ENTASIS ASSET MANAGEMENT

MARKET HIGHLIGHTS

May 2026

A Mosaic

In art, a mosaic is a group of closely set pieces of various colors that together form a larger pattern or image. Recently, an artist named Jeffrey Adam Meszaros showed up on social media. He creates fascinating mosaics out of all things – discarded beer bottle caps. Look at jambottlecapart.com if you are interested to see some of his work.

In the investing world, just about every investment decision is a mosaic. Data, news stories and reports are the tesserae (core components) used to create the image/conclusion. This year the list of tesserae has included things such as the growing use of AI, a war in Iran, new leadership at the Fed, inflation risks, private credit market risks, elevated valuations in the U.S., energy prices, earnings expectations, upcoming large IPOs and labor markets, among others.

Taken individually, none of those things reveals much of a picture and can lead to binary outcomes and, by extension, unnecessary portfolio risk. Our goal is to step back and create the best mosaic we can from the information we have to produce the most optimal risk adjusted return outcomes we can for clients.

In the current environment that means maintaining a stable core in client portfolios while creating some near-term tilts that account for the likelihood of inflation risks, economic growth and U.S. dollar softening. The highlights included will delve into the specifics.

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

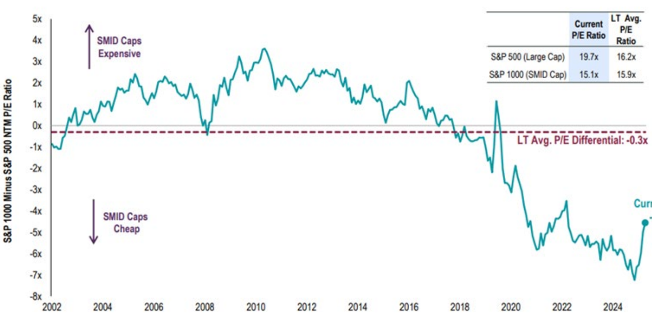
Bob David

Summary

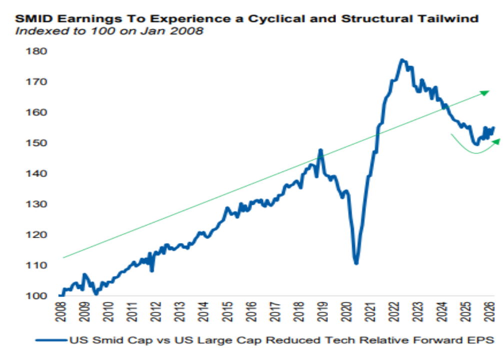
- The gap between smid-cap stocks and large-cap stocks has widened significantly since the pandemic in 2020. We believe the environment is favorable for the valuation disparity to narrow.
- Positive earnings growth, compared to developed markets, underpins relatively attractive valuations in emerging markets.
- One asset class that has performed well during periods of unexpectedly high inflation is commodities, which have a positive sensitivity (beta) to inflation surprises.
- The April FOMC meeting was Jerome Powell's final meeting as Fed Chair.
- Historically, starting yields have shown a strong correlation with forward 5-year rolling fixed income returns. With portfolio yields currently in excess of 5%, we believe the environment for fixed income remains favorable.

Highlight 1 – The SMID Story

- Small- and mid-cap stocks ("SMID") have historically traded at similar valuation levels compared to large-cap stocks (chart lower left – red dotted line). However, the gap between smid-cap stocks and large-cap stocks has widened significantly since the pandemic in 2020. While some of the disparity has been justified because of strong earnings from mega-cap technology-related stocks, we believe the environment is now more favorable for a narrowing of the valuation disparity.
- The most notable factors we believe may be supportive of smid-caps moving forward include, a broadening of economic growth, a focus on deglobalization, an improved regulatory environment, a gradual unwind of market concentration, and an improved tax environment.
- From a fundamental perspective, smid-caps are also in the midst of an improvement in earnings growth on an absolute and relative basis. The relative improvement in earnings (compared to large-caps) can be seen in the chart below right, where smid-cap earnings appear to be at an inflection point.



