Quarterly Chartbook
1Q2023

Summary Comments

Every quarter we ask for feedback on this chartbook communication that we put together – and we mean it. It is important to us to make sure we are communicating about what we are doing in a way that is valuable to our clients and prospective clients. We have heard from a number of people that a quick synopsis of the content in this document would be useful. We encourage everyone to read the detail, but if time does not permit, here is a quick summary. Thank you for your feedback.

- The U.S. economy grew stronger than expected in the first quarter, but issues in the banking system and additional interest rate hikes by the Fed have increased the risks of a recession.
- U.S. inflation showed signs of slowing in the first quarter. However, getting the rate of inflation down to the Fed's target of 2% is expected to take some time and employment levels will likely take a hit to get to that level.
- U.S. earnings growth is expected to finish in negative territory for 2023 on the back of lower profit margins and a decline (year-over-year) in revenue growth. In addition, valuations remain elevated compared to prior bear market bottoms.
- We believe it's important to remain cautious in this environment by seeking higher-quality, more liquid bond investments. Portfolios are positioned to out yield client benchmarks, with marginally less interest rate risk, by taking advantage of higher yields in short-to-intermediate maturity bonds.
- We think the combination of uncertainty regarding the Fed, inflation and corporate earnings all point to a relatively more defensive posture within U.S. equities. Gold has performed relatively well compared to major asset classes such as U.S. equities and U.S. Treasuries during crises in the recent past, so we believe an allocation to gold as an equity alternative continues to be a prudent source of diversification for investors. The combination of attractive valuations, underlying fundamentals and a reversal of U.S. dollar strength cause us to be more optimistic for developed foreign markets and emerging markets returns when viewed over an intermediate- to long-term investment horizon.
- Later this year, if the economic outlook reaches a point of greater clarity, accompanied by a repricing of economically sensitive bond market sectors, we will consider a more aggressive posture in the fixed income portion of client portfolios, and we have done our research and are ready to make a small-cap focused equity investment once market conditions are more favorable. Value-oriented equities, particularly small- and mid-cap value-oriented equities, have generally performed well during periods of high yet falling inflation.

Please let us know if you have any questions.

Table of Contents

Market Performance
Economic Growth
Inflation
Fed Policy
Yields and Spreads
Bond Positioning
Earnings
U.S. Valuations
U.S. Growth v. Value
U.S. Inflation
Global Valuations
Emerging Markets
Gold

Market Performance

Annualized % Returns (As of 03/31/2023)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	-7.73	18.60	11.19	12.24
Russell 1000 Index	Mid/Large Cap Stocks	-8.39	18.55	10.87	12.01
Russell 1000 Growth Index	Growth Stocks	-10.90	18.58	13.66	14.59
Russell 1000 Value Index	Value Stocks	-5.91	17.93	7.50	9.13
Russell 2000 Index	Small Cap Stocks	-11.61	17.51	4.71	8.04
MSCI EAFE Index	Non-U.S. Developed Market Stocks	-1.38	12.99	3.52	5.00
MSCI Emerging Markets Index	Emerging Markets Stocks	-10.70	7.83	-0.91	2.00
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	-10.37	15.04	1.67	5.06
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	-5.39	1.91	1.88	3.65
Barclays Municipal Bond Index	U.S. Municipal Bonds	0.26	0.35	2.03	2.38
Barclays Aggregate Bond Index	U.S. Bonds	-4.78	-2.77	0.91	1.36
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	-1.66	-1.28	1.40	1.32
BofAML U.S. Treasury Master Index	Treasury Bonds	-4.88	-4.45	0.71	0.94
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	-4.92	-3.34	0.22	1.00
BofAML U.S. Corporate Master Index	Corporate Bonds	-5.19	-0.28	1.67	2.35
BofAML U.S. High Yield Master II Index	High Yield Bonds	-3.58	5.81	3.04	4.02
BofAML Euro Broad Market Index	European Bonds	-12.79	-5.06	-4.43	-0.90
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	-3.02	1.11	-0.84	-0.50

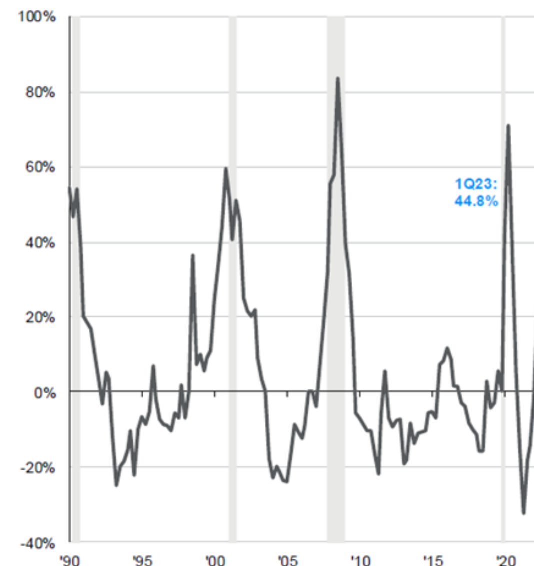
Calendar Year % Returns (3 Month as of 03/31/2023)

	3 Month	2022	2021	2020	2019	2018
S&P 500 Index	7.50	-18.11	28.71	18.40	31.49	-4.38
Russell 1000 Index	7.46	-19.13	26.45	20.96	31.43	-4.78
Russell 1000 Growth Index	14.37	-29.14	27.60	38.49	36.39	-1.51
Russell 1000 Value Index	1.01	-7.54	25.16	2.80	26.54	-8.27
Russell 2000 Index	2.74	-20.44	14.82	19.96	25.52	-11.01
MSCI EAFE Index	8.47	-14.45	11.26	7.82	22.01	-13.79
MSCI Emerging Markets Index	3.96	-20.09	-2.54	18.31	18.44	-14.58
MSCI ACWI Ex USA Small Cap Index	4.70	-19.97	12.93	14.24	22.42	-18.20
BofAML Preferred Stock Fixed Rate Index	3.34	-14.60	2.24	6.95	17.71	-4.34
Barclays Municipal Bond Index	2.78	-8.53	1.52	5.21	7.54	1.28
Barclays Aggregate Bond Index	2.96	-13.01	-1.54	7.51	8.72	0.01
Barclays Intermediate U.S. Gov/Credit Index	2.33	-8.23	-1.44	6.43	6.80	0.88
BofAML U.S. Treasury Master Index	3.08	-12.85	-2.38	8.22	6.99	0.80
BofAML U.S. Mortgage Backed Securities Index	2.46	-11.88	-1.21	4.09	6.51	1.00
BofAML U.S. Corporate Master Index	3.45	-15.44	-0.95	9.81	14.23	-2.25
BofAML U.S. High Yield Master II Index	3.72	-11.21	5.35	6.07	14.41	-2.27
BofAML Euro Broad Market Index	3.51	-22.04	-9.66	13.35	4.11	-4.39
BofAML Local Debt Market Plus Index	4.29	-11.73	-6.53	4.50	16.44	-4.90

