ENTASIS ASSET MANAGEMENT

MARKET HIGHLIGHTS

November 2024

Commentary

In the interest of taking in two of the most relevant items to the near-term trajectory of stock and bond markets (U.S. elections and the most recent meeting of the Federal Open Market Committee) we held back our distribution of highlights until we had both in the rearview mirror.

After digesting the conclusion of both, we have summarized our primary thoughts within these pages.

No single event ever significantly changes our portfolio positioning, but the collection of new information is essential to what we do on a daily basis, and will occasionally, result in some incremental portfolio shifts to adjust to an ever-changing investing environment.

The impact of potentially stickier inflation above the Fed's target rate has driven some slight adjustments to our portfolio positioning in the stock and bond portions of client allocations. In each part of client portfolios, we introduced one new investment that we believe has the potential to contribute productively to client returns if the stickier inflation scenario unfolds.

We are monitoring our equity positioning in light of anticipated policy shifts by the newly elected administration. We have not made significant shifts but are monitoring our global positioning and how it could be impacted by anticipated changes.

Thank you for reading our Highlights. We welcome any questions you may have as we roll into the end of 2024.

Bob

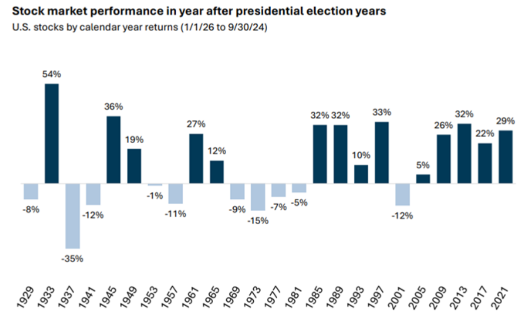
David

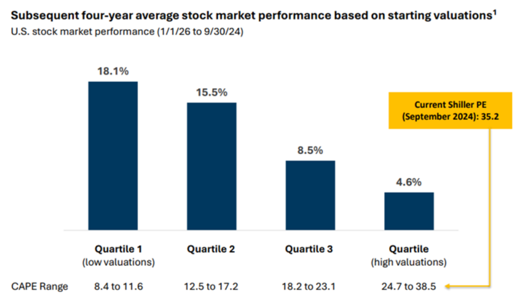
Summary

- The U.S. Presidential election has been decided. The removal of the uncertainty has sparked some near-term optimism.
- U.S. stock market valuations broadly remain elevated due to the impact of mega-cap companies in the calculation.
- The U.S. Federal Reserve (Fed) has begun to ease with a total of 0.75% in rates cuts.
- Inflation had begun to moderate but now appears as though it could be stickier than anticipated above the Fed's target of 2%.

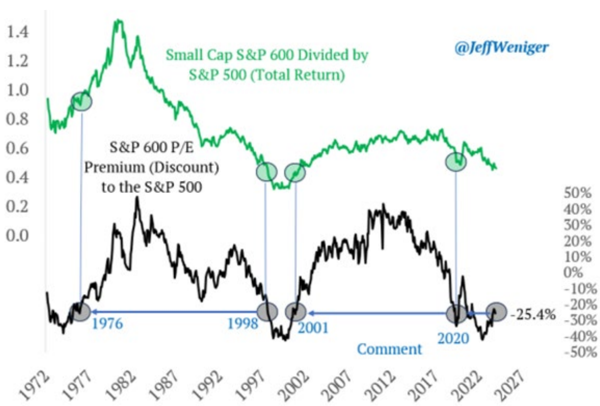
Highlight 1 – Stocks and Presidential Elections

- Markets generally do not like uncertainty, so the removal of one unknown (U.S. elections) has pushed markets higher short-term.
- Historically, U.S. stock market performance the year following elections has been quite good. (See chart to the top right.) Therefore, the short-term outlook for investors seems favorable.
- However, as the initial election benefit subsides, other factors grab investor attention. One factor that has tended to drive returns over the four years following elections is the starting valuation level. (See chart to the bottom right.) As the chart implies, low starting valuations can drive much different outcomes than high valuations.
- We believe the combination of U.S. Federal Reserve (Fed) easing and a resilient economic backdrop could favor equities short-term. Over the long-term, policy uncertainty, corporate earnings growth trends and heightened starting valuation levels loom large.