Source: Franklin Templeton – The Anatomy of a Recession – 2Q 2026

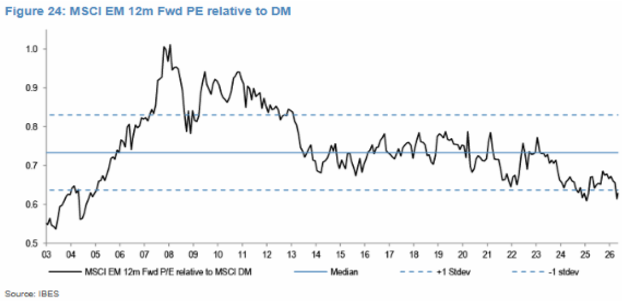


Source: Eaton Vance – The BEAT – 2Q 2026

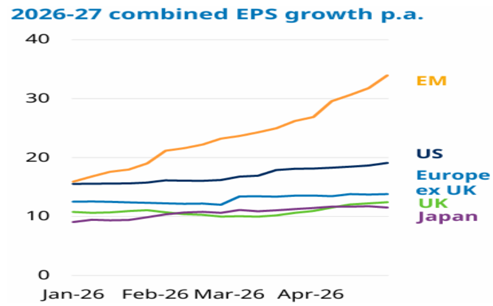
Highlight 2 – The Emerging Markets Environment

- From a valuation perspective, emerging markets (in aggregate) are currently trading at a forward P/E of approximately 12x (MSCI EM Index), compared to a forward P/E of roughly 20x for developed markets (MSCI DM Index). This equates to a "discount" for emerging markets relative to developed markets of approximately 37%, which is significantly larger than the historical median (see chart top left next page).
- Positive earnings growth underpins relatively attractive valuation levels. Current estimated earnings growth rates are projected at over 50% for 2026 and nearly 20% for 2027. The combined earnings growth rate over the next two years (annualized) places emerging markets well ahead of other developed markets countries and regions (see chart top right next page).
- Based on historical valuations, the U.S. dollar remains expensive relative to emerging markets. The U.S. dollar tends to strengthen during periods of tumult, such as was seen so far in 2026. However, we believe the environment will moderate as geopolitical

(continued on next page)



Source: Hamilton Lane – Weekly Research Briefing – May 12, 2026



Source: Schroders Equity Lens – May 2026

tensions subside and a relatively attractive economic backdrop leads to a revaluation of the U.S. dollar. Historically, a weakening U.S. dollar has been a strong driver of emerging markets equity returns.

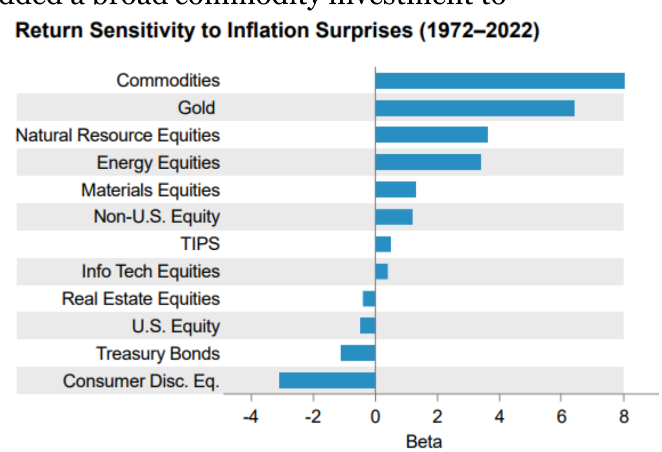
- Overall, we believe the combination of relatively attractive valuations, strong earnings growth, and a favorable currency setup provides an attractive environment for U.S. based investors in emerging markets.

Highlight 3 – A Case for Commodities

The conflict in Iran has led to higher oil and gas prices, which has stoked inflationary concerns. This has been a contributing factor for the U.S. Federal Reserve (Fed) to delay, eliminate, or even reverse earlier projected interest rate cuts.

- Inflation is one of the primary risks we routinely highlight in our investment meetings. If inflation were to become entrenched at higher levels, and interest rates continued to climb, it could potentially change the direction of financial markets.
- One asset class that has performed well during periods of unexpectedly high inflation is commodities. As can be seen in the chart below, commodities have a positive sensitivity (beta) to inflation surprises. This is also the case for natural resource, energy and materials equities.

Because of increased inflationary concerns, along with our belief that inflationary pressures may continue for longer than expected, we added a broad commodity investment to portfolios. The manager invests in commodity-linked derivatives and in the stocks of commodity-related companies in the mining, energy, and agricultural sectors. We believe the investment may provide attractive risk-adjusted returns and serve as ballast to areas of the portfolio that are more sensitive to changes in inflation expectations and an increase in rates.



