AUGUSTINE ASSET MANAGEMENT

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## Market Summary

**Equities**

| | |
|---|---|
| MSCI AC World | 673.3 |
| Price / Earnings | 20.4x |
| Dividend Yield | 2.0% |
| S&P 500 | 3,973 |
| Price / Earnings | 23.0x |
| Dividend Yield | 1.5% |

**US Interest Rates**

| | |
|---|---|
| 2 Year Treasury | 0.2% |
| 10 Year Treasury | 1.7% |
| 30 Year Treasury | 2.4% |
| Bloomberg US Agg. | 1.6% |

**US Corporate Spreads**

| | |
|---|---|
| Investment Grade | 1.0% |
| High Yield | 4.1% |

**Equity Volatility**

| | |
|---|---|
| CBOE SPX Volatility | 19.4 |

**US Economic Figures**

| | |
|---|---|
| GDP Growth 4Q20 | 4.3% |
| Unemployment | 6.0% |
| Inflation (core) | 1.6% |
| Fed Funds Rate (mid) | 0.1% |
| 3 Month LIBOR | 0.2% |

**Commodities**

| | |
|---|---|
| Oil (Brent) | $63.54 |
| Natural Gas | $2.61 |
| Copper ($/lb.) | $4.00 |
| Gold ($/oz.) | $1,708 |

**Foreign Exchange**

| | | |
|---|---|---|
| Euro | $/€ | 1.18 |
| Japanese Yen | ¥/$ | 111 |
| Chinese Yuan | 元/$ | 6.56 |

Market summary data as of:
March 31, 2021

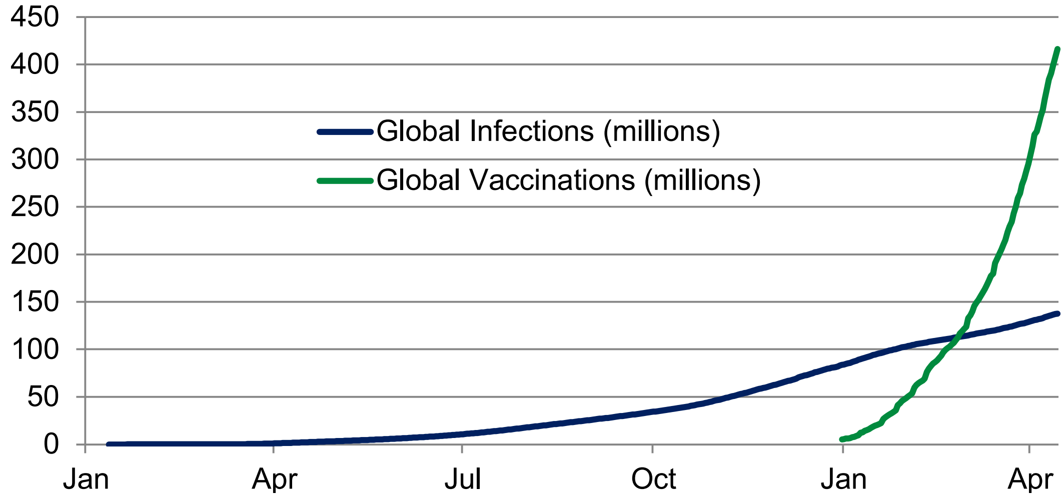
## Okay Boomer


What a difference a year makes. Twelve months ago, the global health crisis was nascent but had already caused the world to shut down. Uncertainty and fear had savaged financial markets, and the government response was ramping to provide both fiscal support to businesses and the unemployed and monetary support to backstop financial asset prices.

As described in our prior letter, *Light Shines Through*, the release of vaccines has set the stage for a return to normal. With a material and growing percent of people protected, the reopening process has begun. According to the Centers for Disease Control & Prevention, 37% of the US population has received at least one dose, and 23% has been fully vaccinated. Along with those who have antibodies through infection, it's possible that half of the US population has some level of immunity.

The rest of the world trails the US in vaccinations due to supply and logistic limitations. Infections are again rising in several countries in Europe, Asia, and Latin America, but it's a matter of time before they catch up on vaccinations. New virus variants present risk, but the approved vaccines have thus far shown efficacy in providing some level of protection.