Source: Morningstar Direct

Fixed Income – Economic Growth

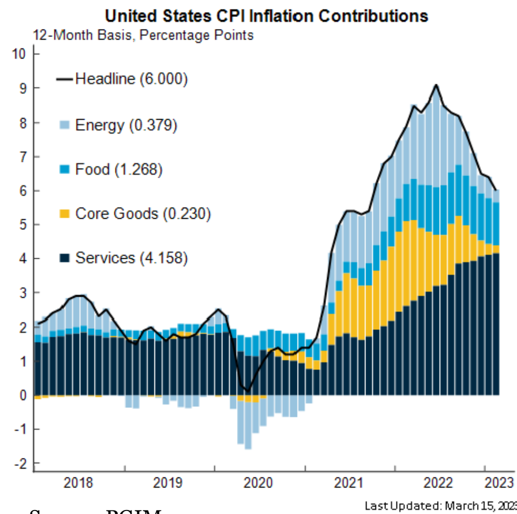
Source: Baird



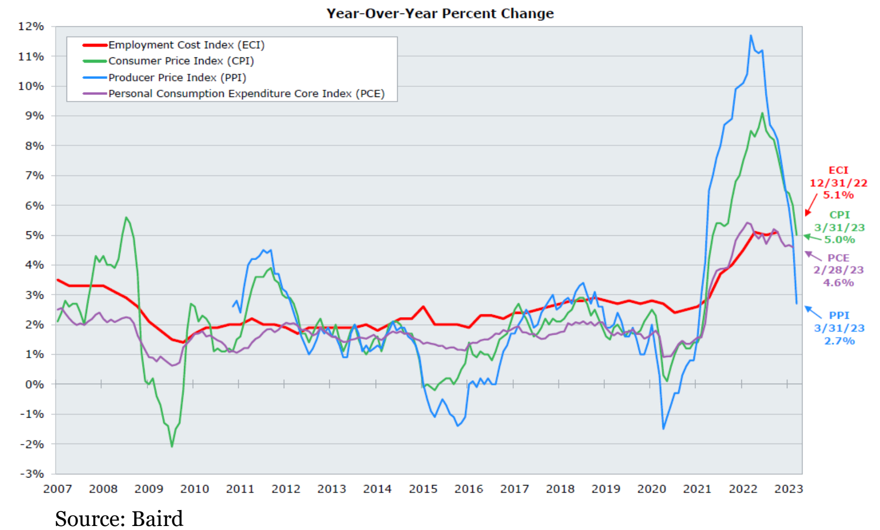
Source: Charles Schwab

- The U.S. economy was stronger than expected in the first quarter, with resilient payroll growth, low unemployment rates and a robust services sector. The Atlanta Fed GDPNow forecast predicts 2.5% growth during the second quarter.
- However, slow disinflation is a concern for the U.S. Federal Reserve (Fed), which continued its aggressive tightening campaign despite stress in the banking system. On average, the Fed generates a recession 18-24 months after it begins tightening.
- The forward-looking data continues to suggest this time will not be different. For example, the leading economic index, which has a strong predictive track record, (see chart above left) continues to print a negative number suggesting a recession is likely in the next 6-12 months.
- Ongoing issues in the banking system (stock price volatility, deposit flight, credit concerns and asset liability mismatches) could lead to further tightening of credit conditions (see chart above right). This increases the risk of an earlier and deeper recession.

Fixed Income – Inflation



Source: PGIM



Source: Baird

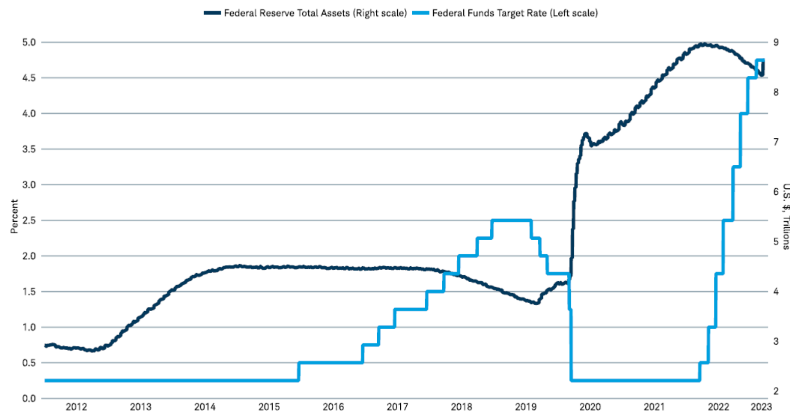
- The Consumer Price Index ("CPI") was up 5.00% year-over-year in March 2023, which demonstrates that inflation is still well above the Fed's 2% target.

- On a positive note, core goods and energy continued to rise at a slower rate, and we witnessed the first month-over-month decline in food prices since September 2020. Rent growth also continued to slow, which typically works its way in to core CPI with a 9–12-month lag. (see chart above left)

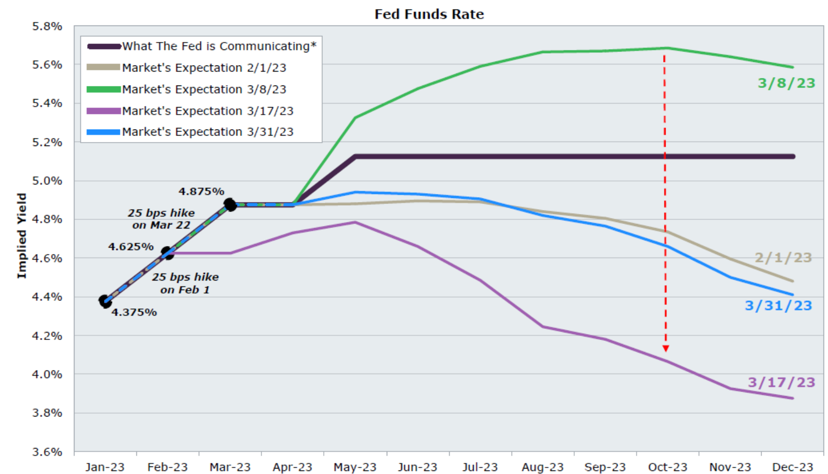
- The primary driver of inflation in the March report was the cost of core services ex-housing, which historically is much harder to get under control than the prices of physical goods. It is typically dependent on the cost of labor, and wages tend to be "sticky," making it difficult to shift them lower. As a result, when demand for services falls, prices don't drop as quickly. Eventually, headcount needs to fall to rationalize input costs, leading to higher unemployment and lower costs overall. The Fed has entered this phase of the inflation fight, with their goal being to tighten employment conditions. (see chart above right)

