July 2025

Much Ado About Nothing?

Market Summary

Equities

MSCI AC World	918
Price / Earnings	19.9x
Dividend Yield	1.9%
S&P 500	6205
Price / Earnings	23.5x
Dividend Yield	1.3%

US Interest Rates

2 Year Treasury	3.7%
10 Year Treasury	4.2%
30 Year Treasury	4.8%
Bloomberg US Agg.	4.7%

US Corporate Spreads

Investment Grade	0.9%
High Yield	2.9%

Equity Volatility

CBOE SPX Volatility	16.7

US Economic Figures

GDP Growth 1Q5	-0.5%
Unemployment	4.1%
Inflation (core)	2.9%
Fed Funds Rate (mid)	4.4%
3 Month SOFR	4.3%

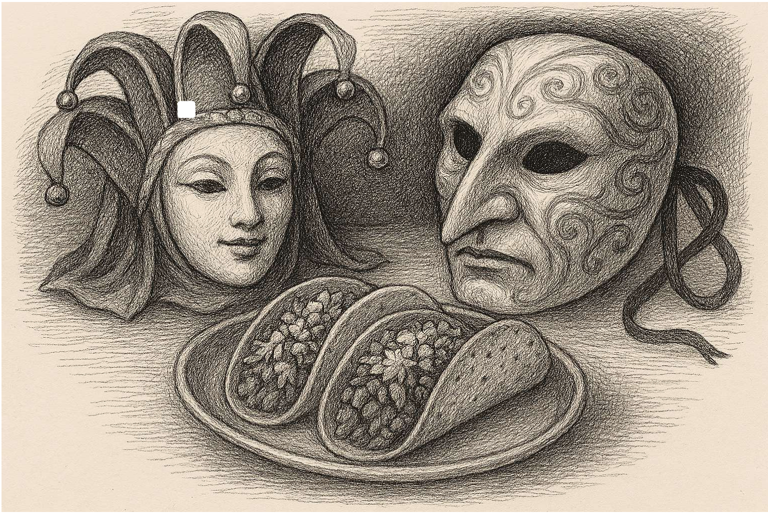
Commodities

Oil (Brent)	$68
Natural Gas	$3.46
Copper ($/lb.)	$5.03
Gold ($/oz.)	$3,303

Foreign Exchange

Euro	$/€	1.18
Japanese Yen	¥/$	144
Chinese Yuan	元/$	7.16

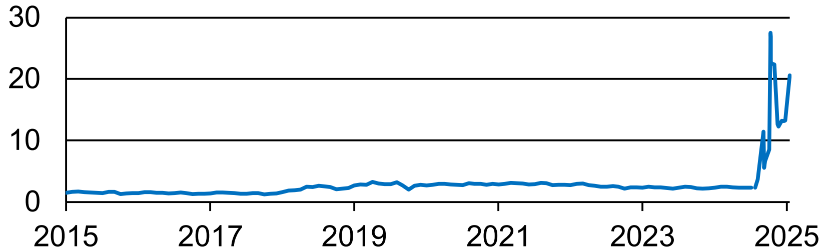
Market summary data as of:
June 30, 2025



What comes in like a lion, goes out like a lamb? Fans of British idioms are quick to say "March", but investors could aptly use the phrase for the recently concluded quarter. From the fall in stocks on extreme trade tariffs announced in the first days of April to record highs in June, investors witnessed both a bear and a bull market in just a few months. The manic pattern is policy induced. Concerns that historically high import taxes would hurt the economy while stoking inflation gave way to optimism that "Liberation Day" was merely a masked ruse to negotiate and that policy makers would never sacrifice near-term growth to achieve longer-term geoeconomic goals. Who is right -- the lion or the lamb? We think the answer is somewhere in the middle.

