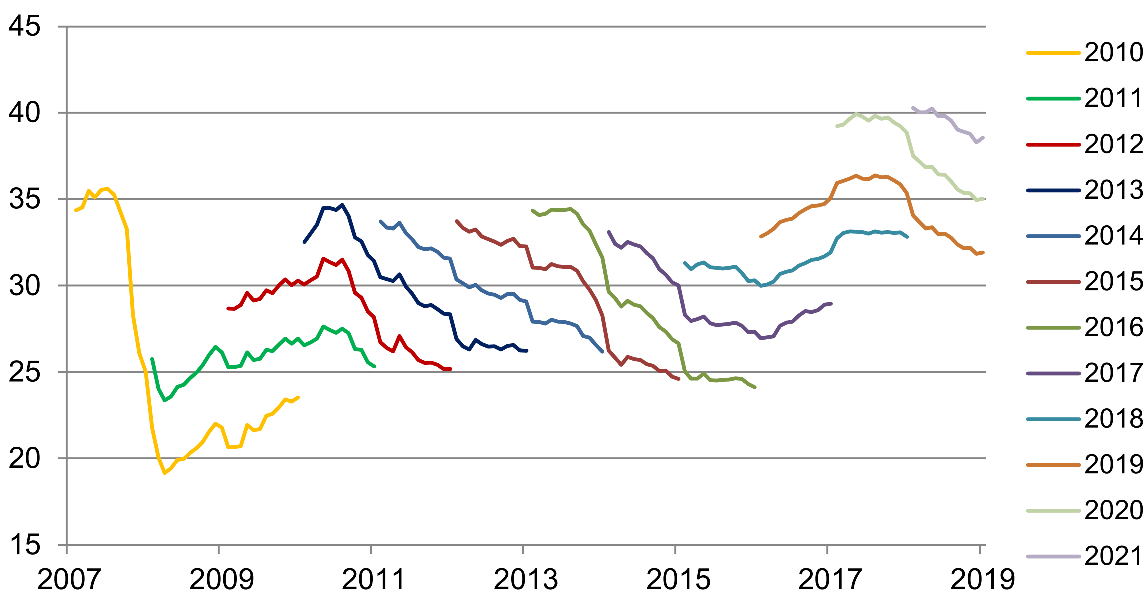
Outlook

Nirmal Purja named his record-breaking effort "Project Possible", reflecting the difficulty of the endeavor. Each of the 14 mountains he scaled has a summit higher than 8,000 meters (26,000 feet), above which the amount of oxygen in the air is insufficient to sustain human life for an extended period of time. Mountaineering is already risky, and the high altitude variant adds loss of vital functions, physical weakening, and impaired judgement. Challenging indeed!

Exhibit 5: Nirmal Purja -- Nepalese Moutaineer, Ex-British Special Forces
He Likes a Good Challenge

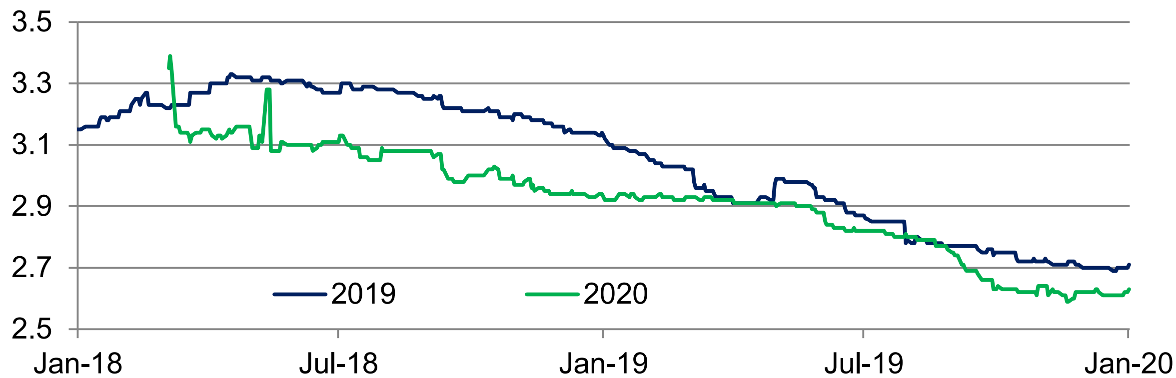
The 2019 rally that has brought many of the world's stock markets to record highs presents its own set of challenges. Valuations relative to earnings and cash flow are elevated versus historical norms and suggest that an improvement in those measures is anticipated and, hence, "priced in". The upward swing in stock prices stands in contrast to a downward grind in earnings expectations and has brought valuations to levels that have historically preceded lower returns.