- Taking it all together, forecasters believe inflation will continue to decline, but it may take some time before reaching the Fed's 2% target. Most believe we will be well in to 2025 before we see 2%.

Fixed Income – Fed Tightening



Source: Charles Schwab



Source: Baird

- Given that inflation is still significantly higher than the Fed's 2% target, the Fed may try to keep rates higher for longer to slow down economic activity, and push unemployment higher in order to bring inflation closer to target. However, once the Fed does start to cut, it is likely they will have to cut far more quickly than the slow pace currently priced into markets.

- Even with inflation running high and the yield curve remaining inverted (short-term interest rates are higher than long-term interest rates), markets have significantly repriced expectations for Fed action. At the beginning of March, expectations were for three or four additional 25 basis point (0.25%) hikes this year, with no cuts anticipated until 2024. By the end of March, markets were priced for a roughly 50/50 chance of one additional 25 basis point hike, which happened in May, and then three to four 25 basis point cuts by the end of this year.

- Importantly, even though inflation is the priority for the Fed, its policies require a functioning financial system to impact the real economy. So, if the stress in the banking system becomes so acute that markets stop working, we believe it will do what is necessary to restore market functionality and will deal with inflation later.

Fixed Income – Yields & Spreads

Treasury Yields

Maturity	12/31/21	12/31/22	2/28/23	3/31/23	1 Mo Chg	Q1 Chg
3 Mo	0.06%	4.41%	4.85%	4.80%	-0.05%	0.39%
1	0.39%	4.73%	5.04%	4.65%	-0.39%	-0.08%
2	0.74%	4.43%	4.82%	4.03%	-0.79%	-0.40%
3	0.96%	4.23%	4.53%	3.79%	-0.74%	-0.44%
5	1.27%	4.01%	4.19%	3.58%	-0.61%	-0.43%
7	1.44%	3.97%	4.09%	3.54%	-0.55%	-0.43%
10	1.51%	3.88%	3.93%	3.47%	-0.46%	-0.41%
20	1.94%	4.15%	4.11%	3.80%	-0.31%	-0.35%
30	1.91%	3.97%	3.92%	3.65%	-0.27%	-0.32%

Source: Baird

Option-Adjusted Spreads (in bps)

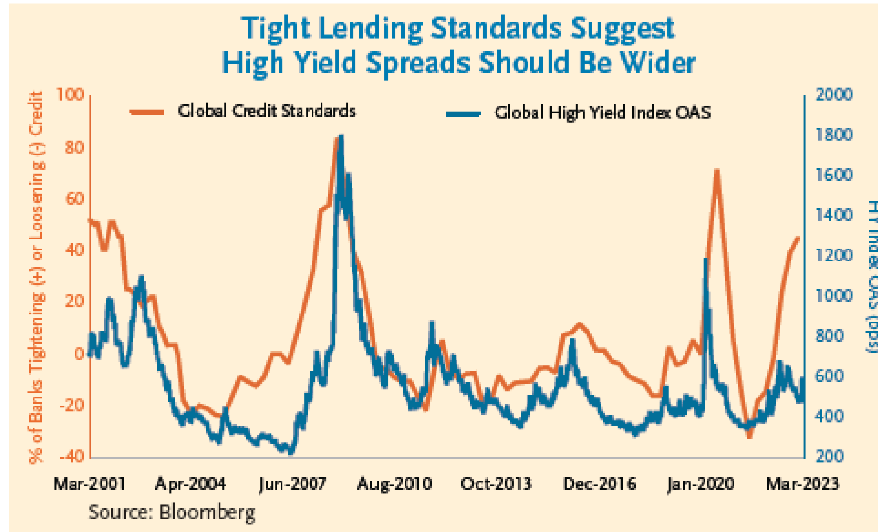
	12/31/21	12/31/22	2/28/23	3/31/23	1Mo Chg	Q1 Chg
U.S. Aggregate Index	36	51	48	57	9	6
U.S. Agency (non-mortgage)	8	26	24	28	4	2
Mortgage and ABS Sectors						
U.S. Agency RMBS (Pass-throughs)	31	51	46	63	17	12
U.S. Agency CMBS	34	52	43	62	19	10
U.S. Non-Agency CMBS	95	179	155	215	60	36
Asset-Backed Securities	38	76	57	85	28	9
Corporate Sectors						
U.S. Investment Grade	92	130	124	138	14	8
Industrial	95	125	122	124	2	-1
Utility	107	129	130	136	6	7
Financial Institutions	83	140	126	164	38	24
Non-Corporate Credit	55	66	61	68	7	2
U.S. High Yield Corporates	283	469	412	455	43	-14
Emerging Market Debt	581	687	670	731	61	44

Source: Bloomberg Indices

Source: Baird

- During the first quarter, Treasury yields broadly declined. (see table, top left) This helped to generate a positive return for the bond market, as measured by the Bloomberg Barclays Aggregate Bond Index.
- Later in March, market conditions shifted in response to the failure of Silicon Valley Bank as depositors abruptly withdrew assets. This market shock contributed to a widening of credit spreads compared to U.S. Treasury bonds in March (see table, top right) as investors re-priced the risk of owning lower quality bonds. High yield corporate bonds, emerging market debt and commercial mortgage-backed securities were among the hardest hit.