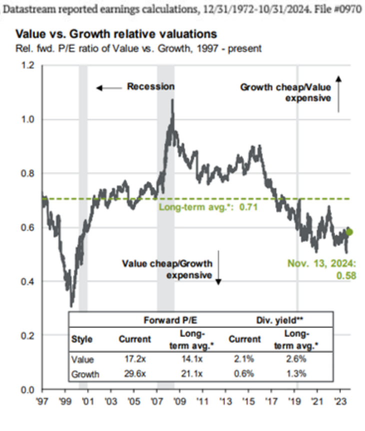




Source: GMO LLC



Source: Refinitiv, Datastream reported earnings calculations, 12/31/1972-10/31/2024. File #0970

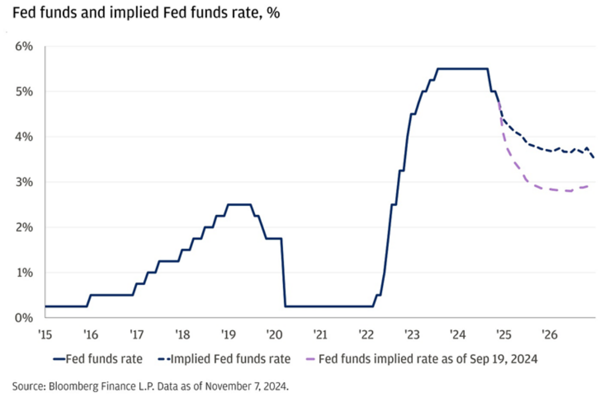


Highlight 2 – Pockets of the Stock Market Remain Interesting

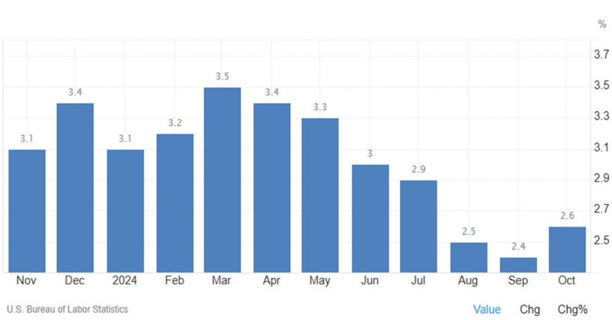
- The S&P 500® Index forward P/E (price-to-earnings) ratio hit its highest level in more than three years in November (over 22x).
- Despite lofty valuations for mega-cap companies, one area that we have gradually increased in client portfolios is small-cap companies. Based on the chart to the left, small-cap stocks (S&P 600 Index) currently trade at a "discount" of approximately -25% relative to large-cap stocks (S&P 500® Index).
- Another area of interest is U.S. value companies (Russell 1000® Value Index), which continue to trade at attractive levels (forward P/E 17.2x) relative to growth companies. The Russell 1000® Growth Index is trading at nearly 30x forward earnings.
- We believe relatively attractive valuations, along with the stated agenda of the upcoming administration, potentially lay the groundwork for broader equity participation, but policies might also lead to some inflationary pressure. As such, we have added managed futures and commodities that could benefit in that environment.

Highlight 3 – Fed Rate Cuts

- At its last two meetings in September and November, the Fed has lowered the target federal funds rate 75bps (0.75%). The current target range for interest rates is now 4.50%-4.75%.
- At the November meeting, Chairman Powell emphasized that the cut aligns with the Fed's balanced approach of sustaining labor market strength while advancing closer to its inflation target of 2%.
- Since September, market expectations for rate cuts have been significantly revised. Initially, markets anticipated a swift and substantial easing cycle, but current forecasts suggest only three rate cuts through mid-2025, with a 60% chance of a fourth. (See chart to right.)
- This more cautious outlook has contributed to a "bear flattening" in the yield curve, with shorter maturity bonds seeing upward pressure as the market adjusts to the possibility of prolonged higher rates.
- While inflation has decreased from its peak, persistent wage pressures and robust consumer demand indicate that inflation may not fall to the 2% target quickly. The Fed's actions suggest it aims to prevent an overheating economy without stalling growth. Any resurgence in inflation could delay further rate cuts, as the Fed balances price stability with employment objectives.



Source: JP Morgan



Highlight 4 – Stickier Inflation?