Exhibit 6: Consensus Estimates for Global Corporate Earnings
Downward Revisions Throughout 2019



Global growth has stabilized in recent months on reduced trade uncertainty, and the risk of recession has diminished. Meeting market expectations for improvement in growth -- a transition from "not getting worse" to "getting better" -- will be important in 2020. With investors having already received a down payment on 2020 fundamental improvement, an acceleration in the economy and a resumption in earnings growth is required to expand on recent gains in stock prices and corporate bond credit spreads.

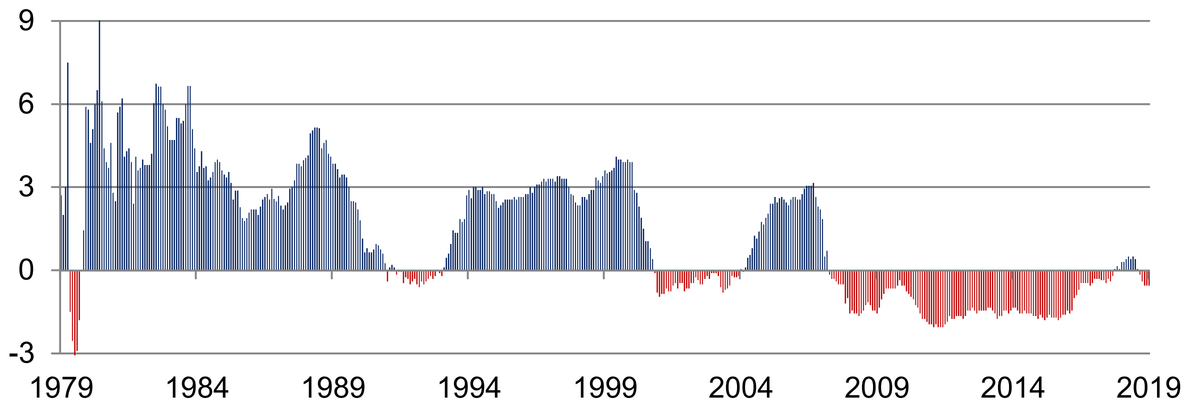
Exhibit 7: Consensus Global Growth Expectations %
Not Getting Worse…Needs to Get Better



Monetary policy, meanwhile, appears poised to support financial markets regardless of the economic outcome. The natural consequence of lifting the Fed's short-term rate back above the rate of inflation and allowing its inflated balance sheet to slowly wind down was evident in 2018. Higher volatility and lower financial asset prices proved politically unbearable and catalyzed 2019's volte-face.

Steps toward easier money are on offer in 2020. By mid-year, the Fed will have concluded an 18 month review on how it conducts monetary policy. It has already suggested a shift in policy toward "inflation averaging" whereby it will seek to drive inflation above its long-term target to make up for time it stayed below 2%. It's another point in the Fed's drift to a more populist stance that favors full employment and "community development" over price stability, abets deficit spending and government indebtedness, and heroically aspires to eliminate the economic cycle rather than the more pedestrian lessening of the cycle's amplitude.

Exhibit 8: Federal Funds Interest Rate, Net of Inflation %
Negative Real Rates are Politically More Palatable



Strategy

With valuations high and prospectively reflecting an acceleration in economic and earnings momentum, we believe an investment stance that balances pursuit of gains and management of risk to be prudent. Diversification and selectivity is critical in achieving that balance.

The case for global diversification is compelling. While global equity markets are, as a whole, trading at historically high valuations relative to earnings and cash flow, there are big differences among regions in the extent to which valuations are high and embedded with down-side risk. US equities are trading at a very high historical premium and ended the year at the 97th-100th percentiles across various valuation measures in its trailing 15 year history. International markets, in contrast, are trading at a modest historical premium and at the 63rd-86th percentiles across the same measures over the same 15 year period.

