

A large, light gray, stylized number '1' is centered on the page, serving as a background for the text. The number has a modern, rounded design with a slight shadow effect.

ENTASIS ASSET MANAGEMENT

MARKET HIGHLIGHTS

February 2026



The Basics

At a fundamental level, anytime you buy an asset the hope is that someone else will see value in it at a price higher than where you purchased it, so you can ultimately sell it at a profit in the future.

The implication of this fundamental truth is clear – if everyone has the same opinion, there will never be anyone to sell to or willing to sell. In application this means that it is necessary to have a view that varies from consensus if you wish to make money investing. That difference in view could be relative to where you buy or sell. This is why investing is inherently fraught with risk and requires more than just the belief something is a good investment. It requires appropriate analysis that extends beyond a CNBC story, a quick review of a price chart or coffee with a friend that has a can't miss idea.

Even then, even after analysis, there is the risk you might be wrong. This is why our investment process places a premium on the concept of buying with a “margin of safety.” The goal is to minimize the risk of loss even if we are wrong by having a cushion between the current price and our belief in the future value of an investment. After three years of pretty solid gains in the stock market, finding these cushions has become more difficult, but not impossible. Returns of the last few years have been heavily concentrated so we are mining the gaps or ignored areas of the market for opportunities. We are holding certain pockets of strength (letting certain winners run), but we are tilting portfolios to areas of discounted value where we believe there is equal upside and a greater margin of safety from these levels.

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

Summary

- Over \$1.6 trillion dollars flowed into U.S. large cap funds from 2020 to 2025, while other areas of the market, such as US small-cap funds, experienced net outflows. History favors that trend unwinding.
- U.S. equities have benefited from a strong U.S. dollar for over a decade. However, this longer-term trend began to dissipate last year as a weakening U.S. dollar provided a boost to unhedged foreign investments.
- The trend of value stocks outperforming growth stocks has continued into 2026. We are unsure whether it will continue, but history favors the trend.
- Further interest rate cuts appear to be on hold until about mid-2026 as the U.S. Federal Reserve (Fed) balances inflation risks and a soft labor market.

Bob

Colin

Neil

David



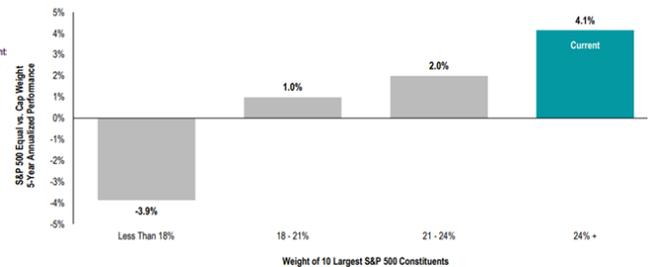
Highlight 1 – Market Breadth?

- A continual stream of investment into some of the largest technology-related companies (“Mag-7”) sharply increased these companies’ relative weights as a percentage share of the entire U.S. equity market. In fact, over \$1.6 trillion dollars flowed into U.S. large cap funds from 2020 to 2025, while other areas of the market, such as US small-cap funds, experienced net outflows. The end result has been an extremely concentrated market. At the end of 2025, the top ten holdings accounted for over 40% of the S&P 500® Index (chart bottom left).
- Historically, extreme levels of market concentration have not continued indefinitely as lofty investor expectations eventually met economic reality. For example, following periods where the top ten holdings in the S&P 500® Index accounted for 24% or more of the index, the remainder of the S&P 500® Index outperformed over the subsequent five-year period. For instance, the S&P 500 Equal-Weight Index (i.e. all companies in the index are the same weight rather than weighted by the market-cap of the individual company) has historically outperformed the market-cap weighted S&P 500® Index by 4.1% annualized over the next five years (chart bottom right).

