Market Review Commentary

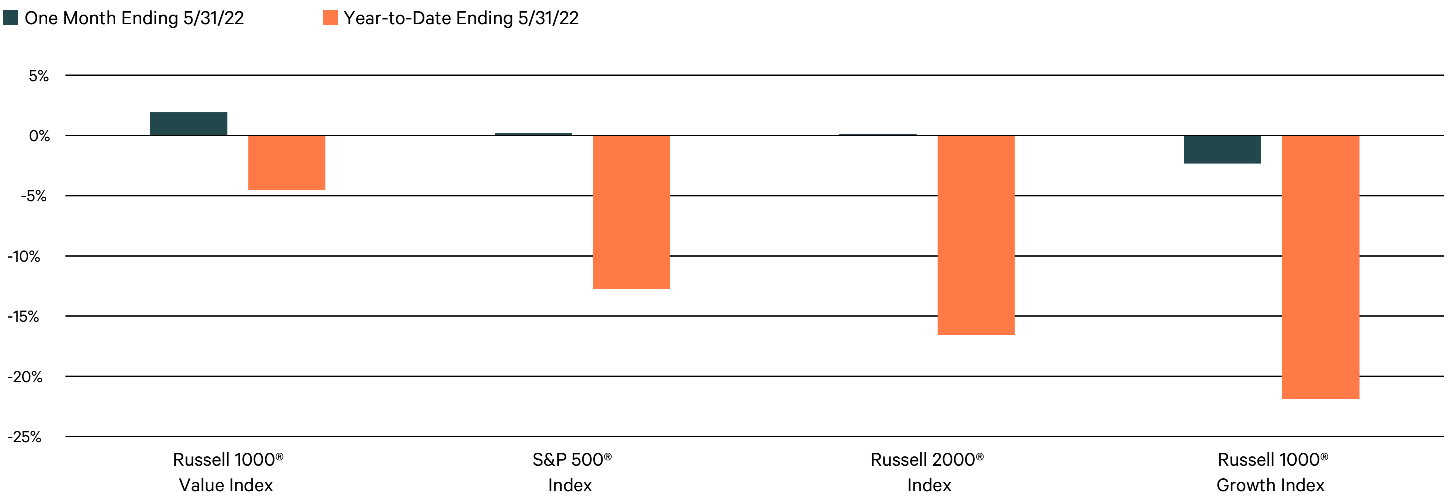
May 2022

Kayne Anderson Rudnick

MARKETS FLAT IN MAY AS WORRIES PERSIST

Despite a volatile ride, markets ended flat for the month of May as continued worries about inflation and the Federal Reserve's plans to raise interest rates weighed on investors. The month began with equities declining. Profit warnings from several retailers and economic data that was worse than expected contributed to the month's volatility, with the S&P 500 Index almost entering a bear market, defined as a drop of 20% from the most recent high. A rally at the end of the month reversed the bear-market descent to end the volatile month flat, which raised the question of whether we are approaching a bottom in the markets.

FIGURE 1: INDEX RETURNS

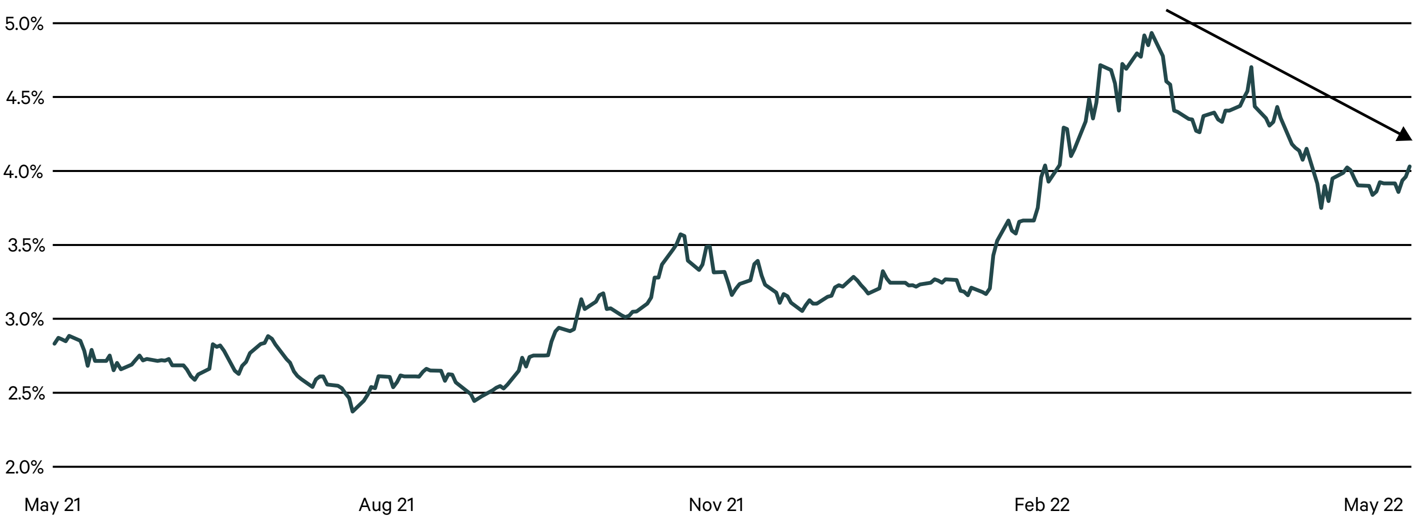


Data is as of May 31, 2022 and is obtained from Factset and is assumed to be reliable. Indices are not actively managed and do not reflect the deduction of any investment management or other fees and expenses. Indices are not available for direct investment. ***Past performance is no guarantee of future results.***

As has been the case so far this year, value outperformed growth in May and energy continued to be the best performing sector. Worry that the Federal Reserve's rate increases may tip the economy into a recession continued to be the primary driver of uncertainty across markets. The well-discussed supply-chain issues, the war in Ukraine, and the continued effects of the recent lockdowns in China on the already fragile supply-chain, also drove negative market sentiment. Recessionary fears drove interest rates and the 2-year U.S. Treasury to drop in the month, indicators that stocks could potentially start performing better.

INFLATION OFF HIGHS

FIGURE 2: INFLATION EXPECTATIONS — 2 YEAR BREAKEVENS



Data is as of June 3, 2022 and is obtained from Credit Suisse and the Bloomberg Professional service and is assumed to be reliable. ***Past performance is no guarantee of future results.***

While uncertainty reigns, indications that economic data is slowing has helped move the market's inflation expectations lower, which may allow the Federal Reserve flexibility to reduce the size of rate increases later in the year, as more data emerges. So far, the market anticipates two more rates hikes of 50 basis points each in June and July. The market further anticipates another 50-basis point hike in September, all of which is subject to change. The upside is the Fed may slow the pace of rate increases if the economy and inflation cool down enough to warrant changing course. This may provide relief to the equity markets, but it is too early to say, and more economic data will need to emerge to support a new approach.

If the pace of economic growth continues to slow and inflation continues to plateau, this may bode well for limiting near-term recessionary risks. Nonetheless, market volatility is likely to continue due to the high levels of uncertainty and investor sentiment will be governed by the Fed's actions to fight inflation and engineer a so-called "soft" landing.

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.***

kayne.com
800.231.7414