NOTABLE EVENTS

SEPTEMBER 30, 2024

DEAR FELLOW PARTNERS & FRIENDS,

On both the economic and political fronts there were several notable events in the past quarter that influenced assets across the globe. These events encouraged quite a bit of speculation in equities, fixed income, currencies and precious metals. It remains unclear if any of these events will have any meaningful impact on the trajectory of the global economy or corporate earnings, both of which dominate the list of influences for prices and intrinsic values in the long-term.

The most notable event is the US election. Our take on this matter is similar to the emerging consensus view that the economy will escape too much harm regardless of who is elected President, provided the US Congress remains divided. The other events from the quarter include both The Federal Reserve System (the Fed) and The People's Bank of Central China (PBOC) beginning their easing process. I believe the Fed is an extremely important body of policymakers that has a lot to do to prove that it is up to the task of managing its role in the economy. Under its current leadership, the Fed has objectively been failing its mandate, even predating the COVID era. They do have good PR though. Somehow, they are being celebrated for "whipping inflation," while being excused for their role in promoting it in the first place. Now they are in the beginning stages of an easing cycle as they react to the perception of a slowing economy. Indeed, there have been plenty of indications, such as the inverted yield curve (albeit artificially induced) and the government's own leading index of economic indicators, that strongly suggest the economy should slow or enter recessionary territory soon. Additionally, the recent large downward revision in the tabulation of jobs created over the past year surely motivated the Fed to begin easing. That said, with these revisions, and more to come, of the economy's path over the past 18 months, we should consider the possibility that the economy has already passed through a shallow recession and may likely be stabilizing on its own. Therefore, the concern now should be that the Fed is lowering rates into an expansion that would have occurred regardless of their moves.

Considering the Fed's track record, being again off-sides with an ill-timed pro-cyclical policy position would be consistent with their past failures and the potential consequences would be predictable. These include an upturn in inflation and long-term interest rates and the timing would then collide with the steep ramp of household and corporate interest rate resets over the next three years. We believe it would also exacerbate the US government's fiscal position where interest payments could reach 30% of government revenues by 2028. Permanent deficits of at least 6% would be required just to hold together the other components of the budget and so the economy is rather exposed to quite a bit of risk over the next few years. In our opinion, policymakers must rid the US of high interest rates and inflation for us to stay on the road in the long run. Unfortunately, though, the Fed seems again to be looking at the rear-view mirror and navigating without a map.

Perhaps it is this tinderbox of risk that has helped push the price of gold up 27% this year. Authorities around the world have given us plenty of reasons to hold this one asset that is outside of the financial system. Questions surround the intent of the US government's emerging policy of "dollar diplomacy" and many sovereign nations have been steadily adding the metal to their reserves as a result. That said, under the theory that gold prices should match the change in global money supply in a fiat money system, the price of gold is not far from where it should be. As noted, though there are many examples of the price overshooting this theoretical value and I have also mentioned before that we will only know in hindsight why the price is what it is. This is just my understanding now.

"Apart from the topics of gold and the Fed's possible error, the PBOC has also begun to address the challenges more seriously in its home market. For the Chinese, this is possibly well overdue and, as we wrote earlier this year, Centerstone's strategies began accumulating a few stocks in the region..."

THE HONG KONG MARKET

Source: Bloomberg

Investors are not able to invest directly in the indices referenced in these illustrations and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices are shown for general market comparisons and are not meant to represent the Centerstone Funds.

The Far East

Apart from the topics of gold and the Fed's possible error, the PBOC has also begun to address the challenges more seriously in its home market. For the Chinese, this is possibly well overdue and, as we wrote earlier this year, Centerstone's strategies began accumulating a few stocks in the region, including Tencent[1], AIA Group[2] and Hong Kong Exchanges and Clearing[3]. The Chinese economy has many long-term challenges, flushing these stocks out of most global portfolios and consequently becoming very cheap.

AIA Group is a Hong Kong-listed insurer with ties to legacy US insurer AIG which failed during the global financial crisis. AIA has always been managed separately though and has built an admirable business serving clients across Asia. Its largest market is Hong Kong though its 20% exposure to China is still meaningful. In general, it dominates its core markets and continues to grow at a mid-single-digit rate as demand for its policies grows along with the increasing wealth in the region. We purchased the shares after they had fallen by half and the stock currently yields 3% while trading at a low multiple of earnings. It is the sort of company that we have been buying. In general, after falling for four straight years, the Hong Kong indexes are pretty washed out which means that there is not much premium attached to these higher-quality names. Much like Tencent, which we have discussed before, AIA is managed effectively for its shareholders, the balance sheet is sound, and the business' dominance provides a moat in an industry with tailwinds.

Thank you for your trust and interest in Centerstone.

Sincerely,

Abhay Deshpande, CFA
CHIEF INVESTMENT OFFICER

[1] 2.00% position in the Centerstone Investors Fund and 2.21% position in the Centerstone International Fund as of June 30, 2024.
[2] 0.88% position in the Centerstone Investors Fund and 1.18% position in the Centerstone International Fund as of June 30, 2024.
[3] 1.34% position in the Centerstone Investors Fund and 1.79% position in the Centerstone International Fund as of June 30, 2024.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Centerstone Funds. This and other important information about the Funds are contained in the prospectus, which can be obtained by calling 877.314.9006. The prospectus should be read carefully before investing. For further information about the Centerstone Funds, please call 877.314.9006. The Centerstone Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. Centerstone Investors, LLC, Tencent, AIA Group and Hong Kong Exchanges and Clearing are not affiliated with Northern Lights Distributors, LLC.

Important Risk Information and Disclosure:

The Hang Seng Index is a free float-adjusted market-capitalization-weighted stock-market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. These 82 constituent companies represent about 58% of the capitalization of the Hong Kong Stock Exchange.

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An investment in the Funds entails risk including possible loss of principal. There can be no assurance that the Funds will achieve their investment objective.

Past performance is no guarantee of future results.

The value of the Funds portfolio holdings may fluctuate in response to events specific to the companies or markets in which the Funds invest, as well as economic, political, or social events in the United States or abroad. The impact of the coronavirus (COVID-19), and other epidemics and pandemics that may arise in the future, could affect the economies of many nations, individual companies and the market in general in ways that cannot necessarily be foreseen at the present time.

Value investing involves buying stocks that are out of favor and/or undervalued in comparison to their peers or their prospects for growth. Our value strategy may not meet its investment objective and you could lose money by investing in the Centerstone Funds. Value investing involves the risk that such securities may not reach their expected market value, causing the Funds to underperform other equity funds that use different investing styles.

Investments in foreign securities could subject the Funds to greater risks including currency fluctuation, economic conditions, and different governmental and accounting standards. Foreign common stocks and currency strategies will subject the Funds to currency trading risks that include market risk, credit risk and country risk. There can be no assurance that the Funds' hedging strategy will reduce risk or that hedging transactions will be either available or cost effective. The Funds use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

Domestic economic growth and market conditions, interest rate levels, and political events are among the factors affecting the securities markets in which the Funds invest.

Investing in the commodities markets through commodity-linked ETFs, ETNs and mutual funds will subject the Funds to potentially greater volatility than traditional securities.

Large-cap company risk is the risk that established companies may be unable to respond quickly to new competitive challenges such as changes in consumer tastes or innovative smaller competitors. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. Securities in small and mid-cap companies may be more volatile and less liquid than the securities of companies with larger market capitalizations.