Sum of 10 Largest Company Weights in the S&P 500



Index Concentration vs. Next Five-Year Performance of Equal vs. Cap-Weighted S&P 500



Source: Franklin Templeton – The Anatomy of a Recession – 1Q 2026

Highlight 2 – Dollar Weakness

- One unloved area that we continue to have a favorable long-term outlook is foreign companies. Going into 2025, U.S. equities had benefited from a strong U.S. dollar for over a decade (chart top left). However, this longer-term trend began to dissipate last year and continued into 2026 as a weakening U.S. dollar provided a boost to unhedged foreign investments.
- Our current belief is that the U.S. dollar will remain challenged over the intermediate-term as a combination of domestic fiscal and monetary policies, and asset diversification among foreign central banks, among other *(continued on next page)*

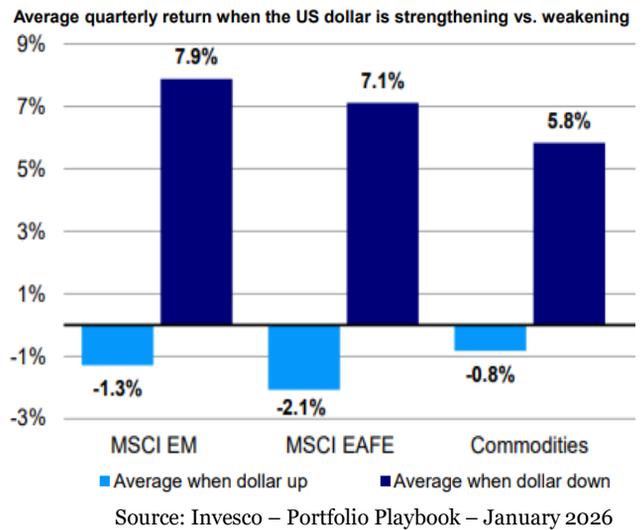
Real Broad Trade-Weighted US Dollar Index



Source: Invesco – Portfolio Playbook – January 2026



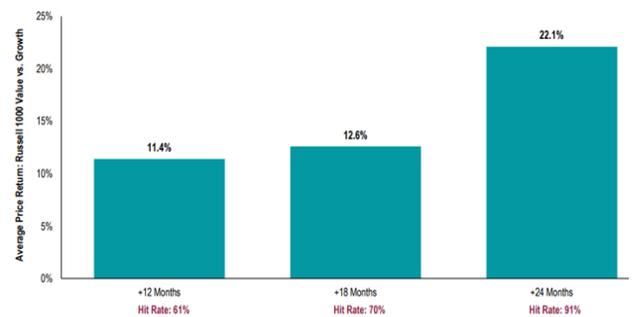
- factors, will maintain an environment that is conducive to a gradual revaluation of the U.S. dollar. Therefore, we believe foreign investments (developed and emerging markets) will continue to provide investors with a diversified source of return potential in the years ahead.
- The direction of the U.S. dollar has historically been a large determinant of the relative performance of U.S. domiciled investments compared to foreign domiciled investments. During periods when the U.S. dollar weakened relative to a basket of foreign currencies, foreign investment indices such as the MSCI Emerging Markets Index and the MSCI EAFE® Index registered significantly stronger gains compared to periods when the U.S. dollar strengthened (chart top right).



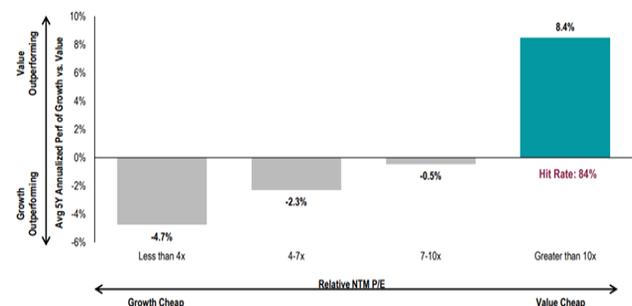
Highlight 3 – Style Rotation?

