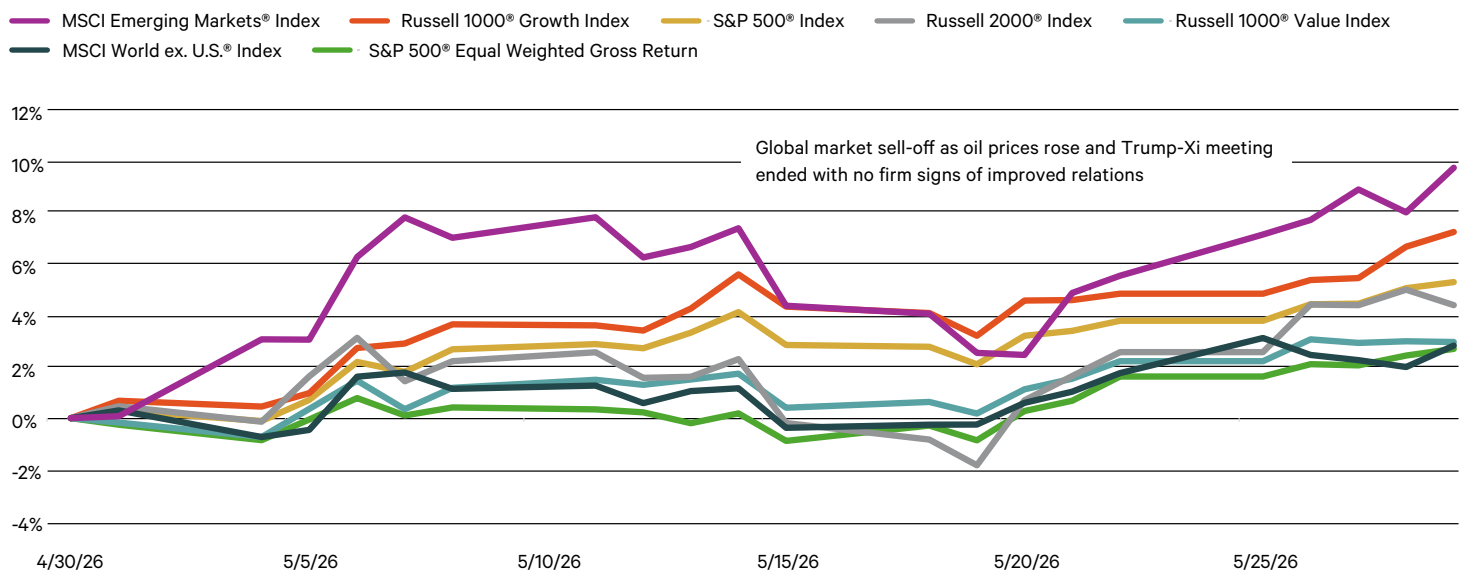


Market Review Commentary

As the strong Q1 2026 earnings season wrapped up, investors across many major segments of the global equity market seemed unsure of their next move, with the exception of emerging markets and U.S. growth stocks, which appreciated materially during the period. Much of that strength was driven by AI-related leaders, particularly within semiconductors. Given this dynamic, the MSCI Emerging Markets Index led the way, as almost 29% of that index is now concentrated in three stocks: Taiwan Semiconductor, Samsung, and SK Hynix, with 43.2% now concentrated in the Information Technology sector. This is a markedly different index than the one investors saw during the 2020-2021 Chinese technology rally, when two internet platforms, Alibaba and Tencent, were among the largest constituents.

FIGURE 1: MAY 2026 INDEX RETURNS



Data as of May 31, 2026. Source: FactSet. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. **Past performance is no guarantee of future results.**

In the U.S., fundamentals continue to tell the story of a K-shaped economy. As the stock market moves higher, high-income households are buoyed by the wealth effect and are spending freely. However, lower- to middle-income households that, for the most part, do not own stocks are being squeezed. This month, we saw rising inflation outpacing wage growth. This shows up in credit card delinquencies, which are also rising.

The Russell 1000 Large Cap Growth Index also moved higher in May, influenced by demand for semiconductor chips. Later in this commentary we discuss how much the semiconductor industry is dominating the investment landscape in the U.S. and, while most of the headlines focused on the massive returns for big AI-related stocks, small caps delivered a respectable return after faltering early in the month.