Exhibit 1: From Behind to Ahead of the Curve
Global Infections and Vaccinations




Economic momentum is building. As reopening proceeds, broad measures of manufacturing and services activity are showing a V-shaped recovery from a year ago. More so, unemployment benefits, income-based handouts, and limited options for spending have created an unusual build-up in household savings and the potential for the release of well-funded pent up demand. As activity restrictions are further loosened, further strengthening in the economy appears likely, particularly in the consumer services sectors which have higher labor intensity. All told, further control of the pandemic situation could drive further economic recovery and help support higher employment and wages. Economic forecasts, such as the global outlook from the International Monetary Fund, suggest 2021 could present the strongest growth over several decades and bring the global economy above its pre-pandemic level.

Exhibit 2: Economic Momentum Building
New York Federal Reserve Weekly Economic Index

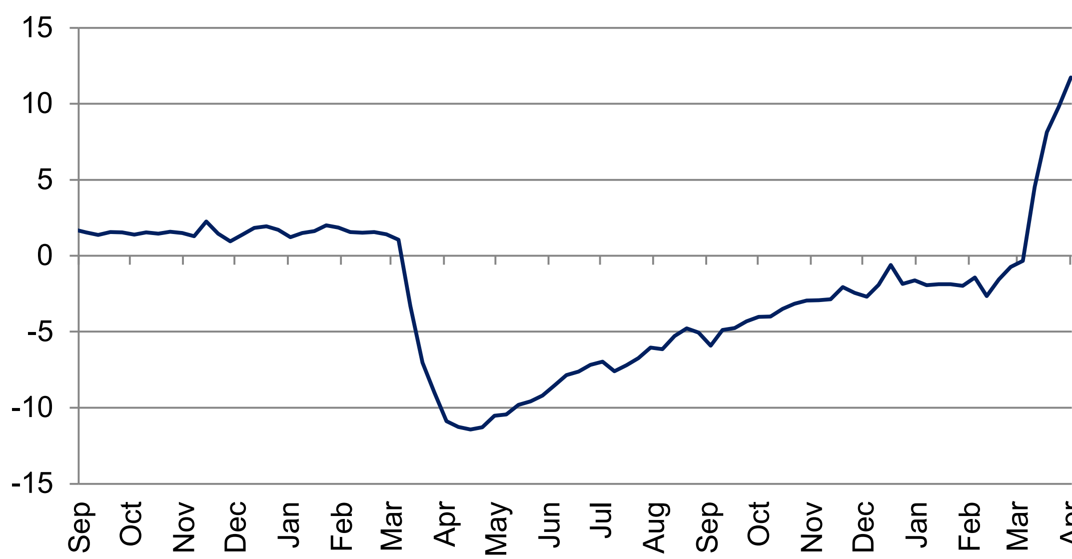


Exhibit 3: Can You Spot the "V"?
JP Morgan Global Purchasing Manager Indices (Growth > 50, Contraction < 50)

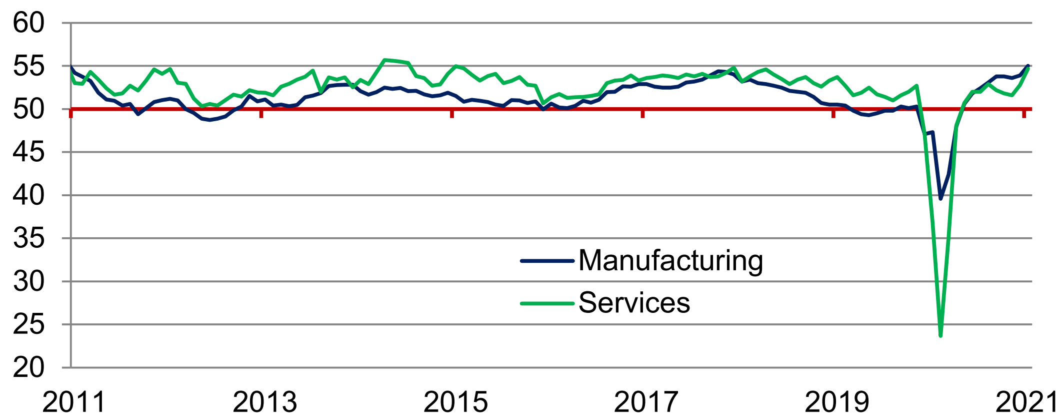



Exhibit 4: Brass in Pocket
US Personal Savings ($ Billions)

