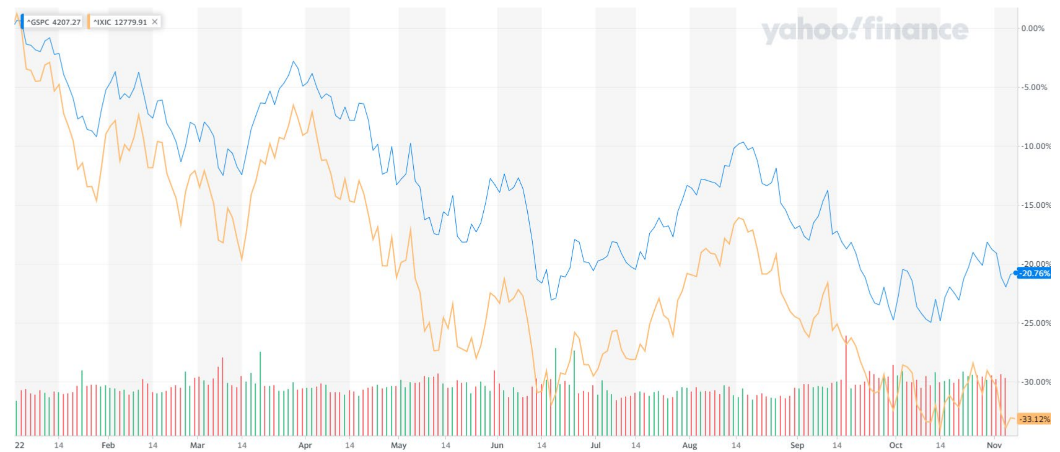
Quarterly Chartbook
3Q2022

Part of our jobs, arguably the biggest part of our jobs, is sifting through news, investment ideas and portfolio commentary for the most salient pieces of information. We spend a big part of our investment meetings reviewing what each of us find and discuss the relevance to decision-making.

One report that is always interesting to review is the "Mind the Gap" study by Morningstar. It is an annual study that analyzes dollar-weighted returns (also known as investor returns). Most returns are time-weighted, which means they assume an investment was made at the beginning of a period and held throughout the time frame noted. Dollar-weighted returns take into consideration the timing of cash flows. Essentially, the returns give a greater weight to periods when investors have more money invested. On average, their study through 2021 (reviewing 10-year periods) has shown that investors (due to market timing represented by cash flows) experience returns about 1.7% lower per year than returns would have been if held the entire 10-year period. That is a consistent, meaningful gap that highlights the negative impact of emotional trading. This year the gap has potentially gotten much worse.

Another study, quoted in a recent Financial Times article, personal portfolios in the U.S. fell -44% between early January and October 18th this year. A couple quick items of note about the numbers. First, the study used data compiled by JP Morgan Chase, so likely a different methodology than Morningstar, although the premise is very similar. Second, as of that date, the S&P 500® index was down -22% and the NASDAQ was down -32%. What accounts for that huge gap relative to both major indices? We believe three factors are critical to the gap – timing, chasing and bad data.

First, on the point of timing, as the chart to the right shows, the "market" as defined by either Index seemingly bottomed, recovered briefly, and then took a leg lower each time. Investors that sold out of worry only to repurchase at an apparent recovery (assuming the downturn was over) would have magnified the negative return through poorly timed transaction activity. (And there have been about five windows to make that mistake.) The blue line in the chart is the S&P 500® and the orange line is the NASDAQ.



Second, even if investors had held for the full period this year, and not poorly timed the market, the gap could have been driven by return chasing. Return chasing is simply looking at the best performers from a prior period, not wanting to miss out on the trend, and assuming the trend will continue. Investors that followed that path would have likely owned growth stocks, or at least had a bias toward them, coming into 2022. Growth stocks, as represented by the Russell 1000® Growth index, averaged a return of more than 34% per year over the prior three years (2019-2021). This year, growth stocks are down about -8% more than the average stock (as represented by the Russell 1000® index) – another big gap.

The final likely source of the huge gap was a reliance on bad data. This is somewhat of an overlap with timing and chasing, but it is essentially a catch all for a lack of research behind investment decisions. For example, one of the greatest research mistakes we see is a reliance on 52-week lows as a basis for a purchase decision. The theory is that if an investment is at recent lows, it is probably inexpensive and a good investment. Buy low, right? Maybe, but that cannot be the only reason for buying something. We like 52-week lows as a screening consideration because it might unearth an interesting investment idea, but without a fundamental understanding of factors such as earnings, comparables, the economy, etc. it can become a slippery slope. For example, Zoom Video Communications (ZM) was an investment darling during Covid. It peaked at a price of $559 per share in October 2020. One year later in October 2021 it was at $266 per share. Right now, it is at about $79 per share. Chasing 52-week lows would have been extremely painful. Based on recent earnings, the stock is now trading at about 25X earnings. Cheap? Less expensive and back into a reasonable range, but even after that huge fall, it still might not be cheap. Importantly, relying on that one data point would have created a massive return gap for an investor that did.

Our portfolios always reflect diligent research, a long-term view and a forward-looking mindset. We know our portfolios will not be immune to the elements, but we believe that over time the discipline of what we are trying to do should improve the odds of success for clients and help them avoid the pitfalls that drive wide return gaps.

We hope you find the content contained here useful. Please let us know if you have any questions.

Table of Contents

Market Performance
Economic Growth
Inflation
Fed Tightening
Yields and Spreads
Bond Positioning
Earnings
U.S Valuations
Free Cash Flow
U.S. Style
Non-U.S. Valuations
Bear Markets
A Light at the End of the Tunnel