While much attention is given to the AI/technology story, we note that not all tech stocks are “growth” stocks. It’s important to note that “Growth” and “Value” are based on index methodologies and may change over time, and some well-known companies are held in both Growth and Value indices. FTSE Russell recently announced some changes it expects to make as part of scheduled rebalancing that will reclassify certain big tech names. For example, Alphabet (Google’s parent company), as well as Advanced Micro Devices, Micron Technology, and Sandisk will be classified entirely as growth stocks. On the other hand, Apple and Microsoft will move from a pure growth classification to a blend of growth and value. Some watchers expect Amazon to be classified as purely value, after being in both the Growth and Value indices. Investors should be aware that classifications and constituent weightings are subject to change and are determined by the index provider and, as a result, investors in index-tracking strategies may experience changes in exposure following the rebalancing. Final index determinations are expected to be confirmed on or around June 18.

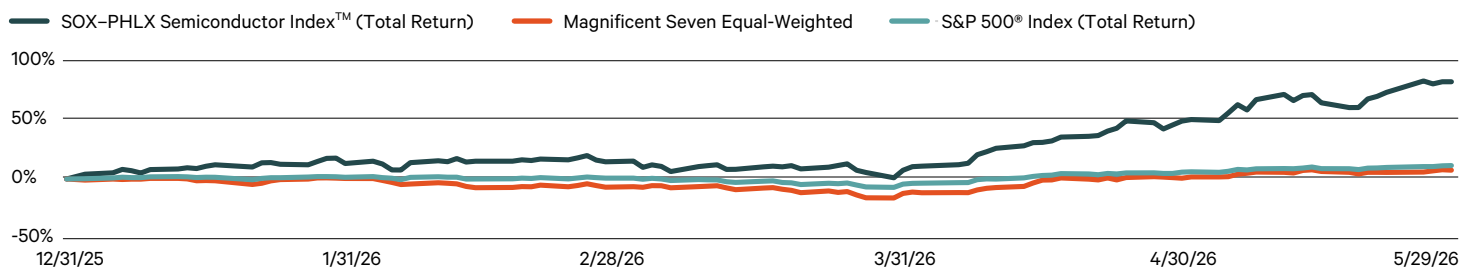
We Believe There’s More Riding on Semiconductor Stocks than Semiconductor Stocks

Is the longstanding boom-bust pattern in the semiconductor industry giving way to steady-state demand? And are there spillover effects to the recent rise of that industry? Semiconductor stocks have been highly cyclical since the 1980s, when PCs and consumer electronics became part of modern life. That demand led to overcapacity and oversupply, but as consumers only upgrade their devices every few years, demand would then wane, rinse, and repeat. Is the AI build-out now changing this pattern? The remarkable rise in semiconductor stock prices over the past couple of months suggests investors expect strong revenues, profits, and durable growth for the longer term.

Whether AI-driven demand changes the semiconductor industry’s longstanding cyclical nature will be determined by what happens *after* the initial AI data center buildout is completed. If AI ends up being integrated into every part of the economy’s day-to-day workflow, the “semi” optimists (not “semi-optimists”) may be right. If AI fails to generate enough ongoing revenue to justify massive data center build-outs, a historic bust may be brewing for semiconductor companies. These two different outcomes raise an important question that goes beyond just this group of stocks: *how much of the market is riding on the coattails of today’s semiconductor boom?*

After ChatGPT was launched in November 2022, investors focused specifically on those companies that design advanced AI-focused chips, build AI models, or own the “compute” capacity, including the Magnificent Seven. The chip manufacturers who provide the “picks and shovels” memory chips for AI data centers were not on that list. But this year saw a major reversal. Over the past two months, the PHLX Semiconductor Sector (the “SOX” index), which tracks semiconductor stocks, has significantly outperformed the Mag 7.

FIGURE 2: SEMICONDUCTORS TAKE OFF



Data as of May 29, 2026. Source: FactSet. The indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. It is not possible to invest directly in an index. Please see the end of this commentary for important information regarding the indices. **Past performance is no guarantee of future results.**

Additionally, other parts of the market are being impacted by the rise in semis. A study that looked at the one-year daily return correlations between every company in the S&P 500 and an ETF that tracks a semiconductor industry index found that 20 non-tech companies in the S&P 500 have been consistently moving in correlation with semiconductor stocks.¹