- In October 2024, the U.S. Bureau of Labor Statistics reported that the Consumer Price Index (CPI) rose by 0.2% from the previous month, maintaining the same pace observed over the prior three months. This brought the annual CPI increase to 2.6%, up from 2.4%. (See chart to the left.)
- Core CPI, which excludes food and energy, increased by 0.3% month-over-month, resulting in a 3.3% year-over-year rise. These figures suggest that while inflation remains relatively stable, certain sectors continue to experience upward price pressures.
- As lower inflation readings from the previous year drop out of the year-over-year calculation, smaller prior figures will be replaced by current monthly increases, causing the reported annual inflation rate to appear higher. This base effect can make inflation seem to accelerate even with moderate new increases. This statistical shift could push inflation readings higher in the coming months, reinforcing inflationary pressures and potentially complicating the Fed's price stabilization efforts.

Market Performance

Annualized % Returns (As of 09/30/2024)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	36.35	11.91	15.98	13.38
Russell 1000 Index	Mid/Large Cap Stocks	35.68	10.83	15.64	13.10
Russell 1000 Growth Index	Growth Stocks	42.19	12.02	19.74	16.52
Russell 1000 Value Index	Value Stocks	27.76	9.03	10.69	9.23
Russell 2000 Index	Small Cap Stocks	26.76	1.84	9.39	8.78
MSCI EAFE Index	Non-U.S. Developed Market Stocks	24.77	5.48	8.20	5.71
MSCI Emerging Markets Index	Emerging Markets Stocks	26.05	0.40	5.75	4.02
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	23.25	1.39	8.21	6.08
Barclays Municipal Bond Index	U.S. Municipal Bonds	10.37	0.09	1.39	2.52
Barclays Aggregate Bond Index	U.S. Bonds	11.57	-1.39	0.33	1.84
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	9.45	0.17	1.26	1.96
BofAML U.S. Treasury Master Index	Treasury Bonds	9.93	-1.89	-0.29	1.37
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	12.37	-1.21	0.04	1.43
BofAML U.S. Corporate Master Index	Corporate Bonds	14.13	-0.98	1.29	2.96
BofAML U.S. High Yield Master II Index	High Yield Bonds	15.67	3.08	4.53	4.95

Annualized % Returns (As of 10/31/2024)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	38.02	9.08	15.27	13.00
Russell 1000 Index	Mid/Large Cap Stocks	38.07	8.12	15.00	12.75
Russell 1000 Growth Index	Growth Stocks	43.77	8.84	19.00	16.18
Russell 1000 Value Index	Value Stocks	30.98	6.85	10.14	8.87
Russell 2000 Index	Small Cap Stocks	34.07	-0.05	8.50	7.94
MSCI EAFE Index	Non-U.S. Developed Market Stocks	22.97	2.70	6.24	5.27
MSCI Emerging Markets Index	Emerging Markets Stocks	25.32	-1.43	3.93	3.43
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	23.73	-0.92	6.21	5.76
Barclays Municipal Bond Index	U.S. Municipal Bonds	9.70	-0.30	1.05	2.30
Barclays Aggregate Bond Index	U.S. Bonds	10.55	-2.20	-0.23	1.49
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	8.20	-0.18	0.85	1.73
BofAML U.S. Treasury Master Index	Treasury Bonds	8.64	-2.72	-0.80	1.01
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	11.35	-2.10	-0.60	1.03
BofAML U.S. Corporate Master Index	Corporate Bonds	13.63	-1.81	0.71	2.63
BofAML U.S. High Yield Master II Index	High Yield Bonds	16.49	2.96	4.37	4.77

Calendar Year % Returns (YTD as of 10/31/2024)

