AUGUSTINE ASSET MANAGEMENT

January 2025

P Soup

MARKET SUMMARY

Equities

MSCI AC World	841
Price / Earnings	20.2x
Dividend Yield	1.9%
S&P 500	5882
Price / Earnings	24.8x
Dividend Yield	1.3%

US Interest Rates

2 Year Treasury	4.2%
10 Year Treasury	4.6%
30 Year Treasury	4.8%
Bloomberg US Agg.	4.9%

US Corporate Spreads

Investment Grade	0.8%
High Yield	3.1%

Equity Volatility

CBOE SPX Volatility	17.4

US Economic Figures

GDP Growth 3Q24	3.1%
Unemployment	4.1%
Inflation (core)	3.2%
Fed Funds Rate (mid)	4.4%
3 Month SOFR	4.3%

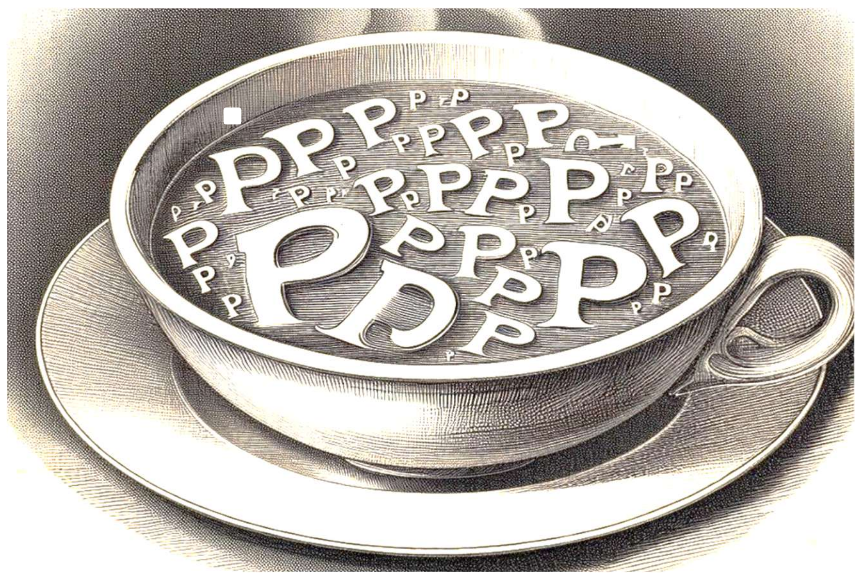
Commodities

Oil (Brent)	$75
Natural Gas	$3.63
Copper ($/lb.)	$4.02
Gold ($/oz.)	$2625

Foreign Exchange

Euro	$/€	1.04
Japanese Yen	¥/$	157
Chinese Yuan	元/$	7.34

Market summary data as of:
December 31, 2024



2024 was a remarkable year in many ways. A record number of democracies had national elections, with incumbents mostly falling to populist challengers. The geopolitical thermostat got hotter, with the ongoing war in Ukraine, armed conflict in the middle east, and louder saber rattling in Asia. Economies defied recession expectations with resilience to higher interest rates. And financial markets rewarded a chosen few stocks that are plays on artificial intelligence. These macro events illustrate a world seeing a heightened pace of change.