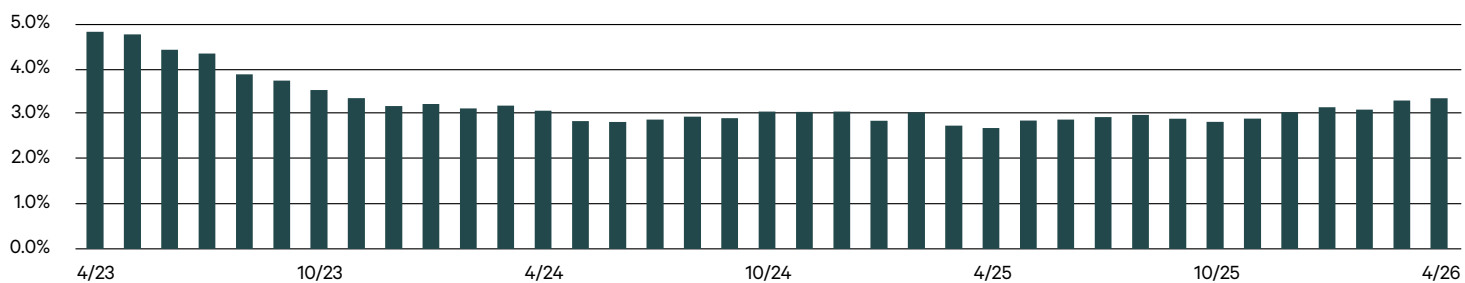
Among them, 15 are industrials and five are capital markets companies. Why capital markets? The strong performance of semiconductor stocks has fueled increased trading activity. As a result, some non-technology companies have also benefited, particularly those whose revenues are closely tied to AI-related capital spending. As we see it, investors focusing exclusively on chip stocks may underestimate their broader impact on the overall market.

Goods versus Services Inflation

Are we focusing on the right things when we talk about inflation? For consumers, rising prices in grocery stores are a tangible, daily reminder that life is getting more expensive. Those prices were increasing even before the Iran conflict, which has pushed up shipping costs to get food from farms to store shelves.

Looking at Core PCE, which excludes food and energy costs, we see inflation has been moving in the wrong direction based on the Federal Reserve’s long-term target of 2% since April 2025 (when “Liberation Day” tariffs were imposed). Pricing pressures are also evident as prices on U.S. imports rose 4.2% year-over-year in April 2026, the strongest yearly increase since October 2022².

FIGURE 3: CORE PERSONAL CONSUMPTION EXPENDITURES (PCE) PRICE INDEX (EX. FOOD AND ENERGY), YEAR-OVER-YEAR



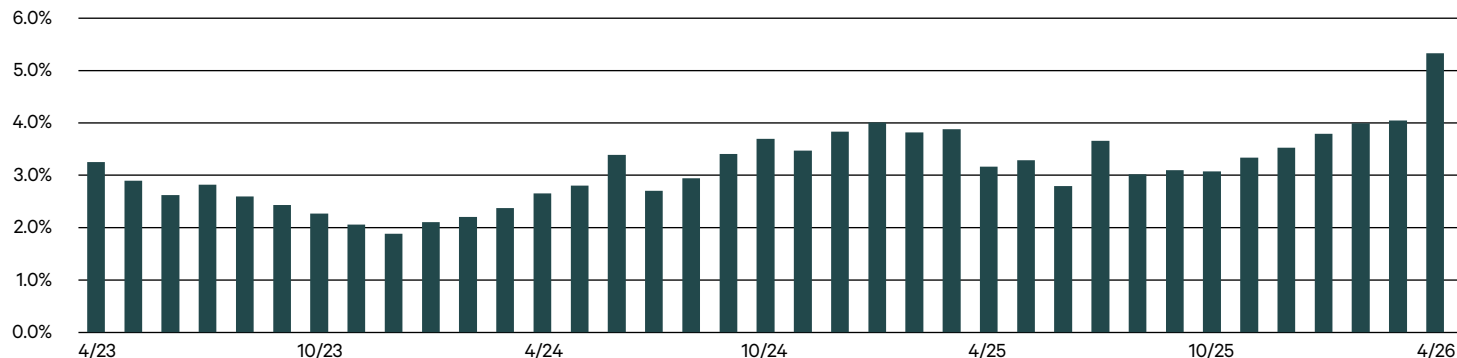
Data as of April 30, 2026. Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org>.

¹MarketWatch, “These 15 stocks trade like the hottest tech names—but they’re still under the radar,” May 2024, <https://www.marketwatch.com/story/these-15-stocks-trade-like-the-hottest-tech-names-but-theyre-still-under-the-radar-d44cc776>.

²U.S. Bureau of Labor Statistics, “Import prices up 4.2 percent, export prices up 8.8 percent, over the year ended April 2026,” May 2026, <https://www.bls.gov/opub/ted/2026/import-prices-up-4-2-percent-export-prices-up-8-8-percent-over-the-year-ended-april-2026.htm>.

We often focus on prices of consumer goods, but inflation has also been higher for goods purchased by businesses. The Core Producer Price Index rose more than 5% in April, year-over-year. Within the Core PPI prices of “components for manufacturing” rose a seasonally-adjusted 0.9% in January and 1.1% in February on a month-over-month basis. Capital equipment prices also rose about 5% annualized.

FIGURE 4: CORE PRODUCER PRICE INDEX, YEAR-OVER-YEAR



Data as of April 30, 2026. Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org>.

