Market Review Commentary

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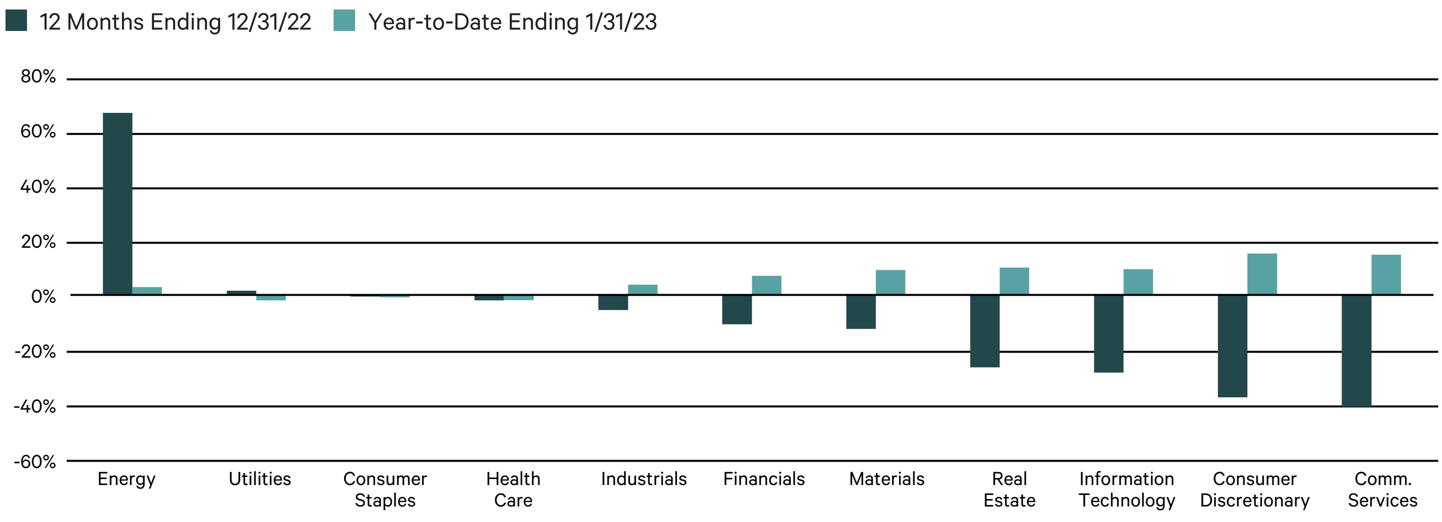
Kayne Anderson Rudnick
Investment Management

JANUARY DELIVERS STRONG START TO 2023

2022 will be remembered in market history as one of the most challenging years for stock and bond returns. Investors lost money in both equity and fixed income investments for only the third time since 1926. As 2023 begins, the new year has ushered in new hope. The month of January delivered strong returns across the major indexes and reversed many trends that persisted for most of last year. The S&P 500 Index returned 6.28% in the month, while the Russell 2000 Index of small capitalization stocks surpassed larger stocks and rose 9.75%. Growth stocks, a laggard last year compared to value stocks, returned 8.33%, as represented by the Russell 1000 Growth Index. Value stocks, as represented by the Russell 1000 Value Index, returned 5.18%. And bonds in general are paying their highest yields in more than a decade.

Whether these trends continue will largely be dictated by the Federal Reserve's interest rate actions after its scheduled meetings over the course of the year. Like the market's obsession with interest rates in 2022, this year is likely to bring the same intense focus as to where the Fed Funds Rate ultimately rests. The strong market returns for January reflect investor optimism that Fed rate hikes may have peaked. This helped growth stocks surge in the month since they rely on lower interest rates to finance growth into the future. Since many technology companies also are considered growth stocks, the technology sector, and riskier assets in general, had a resurgence in performance compared to last year's lackluster results.

