AUGUSTINE
ASSET MANAGEMENT

October 2024

Doping

MARKET SUMMARY

Equities

MSCI AC World	852
Price / Earnings	19.9x
Dividend Yield	1.9%
S&P 500	5762
Price / Earnings	24.3x
Dividend Yield	1.3%

US Interest Rates

2 Year Treasury	3.6%
10 Year Treasury	3.8%
30 Year Treasury	4.1%
Bloomberg US Agg.	4.2%

US Corporate Spreads

Investment Grade	1.4%
High Yield	3.4%

Equity Volatility

CBOE SPX Volatility	16.7

US Economic Figures

GDP Growth 2Q24	3.0%
Unemployment	4.1%
Inflation (core)	3.3%
Fed Funds Rate (mid)	4.9%
3 Month SOFR	4.6%

Commodities

Oil (Brent)	$72
Natural Gas	$2.92
Copper ($/lb.)	$4.55
Gold ($/oz.)	$2635

Foreign Exchange

Euro	$/€	1.11
Japanese Yen	¥/$	144
Chinese Yuan	元/$	7.00

Market summary data as of:
September 30, 2024

Sports analogies and idioms are a fun and widespread part of our language, especially if you are a keen spectator or participant. "Corporate speak", perhaps due to the competitive nature of business, is full of them. Executives "call the shots", job seekers hope to "make the cut", and no one wants to "drop the ball" on an important assignment. Investing has its own sports analogies, our favorite calling it an endurance sport -- a marathon rather than a sprint.

As we observed the economy and markets during the third quarter, we were reminded of the endurance analogy. Perhaps having two of pro cycling's grand tours and the Olympic Games during the quarter helped jog the memory. And as some elite athletes have struggled with temptation to extend outcomes beyond natural and prudent boundaries by using performance enhancing drugs, we wonder if the same challenge is seen in the economy and markets.

China's attempt to spur faster growth in the world's second largest economy looks like a case of doping. Facing a hangover from policy-fueled indebtedness and investment in unproductive assets, Beijing announced programs to shift debt burdens from private and local government balance sheets to the central government and to encourage more lending through lighter bank

regulations. In a novel twist, the government directed banks to lend to companies for the purpose of buying back shares of stock -- a CCP-directed stock pumping scheme. We will see if the balance sheet backstops and higher stock prices aimed at reflexively boosting sentiment for consumption and investment will be of lasting help to the Chinese economy but suspect short-term stimulus and improved feelings will be insufficient redress to structural economic realities.

We have also wondered about the potential return to easy money policies in developed countries, a kind of dope that has lowered yield curves and elevated valuations for financial assets. In September, the US Federal Reserved kicked off an easing cycle with a larger-than-typical 0.50% cut of the Federal Funds rate, which followed cuts by the European Central Bank and the Bank of England. In guidance for potential future moves, Chairman Powell said the rate-setting committee did not want employment to fall from its current "full" state, despite inflation stalling above target, job creation being solid, and overall growth in the economy being above trend. Calibrating policy for no landings could be seeking economic performance beyond the natural boundaries of an economy based on private allocation of capital. Even the best endurance athletes incorporate rest in their regimen.

Capital markets are seeing prioritization of growth and employment over price stability as a return of the central bank put option. At the end of the quarter, market-based expectations forecasted a deep easing cycle of an additional 1.8% in cuts by the Federal Reserve, 1.6% by the European Central Bank, and 1.5% by the Bank of England over the next 12 months. Global equities reached all-time highs, led by riskier stocks. Factor performance, which measures underlying market trends by stock characteristics, showed stocks that are more volatile and whose expected earnings are in the distant future leading the market, with stocks that exhibit higher quality (by profit margins and balance sheets) and lower valuations lagging. By the end of the quarter, global equities were priced well above the historical average versus earnings and cash flow, with particularly high valuations in US large cap stocks.