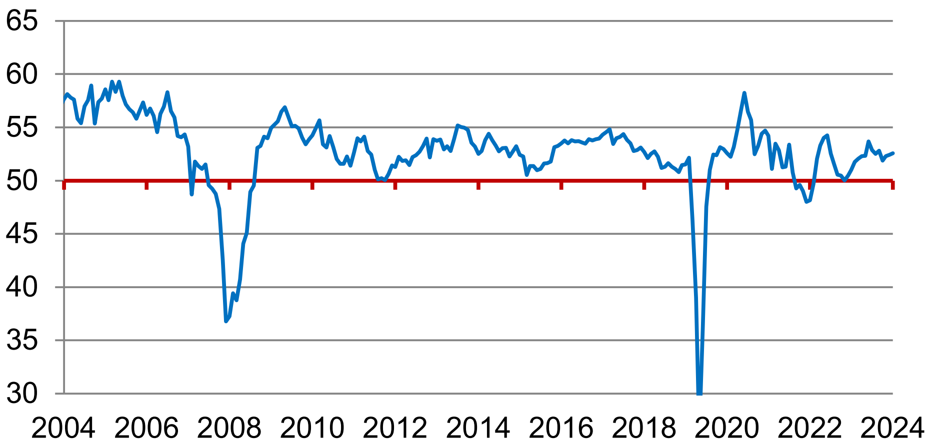
Outlook

As we prepare our investment outlook for 2025, we recognize several dynamics that will shape economic trends, corporate earnings, and ultimately the return and risk profile of capital markets. These factors include profits, policy, productivity, pricing, and market positioning.

Profits

With corporate profits tied to growth in the economy, capital markets will be sensitive to trends in employment, consumer spending, and business activity. Economic conditions are currently solid, with strong labor markets supporting growth in household spending, business surveys showing improving sentiment, and private sector balance sheets historically not stretched. Our thesis that the global economy can grow with non-zero historically normal interest rates is tracking. While the economy remains cyclical, we see few signs that suggest an imminent downturn beyond moderation due to slowing from above-trend growth in the US and continued positive but modest expansion in other major economies.

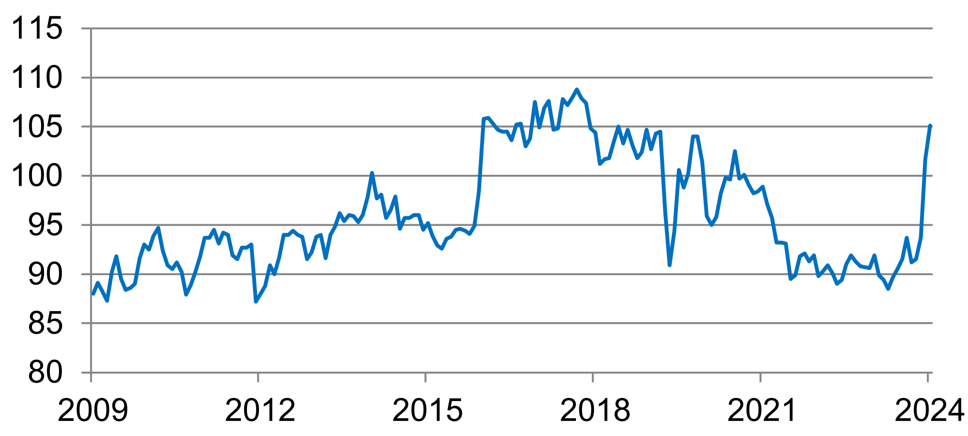
Exhibit 1: JP Morgan Global Purchasing Managers' Index
Business Surveys Point to Growth



Policy

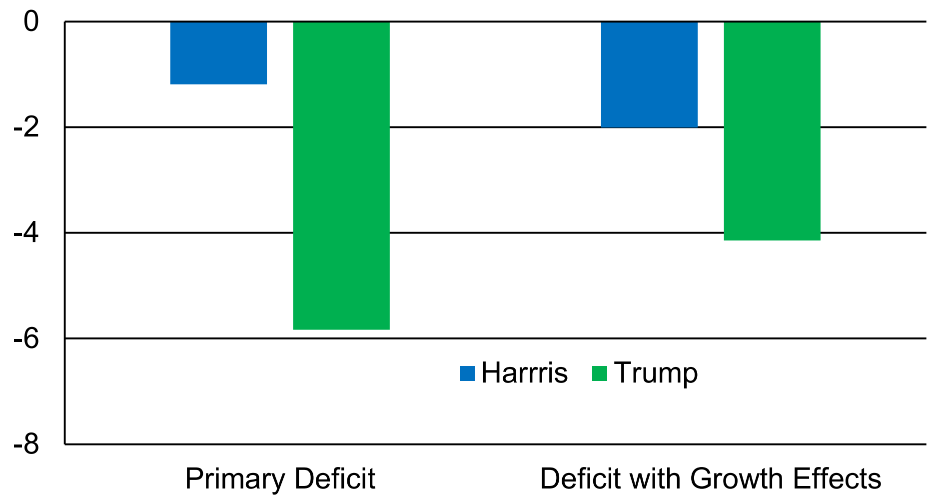
Government policy will affect the outlook for corporate profits through fiscal, regulatory, and monetary channels. The US could see substantial changes, with knock-on effects worldwide. Decoding statements by the new US administration and congress as actual plans or just negotiation gambits is guesswork. But it helps to see those ideas as generally positive or negative for growth and separating the impacts between the near and longer terms. Reduced regulatory burden and lower corporate tax rates would provide a near-term boost to economic growth and corporate profits. Conversely, tariffs (i.e., trade taxes) and mass deportations, if applied on a large and wide scale, could hurt the economy while spurring inflation. Our overall sense of the new policy mix is positive for near-term growth while potentially exacerbating structural fiscal challenges.

