ENTASIS ASSET MANAGEMENT

MARKET HIGHLIGHTS

August 2025

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.” – Mark Twain

While Twain isn’t exactly an oft-quoted investor, that axiom presents a valuable investing premise. In short, data can be ignored for short periods by the financial markets, but over the long-term ignoring facts that have proven to be consistently true historically, can prove detrimental to portfolio results.

In financial markets this means that eventually the gaps between large growth stock valuations and value stocks, small-cap stocks and foreign stocks will prove unsustainable. We know “it just ain’t so” that those gaps will persist forever.

We also know “it just ain’t so” that the yield gap (spreads) between U.S. Treasury bonds and corporate bonds, especially lower quality issuers, will stay as tight as they are and have been for the recent past.

History may not repeat itself exactly, but it tends to rhyme.

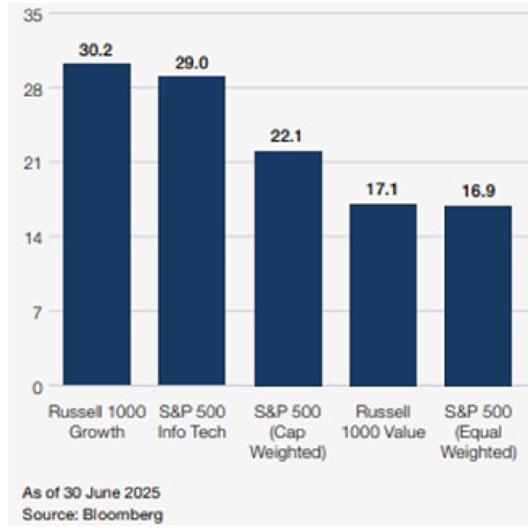
Our goals remain the same. Be cognizant of the trends driving price movements in the short-term, but don’t overcommit. And understand the current market drivers that “just ain’t so” over the long-term, because in those areas are the opportunity for future returns, and quite often, the areas that provide downside protection as markets normalize.

Summary

- We are encouraged by the resiliency of corporate earnings but are weary of rampant speculation and historically high valuations across a variety of metrics.
- Value-oriented equities have historically outperformed growth by a sizable margin when the valuation differential is significant.
- The U.S. Federal Reserve (Fed) is widely expected to begin cutting interest rates in the second half of 2025, with a growing consensus that the first move could come as early as September.
- A shift in U.S. policies, and global macroeconomic changes led to at least some realization that investment opportunities remain outside the U.S. stock market.

We greatly value the trust our clients have placed in us and welcome any questions you may have. Thank you for reading our Highlights.

Highlight 1 – Speculation & Valuations

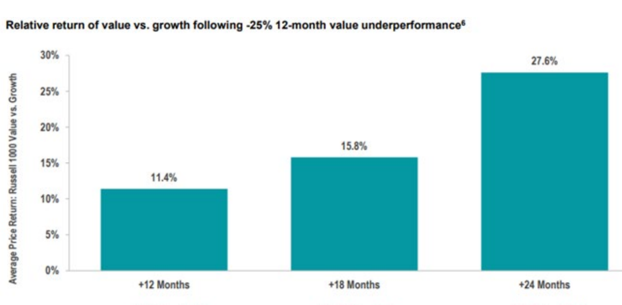


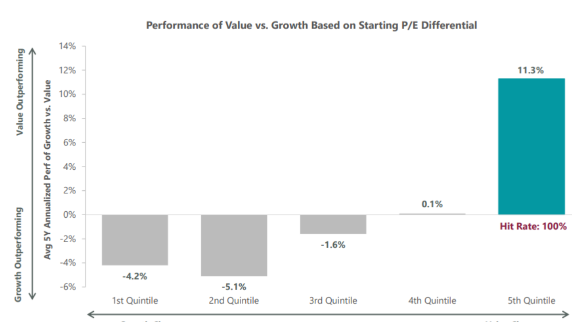
Source: Lazard – Global Mid-Year Outlook 2025

