



## The Price of Uncertainty

### MARKET SUMMARY

#### Equities

MSCI AC World	979
Price / Earnings	17.5x
Dividend Yield	1.9%
S&P 500	6,529
Price / Earnings	20.2x
Dividend Yield	1.3%

#### US Interest Rates

2 Year Treasury	3.8%
10 Year Treasury	4.3%
30 Year Treasury	4.9%
Bloomberg US Agg.	4.6%

#### US Corporate Spreads

Investment Grade	0.9%
High Yield	3.2%

#### Equity Volatility

CBOE SPX Volatility	25.3
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#### US Economic Figures

GDP Growth 4Q25	0.5%
Unemployment	4.3%
Inflation (core)	2.6%
Fed Funds Rate (mid)	3.6%
3 Month SOFR	3.7%

#### Commodities

Oil (Brent)	\$102
Natural Gas	\$2.88
Copper (\$/lb.)	\$5.61
Gold (\$/oz.)	\$4,667

#### Foreign Exchange

Euro	\$/€	1.16
Japanese Yen	¥/\$	159
Chinese Yuan	元/\$	6.89

Market summary data as of:  
March 31, 2026



*In the short run, the market is a voting machine, but in the long run it is a weighing machine.*

Benjamin Graham, *The Intelligent Investor*

Benjamin Graham, considered by many to be the father of value investing, observed financial market behavior in the short and long terms. Short term, securities prices are influenced by a host of changing factors such as sentiment, fund flows, and liquidity in financial markets. Long term, future cash flows and the rate at which that cash is discounted to today's value matter much more -- the fundamental weight of cash flows versus the popular vote of investor sentiment.

As long-term investors, we focus on weighing securities values in relation to the current prices on which market participants vote. While assessing the outlook for future cash flows is critical, an appreciation of the discount rate of interest and how it could change is of similar importance.

We wrote on this subject a few years ago in our letter *The Value of Time*. Long-term rates were rising from historic lows as inflation rose and as the suppressing effect of central bank bond purchases fell. We argued that an era of higher long-term rates, set by price sensitive market participants rather than the central bank's heavy hand on the scale, would reduce the amount investors would be willing to pay for future cash flows. Since then, we have noted diminished commitments to low inflation, persistently high fiscal deficits, and protectionist trade policies increasing the challenge. We add to the discussion today geopolitical risk as another factor which, in theory, affects the discounting of future cash flows and weighs on fundamental prices of securities.

The world has gotten hotter in recent years. We do not mean climate (though it has, in that regard), but geopolitical conflict. The Russian invasion of Ukraine, China's aggressions in the South China Sea, Iran/Hamas' attack on Israel, and the Israeli response represent a decades high level of military action. The US war on Iran adds further to the riskier state of the world.

The International Monetary Fund's latest Global Financial Stability Report describes the current state: "Global financial stability risks are elevated. The global financial system is confronting the ongoing war in the Middle East, potential inflationary pressures, rising risks of further tightening in financial conditions, and several channels through which market turmoil could escalate into financial instability."

Studies on geopolitical risk and financial markets reveal impacts that vary by time frame.<sup>1 2</sup> Outbreaks in conflict and tensions initially drive down long-term yields as investors flee riskier assets for the safer havens of government bonds. However, in the long run, the literature finds that investors require extra yield in sustained periods of higher geopolitical risk as compensation for uncertain and slower economic conditions, fiscal stress, and even disaster risks related to war. After the initial shocks when the market voting machine sends yields lower, the longer-term weighing machine requires higher rates.

Higher inflation, fiscal, and geopolitical risk premia mean the fundamental values of financial assets face higher hurdle rates compared with those of prior decades of lower inflation, lower government deficits and debt, and freer trade under a credible American security umbrella. The regime shift toward a higher and historically normal term premium does not mean a bear market in financial assets is at hand. Rather, we believe that investors will be served well in the long run by selectivity that favors quality and value. In an environment of higher uncertainty, successful investments will need to pass greater scrutiny regarding reliability of future cash flows, financial strength, and valuation -- all central tenets of Augustine's investment philosophy and process.