Exhibit 2: National Federation of Independent Business Optimism Index
Business Owners Expect Pro Business and Pro Growth Policies



The potential for larger budget deficits (candidate Trump's promises were more deficit inducing than candidate Harris') and escalating government indebtedness could limit the scope for tax cuts and further tilt political preferences toward higher inflation. Indeed, populist policies can range, depending on the issue, from conservative to liberal, but they typically eschew fiscal discipline and deprioritize price stability in favor of popular fiscal measures.

Exhibit 3: Penn Wharton Budget Model -- US 10-Year Budget Deficit by Candidate Plans, $ Trillions
Big versus Huge Deficits



Productivity

There is a hopeful consensus assuming a long-term upswing in productivity -- the ability to produce more with less input and costs. In the private sector, many expect artificial intelligence will bring substantial efficiencies to industrial production while turbo-charging the output of knowledge workers. We saw this in the 1990s with the adoption of computers in white-collar jobs. Faster than trend growth with disinflation was the result that many hope to see again with the next transformational technology. Meanwhile, the Department of Government Efficiency is examining government effectiveness and the potential to reverse the alarming trends in deficits and debt. There is no doubt a great deal of inefficiency to be wrung out of government. Past attempts at improving government productivity, however, found the system highly resistant to putting theory into practice.

Price

Financial assets enter 2025 with a wide spread of current valuations versus historical norms. Global equities are trading well above past tendency, with very highly valued US stocks striking a sharp contrast to international stock valuations that do not appear as stretched. A select few mega capitalization stocks at the forefront of artificial intelligence have driven the appreciation and valuation of US stocks based on belief that they will persist with remarkably high earnings growth and little future competition. Meanwhile, the adjustment in interest rates over the last few years has brought the inflation-adjusted yield of US bonds to a level not seen since before the great financial crisis of '08-'09. Current yields present decent value. Credit spreads have tightened to levels that are historically tight, though monetary policy that emphasizes growth as the primary mandate and actions to backstop credit losses in recent years may make the future average credit spread lower than the past.

Valuations are not particularly useful in setting immediate-term market expectations, but they are helpful for thinking about medium to long term returns and the current risk and reward proposition. And they reveal areas where consensus thinking is aggressive or conservative.

Exhibit 4: Major Asset Classes Valuation Summary
US Equity & Credit are Historically Expensive

	US Equity P/E Ratio	International Equity P/E Ratio	US Fixed Income Real Yield %	US IG Credit Spread %
Current	25.2	14.5	2.5	0.8
25 Year Average	18.1	16.2	1.7	1.5
Premium/Discount	39%	-11%	149%	-45%
Percentile	93%	51%	69%	1%

Exhibit 5: US & International Equity
Premium or Discount vs. 25 Year Average
US Expensive, International Not