Market Performance

Annualized % Returns (As of 10/31/2022)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	-14.61	10.22	10.44	12.79
Russell 1000 Index	Mid/Large Cap Stocks	-16.38	9.99	10.19	12.66
Russell 1000 Growth Index	Growth Stocks	-24.60	11.75	12.59	14.69
Russell 1000 Value Index	Value Stocks	-7.00	7.31	7.21	10.30
Russell 2000 Index	Small Cap Stocks	-18.54	7.05	5.56	9.93
MSCI EAFE Index	Non-U.S. Developed Market Stocks	-23.00	-1.27	-0.09	4.13
MSCI Emerging Markets Index	Emerging Markets Stocks	-31.03	-4.42	-3.09	0.79
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	-27.75	0.12	-0.29	4.77
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	-16.32	-2.56	0.60	3.33
Barclays Municipal Bond Index	U.S. Municipal Bonds	-11.98	-2.18	0.37	1.68
Barclays Aggregate Bond Index	U.S. Bonds	-15.68	-3.77	-0.54	0.74
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	-10.03	-1.91	0.30	0.94
BofAML U.S. Treasury Master Index	Treasury Bonds	-14.52	-3.74	-0.55	0.39
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	-15.10	-4.25	-1.17	0.39
BofAML U.S. Corporate Master Index	Corporate Bonds	-19.30	-4.06	-0.24	1.53
BofAML U.S. High Yield Master II Index	High Yield Bonds	-11.45	0.15	1.88	4.06
BofAML Euro Broad Market Index	European Bonds	-28.32	-9.49	-5.27	-1.74
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	-17.66	-6.17	-1.59	-1.15

Calendar Year % Returns (3 Month and YTD as of 10/31/2022)

	3 Month	YTD	2021	2020	2019	2018	2017
S&P 500 Index	-5.86	-17.70	28.71	18.40	31.49	-4.38	21.83
Russell 1000 Index	-5.74	-18.54	26.45	20.96	31.43	-4.78	21.69
Russell 1000 Growth Index	-8.90	-26.61	27.60	38.49	36.39	-1.51	30.21
Russell 1000 Value Index	-2.41	-9.32	25.16	2.80	26.54	-8.27	13.66
Russell 2000 Index	-1.68	-16.86	14.82	19.96	25.52	-11.01	14.65
MSCI EAFE Index	-9.02	-23.17	11.26	7.82	22.01	-13.79	25.03
MSCI Emerging Markets Index	-14.11	-29.42	-2.54	18.31	18.44	-14.58	37.28
MSCI ACWI Ex USA Small Cap Index	-10.56	-27.08	12.93	14.24	22.42	-18.20	31.65
BofAML Preferred Stock Fixed Rate Index	-8.53	-16.44	2.24	6.95	17.71	-4.34	10.58
Barclays Municipal Bond Index	-6.73	-12.86	1.52	5.21	7.54	1.28	5.45
Barclays Aggregate Bond Index	-8.23	-15.72	-1.54	7.51	8.72	0.01	3.54
Barclays Intermediate U.S. Gov/Credit Index	-5.04	-10.02	-1.44	6.43	6.80	0.88	2.14
BofAML U.S. Treasury Master Index	-7.70	-14.79	-2.38	8.22	6.99	0.80	2.43
BofAML U.S. Mortgage Backed Securities Index	-9.61	-14.91	-1.21	4.09	6.51	1.00	2.45
BofAML U.S. Corporate Master Index	-8.86	-19.24	-0.95	9.81	14.23	-2.25	6.48
BofAML U.S. High Yield Master II Index	-3.64	-12.18	5.35	6.07	14.41	-2.27	7.48
BofAML Euro Broad Market Index	-11.11	-27.09	-9.66	13.35	4.11	-4.39	14.61
BofAML Local Debt Market Plus Index	-5.81	-17.35	-6.53	4.50	16.44	-4.90	14.71

Source: Morningstar Direct

Fixed Income – Economic Growth

Annual Growth (%)

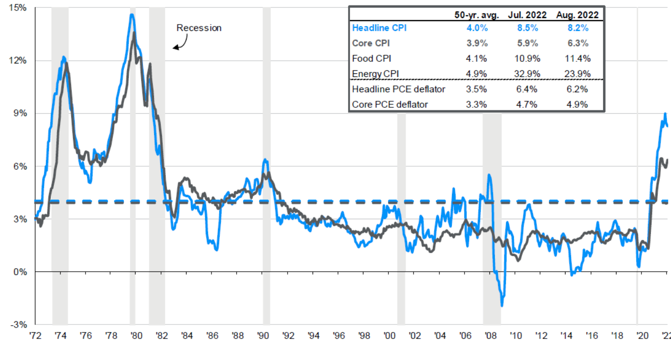
	2016	2017	2018	2019	2020	2021-Estimate		2022-Forecast[1]		2023-Forecast[1]		Pre-COVID 10 Year Average[2]
	Actual	Actual	Actual	Actual	Actual	Bloomberg Survey	PGIM Fixed Income	Bloomberg Survey	PGIM Fixed Income	Bloomberg Survey	PGIM Fixed Income	Actual
Global	3.1	3.8	3.7	2.9	-3.0	6.2	6.2	3.1	3.1	2.6	2.5	3.7
U.S.	1.7	2.3	2.9	2.3	-3.4	5.7	5.7	1.6	1.8	0.9	1.5	2.3
Euro Area	1.9	2.6	1.8	1.6	-6.4	5.2	5.2	2.9	3.2	0.3	-1.4	1.4
Japan	0.7	1.7	0.6	-0.2	-4.5	1.7	1.7	1.6	1.6	1.5	1.8	1.2
United Kingdom	2.3	2.1	1.7	1.7	-9.3	7.2	7.5	3.5	3.5	-0.2	-0.1	2.0
China	7.7	6.9	6.7	6.0	2.2	8.1	8.1	3.4	3.0	5.1	5.7	7.5

Source: PGIM Fixed Income, Bloomberg

The primary functions of the U.S. Federal Reserve (Fed) are to ensure price stability and full employment. Because inflation is running "hot," the Fed has almost no choice but to tighten policy aggressively. Unfortunately, because inflation is a lagging indicator, we are only likely to see the impact of monetary policy after delays that are famously "long and variable."

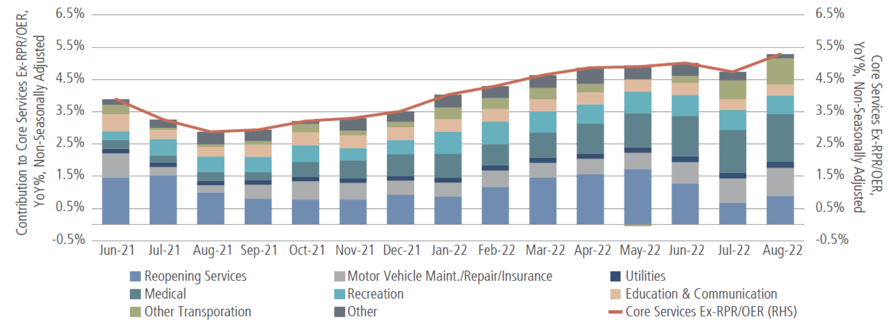
This interaction increases the likelihood of the Fed tightening too much and generating a recession, which now seems like the base case being priced into markets.