Exhibit 9: US & International Stock Market Valuations
American Valuation Exceptionalism

	US Stocks			International Stocks		
	Price/ Earnings	Price/ Cash Flow	Price/ Book	Price/ Earnings	Price/ Cash Flow	Price/ Book
Current	21.7	14.2	3.6	17.0	9.9	1.7
15 Year Average	17.8	10.9	2.6	16.7	8.8	1.7
Premium	22%	30%	35%	2%	12%	-1%
Percentile	97%	100%	100%	75%	86%	63%

The contrast extends to the momentum of underlying fundamentals. Exhibits 10 and 11 illustrate how stock prices are sensitive to changes in earnings momentum (the rate of change of the rate of change of earnings estimates). They also illustrate how recent market strength is better supported by fundamental improvement outside the US than in the domestic market.

Exhibit 10: MSCI All Country World Ex-US Price and Earnings Annual Rates of Change
Price Momentum Supported by Earnings Estimates Momentum

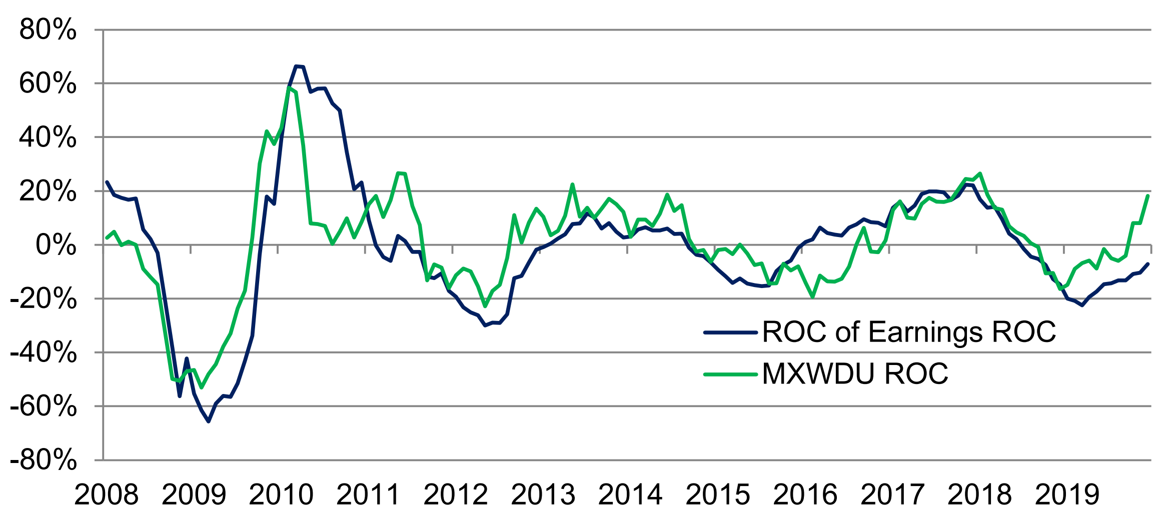
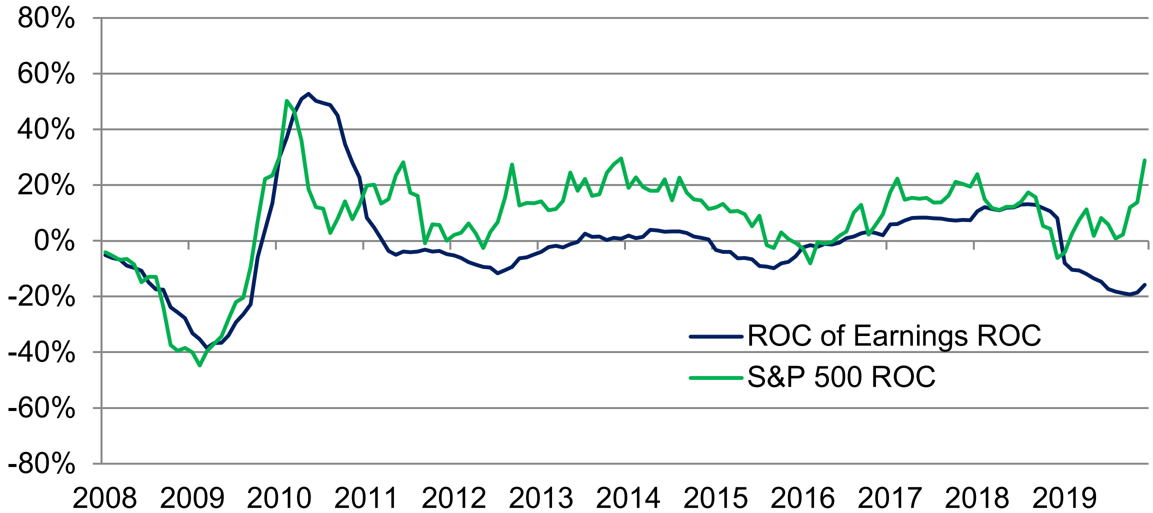
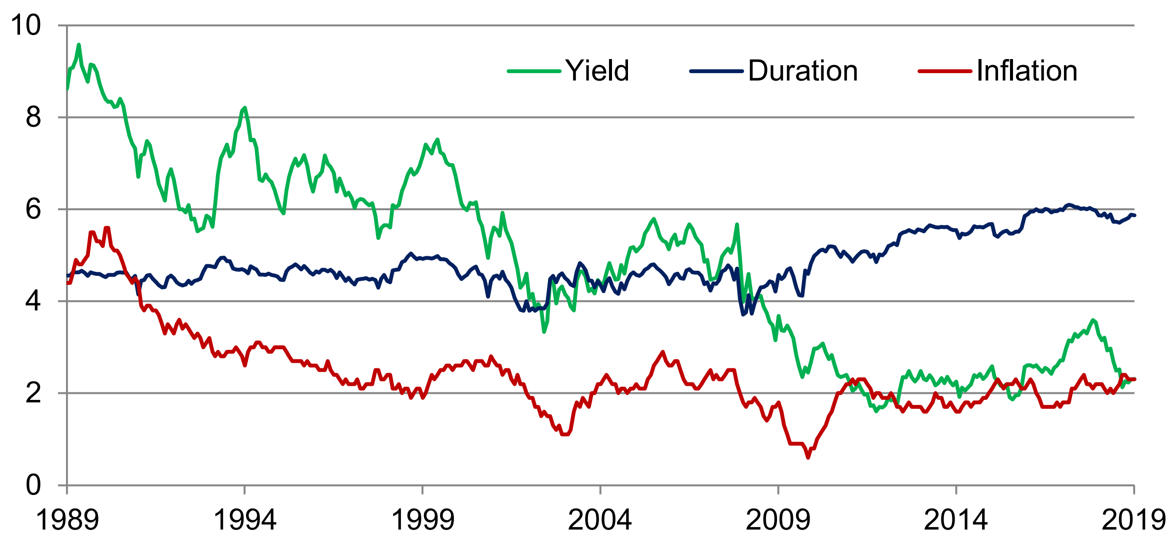