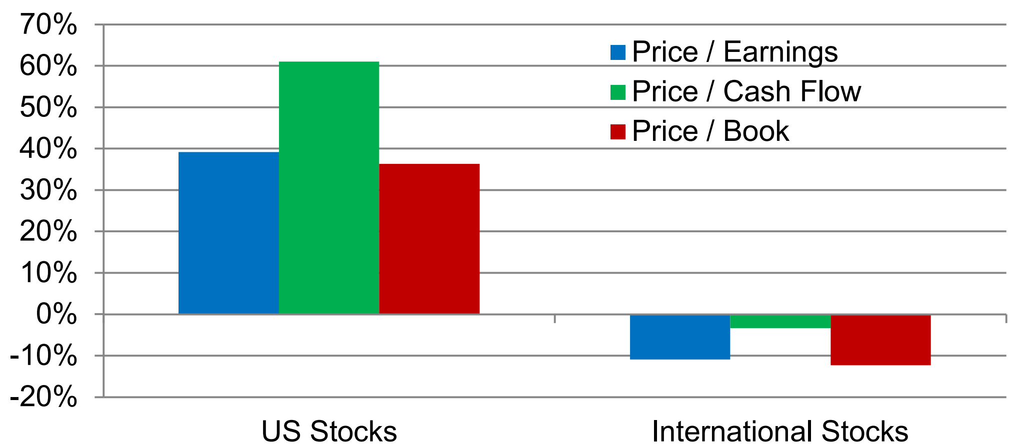


Exhibit 6: US Fixed Income Real Yield %
Bloomberg US Aggregate Yield versus 7 Year TIPS Inflation Breakeven
Highest Inflation-Adjusted Yield Since Before the Great Financial Crisis

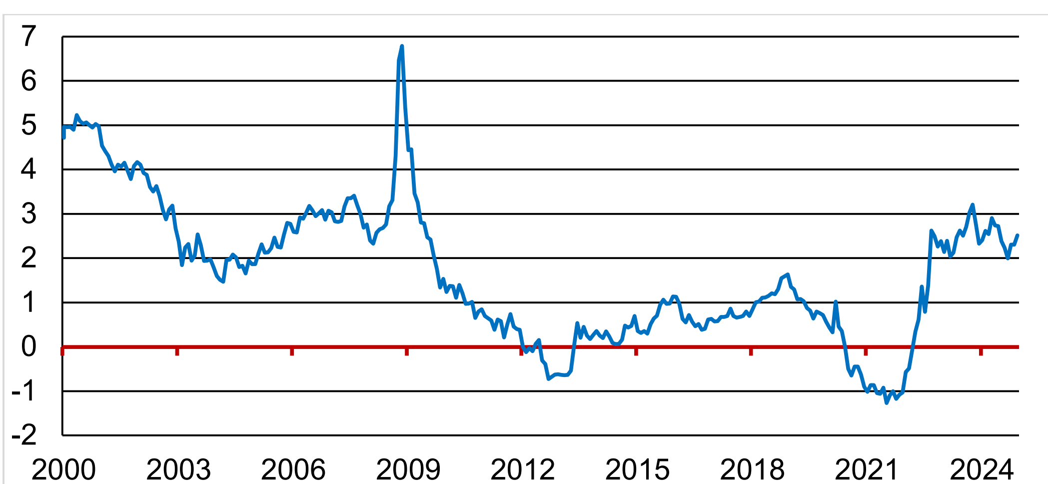
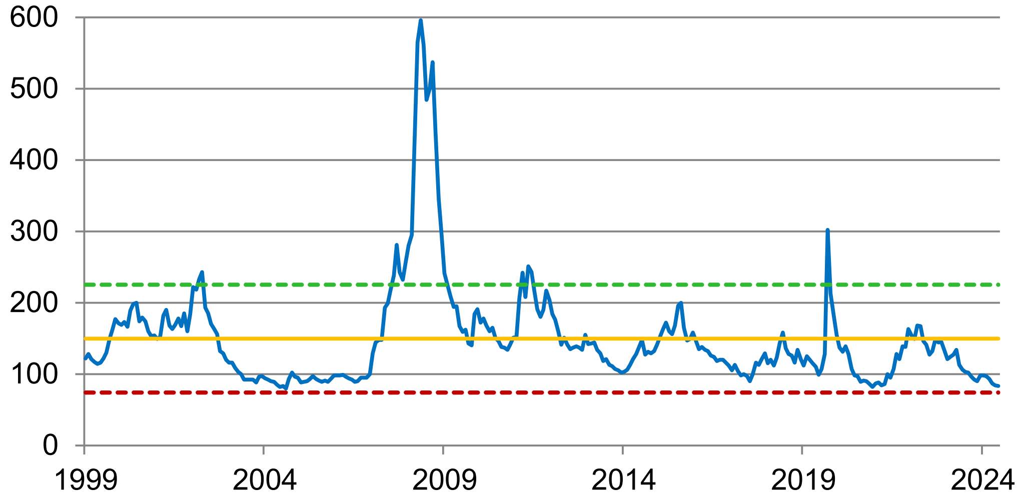