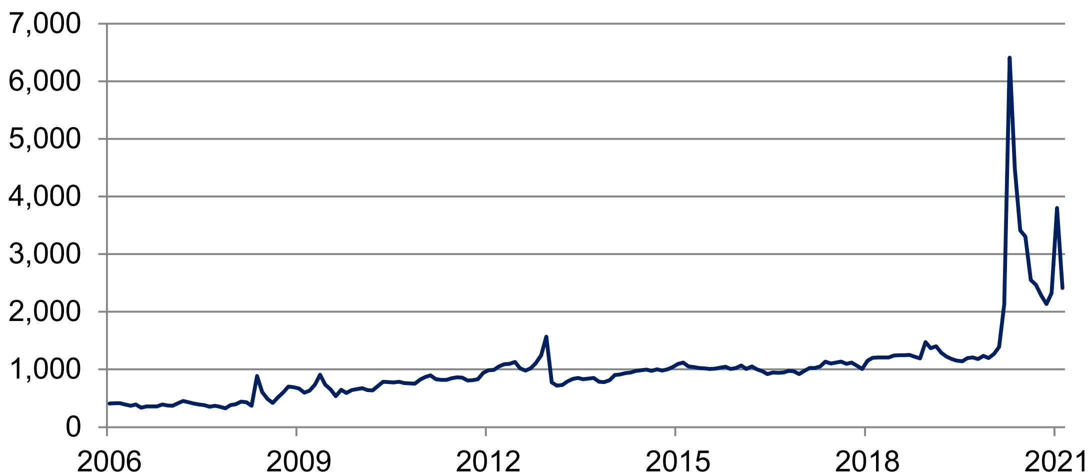
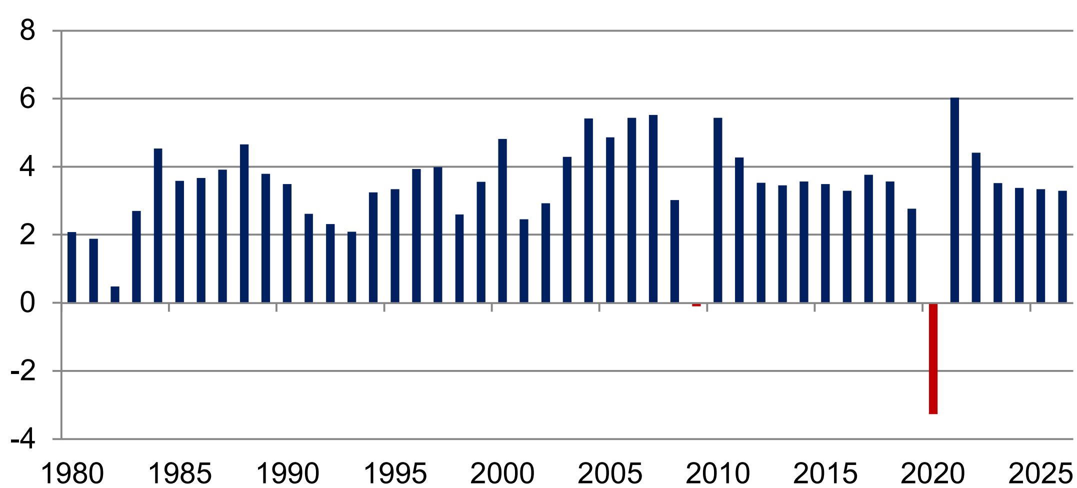



Exhibit 5: From the "Worst of Times" to the "Best of Times"
International Monetary Fund Global GDP Forecast %



Financial markets stand in brighter contrast to year-ago levels, with gains in some sectors racing well ahead of the improvement in underlying long-term fundamentals. As the economy continues to improve, the recent shift away from unsustainably low interest rates and high valuations for "growth at any price" stocks should continue. Interest rates have quickly priced in improvement toward more normal economic growth in recent months, yet we see further upside as remaining slack is taken out of the economy and as inflationary pressures build. Whereas certain sectors of the stock market that benefitted from a stay-at-home economy rallied to incredulous stay-at-home-forever valuations in 2020, the evening out of performance in recent months to include beneficiaries of a broad-based recovery in the economy appears likely to continue.