- Growth-oriented stocks performed strongly during the middle two quarters of 2025. However, the gap narrowed towards the end of 2025 (on a rolling 12-month basis) as value-oriented stocks outperformed growth stocks in the fourth quarter. The trend of value stocks outperforming growth stocks continued into January 2026.
- We do not know whether value stocks will continue to outperform growth stocks over the short run, but we believe history may favor the trend. Based on data in the chart to the right, when growth stocks outperform value stocks by a significant margin over a 12-month period, the performance pendulum tends to swing back in favor of value stocks over the subsequent 24 months.
- A similar theme has also been witnessed between growth and value stocks when the starting valuation gap (as measured by starting price-to-earnings ratio – “P/E”) is large. (See chart to right.) When there is a valuation difference of 10x or larger in favor of growth stocks, value has historically outperformed growth by a relatively large margin over the subsequent five-year period.

Relative Return of Value vs. Growth Following -25% 12-Month Value Underperformance



Performance of Value vs. Growth Based on Starting P/E Differential



Source: Franklin Templeton – The Anatomy of a Recession – 1Q2026



Highlight 4 – Inflation or Employment?

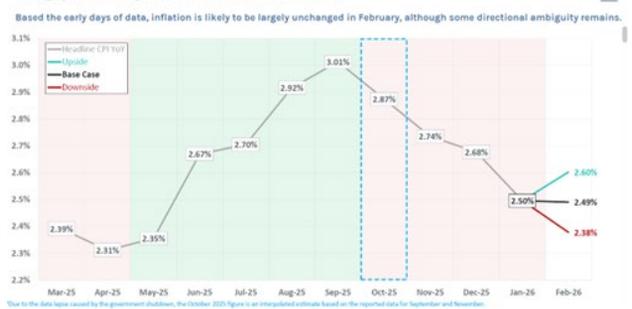
- Labor-market conditions continued to soften, which has created a difficult backdrop for Fed policy around interest rates. (See top chart to right.) The slowdown reflects both cyclical and structural forces: hiring demand has eased across sectors, while labor-force growth has moderated. At the same time, firms are beginning to incorporate AI-driven efficiencies—particularly in white-collar roles—which has contributed to slower net hiring at the margin.
- Inflation, however, remains the binding constraint. (See middle chart to right.) While price pressures have improved meaningfully since the tightening cycle began in 2022, policymakers continue to describe inflation as elevated and not yet consistent with the 2% target. Growth has remained resilient enough to sustain concerns about premature easing, leaving the Fed balancing solid economic momentum against a deteriorating labor backdrop.
- As a result, markets have shifted toward a “higher for longer” stance as it relates to interest rates, with the next cut increasingly likely to be pushed into mid-2026 absent further disinflation. (See bottom chart to right.) The policy tradeoff remains clear: easing too soon risks reigniting inflation, while holding rates elevated risks further weakening employment—particularly as AI adoption and constrained labor supply continue to reshape hiring dynamics.

Labor Demand Loses Altitude



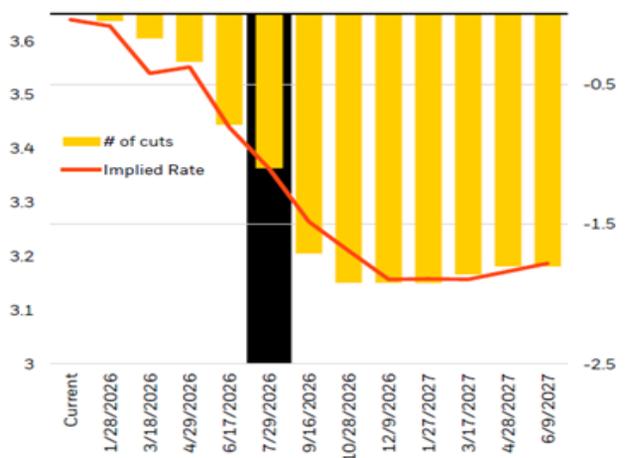
Source: TCW Metwest

Hedgeye Monthly Inflation Nowcast (Headline CPI YoY)