Exhibit 7: US Investment Grade Credit Spread versus Treasuries
Historically Tight



Positioning

Financial assets enter 2025 on a wave of optimism regarding expected corporate profit growth, a change in the government policy mix that will be more favorable to business, and hope that technological advances will spur a boom in productivity, accelerate growth, and bring down inflation. Measures of investor sentiment are at a generational high, while household allocation to equities is at a record high. Positioning and sentiment are not, by themselves, determinants of near-term returns. But they, in conjunction with high valuations, contribute to higher-than-normal drawdown risk at could be realized should anything upset the narrative of the optimistic consensus.

Exhibit 8: Conference Board Consumer Expectations for Stock Prices to Increase
Retail Investor Sentiment at a Generational High

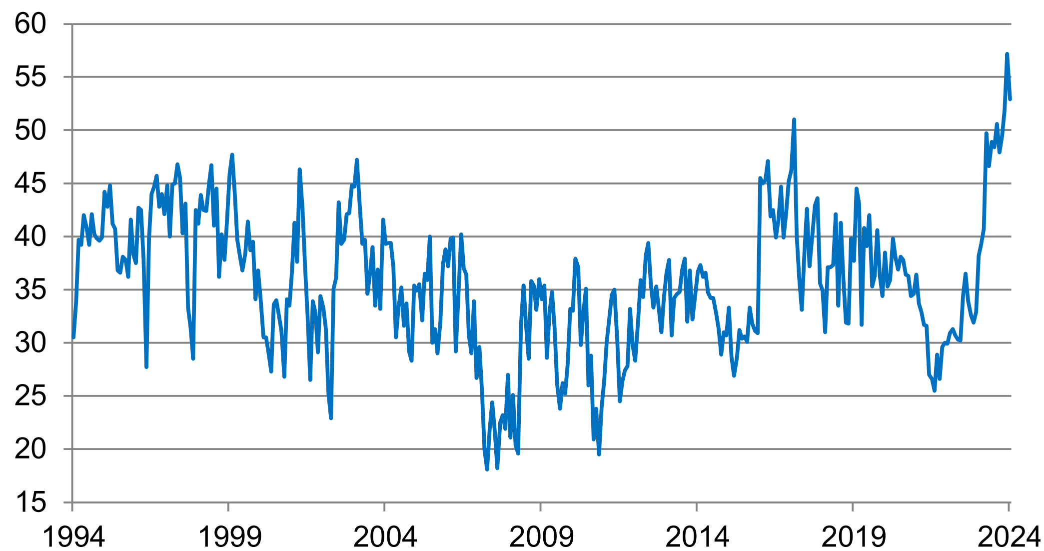
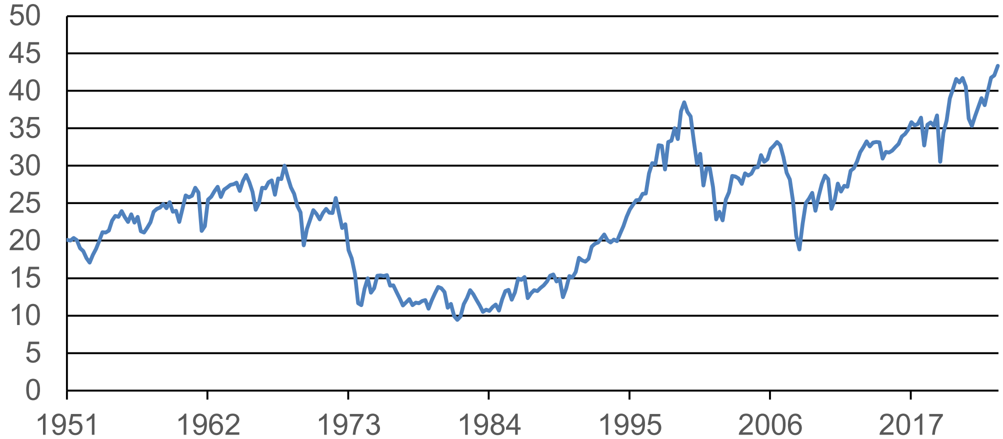