- In the short run, corporations have continued to generate relatively strong earnings, with the expectation for further gains for the remainder of 2025 and 2026. The combination of earnings and tax cuts, reduced tariff concerns, and the potential for the Fed to cut interest rates, also led to a resurgence in market speculation. Some of the largest returns from market lows in April included groups of stocks (Goldman Sachs defined) such as meme stocks, unprofitable tech, most-shorted names, and bitcoin sensitive.
- The ramp in stock prices in speculative areas of the market, and many of the Magnificent 7 tech stocks, resulted in a sharp uptick in valuation levels. The Russell 1000® Growth Index surpassed the 30x forward P/E level and the information technology sector was close behind at 29x (forward P/E). Both levels were significantly higher than the broad S&P 500® Index (22x), and the Russell 1000® Value Index level of 17x (see chart above right).
- We are encouraged by the resiliency of corporate earnings but are weary of rampant speculation and historically high valuations across a variety of metrics.

Highlight 2 – The Growth to Value Gap

- Growth-oriented equities outperformed value-oriented equities over the past year, in large part because of gains from the Mag-7. Historically, when value-oriented equities lagged growth-oriented equities by a sizable margin, relative gains for value-oriented equities have tended to be quite attractive in subsequent years, notably over the next 18-24 months (bar chart below left). Providing further support beyond the comparison of price returns, value-oriented equities have also historically outperformed growth by a sizable margin when the valuation differential is significant (bar chart below right). Just as there are bear and bull market cycles, there are also style-oriented cycles, market-capitalization cycles, and global equity cycles. While the duration and extremes of these cycles has varied over time, leadership has always fluctuated – nothing is finite. We do not believe this time is different.

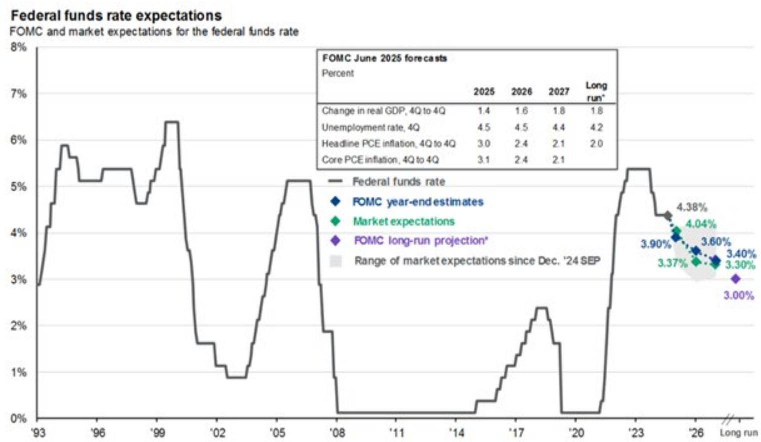




Source: Franklin Templeton – The Anatomy of a Recession – 3Q 2025 & 2Q2025

Highlight 3 – Rate Cuts Coming?

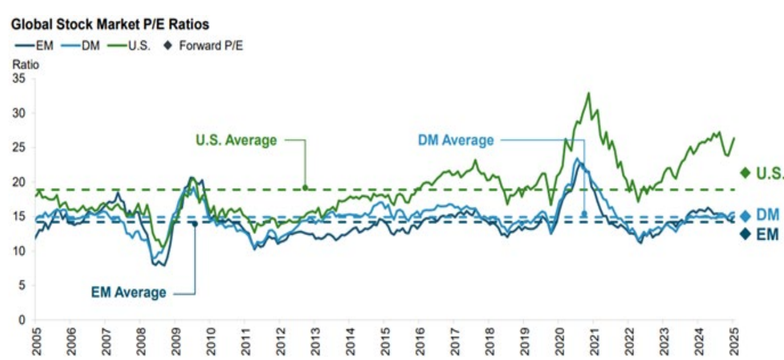
- The U.S. Federal Reserve (Fed) is widely expected to begin cutting interest rates in the second half of 2025, with a growing consensus that the first move could come as early as September.
- Inflation, while still above the Fed's 2% target, has been mostly on a downward trend, and recent economic data has started to show signs of softening across key areas. Most notably, the labor market—which had remained surprisingly resilient—has now begun to exhibit weakness. Slower job growth, a modest uptick in unemployment claims, and signs of declining wage pressures all suggest that the economy may be losing momentum more quickly than previously anticipated. This shift in employment conditions adds urgency to the Fed's policy outlook. Officials had already adopted a patient, data-dependent stance, weighing the risk of maintaining restrictive rates too long against the need to ensure inflation is firmly under control. However, with inflation moderating and labor conditions deteriorating, the balance of risks has started to shift to the downside, increasing the odds of a rate cut in the near term.