Despite the market signaling a recession in 2023, recent surveys indicate economists are still projecting positive, but slower growth for the full year.



	50-yr. avg.	Jul. 2022	Aug. 2022
Headline CPI	4.0%	8.5%	8.2%
Core CPI	3.9%	5.9%	6.3%
Food CPI	4.1%	10.9%	11.4%
Energy CPI	4.9%	32.9%	23.9%
Headline PCE deflator	3.5%	6.4%	6.2%
Core PCE deflator	3.3%	4.7%	4.9%

Source: JPMorgan



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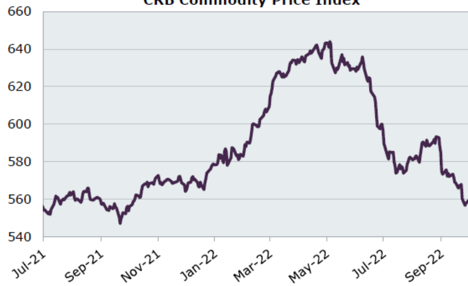
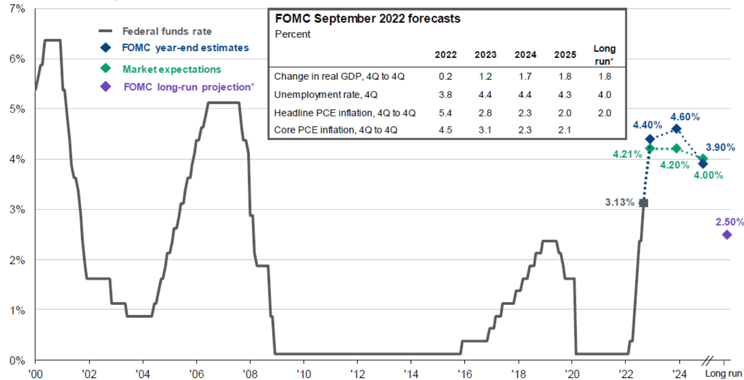


Source: Baird

U.S. inflation surprised to the upside in the September report. Although headline CPI eased from 8.5% the previous month to 8.3%, core inflation moved up to 6.3%.

If we take a closer look at inflation trends, we find that goods prices have softened, as supply chains have improved. Commodity prices have also come down as demand has cooled in certain areas. We expect further deceleration in goods pricing from here. Unfortunately, core services inflation has accelerated on the back of rising shelter prices, which are likely to stay elevated. Shelter inflation, as calculated in the official statistics, typically lags housing prices and rents by 12 months. As a result, we may not see a deceleration in this “stickier” component of CPI for another 6-9 months.

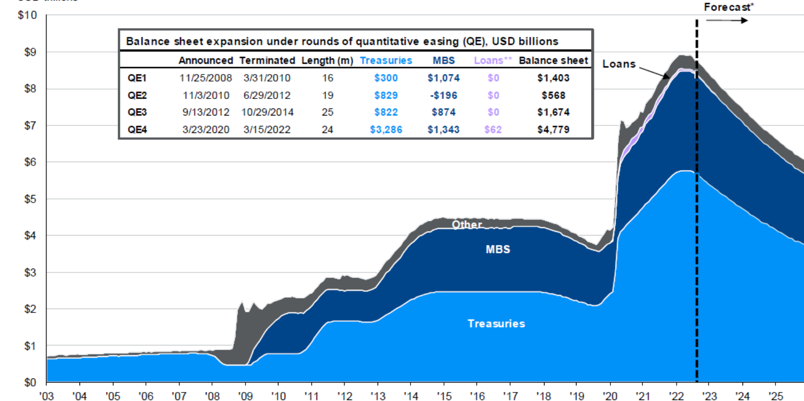
Fixed Income – Fed Tightening



FOMC September 2022 forecasts
Percent

	2022	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.2	1.2	1.7	1.8	1.8
Unemployment rate, 4Q	3.8	4.4	4.4	4.3	4.0
Headline PCE inflation, 4Q to 4Q	5.4	2.8	2.3	2.0	2.0
Core PCE inflation, 4Q to 4Q	4.5	3.1	2.3	2.1	

Source: JPMorgan



Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	$300	$1,074	$0	$1,403
QE2	11/3/2010	6/29/2012	19	$829	-$196	$0	$568
QE3	9/13/2012	10/29/2014	25	$822	$874	$0	$1,674
QE4	3/23/2020	3/15/2022	24	$3,286	$1,343	$62	$4,779

Source: TCW

Expectations for further Fed tightening have increased because of persistently high inflation and a strong labor market.

Prior to the September inflation release, the market was projecting the terminal Fed funds rate to peak around 4.25%-4.50%. After the release came in higher than expected, the market increased its projection to 4.5%-5.0%.

With that end point in mind, it is expected the Fed will hike policy rates by 0.75% in November (confirmed), 0.75% in December, and 0.25% in February 2023.

In addition to rate increases, the Fed has implemented a multi-year plan to reduce the size of its balance sheet by $50-$95 billion per month (quantitative tightening).

Fixed Income – Yields & Spreads

U.S. Treasury bond yields reached a new 2022 high in September, which capped another tough quarter for bonds. Treasury yields generally rose across all maturities in September, while quarterly increases were largest among short maturity bonds. For example, the yield on a 2-year Treasury bond increased +1.32% increase compared to a +0.82% increase for the 10-year Treasury bond.

Credit spreads also continued to increase during the quarter. Mortgage-backed securities and investment grade corporate bonds led the way by increasing +0.21% and +0.04%, respectively.

What's next for fixed income? History would suggest a brighter future given that yield is a big component of fixed income returns over time. Below is a scenario analysis run by one of our widely-held fixed income managers (Baird Asset Management).

Baird projects its portfolios will return between -0.72% and 5.20%, given another 1.00% increase in rates. The returns are dependent on the duration of the portfolio. Portfolios with longer durations are more sensitive to rates. Longer duration portfolios will increase in price more when rates go down and decrease in price more when rates go up.