Exhibit 11: S&P 500 Price and Earnings Annual Rates of Change
Not so Much



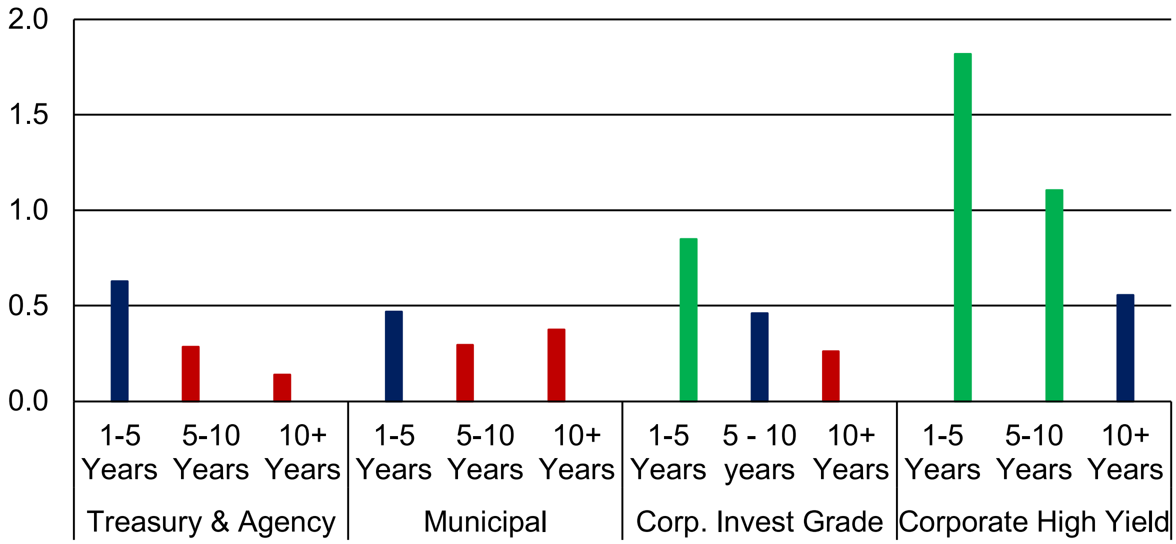
Selectivity is also very important in bonds. Fixed income as an asset class is trading at a low yield, offers no return in excess of inflation, and has a historically high duration (higher inverse price sensitivity to changes in interest rates). It's an unusual situation, and the return versus risk offered by the bond market as a whole is as unattractive now as it's ever been.

Exhibit 12: Bloomberg US Aggregate Yield % & Duration and US Core Inflation %
Little to Offer at the Index Level



Investors, hence, need bond portfolios that are differentiated from the market index. Our fixed income investment process, which combines a "top-down" approach that favors market segments that offer higher return per unit of interest rate risk and a "bottom-up" approach to security selection based on balance sheet, cash flow statement, textual, and derivatives market analysis, forms a differentiated strategy. Our current preferences include short and medium term corporate bonds that offer attractive yields relative to our analysis of credit quality. The Fed's aforementioned plan to allow inflation to rise and stay above its long-term target may increase inflation expectations and drive a resteepening of the currently flat yield curve. Having an emphasis on short term maturities would help protect capital during that process with an ability to broaden exposures if other segments become more attractive.

Exhibit 13: Bond Market Segments Yield % versus Duration
Short and Medium Term Corporates are the Most Attractive



We were blessed with strong returns in 2019 in both stock and bond portfolios. The challenge as we enter 2020 is contending with capital markets that are, at the index level, trading at historically high valuations. They've risen to heights where the investment air is thin – there's greater risk, and further gains require that more things go right on the economic and earnings front. Our equity and fixed income strategies implemented in client portfolios are structured with this challenge in mind and are differentiated from the market indices in their focus on segments and securities that have more attractive valuations, fundamentals, and risk.

An Invitation

We hope this review of the economy, capital markets, and investment strategy helps inform you of the macroeconomic world we live in and how we've positioned client assets to achieve attractive risk-adjusted returns. We look forward to discussing these topics further at our upcoming *Investment Perspectives* reception. We will be gathering at The River Club (1 Independent Drive, Jacksonville) on Wednesday January 29th at 6:00 pm for cocktails, hors d'oeuvres, and conversation on ways to pursue returns while protecting capital. We're pleased that Dimitri N. Delis, Ph.D., Managing Director and Senior Econometric Strategist at Piper Sandler, will join us via interactive video call. Dimitri will discuss and take questions on the trade tension between the US and China and its implications for global growth. Join us the evening of the 29th to hear from Dimitri and the investment team at Augustine for a lively discussion on the economy, capital markets, and investment strategy.

AUGUSTINE

ASSET MANAGEMENT

Please Join Us

You and your guests are cordially invited for
conversation over cocktails and hors d'oeuvres at

Investment Perspectives 2020

Wednesday, January 29th, 2020 at 6:00 p.m.
The River Club
1 Independent Drive
Jacksonville, FL 32202

RSVP to Kimberly Delcambre
(904) 396-6944 or KDelcambre@augustineasset.com

We look forward to seeing you!

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

With best regards and wishes to you for a prosperous 2020,

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®	Courtney J. Teschner	Kimberly A. Delcambre