Fixed Income – Positioning



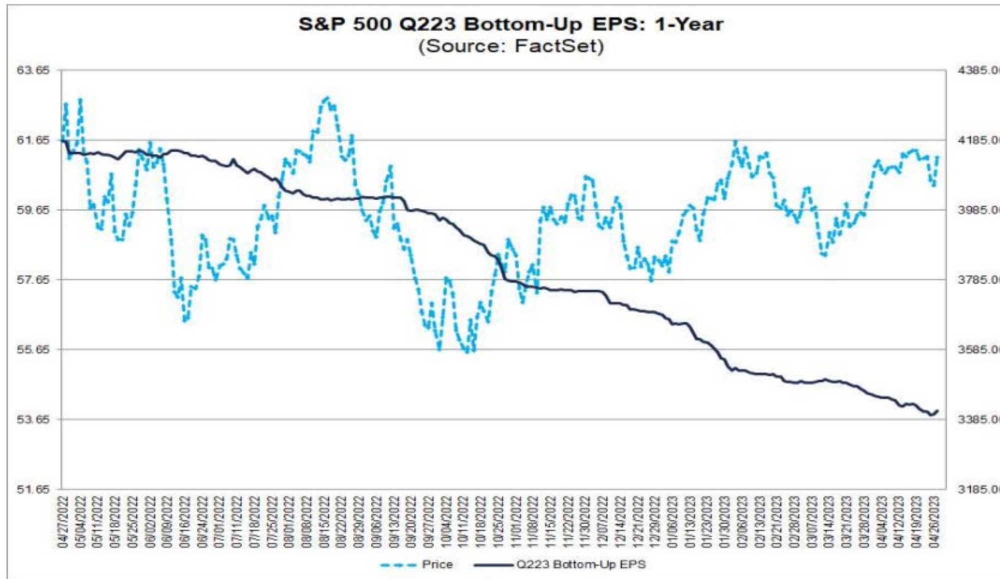
Source: Metwest

- We continue to be patient with fixed income portfolio changes. In this choppy environment, we like a mix of low-cost index funds to get our desired Treasury exposure, and flexible active managers to navigate volatility on the credit side. Portfolios are positioned to out yield client benchmarks with marginally less interest rate risk. With an inverted yield curve, portfolios are positioned to take advantage of higher yields in short-to-intermediate maturity bonds. With portfolio yield targets in the 5.00-5.50% range, we believe portfolios are in position to produce attractive returns over the intermediate-long-term.

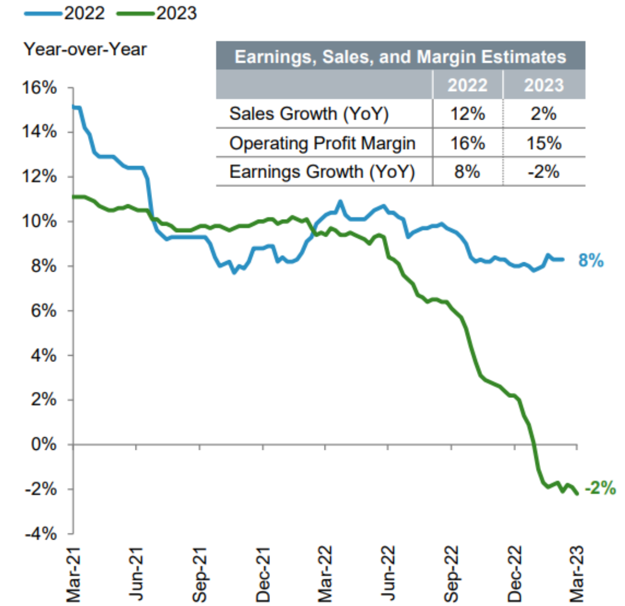
- Our last trade increased our exposure to corporate bonds, but we are looking for a more attractive entry point to consider a dedicated corporate credit manager. Tightening bank credit standards have historically foreshadowed wider credit spreads. The Silicon Valley Bank collapse pushed bank lending standards into levels typically seen during recessions, but credit spreads have yet to follow suit. (see chart above)

- We believe it's important to remain cautious in this environment by seeking higher-quality, more liquid, and resilient investments. Later this year, if the economic outlook reaches a point of greater clarity, accompanied by a repricing of economically sensitive market sectors, we will consider a more aggressive posture.

Equity – U.S. Earnings



Source: FactSet Earnings Insight – April 28, 2023



Earnings, Sales, and Margin Estimates	2022	2023
Sales Growth (YoY)	12%	2%
Operating Profit Margin	16%	15%
Earnings Growth (YoY)	8%	-2%

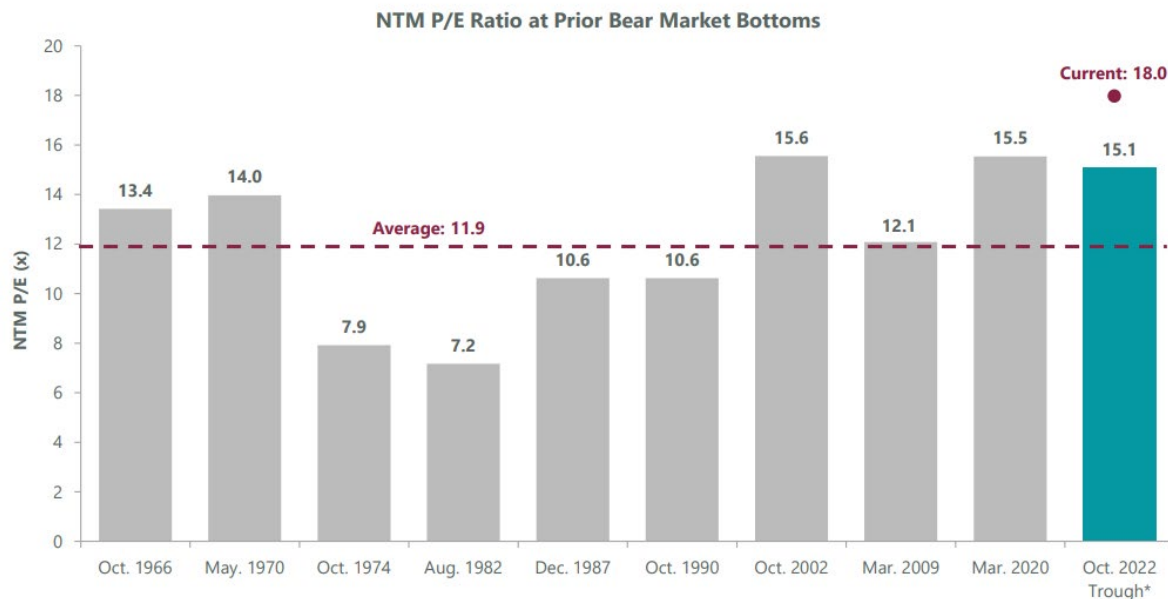
Source: Fidelity Investments – Quarterly Market Update (2Q 2023)

The S&P 500® Index edged higher to start 2023 despite a persistent decline in analyst earnings estimates (top left). The positive return was primarily due to a small number of growth stocks whose prices moved higher because of speculation the Fed would curtail interest rate increases and may even cut rates towards the end of the year.