Source: JP Morgan

Highlight 4 – Beyond the U.S.

- Two years of historically narrow markets left many investors questioning the benefits of owning anything beyond a handful of stocks. However, a shift in U.S. policies, and global macroeconomic changes led to at least some realization that investment opportunities remain outside the U.S. stock market.
- Historically, U.S. equities have traded at a premium to foreign equities (i.e. at a higher valuation multiple) because of a favorable business environment and attractive growth characteristics. However, over a decade of U.S. outperformance has left many foreign countries and currencies priced at discounts well beyond historical averages (chart to right).



Source: Fidelity – Quarterly Market Update – Third Quarter 2025

Market Performance

Annualized % Returns (As of 6/30/2025)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	15.16	19.71	16.64	13.65
Russell 1000 Index	Mid/Large Cap Stocks	15.66	19.59	16.30	13.35
Russell 1000 Growth Index	Growth Stocks	17.22	25.76	18.15	17.01
Russell 1000 Value Index	Value Stocks	13.70	12.76	13.93	9.19
Russell 2000 Index	Small Cap Stocks	7.68	10.00	10.04	7.12
MSCI EAFE Index	Non-U.S. Developed Market Stocks	17.73	15.97	11.16	6.51
MSCI Emerging Markets Index	Emerging Markets Stocks	15.29	9.70	6.81	4.81
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	18.34	13.46	10.74	6.54
Barclays Municipal Bond Index	U.S. Municipal Bonds	1.11	2.50	0.51	2.20
Barclays Aggregate Bond Index	U.S. Bonds	6.08	2.55	-0.73	1.76
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	6.74	3.57	0.64	2.04
BofAML U.S. Treasury Master Index	Treasury Bonds	5.18	1.31	-1.76	1.19
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	6.42	2.28	-0.63	1.31
BofAML U.S. Corporate Master Index	Corporate Bonds	7.03	4.47	0.36	2.99
BofAML U.S. High Yield Master II Index	High Yield Bonds	10.24	9.86	6.00	5.29

Annualized % Returns (As of 7/31/2025)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	16.33	17.10	15.88	13.66
Russell 1000 Index	Mid/Large Cap Stocks	16.54	16.94	15.49	13.38
Russell 1000 Growth Index	Growth Stocks	23.75	22.60	17.27	17.06
Russell 1000 Value Index	Value Stocks	8.79	10.59	13.18	9.20
Russell 2000 Index	Small Cap Stocks	-0.55	7.03	9.81	7.43
MSCI EAFE Index	Non-U.S. Developed Market Stocks	12.77	13.57	10.34	6.14
MSCI Emerging Markets Index	Emerging Markets Stocks	17.18	10.50	5.40	5.77
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	14.19	11.42	9.70	6.76
Barclays Municipal Bond Index	U.S. Municipal Bonds	0.00	1.54	0.13	2.11
Barclays Aggregate Bond Index	U.S. Bonds	3.38	1.64	-1.07	1.66
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	4.62	2.97	0.46	1.99
BofAML U.S. Treasury Master Index	Treasury Bonds	2.49	0.63	-2.07	1.05
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	3.28	1.09	-0.75	1.20
BofAML U.S. Corporate Master Index	Corporate Bonds	4.72	3.51	-0.23	2.95
BofAML U.S. High Yield Master II Index	High Yield Bonds	8.55	7.88	5.11	5.39

Calendar Year % Returns (YTD as of 7/31/2025)