Source: Fidelity Quarterly Market Update (2Q 2024)

Highlight 4 – A New Fed

- At the April FOMC meeting and Jerome Powell's final meeting as Fed Chair, the committee voted to maintain the federal funds target range at 3.50%-3.75%. The statement acknowledged elevated inflation and uncertainty stemming from the Middle East driven oil shock. While the Fed maintained its easing bias, the decision revealed growing internal division, with four dissents highlighting differing views on rate cuts and inflation risks. Powell also confirmed he will remain on the Board following the end of his Chair term to support institutional continuity and avoid a "shadow Chair" dynamic as Kevin Warsh assumes leadership.
- Although Powell's continued presence may limit immediate policy changes, Warsh has signaled meaningful operational shifts that could materially alter how markets interpret Fed policy:

W – Withdrawal from forward guidance and reduced communication frequency

A – Anchoring policy to trimmed inflation measures rather than forecasts

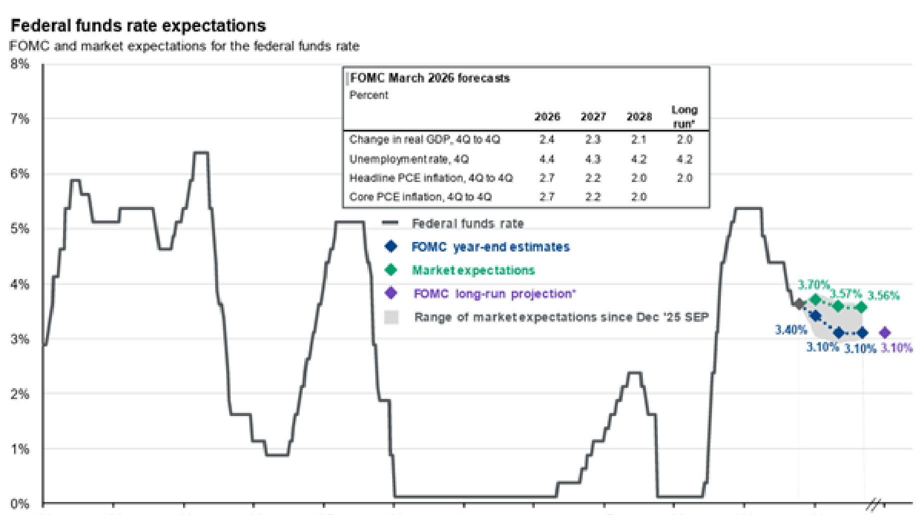
R – Reduction in the size of the Fed balance sheet

S – Smaller regulatory footprint

H – Honor Fed independence through stronger inflation discipline

Source: JP Morgan

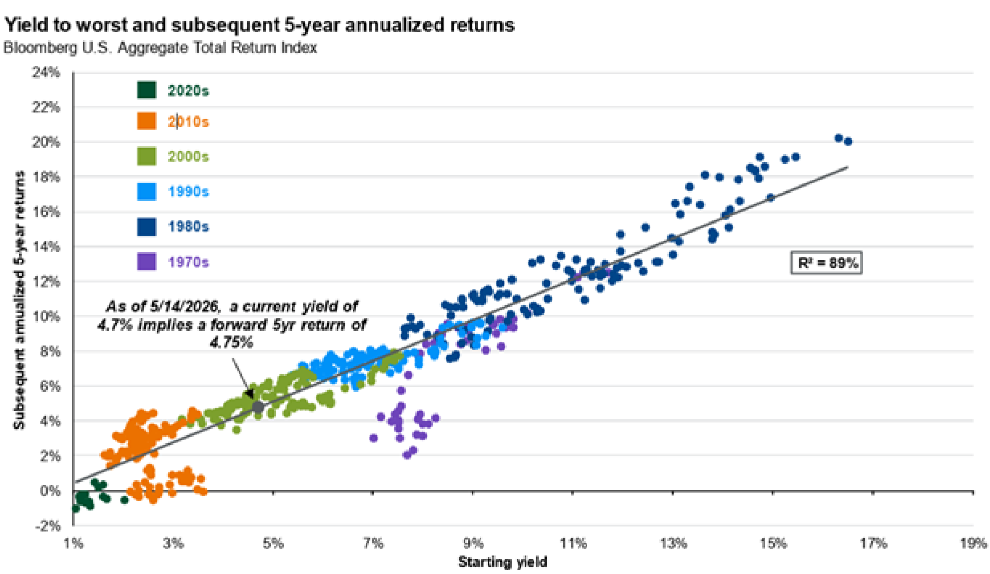
- For investors, the Fed is still likely to remain on hold near-term given stable employment conditions and inflation remaining above target. However, the structure, tone, and frequency of Fed communication could change more rapidly under Warsh. The growing lack of cohesion within the committee may also contribute to increased market volatility and uncertainty around future policy direction.