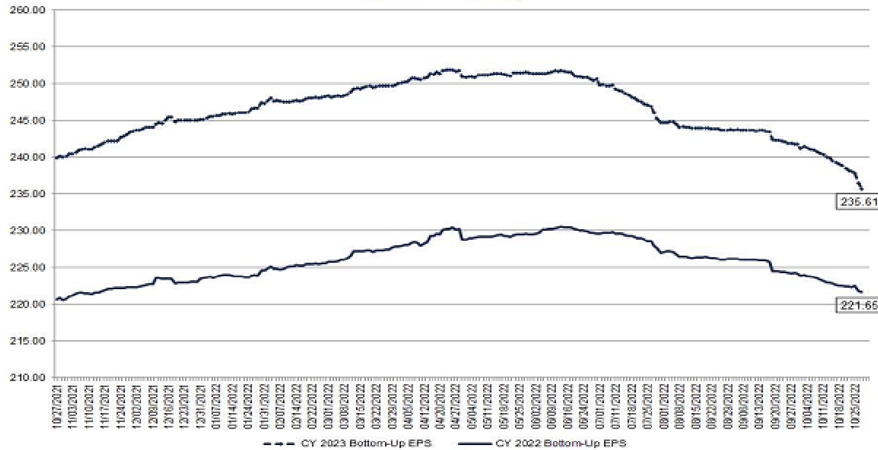
			Expected 12 Month Gross Returns				
Portfolio	9/30/22 Duration	9/30/22 Yield to Worst	Rates rise 100 bps	Rates rise 50 bps	Rates Unchanged	Rates fall 50 bps	Rates fall 100 bps
Ultra Short	0.54 years	4.76%	5.20%	5.24%	5.29%	5.33%	5.38%
Short-Term	1.89 years	5.18%	3.57%	4.46%	5.36%	6.27%	7.19%
Intermediate	3.86 years	5.00%	1.20%	3.04%	4.93%	6.87%	8.87%
Aggregate	6.20 years	5.20%	-0.72%	2.15%	5.17%	8.34%	11.66%
Core Plus	5.99 years	5.51%	-0.18%	2.58%	5.50%	8.56%	11.77%
10 Year Treasury Yield		3.84%	4.84%	4.34%	3.84%	3.34%	2.84%

Source: Baird

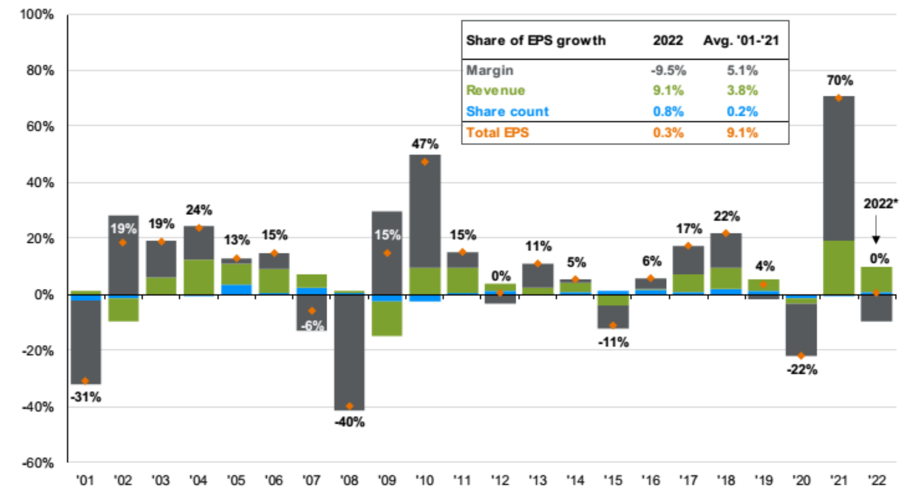
Fixed Income - Positioning

Characteristic	Positioning Notes Compared to Client Benchmarks
Interest Rate Risk	Client portfolios are positioned to have less interest rate risk than comparable benchmarks. We have a bias to add duration, but are being patient, as inflationary pressures remain stubborn.
Yield Curve	Portfolios are slightly overweight short maturity bonds. With an inverted yield curve, short-term bonds now offer higher coupons than longer-term bonds.
Governments	We maintain a modest underweight to U.S. Treasuries. Spread sectors offer higher yields which help mitigate inflationary pressures but may experience spread widening in a risk averse market environment. As a result, we maintain moderate exposure to Treasury bonds.
Securitized Assets	We continue to generate the bulk of our yield advantage from our overweight to securitized assets, which offer higher yield per unit of risk than other sectors.
Investment Grade Credit	We recently moved to a neutral position in investment grade corporate bonds. We will look to add more if spreads become even more attractive.
High Yield & Bank Loans	Small allocation. We rely on mutual fund managers to emphasize defensive credits and unique opportunities.
International	Small allocation. Negative rates in many non-U.S. developed countries make them uninvestable. Select emerging markets opportunities offer good relative value.
Municipals	We continue to be constructive on municipals in tax-aware portfolios given strong fundamentals. We have a bias to increase municipal exposure where appropriate given client account taxability.

Equity – Earnings



Source: FactSet Earnings Insight – October 28, 2022



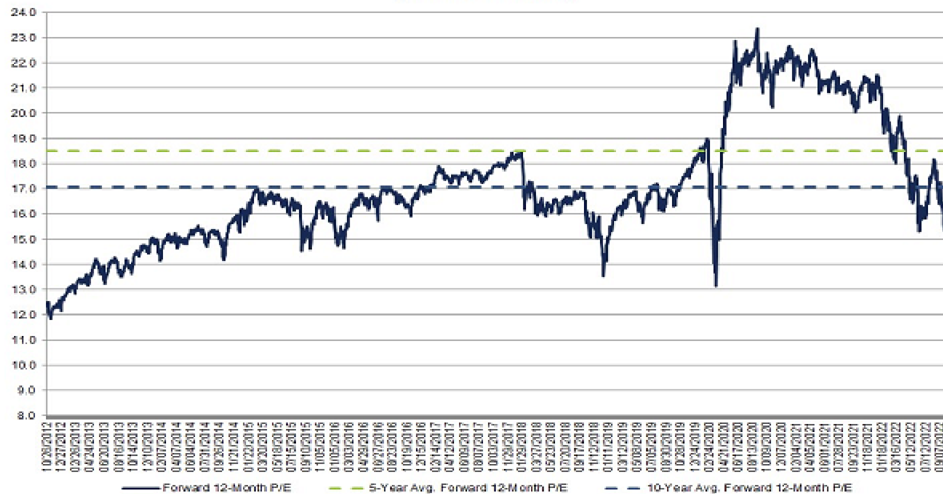
Source: JP Morgan Asset Management – Guide to the Markets 4Q 2022

Analyst estimates have declined for calendar year 2022 and 2023. However, earnings growth expectations remain quite optimistic (positive mid-single digit growth for calendar year 2022 and 2023).