	YTD	2024	2023	2022	2021	2020
S&P 500 Index	8.59	25.02	26.29	-18.11	28.71	18.40
Russell 1000 Index	8.48	24.51	26.53	-19.13	26.45	20.96
Russell 1000 Growth Index	10.10	33.36	42.68	-29.14	27.60	38.49
Russell 1000 Value Index	6.61	14.37	11.46	-7.54	25.16	2.80
Russell 2000 Index	-0.08	11.54	16.93	-20.44	14.82	19.96
MSCI EAFE Index	17.77	3.82	18.24	-14.45	11.26	7.82
MSCI Emerging Markets Index	17.51	7.50	9.83	-20.09	-2.54	18.31
MSCI ACWI Ex USA Small Cap Index	17.87	3.36	15.66	-19.97	12.93	14.24
Barclays Municipal Bond Index	-0.55	1.05	6.40	-8.53	1.52	5.21
Barclays Aggregate Bond Index	3.75	1.25	5.53	-13.01	-1.54	7.51
Barclays Intermediate U.S. Gov/Credit Index	3.99	3.00	5.24	-8.23	-1.44	6.43
BofAML U.S. Treasury Master Index	3.39	0.51	3.87	-12.85	-2.38	8.22
BofAML U.S. Mortgage Backed Securities Index	3.74	1.33	4.98	-11.88	-1.21	4.09
BofAML U.S. Corporate Master Index	4.35	2.76	8.40	-15.44	-0.95	9.81
BofAML U.S. High Yield Master II Index	4.97	8.20	13.47	-11.21	5.35	6.07

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 28 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 22 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

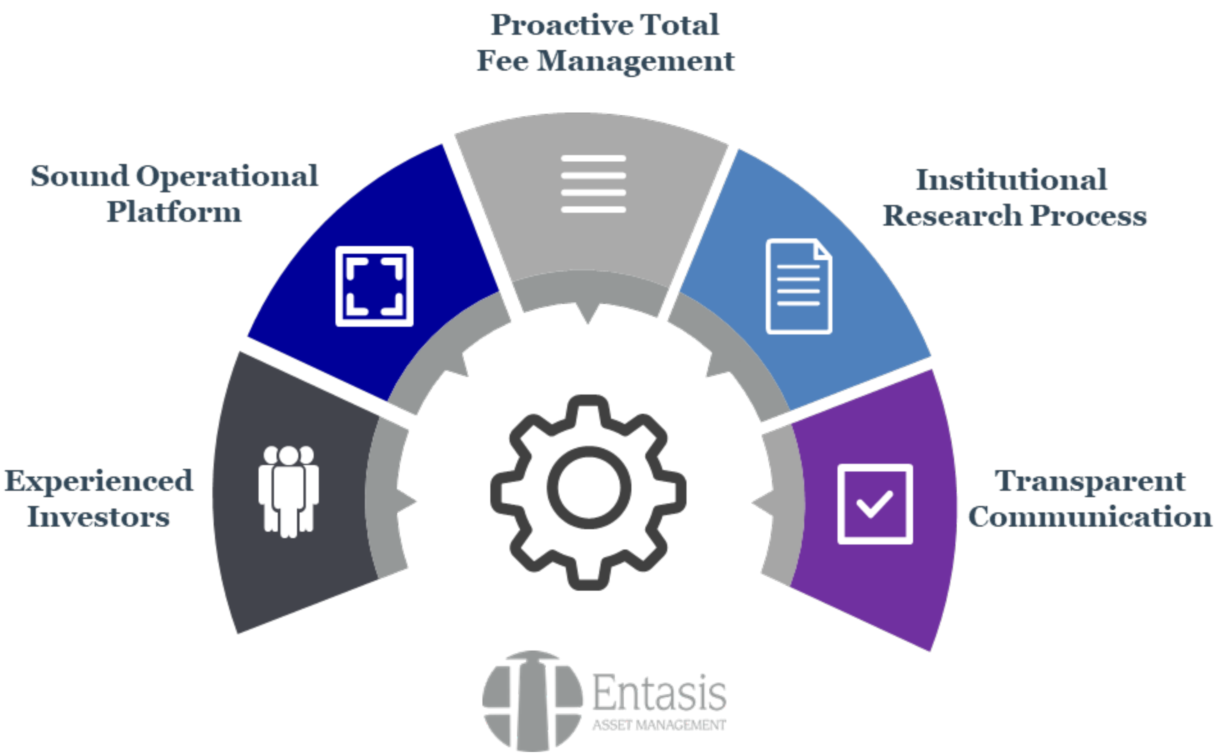
Mike Peters, CFA® is Founder and Senior Wealth Advisor at Entasis Asset Management. Mike has 22 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served 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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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 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. 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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