Source: JP Morgan

Highlight 5 – The Role of Fixed Income

- Following the sharp Fed tightening cycle in 2022, the historical relationship between stocks and bonds temporarily broke down as both asset classes declined simultaneously. More recently correlations have normalized back toward historically negative levels, allowing high-quality fixed income to resume its traditional role as a portfolio stabilizer during periods of equity market stress.
- In addition to diversification benefits, fixed income once again offers attractive income generation after more than a decade of near-zero interest rates. With rates remaining well above inflation across much of the curve, investors now can generate meaningful positive real returns while helping preserve purchasing power.
- Historically, starting yields have shown a strong correlation with forward 5-year rolling fixed income returns. With portfolio yields currently in excess of 5%, we believe the fixed income environment remains favorable for generating attractive long-term risk-adjusted returns going forward.
- Overall, we believe today's bond market offers a compelling combination of:
    1. Attractive income generation
    2. Improved diversification benefits
    3. Positive real yields
    4. Enhanced long-term return potential



Source: JP Morgan

Annualized % Returns (As of 03/31/2026)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	17.80	18.32	12.06	14.16
Russell 1000 Index	Mid/Large Cap Stocks	17.74	18.14	11.34	13.97
Russell 1000 Growth Index	Growth Stocks	18.81	21.18	12.76	16.83
Russell 1000 Value Index	Value Stocks	15.87	14.31	9.43	10.58
Russell 2000 Index	Small Cap Stocks	25.72	13.05	3.77	9.88
MSCI EAFE Index	Non-U.S. Developed Market Stocks	21.27	13.62	7.91	8.38
MSCI Emerging Markets Index	Emerging Markets Stocks	29.55	14.84	3.69	7.80
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	27.82	13.67	5.66	8.01
Barclays Municipal Bond Index	U.S. Municipal Bonds	4.29	2.87	0.84	2.16
Barclays Aggregate Bond Index	U.S. Bonds	4.35	3.63	0.31	1.70
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	4.41	4.24	1.33	2.04

Annualized % Returns (As of 04/30/2026)

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	31.05	21.69	13.14	15.26
Russell 1000 Index	Mid/Large Cap Stocks	30.42	21.49	12.32	15.01
Russell 1000 Growth Index	Growth Stocks	30.63	25.40	13.82	18.26
Russell 1000 Value Index	Value Stocks	29.25	16.75	10.29	11.22
Russell 2000 Index	Small Cap Stocks	44.41	18.19	5.75	10.98
MSCI EAFE Index	Non-U.S. Developed Market Stocks	24.60	15.30	8.83	8.85
MSCI Emerging Markets Index	Emerging Markets Stocks	46.68	20.67	6.05	9.23
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	34.14	16.73	6.70	8.73
Barclays Municipal Bond Index	U.S. Municipal Bonds	6.34	3.34	0.90	2.20
Barclays Aggregate Bond Index	U.S. Bonds	4.06	3.46	0.18	1.67
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	3.67	4.11	1.27	2.03

Calendar Year % Returns (YTD as of 04/30/2026)

	YTD	2025	2024	2023	2022	2021
S&P 500 Index	5.70	17.88	25.02	26.29	-18.11	28.71
Russell 1000 Index	5.50	17.37	24.51	26.53	-19.13	26.45
Russell 1000 Growth Index	0.96	18.56	33.36	42.68	-29.14	27.60
Russell 1000 Value Index	10.43	15.91	14.37	11.46	-7.54	25.16
Russell 2000 Index	13.21	12.81	11.54	16.93	-20.44	14.82
MSCI EAFE Index	6.12	31.22	3.82	18.24	-14.45	11.26
MSCI Emerging Markets Index	14.52	33.57	7.50	9.83	-20.09	-2.54
MSCI ACWI Ex USA Small Cap Index	9.34	29.26	3.36	15.66	-19.97	12.93
Barclays Municipal Bond Index	0.97	4.25	1.05	6.40	-8.53	1.52
Barclays Aggregate Bond Index	0.07	7.30	1.25	5.53	-13.01	-1.54
Barclays Intermediate U.S. Gov/Credit Index	0.19	6.97	3.00	5.24	-8.23	-1.44

