Market Review Commentary

January 2024

Kayne Anderson Rudnick Investment Management

STOCK RALLY CONTINUES IN JANUARY

After an uneven start to the first trading month of the new year, the S&P 500 Index notched new highs, then stumbled, but found its footing, gaining 1.68% in January. The month's performance follows gains generated in November and December of 2023, producing a third consecutive month of positive performance. Small capitalization stocks, as measured by the Russell 2000 Index, did not participate in the mega-cap rally this month and declined 3.89%. Small cap stocks were hurt by news the Federal Reserve may not cut interest rates as quickly as expected. Growth stocks, as measured by the Russell 1000 Growth Index, gained 2.49%, outperforming value stocks which returned 0.10%, as measured by the Russell 1000 Value Index. Growth stocks were aided by the continued rally in the largest tech stocks benefiting from artificial intelligence. The 10-year U.S. Treasury yield bounced around during the month and ended at 3.95%, which was close to where it started the month at 3.94%.

INTEREST RATE CUTS EXPECTED LATER THIS YEAR

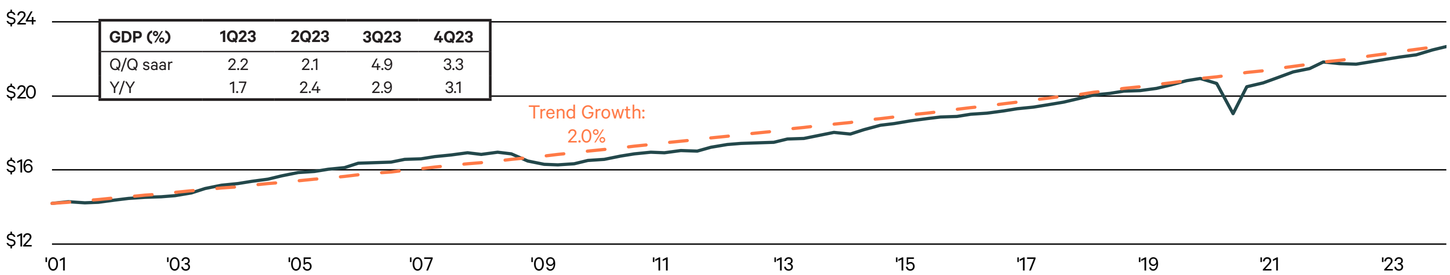
As inflation data began to shift in the fourth quarter of 2023 and align with the Federal Reserve's 2% preferred inflation gauge, the central bank's narrative of higher for longer pivoted to announcing possible interest rate cuts in 2024. This caused both equities and fixed income to achieve strong performance in December.

At the Federal Reserve's January meeting, interest rates were left unchanged, in the range of 5.25% and 5.50%. The Fed, as previously announced, indicated a bias toward cutting rates but said it was not expected to happen at its March meeting. Investors hoping for a first rate cut in March were disappointed by the commentary. It now looks like the Fed may consider rate cuts in May. "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent,"[1] said Fed Chair Jerome Powell at the meeting. As always, the Fed hedged its messaging and will carefully watch the data for inflation-risk flare ups. Any data not aligning with cooling inflation trends is likely to create uncertainty along with volatility, as the market tries to guess what impact it may have on the Fed's thinking.

The month of January saw gross domestic product grow a strong 3.3% in the fourth quarter, a surprise to the upside, but also saw the yield on the 10-Year Treasury retreat to 3.95% from a high of 5% in October. There is increasing market confidence in a soft landing, where inflation is declining and the economy continues to grow. If the Fed cuts too soon, inflation could rise again. If it cuts too late, it may suffocate growth and create unfavorable economic conditions.

FIGURE 1: REAL GDP

Trillions of Chained (2017) Dollars, Seasonally Adjusted at Annual Rates



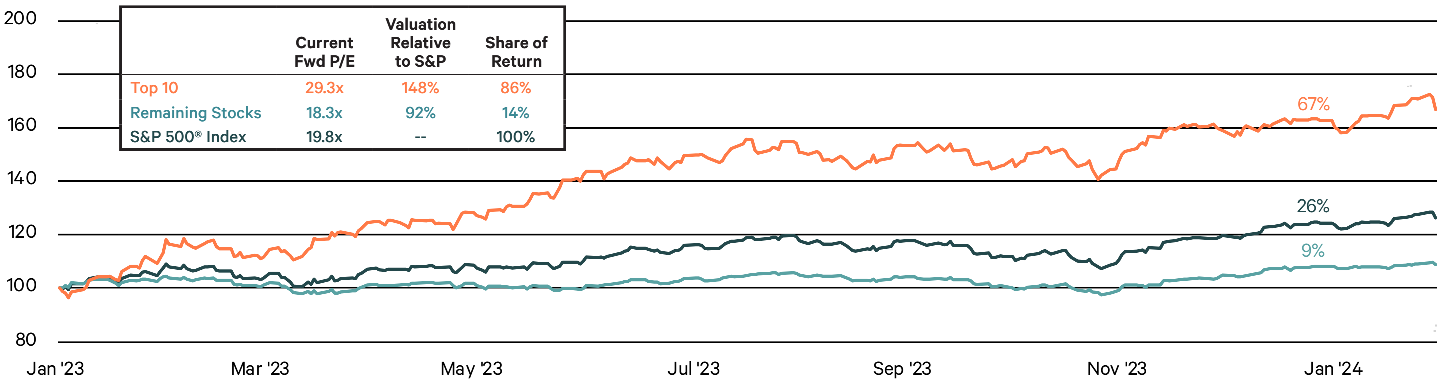
Data as of January 31, 2024. Data is obtained from BEA, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19. ***Past performance is no guarantee of future results.***

[1] https://www.federalreserve.gov/newsevents/pressreleases/monetary20240131a.htm

WILL LOWER RATES SUSTAIN GROWTH?

When lower rates do arrive, we believe it may help broaden market performance and support other sectors, beyond the Magnificent 7. We saw more market participation at the end of the fourth quarter in 2023, but big tech dominated the month of January and accounted for most of the major index returns.

FIGURE 2: PERFORMANCE OF THE TOP 10 STOCKS IN THE S&P 500® INDEX
Indexed to 100 on January 1, 2023, Price Return, Top 10 Held Constant



Data presented is as of January 31, 2024 and is obtained from FactSet, Standard & Poor's and J.P. Morgan Asset Management and is assumed to be reliable. The top 10 companies used for this analysis are held constant and represent the S&P 500's 10 largest index constituents at the start of 2023. The top 10 stocks are: AAPL, MSFT, AMZN, NVDA, GOOGL, BRK.B, GOOG, META, XOM, UNH, and TSLA. The remaining stocks represent the rest of the 494 companies in the S&P 500. ***Past performance is no guarantee of future results.***

Whether gains can be sustained going forward will depend on the Fed's rate cuts, overall economic growth, consumer demand, labor market strength, earnings, and the ability to borrow at lower rates. The market will be looking for clarity on the direction of interest rates to better understand future opportunities and risks.

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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.***