One of the biggest categories within “Supplies to manufacturing industries” is “Printed circuit assemblies, loaded boards, modules and consumer external modems.” These are needed for data center build-outs, and between January and February 2026 their prices rose 44% and by 26% between January 2025 and January 2026. This is unprecedented in the history of the data, which goes back to the early 1980s.^{3,4}

Furthermore, when factoring in inflation for services, which represent the bulk of economic activity in the U.S., price increases suggest that the Fed’s 2% inflation target is moving further out of reach. Overall services prices increased by 0.3% in April, with the 12-month rate rising to 3.4%, up from 3.1% in March.⁵ Shelter costs and food services/accommodations have been the primary drivers of these price increases.

- **Housing & Utilities:** The cost of housing, one of the most stubborn components of the overall inflation picture in recent years, rose by 0.6% in April.^{6,7}
- **Food & Accommodation:** Restaurant dining and hotel stays keep getting more expensive, with prices increasing 0.5% month-over-month in April. “Food away from home” rose 3.6% over the last year.^{6,7,8}
- **Other Services:** Prices for common services like car repairs, veterinarian visits, and dental visits also climbed higher in April, with transportation services rising 4.9% year-over-year.^{9,10}

³U.S. Bureau of Labor Statistics, “Producer Price Indexes - Table 9,” May 2026, <https://www.bls.gov/ppi/tables/>.
⁴Federal Reserve Bank of St. Louis, “Producer Price Index by Industry: Printed Circuit Assembly Manufacturing,” May 2026, <https://fred.stlouisfed.org/series/PCU3344183344189>.
⁵Trading Economics, “United States Services Inflation,” May 2026, <https://tradingeconomics.com/united-states/services-inflation>.
⁶CNBC, “Core inflation hit an annual rate of 3.3% in April, as expected, Fed’s preferred gauge shows,” May 2026, <https://www.cnbc.com/2026/05/28/core-inflation-hit-an-annual-rate-of-3point3percent-in-april-as-expected-feds-preferred-gauge-shows-.html>.
⁷Yahoo!finance, “PCE inflation hits 3-year high in April as consumer spending rises,” May 2026, <https://finance.yahoo.com/economy/policy/articles/pce-inflation-hits-3-high-123957804.html>.
⁸U.S. Bureau of Labor Statistics, “Consumer Price Index Summary,” June 2026, <https://www.bls.gov/news.release/cpi.nr0.htm>.
⁹U.S. Bureau of Labor Statistics, “News Release: Consumer Price Index,” May 2026, <https://www.bls.gov/news.release/pdf/cpi.pdf>.
¹⁰Bureau of Transportation Statistics, “Transportation Consumer Price Index,” April 2026, <https://www.bts.gov/newsroom/transportation-consumer-price-index-april-2026>.

It's difficult to see how all of this can be blamed on the Strait of Hormuz closure, and thus we do not expect core inflation for goods, or services inflation, to automatically move lower when that situation is resolved. Recent strengthening in the labor market could also contribute to the Federal Reserve's decision to wait to cut interest rates. Overall, we believe some of the inflation is a reflection of a relatively healthy economy that perhaps doesn't feel that way to the average American. The strength in earnings growth should for now provide support to markets, though we continue to expect volatility around the headlines surrounding AI and the War in Iran.



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*The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The MSCI Emerging Markets Index is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The Russell 2000® Index is a free float-adjusted market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell 1000® Growth Index is a free float-adjusted 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. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The Russell 1000® Value Index is a free float-adjusted 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. All companies that have a weight greater than 4.5% in aggregate are no more than 45% of the Index and no individual company has a weight greater than 22.5% of the Index. The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries—excluding the United States. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of S&P 500 Index and includes the same constituents, but each company in the EWI is allocated a fixed weight—or 0.2%—of the index total at each quarterly rebalance. The indices are calculated on a total return basis with dividends reinvested. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment. Information in this content is being provided by Kayne Anderson Rudnick Investment Management, LLC (“KAR”) for illustrative purposes and should only be used for informational purposes only. Information in this paper is not intended by KAR to be interpreted as investment advice, a recommendation or solicitation to purchase securities, or a recommendation of a particular course of action and has not been updated since the date listed on the presentation and KAR does not undertake to update the information presented. Data is obtained from systems believed by KAR to be reliable. Certain information contained herein has been obtained from third party sources and such information has not been independently verified by KAR. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that the Adviser's opinions or expectations will be correct. KAR has chosen to include the securities in this commentary based upon objective criteria. It should not be deemed as a recommendation to purchase the securities mentioned, and it should not be assumed that securities recommended in the future will be profitable. **Past performance is no guarantee of future results.***