- Earnings growth is expected to finish in negative territory for 2023 on the back of lower profit margins and a decline (year-over-year) in revenue growth (top right).
- We do not believe the market has fully appreciated the potential risks to a downturn in earnings and equity prices over the remainder of 2023. Short-term risks include the possibility that the banking crisis leads to tighter lending standards for businesses, a moderation of corporate price increases, weakening demand subdues revenue growth and persistent wage inflation results in a decline in margins.

We remain cautious in our views for corporate earnings growth, which is reflected in our portfolio positioning among U.S. equities.

Equity – U.S. Valuations



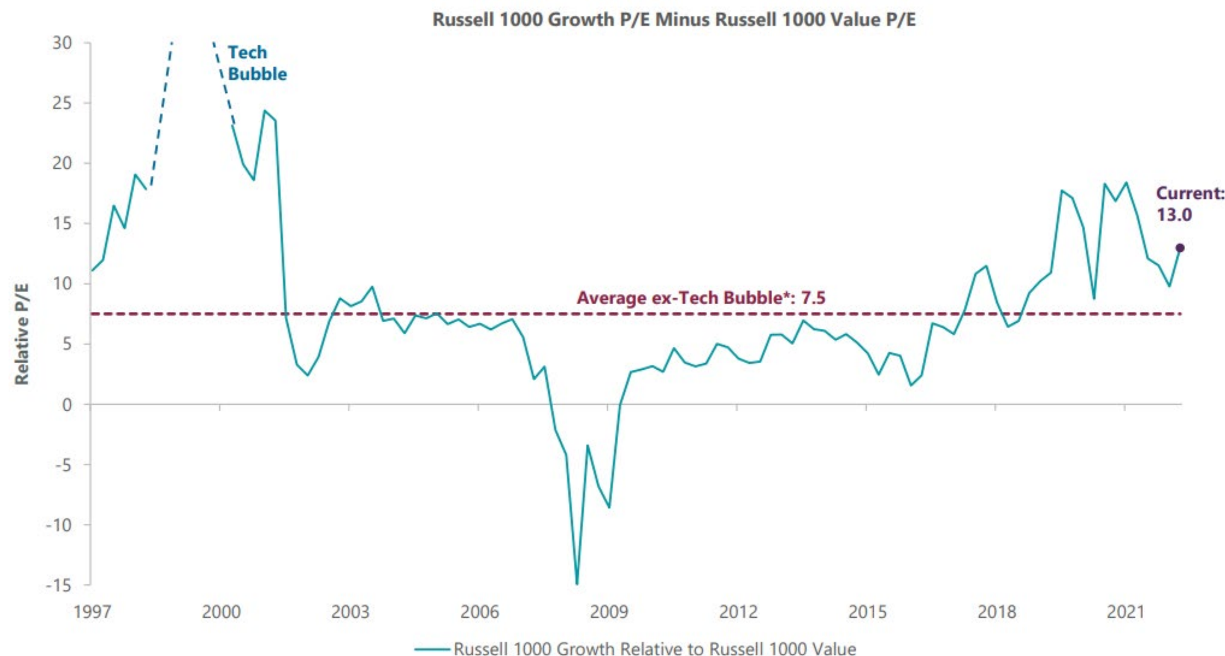
Source: ClearBridge Investments – The Anatomy of a Recession (2Q 2023)

The S&P 500® forward P/E (price-to-earnings) ratio increased from 16.7x at the end of 2022 to 18.0x in April. The rally in stock prices (numerator) without a subsequent increase in earnings (denominator) led to a higher equity multiple.

- Valuations remain elevated compared to valuations seen at prior bear market bottoms (average of 11.9x – see data in the table above). This is also true even when only looking at more recent (past 30 years) market bottoms, which have coincided with average P/E ratios of approximately 14.5x.
- Looking ahead, market attention will undoubtedly center on the path of inflation, along with the Fed's reaction to that data. Key will be whether the Fed decides to focus on limiting potential contagion in the banking system, or whether they remain focused on containing inflation. In our opinion, we are skeptical they will be able to achieve both goals without a deterioration of economic activity and corporate earnings.

Our belief is the Fed will remain committed to fighting inflation longer than many expect. Even if they were to pause further rate increases, we do not believe the Fed will be anxious to start cutting rates unless a deeper recession or crisis were to unfold.

Equity – Growth vs. Value in the U.S.



Source: ClearBridge Investments – The Anatomy of a Recession (2Q 2023)

Value equities outperformed growth equities by a significant amount in 2022 as rising interest rates led investors to question whether lofty valuations were sustainable for higher-growth businesses.

- At the end of 2022, the valuation difference between growth equities and value equities neared a post-tech bubble average of approximately 7.5x (chart above). However, the strong gains of growth-oriented equities (a handful of large-cap tech companies) to start 2023 led this average to widen once again.
- The valuation disparity in the chart above, along with our belief that interest rates will remain higher for longer than expected, leads us to believe value-oriented securities remain relatively attractive over the short- to intermediate-term.

If we were to see a sustained decline in interest rates without a decline in economic activity and corporate earnings, we would reevaluate our current positioning. In the interim, we believe an approach that focuses on companies with strong underlying business fundamentals is prudent.