Exhibit 1
Market Implied Rates Forecast %
Deep Cutting Expected…

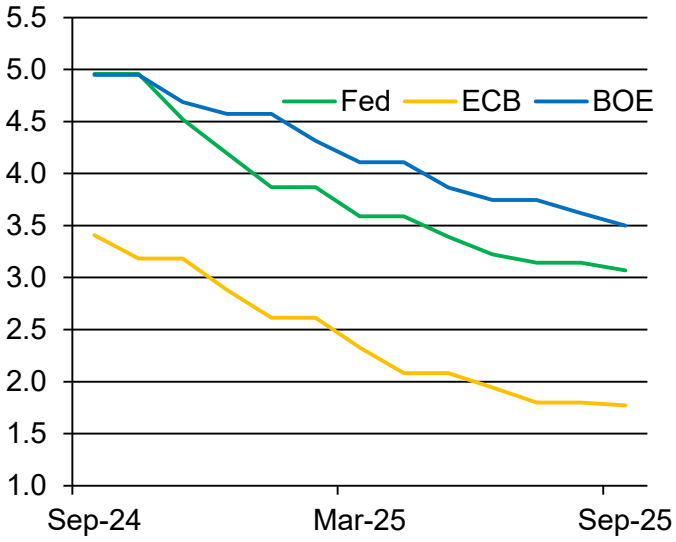
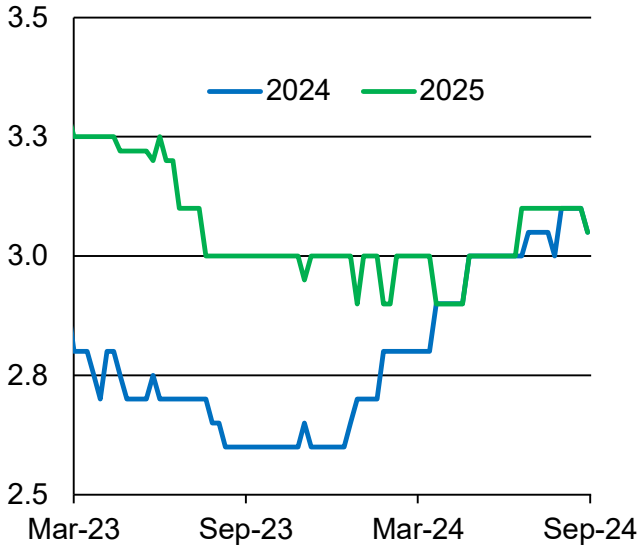


Exhibit 2
Consensus Global GDP Growth Forecast %
…With Firm Economic Conditions



Bond yields, which are more sensitive than stocks to the economic outlook, saw the lowered policy rate as "easing into strength". The yield curve between 10-year and 2-year Treasuries, which had been inverted for over two years and had been seen as a harbinger of recession, was slightly positive by

quarter end. Corporate credit spreads, which reflect the risk of defaults if the economy weakens, reached year-to-date lows by quarter end.

Augustine Global Equity is overweight versus the global stock index in cyclical sectors such as information technology, financials, and energy. While portfolio positions in the information technology sector have contributed to index-relative returns in recent quarters, financials sector weight has been neutral and energy sector exposure has detracted. Should global monetary easing and Chinese stimulus reduce the risk of near-term softening or recession in the global economy, financials and energy investments could contribute to relative returns. Likewise for the strategy's overweight position in Asia (Taiwan, Japan, and India), where some economies are more cyclically oriented than the global average.

Policy prioritization favoring growth and employment over price stability could benefit the overweight credit and underweight duration positioning in Augustine Core Plus and Short-Term Fixed Income strategies. Reduced risk of economic recession could limit the potential for credit spread widening and preserve positive carry of corporate bonds over treasuries. Easing financial conditions when economic growth is above trend and inflation is above target could result in further steepening of the yield curve should investors question policy makers' resolve to achieving and sustaining 2% inflation.

We hope this review of investment strategy, the economy, and capital markets helps to inform about our investment outlook and how we have positioned client assets to achieve returns while managing risk.

An Announcement

We are pleased to announce that Ashley L. Cox has joined Augustine as Development and Operations Manager. Her experience and skill with client relationship management and securities custodian operations will be a benefit to Augustine clients. She joins us with over twenty years of experience in relationship management and support at BNY Mellon Pershing and at Charles Schwab & Co. Welcome Ashley!

With best regards and appreciation for the opportunity to work on your behalf,

Jeffrey E. Bernardo CFA | Milena D. Spasova CFA CIPM | Neil J. Sullivan CFA

Frederick M. Blum | Ashley L. Cox | Franco Cirelli CPA CFP® | Sergio A. Saavedra CFA

Sources: Illustration: Microsoft Designer AI image generator. Exhibits 1 & 2: Bloomberg.