- In the past four recessions dating back to 1990, the average decline in S&P 500® earnings estimates was -22%.
- So far in 2022, a decline in year-over-year earnings growth (EPS growth – upper right) has primarily been the result of margin compression. Despite the decline in margins, revenues have remained elevated as many companies have been able to pass on higher costs to costumers.
- If inflation remains "sticky," and the Fed continues its aggressive path of interest rate hikes, this may result in weakening demand (revenues) and a deterioration in earnings estimates.

We remain less optimistic than the market (analyst estimates) regarding earnings growth for this year and next, which is reflected in our current portfolio positioning.

Equity – U.S. Valuations



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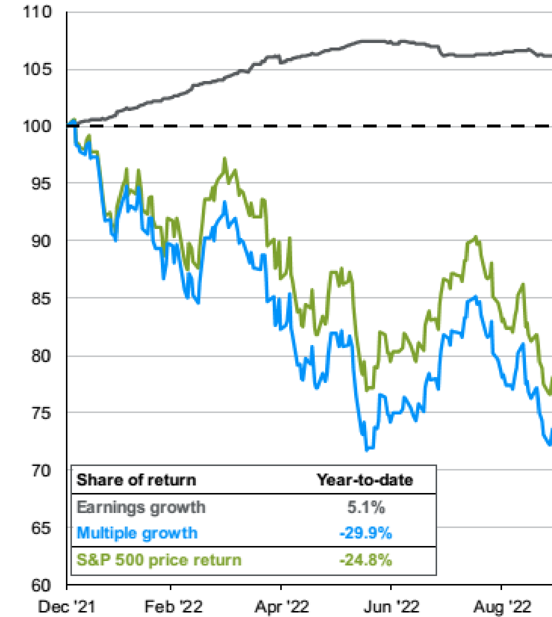


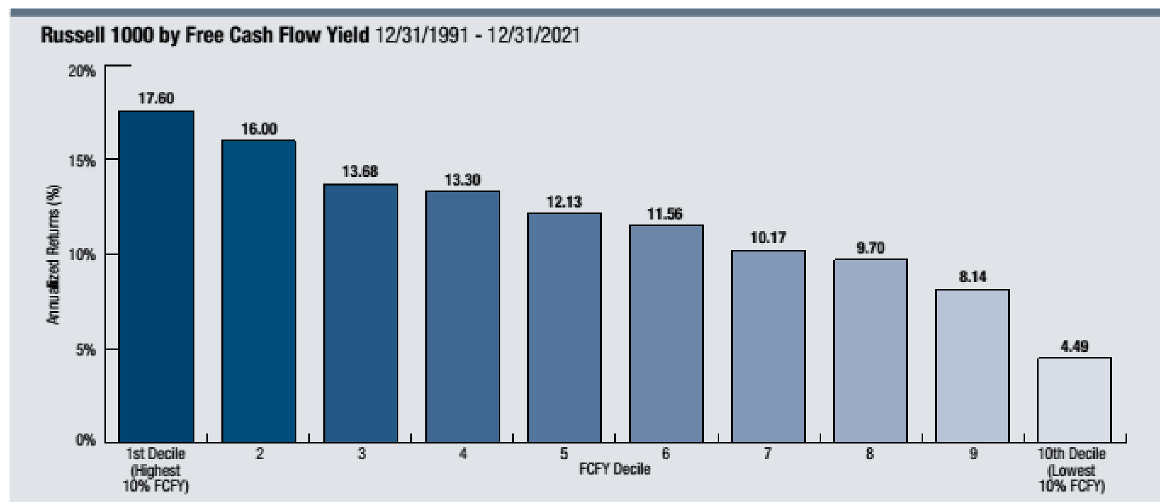
Source: JP Morgan Asset Management – Guide to the Markets 4Q 2022

The S&P 500® forward P/E (price-to-earnings) ratio has declined as a result of the sharp decline in U.S. stocks this year.

- The decline in stock prices has resulted in equities being more attractively priced (based on the S&P 500® forward P/E ratio). The S&P 500® forward P/E ratio is now below its 5-year and 10-year averages (top left).
- The improvement in the S&P 500® forward P/E has primarily been a function of a decline in prices (the "P" in the P/E ratio) as earnings growth has remained positive (top right).

Our current view is that earnings may decline more than anticipated (the "E" in the P/E ratio) because of a strong U.S. dollar, a sharp uptick in interest rates and rising energy prices, among other factors. Consequently, U.S. stocks may not be as attractively priced as they currently appear. Our U.S. equity positioning remains relatively defensive in client portfolios.

Equity – Free Cash Flow



Source: FactSet. Data is composed of the Russell 1000 Index excluding financials. Each decile is composed of approximately 85 stocks (10%) based on free cash flow yield, equal weighted.

Source: Pacer – Free Cash Flow as a Proven Measurement of Quality

Free cash flow yield ("FCFY" – free cash flow divided by enterprise value) is one of our preferred measures when evaluating the quality of individual companies and combined investment portfolios.

- Free cash flow is cash that remains after a company has paid expenses, interest, taxes and long-term investments. Enterprise value is a company's market cap + debt – cash. We view free cash flow yield as an important criterion for companies because it demonstrates financial strength, ability to invest in attractive growth opportunities and the potential for rising dividend payments and share buybacks.
- Free cash flow yield has also been a relatively good predictor of long-term results (particularly over a complete market cycle – a period of both positive and negative economic and market activity), which can be seen in the bar chart above.

Given the current market and economic environments, our investment focus has been on companies with financial strength and relatively strong economic resilience.