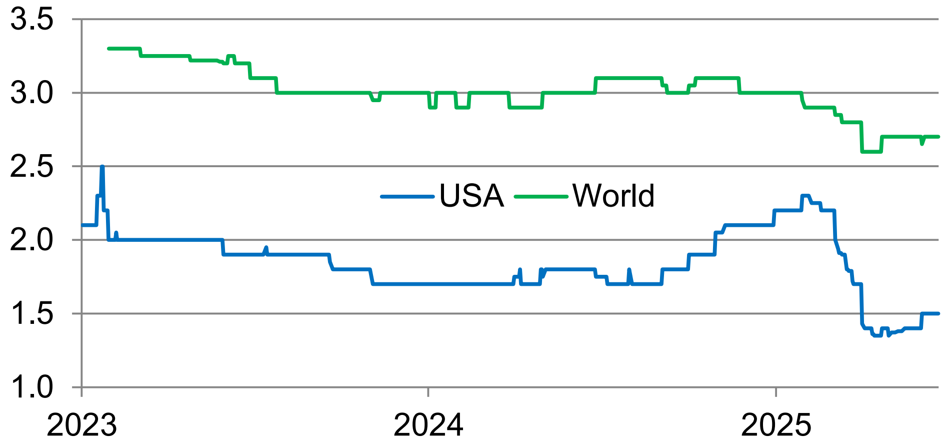
Indeed, the current effective import tax rate of 20.6% is up substantially from 2.3% at the beginning of the year but down

Exhibit 1: Effective US Import Tax Rate %



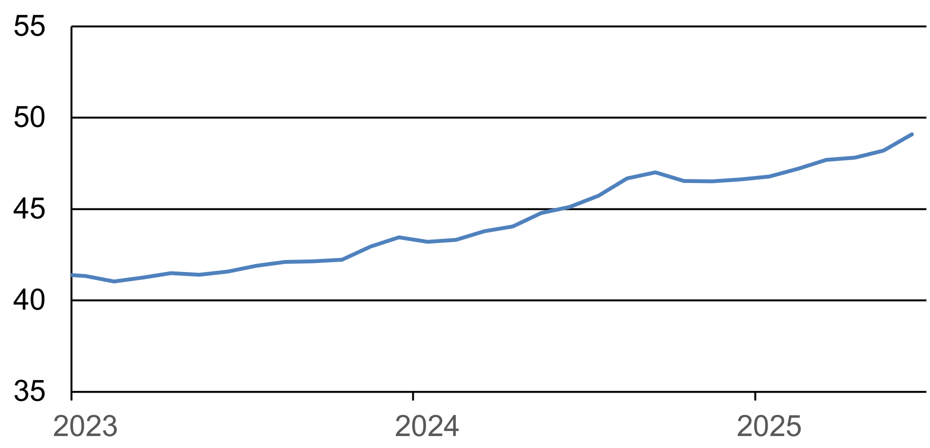
from the peak of 27.5% in early April. This will affect the economy, especially in the US, through lower consumer spending power if import taxes are passed on through higher product prices and through lower profits if companies absorb the taxes with a hit to margins. Economists expect lower economic growth and higher inflation, with the Yale Budget Lab forecasting tariffs to subtract about 1% from US real GDP and add about 2% to inflation this year as their effects kick in during the second half.