Equity – High and Falling U.S. Inflation

Market Cap	Value	Blend	Growth
Large	**Large Cap Value** 8.1% Avg. Perf. · 63.9% Hit Rate	**Large Cap** 0.1% Avg. Perf. · 44.4% Hit Rate	**Large Cap Growth** -7.4% Avg. Perf. · 33.3% Hit Rate
Mid	**Mid Cap Value** 13.4% Avg. Perf. · 61.1% Hit Rate	**Mid Cap** 5.3% Avg. Perf. · 61.1% Hit Rate	**Mid Cap Growth** -2.2% Avg. Perf. · 50.0% Hit Rate
Small	**Small Cap Value** 16.3% Avg. Perf. · 61.1% Hit Rate	**Small Cap** 9.2% Avg. Perf. · 61.1% Hit Rate	**Small Cap Growth** 1.7% Avg. Perf. · 52.8% Hit Rate

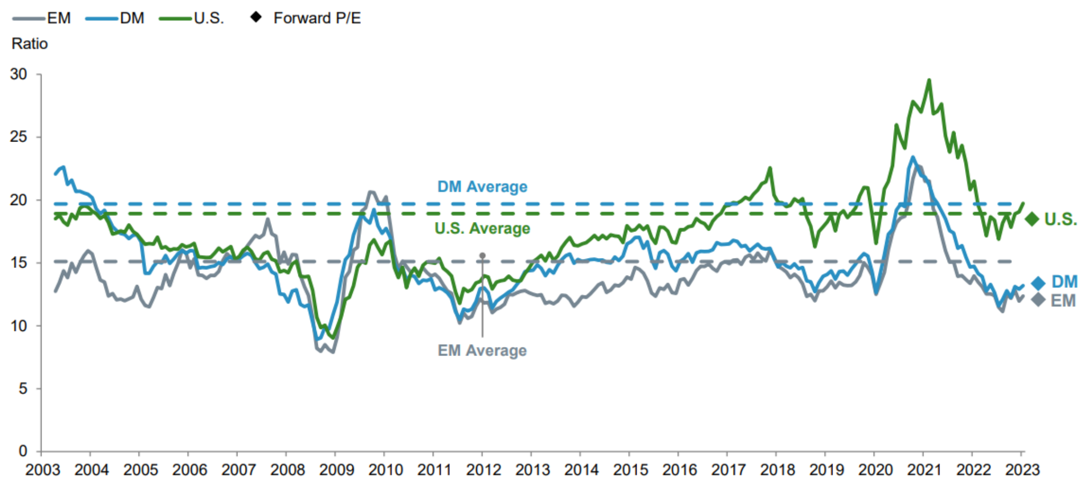
Investment Style

Source: ClearBridge Investments – The Anatomy of a Recession (2Q 2023)

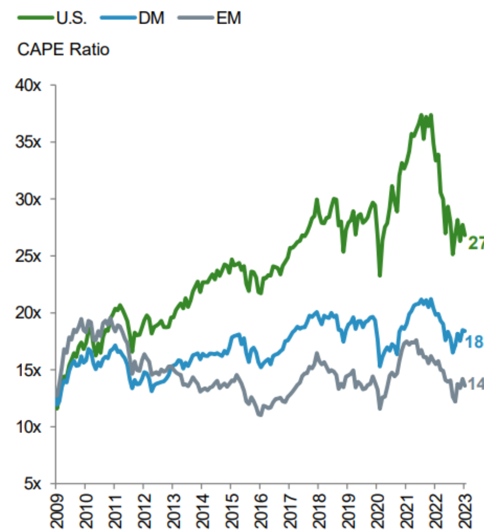
In addition to a preference for value-oriented equities, we continue to evaluate options among smaller-cap companies.

- Value-oriented equities, particularly small- and mid-cap value-oriented equities, have generally performed well during periods of high yet falling inflation (chart above).
- Historically, there has been a relatively large percentage of financials (including smaller banks) included in small- and mid-cap value indices. Considering the recent concerns involving smaller banks, we have been patient to add investments in these areas of the market.
- The small-cap "universe" of stocks is also quite large, with varying degrees of underlying company fundamentals. As a result, we prefer to utilize active managers in small- and mid-cap equity sub-asset classes. We have a short list of active managers that have been thoroughly analyzed, so we are prepared to make an investment once we believe market conditions are favorable.

Equity – Global Valuations



Source: Fidelity Investments – Quarterly Market Update (2Q 2023)



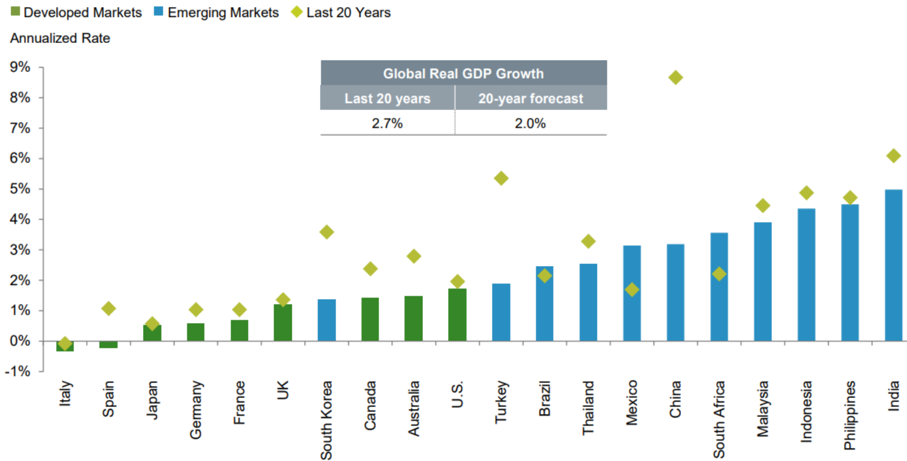
Source: Fidelity Investments – Quarterly Market Update (2Q 2023)

Developed foreign markets ("DM") and emerging markets ("EM") remain less expensive on a forward P/E basis relative to U.S. markets. These markets also continue to be priced below their long-term averages (top left).

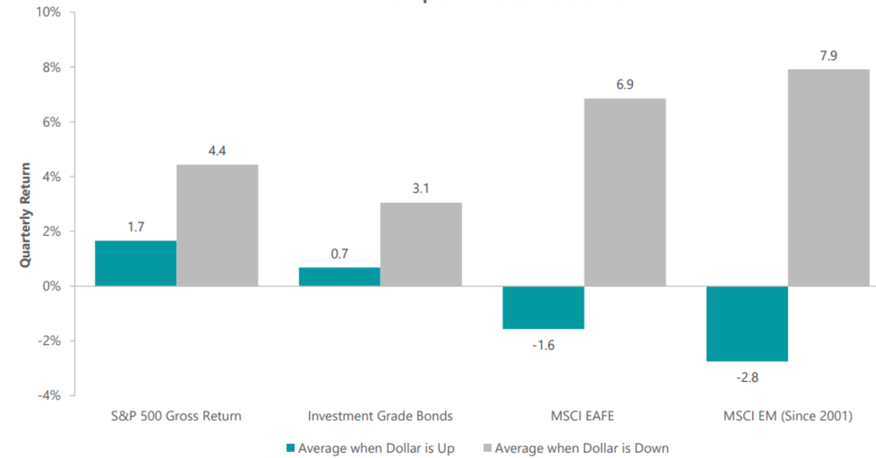
- The chart (upper right) displays CAPE (cyclically adjusted price/earnings) ratios for the same major markets and regions (U.S., DM and EM). Based on this metric, developed foreign markets and emerging markets are also more attractively priced relative to the U.S.
- In addition to being more attractively priced than the U.S., many of these markets have begun to demonstrate more attractive underlying economic fundamentals. This foundation could allow corporations to have a pathway to more sustainable levels of earnings growth.