Exhibit 6: Mind the Gap
Higher Yields Might Still Be Too Low

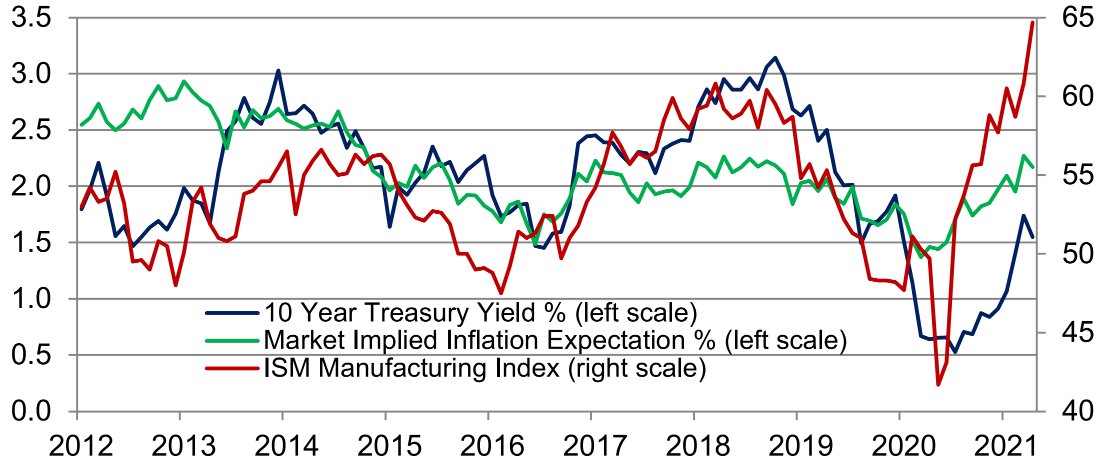
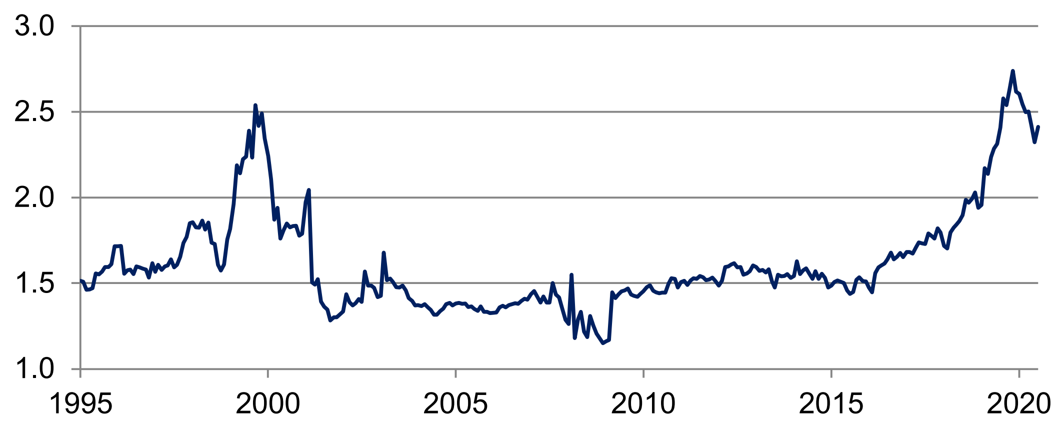



Exhibit 7: More Reversion Expected
Global "Growth" versus "Value" Stocks
Relative Value Composite (Price/Earnings, Price/EBITDA, & Price/Book)

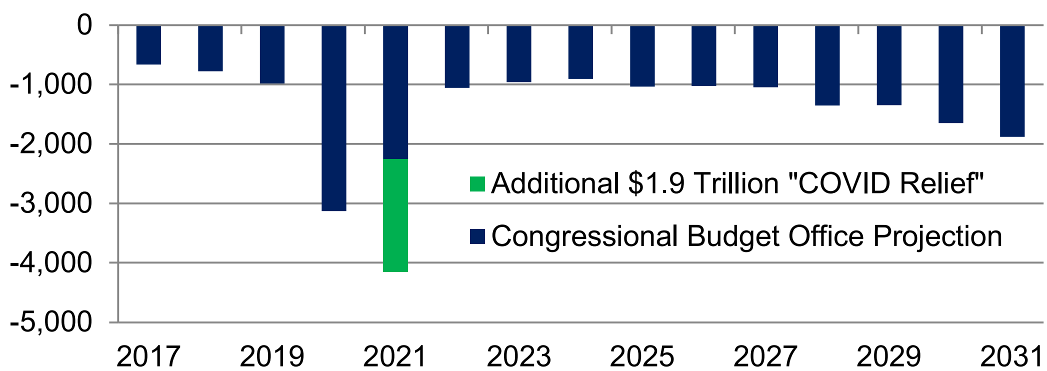



In contrast to the marked improvement in economic and financial conditions, government policy remains stuck in the spring of last year. The Federal Reserve still expects to keep the short-term interest rate near zero for the next few years, and it continues to purchase bonds (and create money) worth at least $120 billion every month. Fiscal spending continues to skyrocket, with a recently passed $1.9 trillion "COVID Relief" bill that has little to do with COVID relief followed by discussion of a $2-3 trillion "Infrastructure" bill that has little to do with infrastructure. The massive scale of the targeted, emergency spending of 2020 is morphing into enduring, policy-based spending.