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### *Augustine Global Equity*

Global stock markets fell during 1Q 2026, with the MSCI All Country World Index returning -3.2%. The US led declines with relative outperformance by Latin America, Asia, and Europe. A strong start to the quarter, based on expectations for accelerating global growth and continued technology-centered capital spending gave way to economic concerns from the US attack on Iran.

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<sup>1</sup> Naji Jalkh & Elie Bouri. "Global Geopolitical Risk and the Long- and Short-Run Impacts on the Returns and Volatilities of US Treasuries," *Defense and Peace Economics*, Taylor & Francis Journals, vol. 35(3), pages 339-366, April 2024.

<sup>2</sup> Andrei S. Goncalves, Alessandro Melone, & Andrea Ricciardi. "The Pricing of Geopolitical Tensions over a Century", The Ohio State University Fisher College of Business Working Paper No. 2025-03-010. April 2025, revised April 2026.

Augustine Global Equity performed well during the quarter, producing a gain that outperformed the negative index return. Security selection generated most of the excess return, with sector exposure in energy and regional exposure in Asia adding to performance. Positive contributions from Asian and European technology, European energy, Japanese industrial and financial, and US healthcare stocks more than offset negative contributions from US technology, European industrial, and US financial stocks.

Changes to the portfolio during the quarter included a reduction in Taiwan Semiconductor Manufacturing. We retain a favorable view of the company's quality and future cash flows and the stock's valuation. However, we reduced exposure after strong appreciation resulted in a weight in the portfolio above our risk control limit. Economic concerns related to the Iran war created opportunities to increase exposure to Australian materials company BHP Group and German industrial company Siemens. Both exhibit strong quality characteristics and expected cash flows. Market volatility during the quarter presented attractive valuations to increase the positions.

We are optimistic that the portfolio's composition, favoring securities of high-quality companies that trade at lower valuations compared with peers, is well positioned to generate attractive risk-adjusted returns.

### *Augustine Fixed Income*

The first quarter of 2026 delivered a mixed environment for fixed income markets. Early in the quarter, US bond markets climbed modestly amid continued economic growth and easing, but still-elevated, inflation. The Federal Reserve, having cut rates in 2025, maintained the Federal Funds rate at 3.50%–3.75%. However, a late-quarter surge in oil prices tied to geopolitical tensions reignited inflation concerns. Treasury yields jumped, particularly at shorter maturities, as investors reassessed the path of Fed policy. By quarter end, the 10-year US Treasury yield had drifted higher, and the yield curve flattened modestly as short term rates climbed. Despite this volatility, credit markets remained resilient. Corporate bond spreads widened only slightly from historically tight levels, reflecting solid corporate fundamentals and supportive economic growth. The Bloomberg US Aggregate Index returned 0.0% for the quarter, with early gains from carry and declining yields offset by late-quarter price declines.

Augustine Core Plus Fixed Income delivered a return similar to the Bloomberg US Aggregate Bond Index. While the portfolio underweight of duration helped in a period of rising rates, yield curve positioning was a modest headwind, as rate increases were concentrated in intermediate maturities where the portfolio maintained a meaningful overweight. Our underweight to agency mortgage-backed securities detracted, as the sector was among the strongest performers during the quarter, while our overweight in investment grade corporates modestly detracted as credit spreads widened from historically tight levels. Offsetting these headwinds, security selection added value across investment grade corporate bonds, municipal bonds, and asset-backed securities. The strategy's relative performance versus its benchmark over longer-term horizons is positive.

Augustine Short Term Fixed Income modestly outperformed the ICE 1–3 Year Corporate & Government Index. Relative performance was driven primarily by yield curve positioning, as the portfolio benefited from favorable exposure across the front end of the curve. Security selection within corporate bonds also contributed positively. Returns relative to the strategy benchmark remain positive over longer-term horizons.

We see continued opportunities in high quality fixed income while maintaining a disciplined, risk aware approach. Current yields offer attractive carry, though macroeconomic uncertainty remains elevated. We favor shorter duration, diversified income sources, and high-quality exposures across government

and select credit sectors to remain resilient across market conditions. Meanwhile, we are prepared to act opportunistically should volatility return and valuations become more attractive. In this environment, we believe active management and disciplined risk control remain essential.

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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.

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



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