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

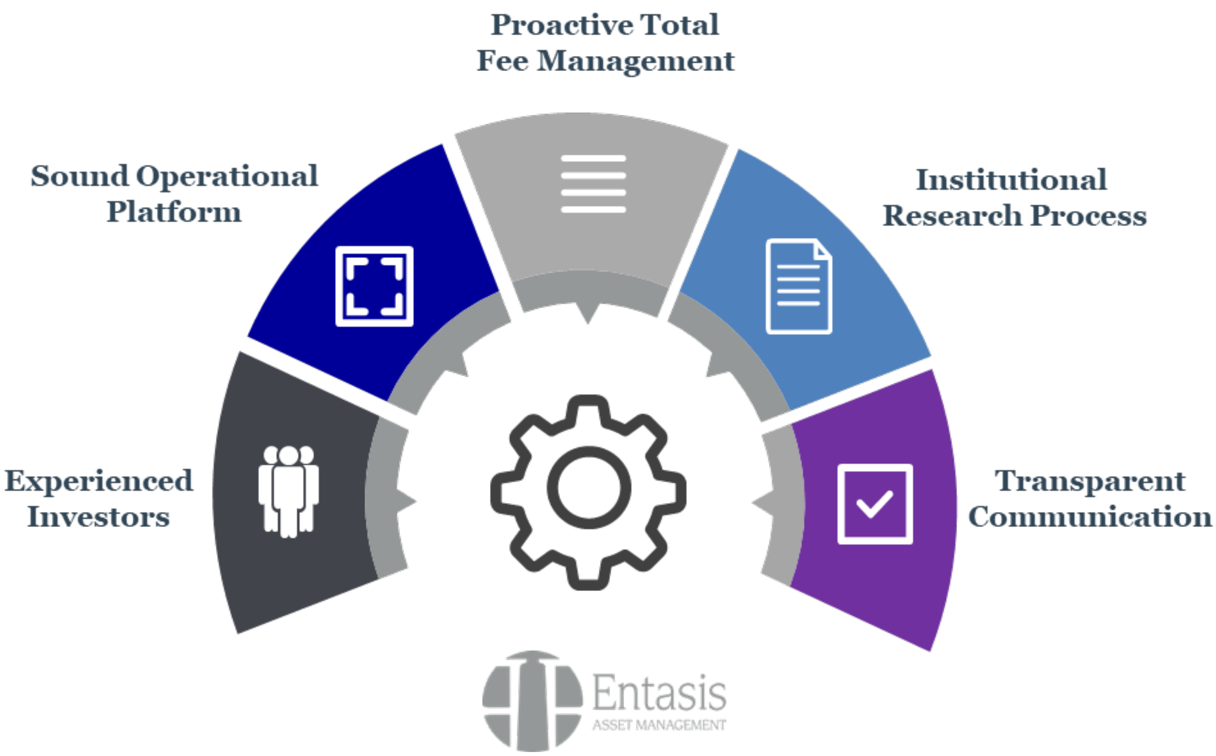
Mike Peters, CFA® is Founder and Senior Wealth Advisor at Entasis Asset Management. Mike has 22 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served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

IMPORTANT INFORMATION

Statements may be forward looking and are not intended as specific investment advice without further review of individual circumstances. Commentary, opinions, analysis, and recommendations may be subjective, do not guarantee future performance, and could change at any time without notice. Under no circumstances does the information contained within represent a recommendation to buy or sell any security. Charts and graphs provided are for illustrative purposes only.

This information is provided for informational purposes only and does not constitute individualized financial advice or create an advisor-client relationship. This newsletter is published for the exclusive use of our clients and friends and is not intended as investment, legal or tax advice. This newsletter was prepared using information from third-party sources, which we believe to be reliable; however, we have not audited the data from these sources and are not responsible for its accuracy.

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. 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.

Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the CFP® certification mark, the CERTIFIED FINANCIAL PLANNER™ certification mark, and the CFP® certification mark (with plaque design) logo in the United States, which it authorizes use of by individuals who successfully complete CFP Board's initial and ongoing certification requirements.

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