ENTASIS ASSET MANAGEMENT

MARKET HIGHLIGHTS

August 2024

Commentary

As promised, after a review of content and client feedback we have altered the format of this communication. It has become a pattern of ours since we started the business in 2016 to rethink how we are presenting market and portfolio content. We want to stay fresh and, most importantly, we want what we share to be valuable to readers. The goals of our new format are to eliminate largely static content, be concise in our delivery and communicate plainly.

While preparing this communication we were reminded of multiple things about our business and about us.

First, markets are incredibly fluid. It is somewhat of a pattern in our industry to report data and develop commentary around monthly, quarterly or annual time periods. However, markets don't care about any of those dates, so we are often trying to package information in a way that is at odds with the time frames that are ultimately important to talk about. For example, over the last four months the S&P 500® Index bottomed on April 19, peaked July 16, receded to August 5, only to see a recovery until the point we finished this.

Second, speculation in markets will quite often create volatility and price movements that dislocate quickly and aggressively from market fundamentals. It can be tempting to join the fray, but experience and judgment have taught us that it is rarely profitable. The regular communications we share, like this commentary, have taught us that placing an emphasis on a short-term dislocation can give credence to an event that is irrelevant in the long run.

Finally, we are investors and financial advisors. We are not designers, so our new format took a bit longer than anticipated to produce. We hope you find the information useful. We appreciate any feedback you might have.

Thank you for reading our Highlights.

Bob

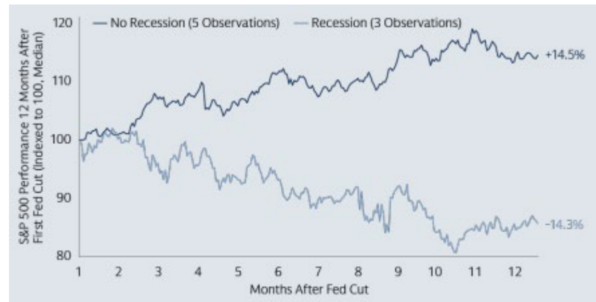
David

Summary

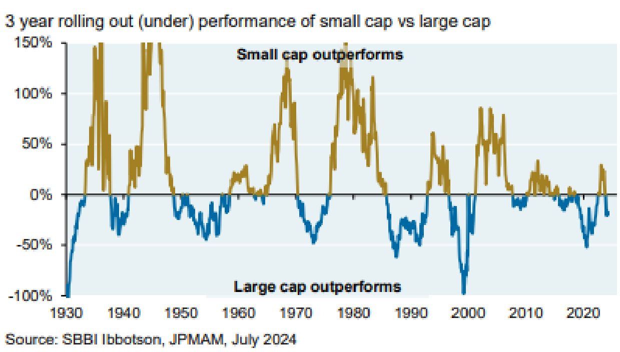
- History has indicated that the U.S. Federal Reserve (Fed) will have a market impact.
- Opportunities in equities remain, but a discerning eye is required.
- Inflation has shown signs of continued moderation.
- Bonds have recently been a nice source of defense in client portfolio allocations.

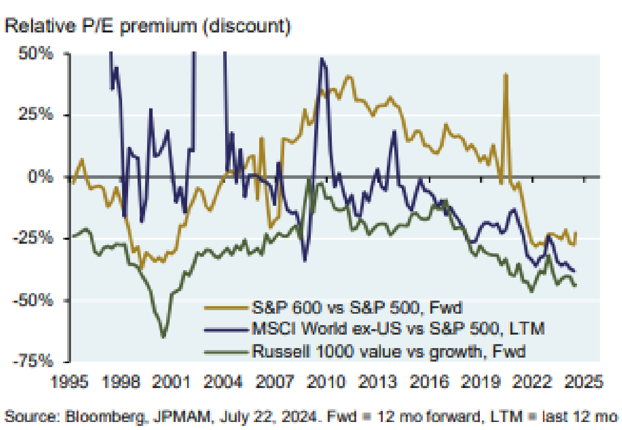
Highlight 1 – The Fed Will Likely Have An Impact

- Odds of an interest rate cut from the Fed have increased recently given softness in the U.S. labor market and other economic measures.
- Even if the Fed were to cut rates at its next meeting in September, many investors are concerned the Fed may be “behind the curve” in efforts to prevent an economic downturn. This fear has been reflected of late as heightened volatility has crept back into markets.
- The path of 12-month equity market returns following an initial rate cut from the Fed has been bifurcated (See chart to right). In periods where a recession follows, equity market returns have averaged a decline of -14.3%. In periods where a recession is avoided, equity market returns have averaged a gain of +14.5%.
- The Fed’s ability to stave off an economic downturn without reviving inflation concerns, will be a central focus of markets going forward.