Exhibit 2: Economic Outlook Hurt by Tariffs
Consensus 2025 Growth Forecast %



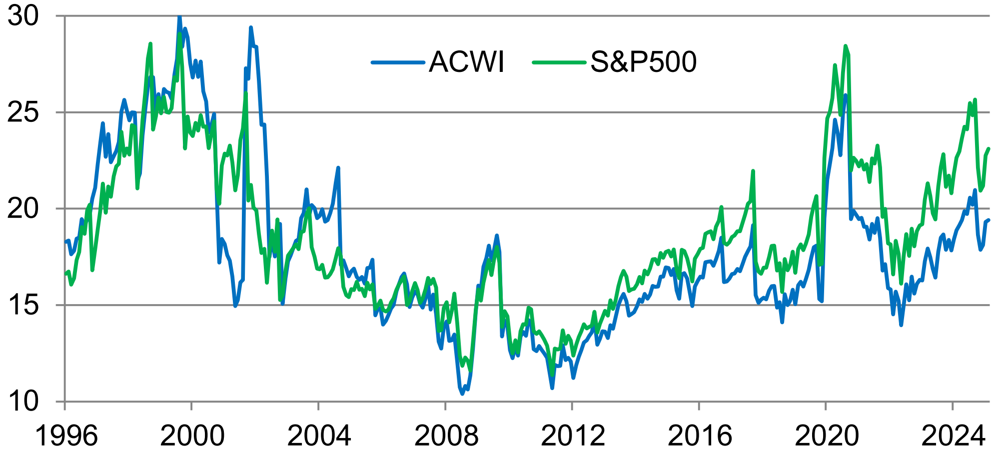
Investors are more sanguine with stock markets at historical highs. Earnings estimates among stock analysts have risen, surveys show the average retail investor expecting further gains, and Fed data shows household allocations to equities at an all-time high. Speculative, cyclically sensitive parts of the market have led, as investors hope that the trade war will have no effect on the economy and corporate earnings – that the daily announcements and tough talk about tariffs are much ado about nothing. It's a position that might be correct if the threatened tariff regime is never fully enacted or is quickly pulled. It also might reflect adaptation lag for unprecedented change whose effects are still forthcoming.

Exhibit 3: Market Expectations Reflect No Tariff Effects
Consensus Global Equity Forward 12 Month Earnings Estimate



Market strength has brought valuations to rare territory. Global equities are trading at the 94th percentile of its price multiples on earnings and cash flow over the last twenty years, driven largely by historically high valuations in the US. While we don't view valuation as a tactical tool, it speaks toward the market's risk and reward proposition. At the extreme, it portends lower future returns with higher drawdown risk.

Exhibit 4: High Valuations, Higher Risk
Price to Forward 12 Month Earnings



Augustine Global Equity remains focused on quality companies that trade at attractive relative valuations with the portfolio diversified across regions and industries. We have conviction that the combination of quality and value central to our investment philosophy will produce attractive risk-adjusted long-term returns. Core holdings in technology such as Microsoft and Taiwan Semiconductor are artificial intelligence beneficiaries while trading at more attractive valuations compared with other AI-related stocks. Holdings in US and Japanese banks are potential beneficiaries of normalizing yield curves and improved corporate governance. Meanwhile, holdings across several healthcare companies in the US, Europe and Asia bring exposure to innovation and high returns on capital at low valuations while being defensive should the economic cycle surprise on the downside. The portfolio's discount valuation with premium capital efficiency should provide a relatively stable return path should the market's valuation comes under pressure.

Augustine Core Plus Fixed Income continues to be overweight carefully vetted credit exposure while being underweight interest rate risk, though we moderated exposure to corporate bonds during the last quarter. Credit spreads are at the 2nd percentile over the last 20 years in an environment of heightened headwinds to growth. Credit rating agencies, meanwhile, are beginning to reflect potential for higher realized credit risk with the upgrade-to-downgrade ratio falling below one in the second quarter for the first time in several years.

Exhibit 5: Credit Spreads are Tight
US Corporate Yield over Treasuries by Rating Bands %