Exhibit 9: Household Allocation to Equities % of Financial Assets
Highest Exposure to Equities on Record



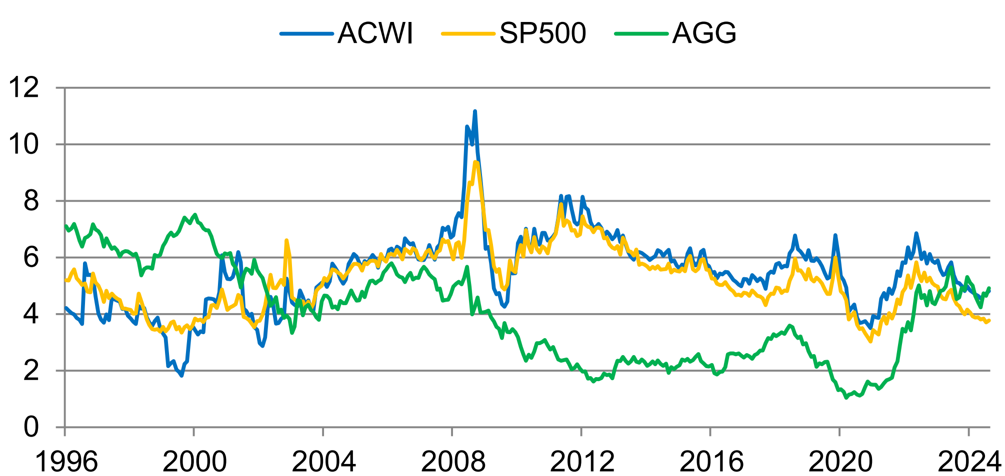
Investment Strategy

Asset Allocation

With equities trading well above its historical valuation tendency and the yield in fixed income having returned closer to its historical norm, the relative attractiveness of the two major asset classes is different today compared with most of the last two decades. A comparison of the earnings yield (the inverse of the price/earnings multiple) of stocks versus the yield on bonds now tilts in favor of bonds, a condition last seen in the early 2000's.

Asset allocations for investors with moderate risk profiles no longer must heavily favor stocks as was the case when bond yields were very low. Indeed, balanced asset allocations have regained their historical risk management characteristics of potentially low or negative correlation between stocks and bonds. To wit: the next recession will likely result in lower stock prices with the possibility of lower yields providing support to bond prices.

Exhibit 10: Equity Earnings Yield & Fixed Income Yield %
There is an Alternative



Global Equity

2025 follows two consecutive years of extraordinarily strong equity market returns. While the resulting high valuations and unusually optimistic sentiment do not automatically point to a market downturn, they point to higher-than-normal risk in the asset class. Starting points matter for forward returns, and today's market is priced to realize, over the medium to long term, lower upside and higher drawdown risk compared with expected returns and risk from more normal levels.

The positioning of Augustine Global Equity seeks to capture forward upside while mitigating risks in a highly valued market. With most of the asset class return in the last two years having come from higher valuation – investors paying more per unit of earnings – rather than the fundamental driver of higher earnings, we are focused on parts of the global equity market where earnings are improving and valuations are not stretched. We have added positions outside the US, where stock prices have not been aggressively marked up by valuation expansion. Within sectors, we see enduring reasons to favor quality companies that trade at reasonable prices. The go-go market of the last two years has rewarded the opposite -- riskier stocks of companies with more speculative earnings outlooks. Quality and value are stock characteristics that have performed well over time versus the market index with milder drawdowns. We see those so-called factors, that are constant preferences in our investment process, as particularly attractive in a market that has high valuation and positioning risk.