Equity – U.S. Market Capitalization and Style

Source: GMO – Quality Time in Small Cap (October 2022)

Typical Market Leadership – High and Falling Inflation

Market Cap	Value	Blend	Growth
Large	Large Cap Value 4.7% Avg. Perf. 62.1% Hit Rate	Large Cap -3.9% Avg. Perf. 44.8% Hit Rate	Large Cap Growth -12.0% Avg. Perf. 31.0% Hit Rate
Mid	Mid Cap Value 8.5% Avg. Perf. 62.1% Hit Rate	Mid Cap -0.5% Avg. Perf. 55.2% Hit Rate	Mid Cap Growth -8.7% Avg. Perf. 44.8% Hit Rate
Small	Small Cap Value 12.0% Avg. Perf. 65.5% Hit Rate	Small Cap 4.3% Avg. Perf. 62.1% Hit Rate	Small Cap Growth -4.0% Avg. Perf. 48.3% Hit Rate

Investment Style

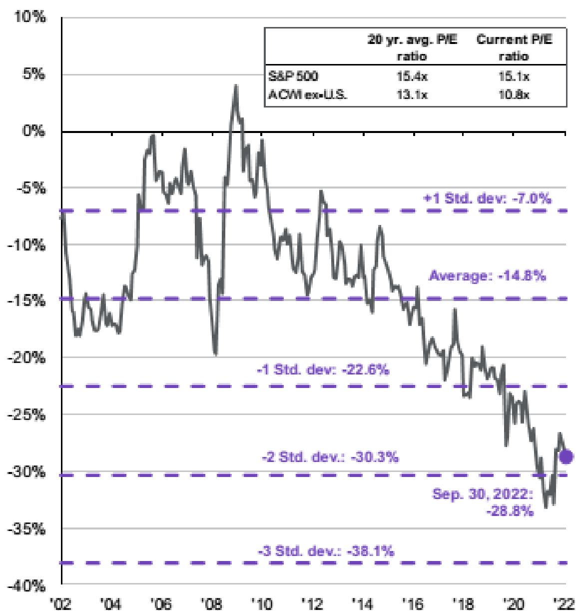
Source: ClearBridge Investments – The Anatomy of a Recession (3Q 2022)

U.S. stocks with small market capitalizations have struggled in recent periods. These types of securities (broadly) tend to perform relatively poorly compared to stocks with large market capitalizations (broadly) in down markets.

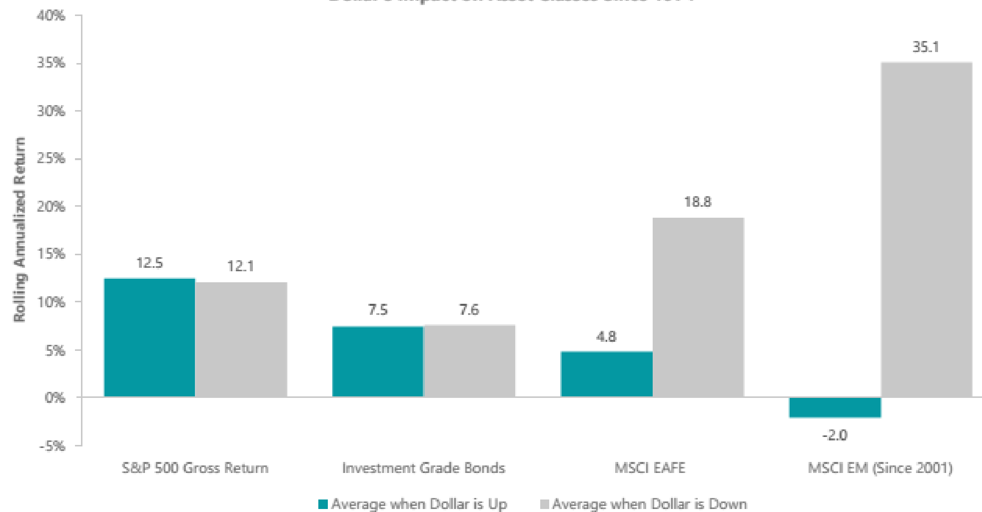
- The weak results from U.S. small-cap stocks has led them to become broadly more attractive when compared to the total market (top left).
- Given the current economic environment, not all small-cap stocks should be viewed equally. As can be seen in the table in the upper right, value-oriented securities tend to perform relatively better during periods of heightened, yet declining inflation (periods when inflation is above the long-term average and is falling).

We believe inflation will remain “sticky” (elevated levels). However, we believe it will slowly recede from peak levels as aggressive tightening measures by the Fed drives a decline in overall economic activity. We will continue to monitor economic and market data and will adjust portfolios when we believe the long-term benefit outweighs shorter-term concerns.

Equity – Non-U.S. Valuations and the U.S. Dollar



Source: JP Morgan Asset Management – Guide to the Markets 4Q 2022



Source: ClearBridge Investments – The Anatomy of a Recession (3Q 2022)

Foreign equity markets have been relatively weak this year, in part because of a significantly stronger U.S. dollar (35-year high).

- Weak results have led foreign equities (The MSCI AC World ex U.S. Index includes developed and emerging markets countries outside the U.S.) to trade at a much larger discount to U.S. equities compared to history (top left).
- The direction of the U.S. dollar plays a large role in determining returns for U.S. based investors in foreign markets (top right). Average returns for the MSCI EAFE® Index (developed foreign markets) and the MSCI Emerging Markets Index (emerging markets) have been much weaker during periods of U.S. dollar strength (and vice versa).

Based on various currency valuation metrics, the U.S. dollar appears to be overvalued relative to many foreign currencies. While the U.S. dollar may remain elevated, and strengthen further, over the short run (viewed as a "safe haven" currency during market dislocations), we believe the long-term path (3-5 years+) for the dollar will be lower. The potential for a weaker U.S. dollar in tandem with relatively attractive valuations, may portend to attractive returns for foreign equity markets over the long-term.