FIGURE 1: S&P 500® PERFORMANCE BY SECTOR

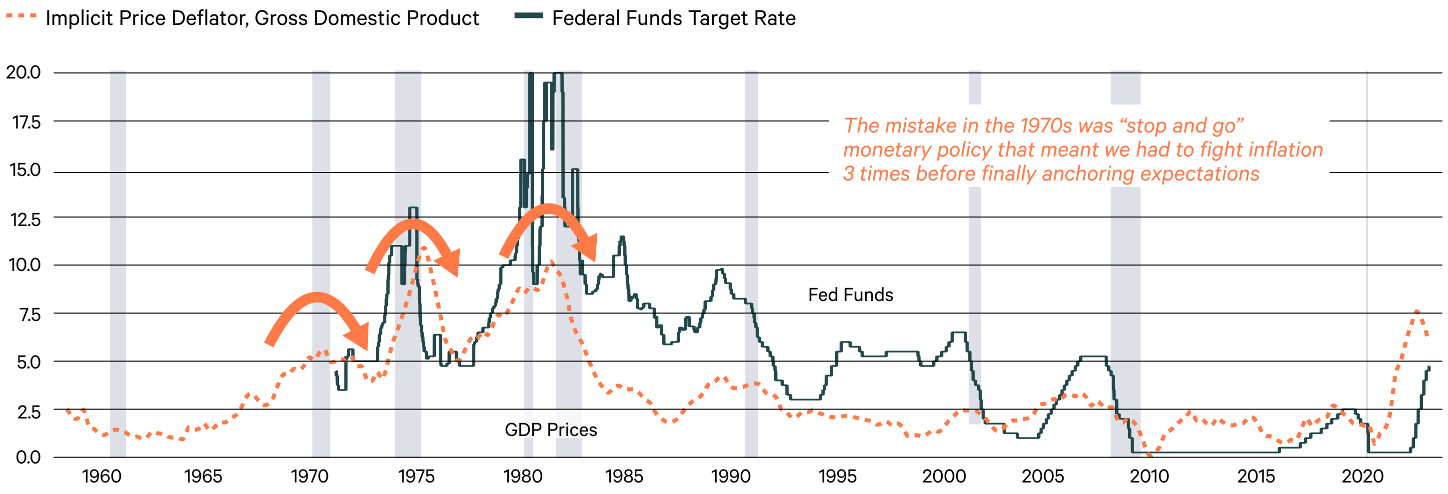


Data is obtained from FactSet and is assumed to be reliable. ***Past performance is no guarantee of future results.***

The Federal Reserve met on February 1 and as expected, increased rates by a quarter point. That is a substantial departure from the 75 and 50 basis points moves of last year (a basis point is 1/100 of a percentage point). However, the market consensus and the Fed were out of sync most of last year, with the Fed holding firm on rate hikes and the market underestimating the Fed's determination to slow inflation. So, the repeated narrative of 2022 that "everyone knew" where rates and inflation were headed did not track with the Fed's actual more aggressive moves. That is likely to continue to be true. We believe the Fed's rate hikes will be lower and reach a point of stabilization this year. However, the Fed will need solid economic evidence that inflation pressure is abating.

FIGURE 2: INFLATION IN RECESSIONS

U.S. Inflation Comes Down in Recessions (Even in the 1970s), but Inflation Needs to Stay Down for the Central Bank to Be Happy



Data is as of February 6, 2023, is obtained from Strategas and is assumed to be reliable. The shaded bars denote NBER recessions. The Implicit Price Deflator is seasonally adjusted (c.o.p. 1 Year). ***Past performance is no guarantee of future results.***

So far, the new trading year looks to be a reversal of trends. In the coming weeks, earnings reports will help either lend support for a sustainable rebound or show that risks continue to loom. With the possibility of a recession and a Fed determined to fight inflation longer than the market generally anticipates, January's rally may be a high bar to hurdle.

At KAR, we will continue to invest in quality companies that in our view possess defensible competitive advantages and strong balance sheets, which we believe have better defensive characteristics if economic growth and inflation continue to moderate. We believe that stock selection in companies that experience growth in a slower environment will be important this year. From our perspective, the days of cheap beta driving large passive returns seem unlikely to return anytime soon.

Douglas S. Foreman, CFA

Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 36 years of investment experience.

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***