Exhibit 11: Equity Return Drivers, 2023-2024 Annualized
Mostly Paying More per Unit of Earnings

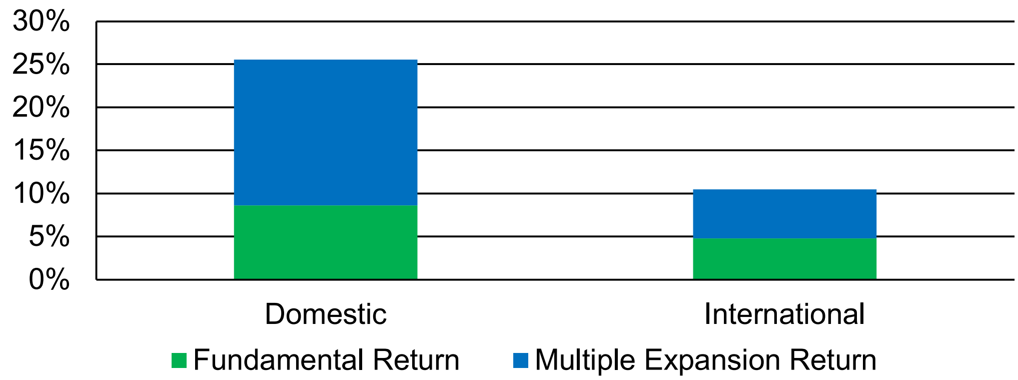
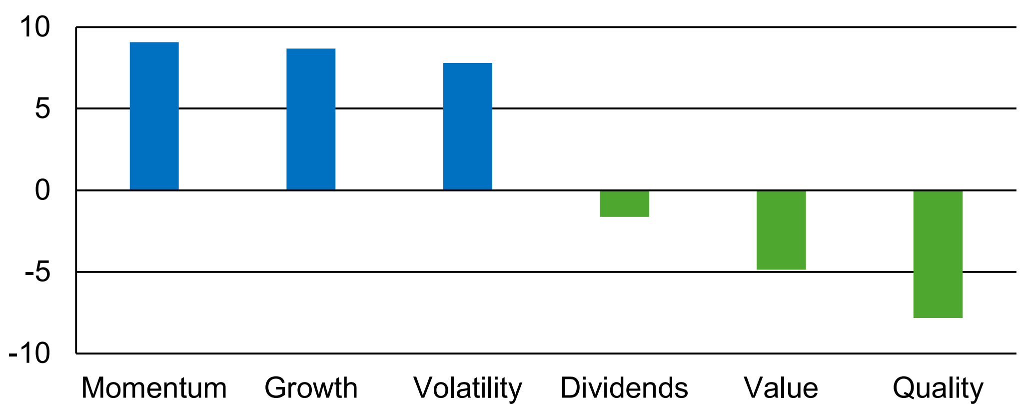


Exhibit 12: Sector-Neutral Factor Profile 2023-2024
First versus Fifth Quintile Relative Return
"Risk On" Market



US Fixed Income

Higher yields compared with a few years ago are good news for fixed income. Investors can now earn a yield that is higher than both inflation and the earnings yield in equities. Although much of the needed adjustment from the prior regime of near-zero interest rates has (thankfully) already happened, we see the process as still evolving toward a yield curve that reflects structurally higher inflation compared with the last fifteen years, central bank prioritization of full employment over price stability, and escalating government indebtedness.

Our dynamic scaling of interest rate risk in Augustine Core Plus Fixed Income has increased as interest rates relative to inflation expectations have gone from negative to positive. Portfolio duration remains below that of the index, based on the thin pickup in yield afforded by longer maturities and our view that long-term rates have upside from the higher and more uncertain inflation dynamic. Portfolio yield curve positioning should help protect against valuation adjustments as term premium continues to rise from recent negative levels.

We expect sector and security selection to contribute to returns and risk management. While credit spreads are historically tight, material widening has historically needed recession risk as a catalyst, and we see few signs pointing to recession. We are also optimistic that our credit research process will continue to effectively underwrite, noting the strategy's 13:1 credit rating upgrade to downgrade ratio versus the overall corporate market's 1:1 ratio in 2024.