Source: J.P. Morgan Eye on the Market – The Lion in Winter





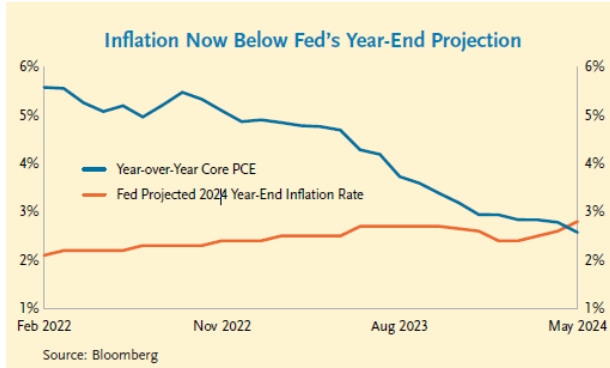
Source: J.P. Morgan Eye on the Market – The Lion in Winter

Highlight 2 – Equity Opportunities Remain

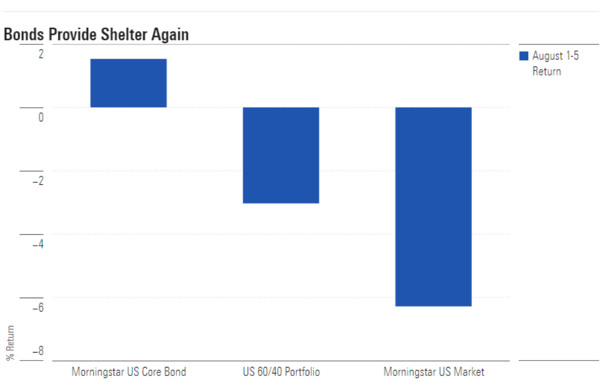
- Equities had a meaningful run over the trailing year ended July 31, 2024. In our view, however, pockets of opportunity remain within the broader asset class. We continue to view out-of-favor areas favorably given future potential and starting valuations.
- Conversely, companies that have posted large gains in recent periods may be significantly more volatile and may not have as attractive of a return profile in future periods. The NASDAQ 100 and the “Magnificent 7” are near-term examples.
- From a U.S. perspective, we have slowly added dedicated small-cap exposure to many portfolios and remain convicted in the risk-adjusted return profile of value-oriented equities (See both charts to the left).
- We have also emphasized investments outside of the U.S., particularly in emerging markets that continue to grow their economies at above average rates (i.e. India).

Highlight 3 – Inflation Moderation

- Inflation has moved closer to the Fed's long-term target over the last several months, with year-over-year declines in CPI and PCE reported inflation. This aligns with the trend over recent quarters, despite occasional setbacks earlier in the year.
- Excluding shelter, deflationary trends in more cyclical and discretionary sectors have emerged, contributing to lower inflation readings. Because rents significantly influence inflation calculations, lower rents are expected to help guide inflation down over the next year.
- Additionally, consumers are starting to resist high prices, making it harder for corporations to pass on cost increases. The pressure on margins could not only slow inflation, but also lead to higher unemployment if companies reduce headcount to maintain profitability.
- Interestingly, the Fed's updated projections expect core PCE, their preferred inflation measure, to be at 2.8% by year-end. However, core PCE for May was already at 2.6% year-over-year, below the Fed's target. (See chart to right.)
- With investors and the Fed aligned on a potential rate cut this year, the recent PCE data may provide the Fed with the justification to proceed, especially if future data remains weak.



Source: Metwest



Source: Morningstar

Highlight 4 – Bond Defense

- Year-to-date through July 31, 2024, fixed income returns experienced moderate volatility due to fluctuating inflationary conditions. However, with yields remaining close to the levels at the start of the year, bonds are on track to deliver annual returns in line with average starting yields.
- During the early August stock market selloff, high-quality bonds provided the defense investors had relied on before the nearly four-year bond bear market.
- From August 1 to August 5, the Morningstar US Market Index plunged -6.3% for its worst five-day performance since June 2022. During that difficult period for stocks, investors holding high-quality bonds saw gains, with the Morningstar US Core Bond Index rising +1.5%. This was driven by a flight to safety and rising expectations of a Fed rate cut, which saw the odds of a 50 basis-point (0.5%) cut in September increase from a 3% likelihood to over 50% by August 9.