	YTD	2023	2022	2021	2020	2019
S&P 500 Index	20.97	26.29	-18.11	28.71	18.40	31.49
Russell 1000 Index	20.33	26.53	-19.13	26.45	20.96	31.43
Russell 1000 Growth Index	24.14	42.68	-29.14	27.60	38.49	36.39
Russell 1000 Value Index	15.40	11.46	-7.54	25.16	2.80	26.54
Russell 2000 Index	9.56	16.93	-20.44	14.82	19.96	25.52
MSCI EAFE Index	6.85	18.24	-14.45	11.26	7.82	22.01
MSCI Emerging Markets Index	11.66	9.83	-20.09	-2.54	18.31	18.44
MSCI ACWI Ex USA Small Cap Index	6.08	15.66	-19.97	12.93	14.24	22.42
Barclays Municipal Bond Index	0.81	6.40	-8.53	1.52	5.21	7.54
Barclays Aggregate Bond Index	1.86	5.53	-13.01	-1.54	7.51	8.72
Barclays Intermediate U.S. Gov/Credit Index	3.00	5.24	-8.23	-1.44	6.43	6.80
BofAML U.S. Treasury Master Index	1.40	3.87	-12.85	-2.38	8.22	6.99
BofAML U.S. Mortgage Backed Securities Index	1.64	4.98	-11.88	-1.21	4.09	6.51
BofAML U.S. Corporate Master Index	3.38	8.40	-15.44	-0.95	9.81	14.23
BofAML U.S. High Yield Master II Index	7.44	13.47	-11.21	5.35	6.07	14.41

Source: Morningstar Direct. Returns less than one year are not annualized. Past performance is no guarantee future results. Current performance may be lower or higher than that shown. All indices are unmanaged. Investors cannot invest directly in an index. Index returns do not include expenses. See page 8 for index definitions and other important disclosures.

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

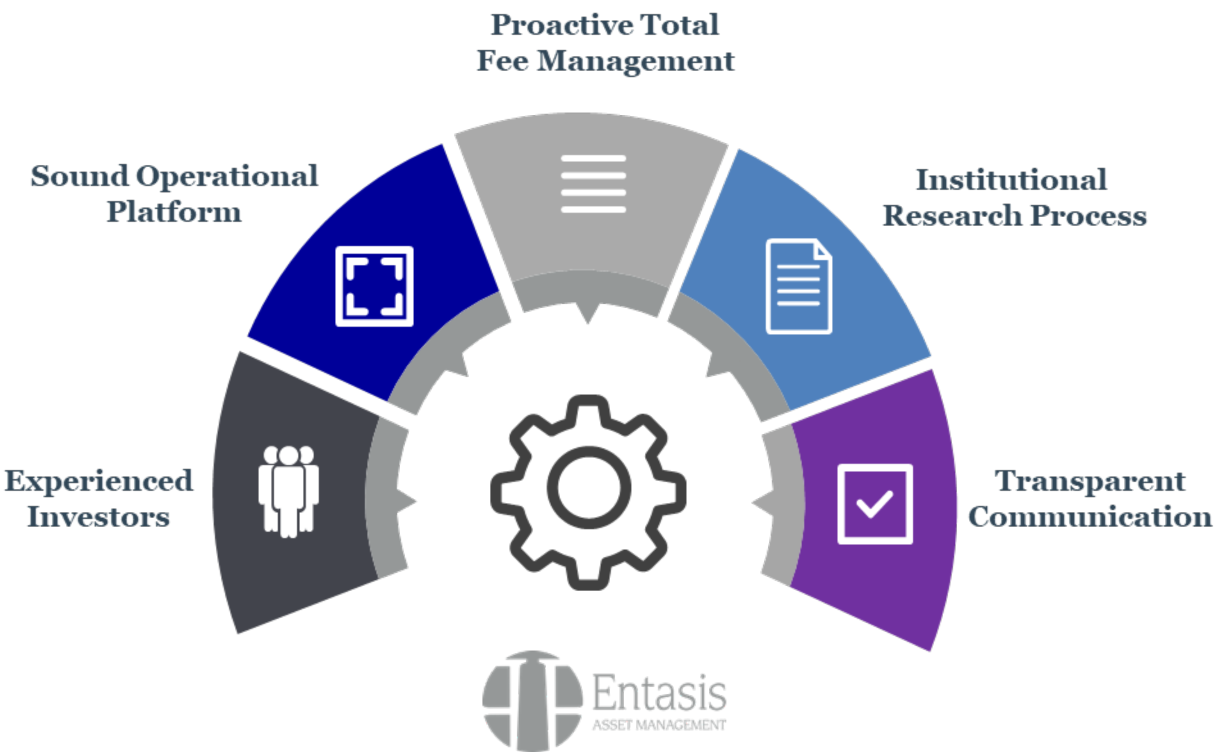
Mike Peters, CFA® is Founder and Senior Wealth Advisor at Entasis Asset Management. Mike has 21 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served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