Exhibit 13: Treasury Yield & Duration Curve
Flat Curve Leaves Long-End Unattractive

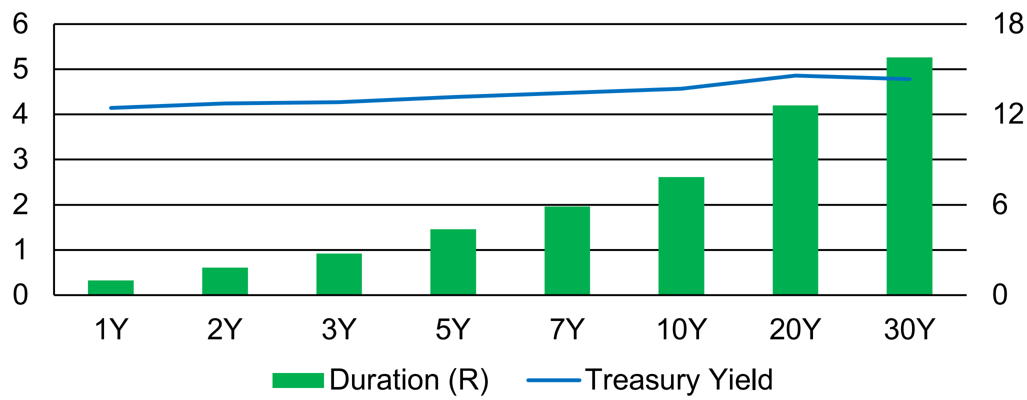
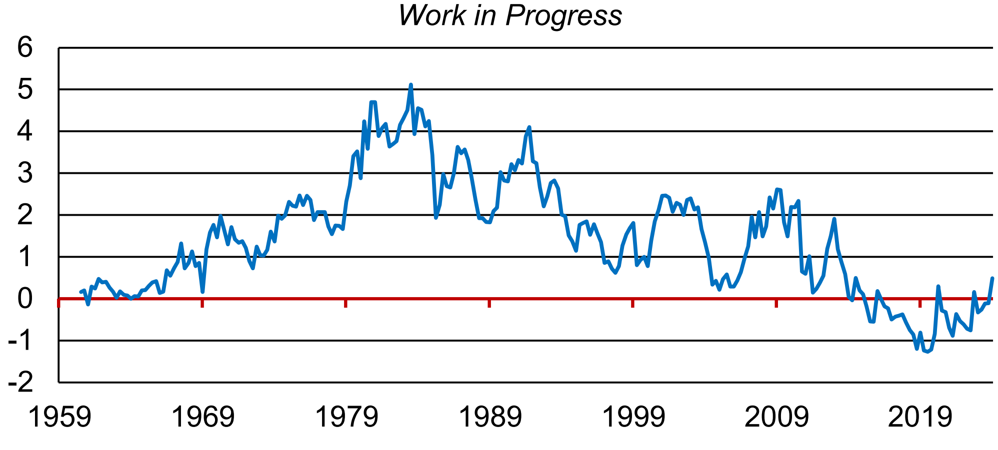


Exhibit 14: Federal Reserve 10 Year US Treasury Term Premium
Work in Progress



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. We welcome your questions.

An Announcement

We are pleased to announce that Anna K. Zullo has joined Augustine as a Client Service & Operations Associate. Her experience and skill with investment operations, fund administration, and client service will be a benefit to Augustine clients. She joins us with prior experience as Operations Team Manager with the Global Wealth & Investment Management division of Bank of America Merrill Lynch. Welcome Anna!

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

Franco Cirelli CPA CFP®   Ashley L. Cox   Sergio A. Saavedra CFA   Anna K. Zullo

Sources:

Illustration:	Microsoft Designer AI image generator
Exhibit 1:	JP Morgan Chase & Co.
Exhibit 2:	National Federation of Independent Business
Exhibit 3:	The Wharton School, University of Pennsylvania
Exhibit 4:	MSCI, Bloomberg, ICE
Exhibit 5:	MSCI
Exhibit 6:	Bloomberg
Exhibit 7:	ICE
Exhibit 8:	Conference Board
Exhibit 9:	US Federal Reserve
Exhibit 10:	MSCI, S&P Global, Bloomberg
Exhibit 11:	MSCI
Exhibit 12:	Bloomberg
Exhibit 13:	Bloomberg
Exhibit 14:	US Federal Reserve