Source: Hedgeye

Implied rate and number of Fed cuts¹



Source: Blackrock

Market Performance



Annualized % Returns (As of 12/31/2025)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	17.88	23.01	14.42	14.82
Russell 1000 Index	Mid/Large Cap Stocks	17.37	22.74	13.59	14.59
Russell 1000 Growth Index	Growth Stocks	18.56	31.15	15.32	18.13
Russell 1000 Value Index	Value Stocks	15.91	13.90	11.33	10.53
Russell 2000 Index	Small Cap Stocks	12.81	13.73	6.09	9.62
MSCI EAFE Index	Non-U.S. Developed Market Stocks	31.22	17.22	8.92	8.18
MSCI Emerging Markets Index	Emerging Markets Stocks	33.57	16.40	4.20	8.42
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	29.26	15.61	6.91	8.13
Barclays Municipal Bond Index	U.S. Municipal Bonds	4.25	3.88	0.80	2.34
Barclays Aggregate Bond Index	U.S. Bonds	7.30	4.66	-0.36	2.01
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	6.97	5.06	0.96	2.29
BofAML U.S. Treasury Master Index	Treasury Bonds	6.19	3.49	-1.17	1.32
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	8.33	4.84	0.06	1.58
BofAML U.S. Corporate Master Index	Corporate Bonds	7.78	6.28	0.11	3.36
BofAML U.S. High Yield Master II Index	High Yield Bonds	8.50	10.03	4.50	6.44

Annualized % Returns (As of 1/31/2026)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	16.35	21.11	14.99	15.57
Russell 1000 Index	Mid/Large Cap Stocks	15.31	20.66	14.09	15.38
Russell 1000 Growth Index	Growth Stocks	14.50	27.05	15.14	18.63
Russell 1000 Value Index	Value Stocks	15.83	13.67	12.53	11.61
Russell 2000 Index	Small Cap Stocks	15.81	12.20	6.16	11.21
MSCI EAFE Index	Non-U.S. Developed Market Stocks	31.18	16.17	10.27	9.55
MSCI Emerging Markets Index	Emerging Markets Stocks	42.84	16.74	5.34	10.08
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	35.78	15.34	8.29	9.68
Barclays Municipal Bond Index	U.S. Municipal Bonds	4.70	3.22	0.86	2.32
Barclays Aggregate Bond Index	U.S. Bonds	6.85	3.65	-0.20	1.88
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	6.44	4.44	1.03	2.17
BofAML U.S. Treasury Master Index	Treasury Bonds	5.66	2.63	-0.93	1.11
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	8.37	3.95	0.16	1.52
BofAML U.S. Corporate Master Index	Corporate Bonds	7.51	5.06	0.43	3.35
BofAML U.S. High Yield Master II Index	High Yield Bonds	7.54	8.81	4.52	6.66

Calendar Year % Returns (YTD as of 1/31/2026)

	MTD	2025	2024	2023	2022	2021
S&P 500 Index	1.45	17.88	25.02	26.29	-18.11	28.71
Russell 1000 Index	1.38	17.37	24.51	26.53	-19.13	26.45
Russell 1000 Growth Index	-1.51	18.56	33.36	42.68	-29.14	27.60
Russell 1000 Value Index	4.56	15.91	14.37	11.46	-7.54	25.16
Russell 2000 Index	5.35	12.81	11.54	16.93	-20.44	14.82
MSCI EAFE Index	5.22	31.22	3.82	18.24	-14.45	11.26
MSCI Emerging Markets Index	8.85	33.57	7.50	9.83	-20.09	-2.54
MSCI ACWI Ex USA Small Cap Index	6.44	29.26	3.36	15.66	-19.97	12.93
Barclays Municipal Bond Index	0.94	4.25	1.05	6.40	-8.53	1.52
Barclays Aggregate Bond Index	0.11	7.30	1.25	5.53	-13.01	-1.54
Barclays Intermediate U.S. Gov/Credit Index	0.08	6.97	3.00	5.24	-8.23	-1.44
BofAML U.S. Treasury Master Index	0.05	6.19	0.51	3.87	-12.85	-2.38
BofAML U.S. Mortgage Backed Securities Index	0.58	8.33	1.33	4.98	-11.88	-1.21
BofAML U.S. Corporate Master Index	0.36	7.78	2.76	8.40	-15.44	-0.95
BofAML U.S. High Yield Master II Index	0.48	8.50	8.20	13.47	-11.21	5.35