The combination of attractive valuations, underlying fundamentals and a reversal of U.S. dollar strength cause us to be more optimistic for developed foreign markets and emerging markets returns when viewed over an intermediate- to long-term investment horizon.

Equity – Emerging Markets



Source: Fidelity Investments – Quarterly Market Update (2Q 2023)

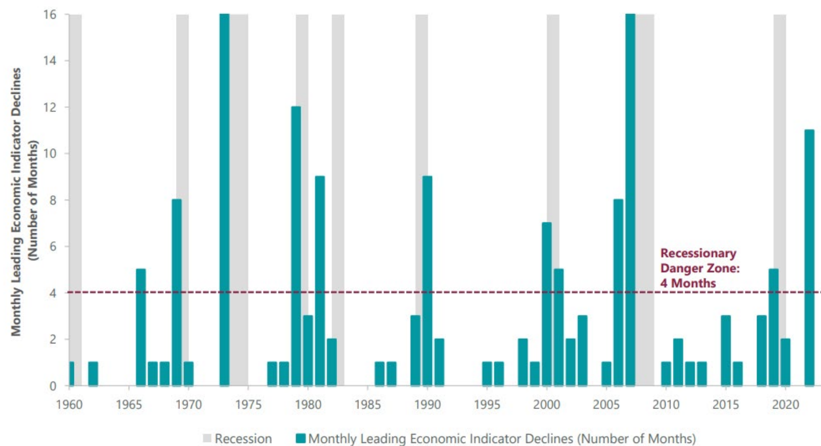


Source: ClearBridge Investments – The Anatomy of a Recession (2Q 2023)

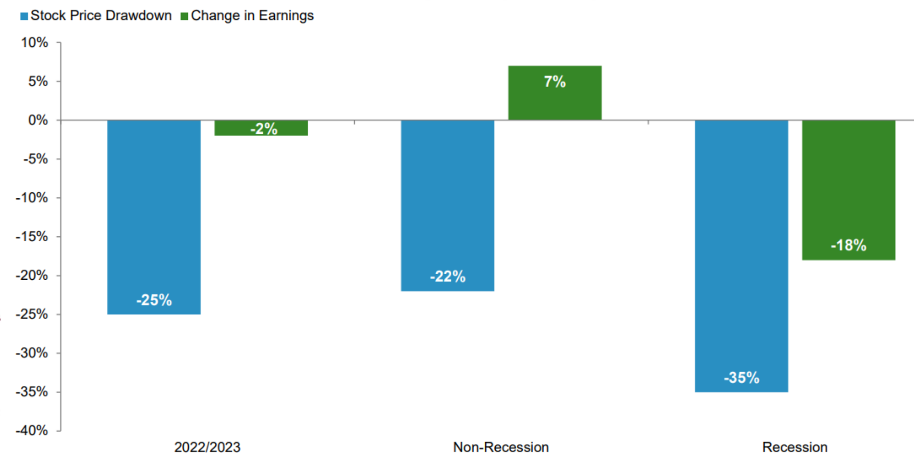
Among foreign equity markets, we continue to have an optimistic longer-term outlook for emerging markets.

- As noted on the previous slide, companies domiciled in emerging markets countries may have a relatively more attractive economic environment in which to operate. The chart above (upper left) displays the U.S. and other developed foreign markets with green bars, while emerging markets countries are shown in blue.
- In general, real GDP growth for major emerging markets countries is expected to be well above GDP growth levels for the U.S. and other major developed foreign markets. In a period (next 20-years) of lower global economic growth (2.7% for the last 20 years compared to 2.0% forecasted for the next 20 years), emerging markets are expected to be a relative "bright spot" around the globe.
- U.S. equities have outperformed developed foreign stocks and emerging markets stocks for over a decade. One of the primary factors for U.S. outperformance has been a sustained period of U.S. dollar strength. As seen in the chart above (top right), developed foreign markets (as represented by "MSCI EAFE") and emerging markets (as represented by "MSCI EM") generally perform relatively poorly during periods of U.S. dollar strength. However, during periods of U.S. dollar weakness (which we believe we have entered), these markets tend to perform quite strongly.

Outlook – Cautious



Source: ClearBridge Investments – The Anatomy of a Recession (2Q2023)



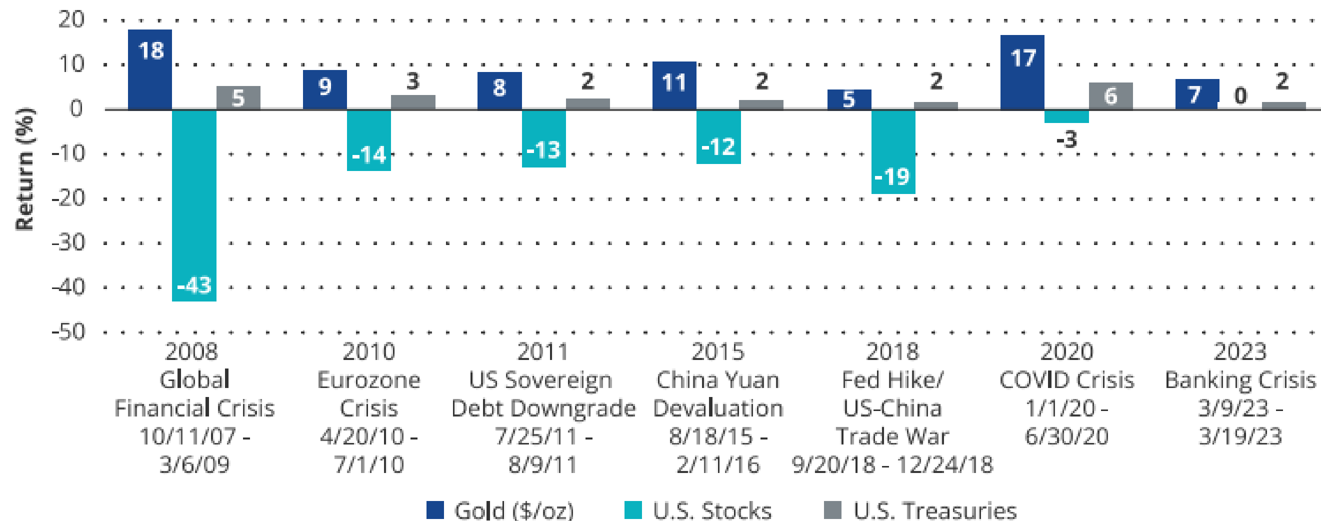
Source: Fidelity Investments – Quarterly Market Update (2Q2023)

One of the primary reasons we have not gotten aggressive in our portfolio positioning despite the decline in equity markets in 2022 is because we believe there is an increased likelihood of a recession.