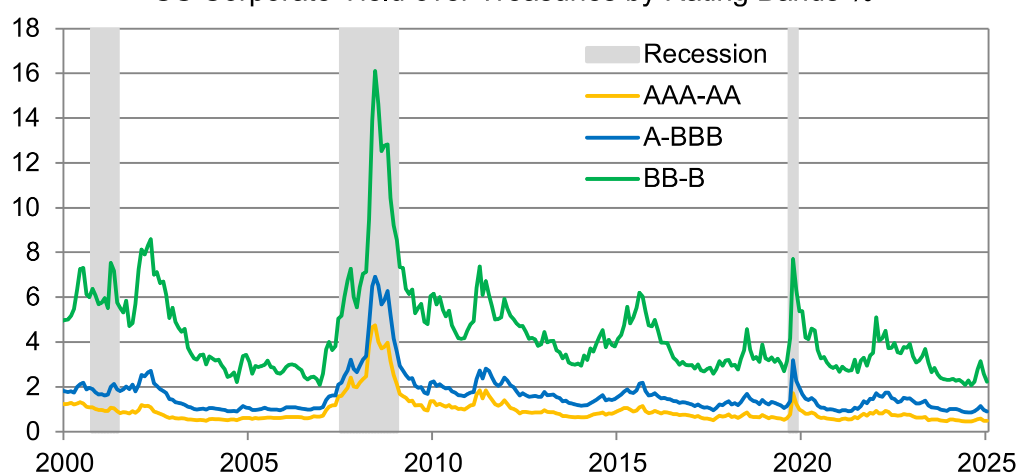
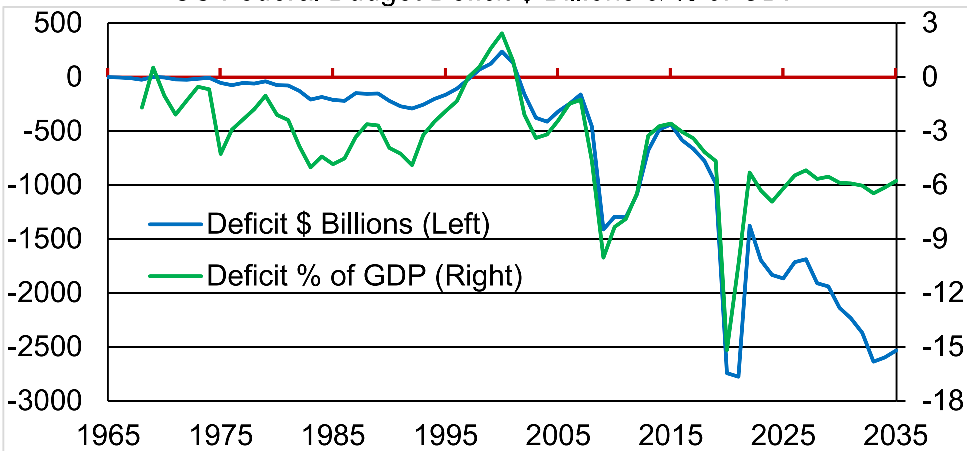


Exhibit 6: Escalating Government Debt
US Federal Budget Deficit $ Billions & % of GDP



Our expectation for higher long-term interest rates remains, based on deglobalization and fiscal dominance discussed in prior letters. Global bond markets are starting to reflect the fiscal dynamics. While the US yield curve benefits from having the global reserve currency, we wonder how long markets will give it a pass. Fiscal policy that is forecasted to run structurally high deficits previously been seen only in emergencies will eventually weigh on long-term yields. Investments that are attentive to value, whether in stocks or bonds, should see favorable relative performance and realized risk as that process unfolds.

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.

A Team Announcement

We are pleased to announce that Scott T. Allan has joined the Augustine team as an investment operations analyst. Scott comes with experience as a portfolio analyst and trader at Torray Investment Partners and a senior operations associate at Cambridge Associates. Welcome Scott!

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   Scott T. Allan   Anna K. Zullo

Sources:

Illustration:	Microsoft Copilot Create.
Exhibit 1:	US International Trade Commission, Yale Budget Lab.
Exhibit 2:	Bloomberg.
Exhibit 3:	MSCI, Bloomberg.
Exhibit 4:	MSCI, S&P Global.
Exhibit 5:	ICE Indices.
Exhibit 6:	US Treasury, Congressional Budget Office.