Larry Summers, former Chief Economist at the World Bank, Treasury Secretary under Bill Clinton, and head of Barack Obama's National Economic Council, recently remarked in a Financial Times interview:

> "If you look at the economy at the beginning of this year, prevailing forecasts were that COVID would reduce wages and salaries… a $250 to $300 billion hole in wages and salaries over the course of the year. So, I look at this hole and then I see $900 billion of stimulus in the December package, $1.9 trillion of stimulus in the recently passed package, and $2 trillion in the savings overhang, which is also likely to be spent. I see the Fed with its foot on the accelerator as hard as any Fed has ever done…But, it doesn't seem to me that the preponderant probability is that it will work out well…it seems to me that we are way overdoing the requisite response… What's striking about today is that all of the trillions of dollars — all of it — does not include a penny directed at building back better…It doesn't seem prudent on resource allocation grounds, as well as being problematic on macroeconomic grounds."

Exhibit 8: Exploding Federal Budget Deficit ($ Billions)

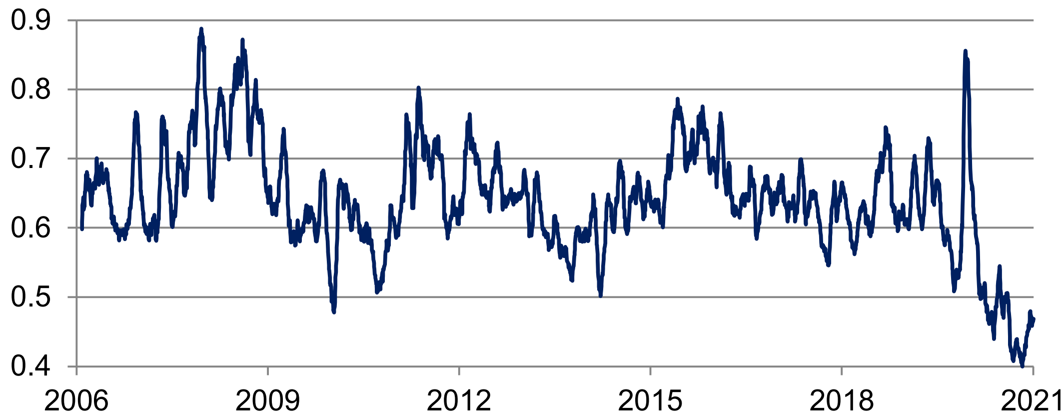



While Treasury Secretary, Summers introduced the notion of "iatrogenic volatility" likening an unintended and opposite result when policy makers overreach in their efforts to manage the economy and markets to an illness inadvertently caused by a medical procedure or contracted in a hospital setting. It's a valid point ignored by today's policymakers. Perhaps they're not stuck in the spring of 2020. They might be channeling their younger selves in the summer of 1969 with its "if it feels good, do it" zeitgeist. Why settle for a strong recovery when an economic boom feels so much better?

Exhibit 9: Near-Term Effects of Fiscal & Monetary Stimulus

For now, investors are focused on the rebound in the economy and the positive outlook for corporate earnings and credit risk. At some point, we will contend with the potential for strong demand and lower unemployment to produce higher inflation, for monetary policy to be less stimulative, and for rampant fiscal spending to be followed by sharply higher corporate and personal taxes. Surveys and market-based measures of investor risk taking suggest market sentiment has yet to factor in these eventualities.

Exhibit 10: Low Demand for Capital Preserving Options Suggests Euphoric Sentiment
CBOE Equity Pull Call Index




With the strong cyclical backdrop, we expect favorable returns for reasonably priced, quality securities and see record-high overall stock valuations, still-too-low interest rates, and unsustainably supportive government policies as the most salient investment risks. Our preference for companies that have higher return on capital but lower valuations compared with the overall market helps mitigate risk in stock portfolios, while exposure to cyclical areas such as financials, semiconductors, and international markets can benefit from the improving prospects for the global economy and corporate earnings. Likewise, our tilt toward credit risk rather than interest rate risk in bond portfolios should benefit from rising corporate profitability while being less exposed to the downside risk of rising inflation and interest rates compared with the overall market. Meanwhile, we're mindful of the benefit that allocations to capital preserving and risk diversifying assets can provide when market sentiment is unusually complacent.

We hope this review of the economy and markets helps inform you of our outlook and how we're managing the capital you've entrusted to us. We would be pleased to answer any questions you have and are grateful for the opportunity to work with you.

With best regards and wishes to your health and safety,

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