Equity – Bear Markets and Bear Market Rallies

Bull and bear markets

Bull markets			Bear markets		
Bull begin date	Bull return	Duration (months)	Market peak	Bear return*	Duration (months)*
Jul 1926	152%	37	Sep 1929	-86%	32
Mar 1935	129%	23	Mar 1937	-60%	61
Apr 1942	158%	49	May 1946	-30%	36
Jun 1949	267%	85	Aug 1956	-22%	14
Oct 1960	39%	13	Dec 1961	-28%	6
Oct 1962	76%	39	Feb 1966	-22%	7
Oct 1966	48%	25	Nov 1968	-36%	17
May 1970	74%	31	Jan 1973	-48%	20
Mar 1978	62%	32	Nov 1980	-27%	20
Aug 1982	229%	60	Aug 1987	-34%	3
Oct 1990	417%	113	Mar 2000	-49%	30
Oct 2002	101%	60	Oct 2007	-57%	17
Mar 2009	401%	131	Feb 2020	-34%	1
Mar 2020	114%	21	Jan. 2022**	-25%	8
Averages	**162%**	**51**	**-**	**-41%**	**20**

Source: JP Morgan Asset Management – Guide to the Markets 4Q 2022

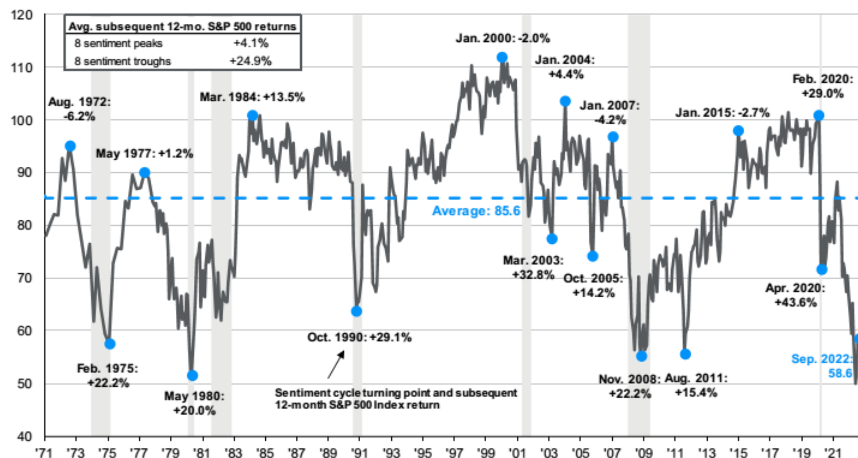
Source: Franklin Templeton – The Long View (September 30,2022)

Bear markets (defined as a decline of -20% or more) have been a regular occurrence (top left).

- In recent times, bear market recoveries and recoveries following market corrections (defined as a decline of -10%) have been swift as the Fed responded to weakness with stimulative measures. However, the current environment is different than the recent past because stimulus does not align with policy goals (combating high levels of inflation).
- In the absence of a significant policy response, we believe the market will go through "fits and starts" (similar to prior bear market periods like the global financial crisis – top right) as investors attempt to gauge the impact of rate increases on corporate earnings and the economy more broadly.

Based on our view that short term volatility will continue, we believe a cautious approach is warranted (averaging into positions).

Equity – A Light at the End of the Tunnel?



Source: JP Morgan Asset Management – Guide to the Markets 4Q 2022

Source: ClearBridge Investments – The Anatomy of a Recession (3Q 2022)

With a preponderance of negative news in financial markets, it is important for investors to remain focused on the long term.

- One contra-indicator (i.e. bad is good) centers on the Consumer Sentiment Index (top left). Historically, when the Consumer Sentiment Index has reached extreme negative levels, subsequent market returns have been quite strong. Based on the data in this chart, in the 12 months following the low in the Consumer Sentiment Index, the S&P 500 has averaged a positive return of nearly +25%.
- Considering we are in the midst of election season; we included a chart (top right) that highlights the performance of the S&P 500 Index relative to mid-term elections. Performance has varied greatly over time; however, the S&P 500 Index has registered an average return of +15% in the 12 months following mid-term elections.

Do these charts mean that positive returns will occur over the next 12 months? No. Every cycle and economic environment is unique. However, it is imperative that investors do not solely focus on the negatives. Markets have endured large losses in the past yet have always been remarkably resilient over the long-term.

We are an investment firm, founded by investors.

Bob Batchelor, CFA®, CFP® is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 23 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee. Bob has also earned the right to use the Certified Financial Planner™ certification.

Charles (C.J.) Batchelor, CFA® is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 18 years of experience in the investment industry. Prior to founding Entasis, C.J. worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Director of Investment Research. He also served as a voting member of Cleary Gull's Investment Policy Committee, Investment Committee and Equity Strategy Group.

C.J. holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. C.J. is a member of the CFA Institute and CFA Society of Milwaukee, where he currently serves on the Board of Directors.

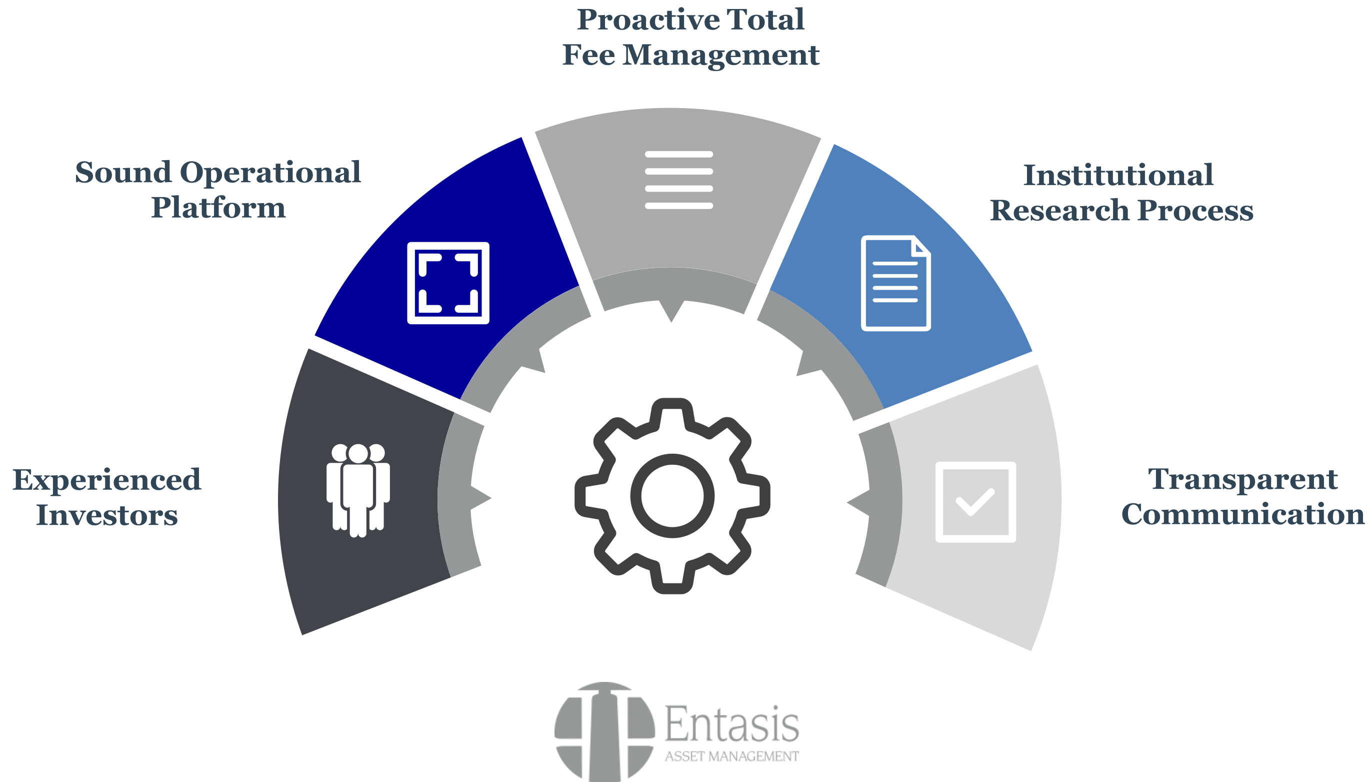
Mike Peters, CFA® is Co-Founder and Chief Investment Officer – Fixed Income of Entasis Asset Management. Mike has 18 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served as a voting member of Cleary Gull's Fixed Income Strategy Group and Complement (Alternative) Strategy Group. Before Cleary Gull, Mike worked for several years at Madison Investment Advisors, a multi-billion dollar asset management firm, as a Fixed Income Analyst.