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.

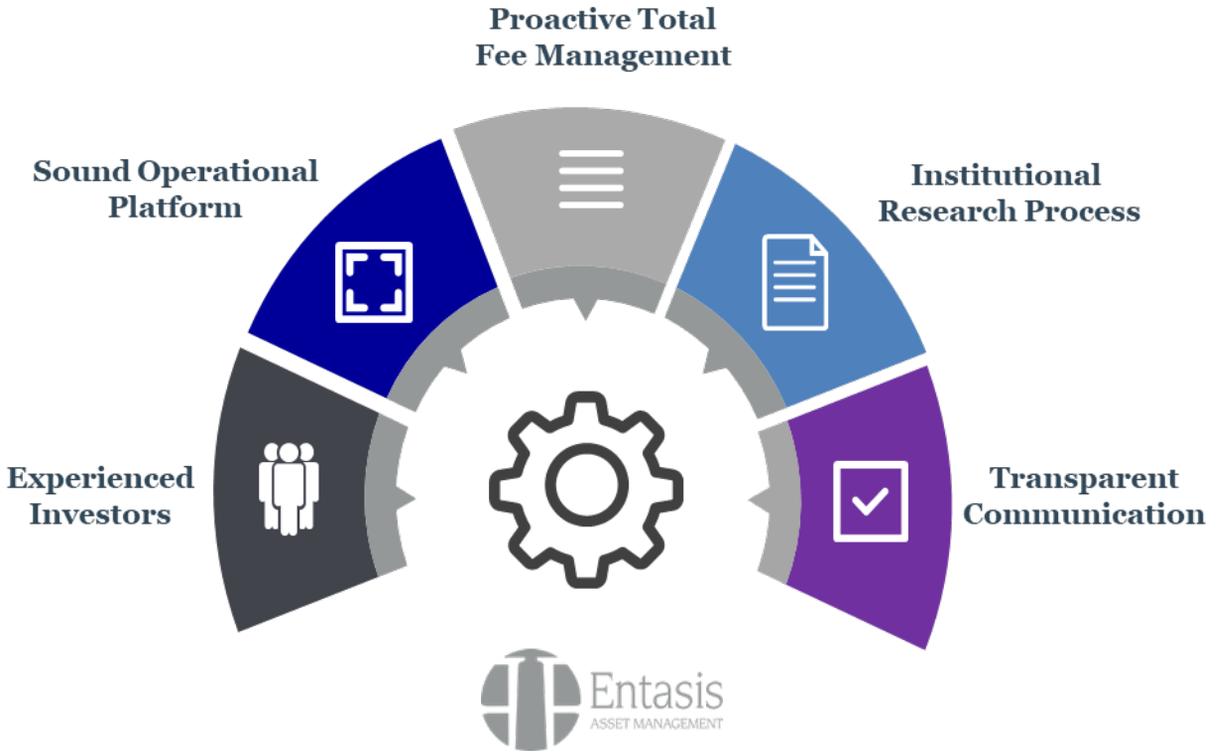
Mike holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. Mike is a member of the CFA Institute and CFA Society of Milwaukee.



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.





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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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