Annualized % Returns (As of 06/30/2024)

Source: Morningstar Direct

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	24.56	10.01	15.05	12.86
Russell 1000 Index	Mid/Large Cap Stocks	23.88	8.74	14.61	12.51
Russell 1000 Growth Index	Growth Stocks	33.48	11.28	19.34	16.33
Russell 1000 Value Index	Value Stocks	13.06	5.52	9.01	8.23
Russell 2000 Index	Small Cap Stocks	10.06	-2.58	6.94	7.00
MSCI EAFE Index	Non-U.S. Developed Market Stocks	11.54	2.89	6.46	4.33
MSCI Emerging Markets Index	Emerging Markets Stocks	12.55	-5.07	3.10	2.79
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	11.26	-1.45	6.13	4.44
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	9.98	-0.51	2.46	4.25
Barclays Municipal Bond Index	U.S. Municipal Bonds	3.21	-0.88	1.16	2.39
Barclays Aggregate Bond Index	U.S. Bonds	2.63	-3.02	-0.23	1.35
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	4.19	-1.18	0.71	1.55
BofAML U.S. Treasury Master Index	Treasury Bonds	1.36	-3.43	-0.74	0.93
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	2.14	-2.96	-0.75	0.90
BofAML U.S. Corporate Master Index	Corporate Bonds	5.04	-2.81	0.78	2.39
BofAML U.S. High Yield Master II Index	High Yield Bonds	10.46	1.65	3.71	4.21
BofAML Euro Broad Market Index	European Bonds	1.81	-7.62	-3.44	-2.04
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	0.16	-3.31	-0.56	-0.18

Annualized % Returns (As of 07/31/2024)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	22.15	9.60	15.00	13.15
Russell 1000 Index	Mid/Large Cap Stocks	21.50	8.52	14.59	12.86
Russell 1000 Growth Index	Growth Stocks	26.94	9.46	18.41	16.31
Russell 1000 Value Index	Value Stocks	14.80	7.01	9.92	8.96
Russell 2000 Index	Small Cap Stocks	14.25	1.85	8.91	8.72
MSCI EAFE Index	Non-U.S. Developed Market Stocks	11.21	3.63	7.36	4.84
MSCI Emerging Markets Index	Emerging Markets Stocks	6.27	-2.74	3.41	2.63
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	9.92	-0.48	7.07	5.03
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	8.81	-0.48	2.19	4.32
Barclays Municipal Bond Index	U.S. Municipal Bonds	3.74	-0.86	1.18	2.47
Barclays Aggregate Bond Index	U.S. Bonds	5.10	-2.63	0.19	1.61
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	5.87	-0.81	1.09	1.76
BofAML U.S. Treasury Master Index	Treasury Bonds	4.04	-3.15	-0.28	1.17
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	5.01	-2.29	-0.32	1.22
BofAML U.S. Corporate Master Index	Corporate Bonds	7.06	-2.45	1.12	2.65
BofAML U.S. High Yield Master II Index	High Yield Bonds	11.04	2.19	4.01	4.55
BofAML Euro Broad Market Index	European Bonds	3.58	-7.18	-2.71	-1.59
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	0.23	-2.53	-0.45	0.11

Calendar Year % Returns (YTD as of 07/31/2024)

	YTD	2023	2022	2021	2020	2019
S&P 500 Index	16.70	26.29	-18.11	28.71	18.40	31.49
Russell 1000 Index	15.90	26.53	-19.13	26.45	20.96	31.43
Russell 1000 Growth Index	18.65	42.68	-29.14	27.60	38.49	36.39
Russell 1000 Value Index	12.08	11.46	-7.54	25.16	2.80	26.54
Russell 2000 Index	12.07	16.93	-20.44	14.82	19.96	25.52
MSCI EAFE Index	8.43	18.24	-14.45	11.26	7.82	22.01
MSCI Emerging Markets Index	7.81	9.83	-20.09	-2.54	18.31	18.44
MSCI ACWI Ex USA Small Cap Index	6.69	15.66	-19.97	12.93	14.24	22.42
BofAML Preferred Stock Fixed Rate Index	4.72	10.21	-14.60	2.24	6.95	17.71
Barclays Municipal Bond Index	0.50	6.40	-8.53	1.52	5.21	7.54
Barclays Aggregate Bond Index	1.61	5.53	-13.01	-1.54	7.51	8.72
Barclays Intermediate U.S. Gov/Credit Index	2.37	5.24	-8.23	-1.44	6.43	6.80
BofAML U.S. Treasury Master Index	1.39	3.87	-12.85	-2.38	8.22	6.99
BofAML U.S. Mortgage Backed Securities Index	1.79	4.98	-11.88	-1.21	4.09	6.51
BofAML U.S. Corporate Master Index	2.40	8.40	-15.44	-0.95	9.81	14.23
BofAML U.S. High Yield Master II Index	4.63	13.47	-11.21	5.35	6.07	14.41
BofAML Euro Broad Market Index	-1.23	10.57	-22.04	-9.66	13.35	4.11
BofAML Local Debt Market Plus Index	-1.45	10.00	-11.73	-6.53	4.50	16.44