- The chart above (upper left) displays monthly data for leading economic indicators going back to 1960. Typically, once leading economic indicators decline for at least four straight months, the odds of a recession increase. Currently, this data series has been declining for 11 months. While this does not guarantee a recession (or how deep the recession may be), we do not believe the market has fully appreciated the potential for a recession, or the corresponding impact on financial markets.
- The data in the upper right chart looks at equity market drawdowns and the change in earnings during non-recessionary and recessionary periods. Not surprisingly, market and earnings declines tend to be more severe during recessionary periods. The current bear market period ("2022/2023") registers between these two main categories.

We cannot say with certainty if markets already bottomed during 2022, or whether historical precedents for equity price and earnings declines will be the same if a recession does materialize. However, we think the combination of uncertainty regarding the Fed, inflation and corporate earnings all point towards a relatively more defensive posture within U.S. equities.

Gold – Ballast During Crises



Source: Morningstar. Data as of March 31, 2023. U.S. Stocks represented by S&P® 500 Index; Gold ($/oz) represented by LBMA PM Gold Price; U.S. Treasuries represented by the Bloomberg Barclays U.S. 1-3 Year Treasury Bond Index.

Given heightened uncertainty in markets, we believe gold remains an attractive investment in portfolios.

- Gold has performed relatively well compared to major asset classes such as U.S. equities and U.S. Treasuries during crises in the recent past (chart above). In fact, dating back to the global financial crisis, gold has generated positive returns in all periods shown.
- We also believe gold will prove to be an attractive alternative for investors looking to further diversify their U.S. dollar holdings.

Overall, due to our cautious outlook, on-going uncertainty among smaller U.S. banks (liquidity concerns) and general market dynamics, we believe an allocation to gold as an equity alternative continues to be a prudent source of diversification for investors.

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 25 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 and SE-AWMA™ professional designation.

Charles (C.J.) Batchelor, CFA® is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 19 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.

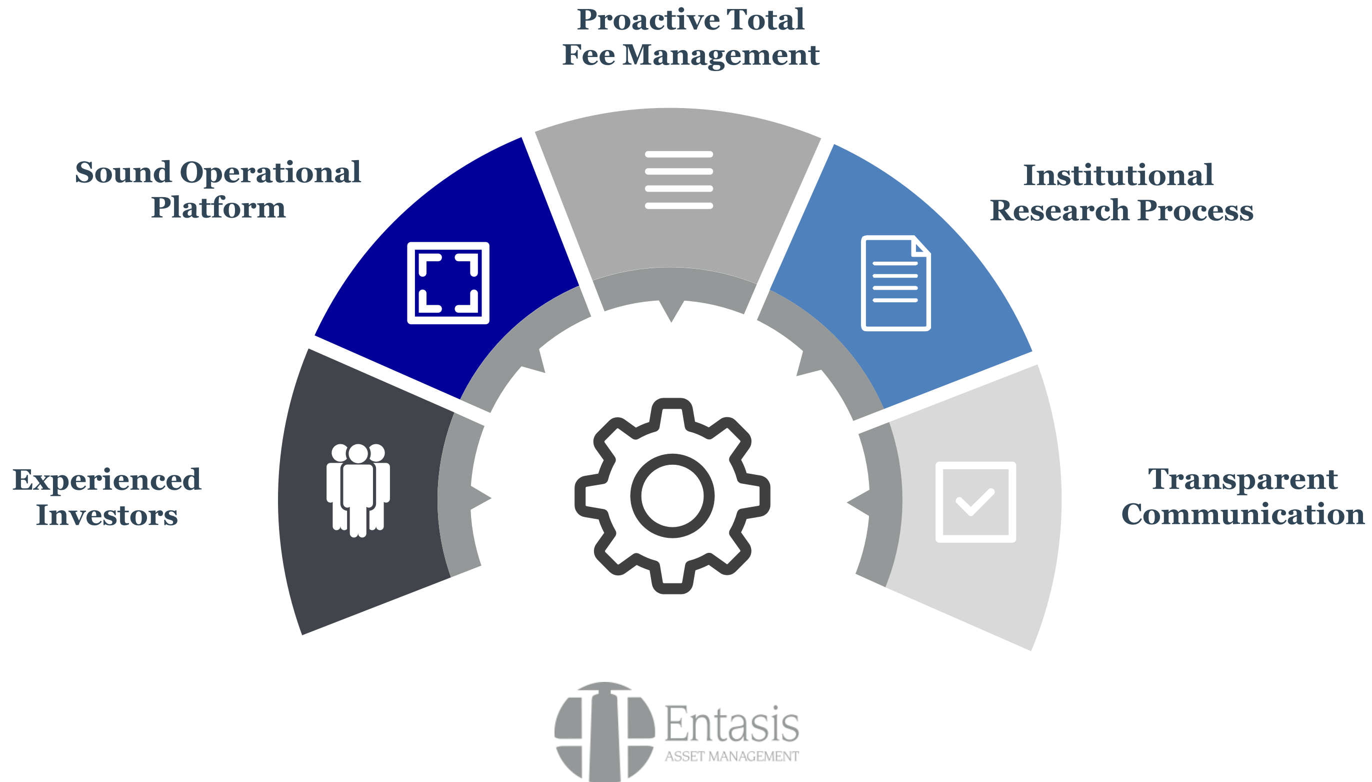
Mike Peters, CFA® is Co-Founder and Chief Investment Officer – Fixed Income of Entasis Asset Management. Mike has 19 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. 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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