Mike holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. Mike is a member of the CFA Institute and CFA Society of Milwaukee.

David LaCroix is a Senior Financial Advisor at Entasis Asset Management. David has more than 50 years of experience in the investment industry. Prior to joining Entasis, David worked at Cleary Gull Advisors, a Johnson Financial Group Company, and Cleary Gull Inc., a prior affiliate of Cleary Gull Advisors, where he most recently served as Vice President, Relationship Manager responsible for high net worth clients. Before Cleary Gull, David worked in a variety of portfolio management and client relationship management positions with A.G. Edwards and M&I Capital Markets Group.

David received his M.B.A. and B.B.A. in Finance from the University of Wisconsin-Madison. He has served as a member of the Archdiocese of Milwaukee Investment Committee, as a Trustee for the Village of Shorewood and as Director/Treasurer of Milwaukee Summerfest.

The Entasis Difference



Disclosure

IMPORTANT INFORMATION

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The **Dow Jones Industrial Average℠** is a price weighted index that measures the performance of thirty component large-cap U.S. stocks. The **S&P 500® Index** is a market capitalization weighted index that measures the performance of 500 leading companies in leading industries of the U.S. economy. The **Russell 1000® Index** measures the performance of roughly 1,000 U.S. large-cap companies. The **Russell 1000® Growth** Index measures the performance of U.S. large-cap companies with higher price/book ratios and forecasted growth values. The **Russell 1000® Value Index** measures the performance of U.S. large-cap companies with lower price/book ratios and forecasted growth values. The **Russell 2000® Index** measures the performance of roughly 2,000 U.S. small-cap companies. The **MSCI EAFE® Index** is a market capitalization weighted index that is designed to measure the performance of developed markets, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a market capitalization weighted index that is designed to measure equity market performance of emerging markets. **The MSCI ACWI Ex USA Small Cap Index** is a market capitalization weighted index that represents the performance of smaller capitalization companies in developed and emerging markets excluding the U.S. The **Barclays Aggregate Bond Index** tracks the performance of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities with at least one year to final maturity. The **Barclays Intermediate U.S. Gov/Credit Index** tracks the performance of intermediate U.S. government and corporate bonds. The **Barclays Municipal Bond Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. The **BoAML Fixed Rate Preferred Securities Index** tracks the performance of fixed rate U.S. dollar denominated preferred securities in the U.S. domestic market. The **BoAML Treasury Master Index** tracks the performance of the direct sovereign debt of the U.S. Government. The **BoAML U.S. Mortgage Back Securities Index** tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. market. The **BoAML U.S. Corporate Master Index** tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The **BoAML High Yield Master II Index** is a broad based index consisting of all U.S. dollar-denominated high-yield bonds with a minimum outstanding of $100 million and maturing over one year. The **BoAML All Convertibles All Qualities Index** measures convertible securities' performance of U.S. dollar denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance. The **BoAML Euro Broad Market Index** gives exposure to euro-denominated investment grade debt publicly issued in the Eurobond or euro member domestic markets including government, quasi-government, corporate, securitized and collateralized securities. The **BoAML Local Debt Markets Plus Index** is a broad composite designed to track the performance of local currency sovereign debt of emerging markets countries. Past performance is no guarantee of future results. All indices are unmanaged. Investors cannot invest directly in an index. Index returns do not include expenses.

Investment Terms

Valuation levels are typically shown by calculating the price level of an index or a company relative to any number of characteristics of an index or company. For instance, the price-to-earnings valuation metric looks at the price of an index (or stock) divided by the total earnings of an index (or stock). Based on the multiple (in this instance, the multiple is how much investors are willing to pay – the price – for a given amount of earnings), it provides investors with a general sense of how expensive, or cheap, the overall market is at the present time. While there are a significant number of valuation metrics that are used in practice, and many ways to vary/modify the calculation of the price-to-earnings ratio, in this summary we are focused on the price investors are willing to pay (the level of the S&P 500® Index) divided by earnings expectations for the equity market (S&P 500 Index) over the next 12 months. This valuation metric is referred to as the forward P/E. A **yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. A **basis point** is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001). **Interest coverage** is a measure of a company's ability to meet its interest payments on its debt. **Federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. It is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation.

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Contact Us

To learn more please visit us at
www.EntasisAM.com

Entasis Asset Management
300 N Corporate Drive
Suite 220
Brookfield, WI 53045
262-754-5299
Info@EntasisAM.com

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