Our Team

Bob Batchelor, CFA®, CFP®
CEO
Co-Founder

Bob J. Batchelor, CFA®, CFP® is Founder and Chief Executive Officer of Entasis Asset Management. Bob has 27 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 Certified Financial Planner™ certification and SE-AWMA™ professional designation.

C.J. Batchelor, CFA®
CIO
Co-Founder

Charles J. (C.J.) Batchelor, CFA® is Founder and Chief Investment Officer of Entasis Asset Management. C.J. has 21 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 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.

Mike Peters, CFA®
Senior Wealth Advisor
Co-Founder

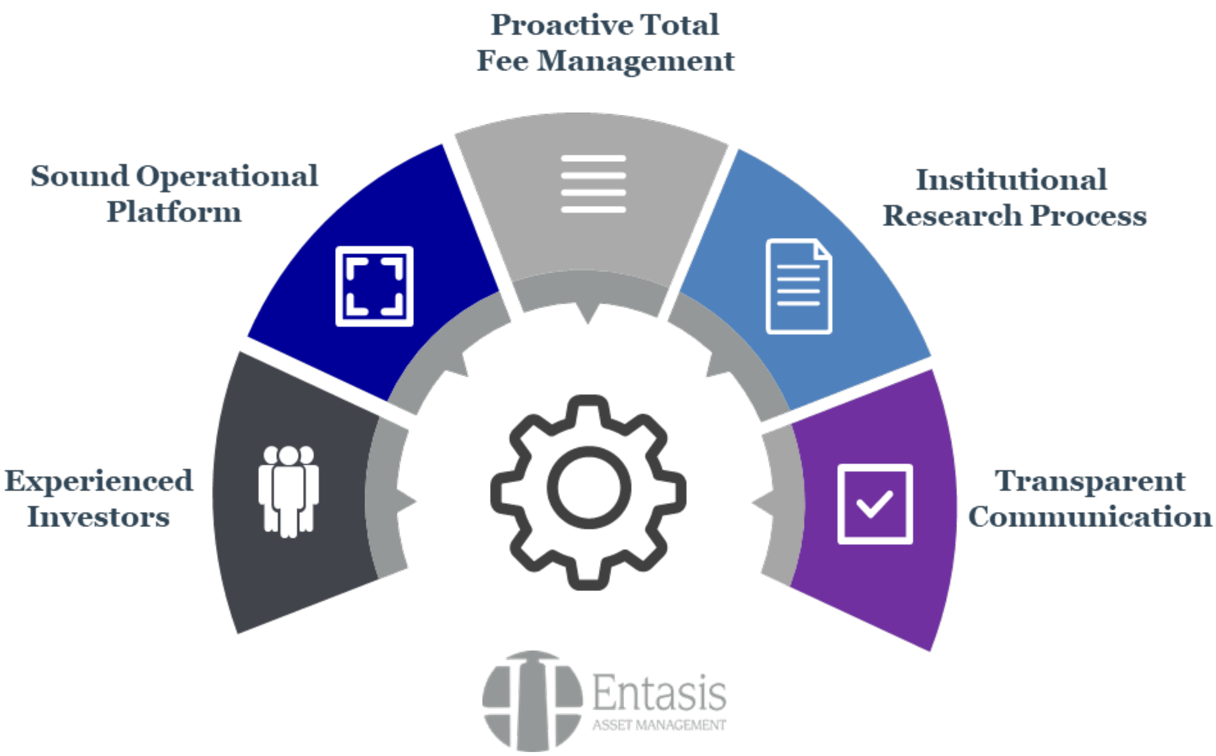
Mike Peters, CFA® is Founder and Senior Wealth Advisor at Entasis Asset Management. Mike has 21 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served as 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
Senior Wealth Advisor

David D. LaCroix is a Senior Wealth 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.


Proactive Total Fee Management
Sound Operational Platform
Institutional Research Process
Experienced Investors
Transparent Communication
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ASSET MANAGEMENT

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

Entasis Asset Management
200 S Executive Drive
Suite 101
Brookfield, WI 53005
262-754-5299
Info@EntasisAM.com

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