Market Review Commentary

May 2023

Kayne Anderson Rudnick Investment Management

May was a volatile month with market pressures coming from the government's debt ceiling negotiations, resilient inflation data, and potential further interest rate hikes by the Federal Reserve. The S&P 500 Index eked out a return of 0.43% in the month, while the Russell 2000 Index of small capitalization stocks declined 0.92%, underperforming larger stocks. Value stocks, as represented by the Russell 1000 Value Index, fell 3.86% versus the positive 4.56% increase for the Russell 1000 Growth Index, a reversal of the previous month's returns where value outperformed growth. The 10-year U.S. Treasury yield stayed in a tight range, starting the month at 3.57% and ending at 3.64%.

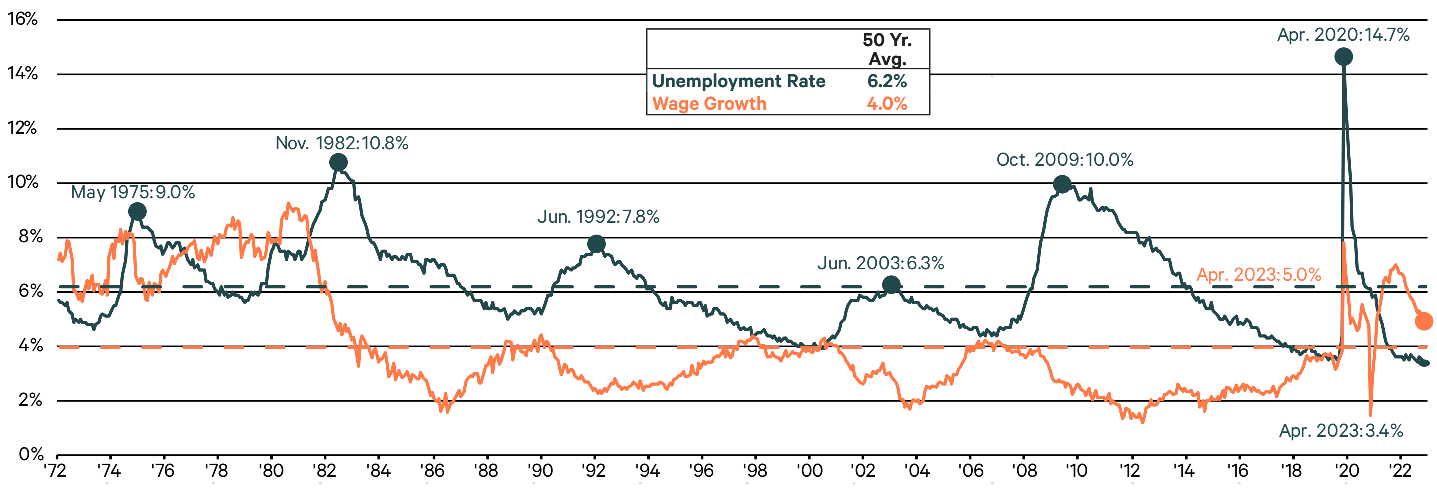
DEBT CEILING DEAL PASSES AND DISCUSSION OF MORE RATE HIKES EMERGE

While market participants may have expected May to be more subdued after the banking crisis of the previous month, the erratic debt ceiling discussions replaced banking concerns with fear that the government would run out of cash to pay its bills and negatively affect the markets. The on again/off again nature of the debt ceiling discussions and the June 5 date provided by Treasury Secretary Janet Yellen as the day the federal government would run out of cash rattled markets, with particular worry spreading across the U.S. Treasury market. At the "final hour," a bipartisan deal passed to avoid default.

As seems to be the trend, toward the end of the month, new concerns replaced the previous month's worries. This month was no different. With a still strong labor market and consumers willing to spend, market odds that the Federal Reserve may need to resume rate hikes at future meetings re-emerged—a big reversal of the "no hikes" of what Wall Street had hoped for just last month.

FIGURE 1: CIVILIAN UNEMPLOYMENT RATE AND YEAR-OVER-YEAR WAGE GROWTH

Private Production and Non-Supervisory Workers, Seasonally Adjusted, Percent



Data presented is as of June 1, 2023 and is obtained from BLS, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. Private production and non-supervisory workers represent 70% of the nonfarm workforce. ***Past performance is no guarantee of future results.***

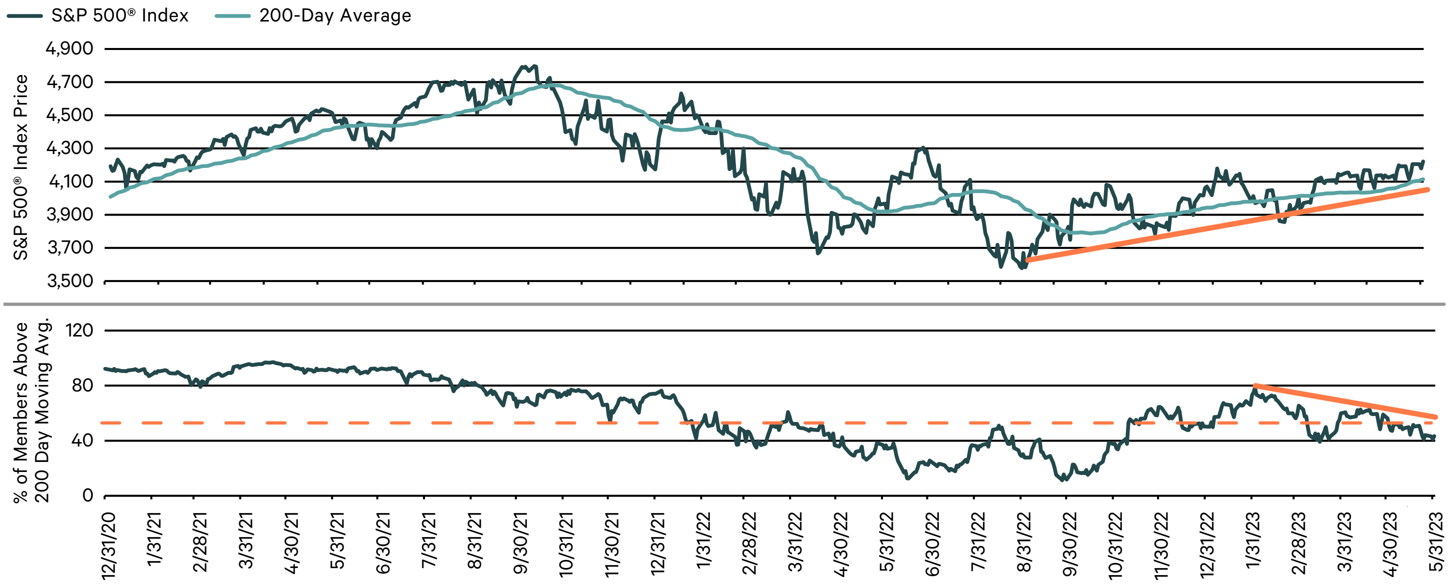
As a reminder, Jerome Powell, the Federal Reserve Chairman, said last month: "We on the committee have a view that inflation is going to come down not so quickly," adding that "if that forecast is broadly right, it will not be appropriate to cut rates." Despite an uptick in unemployment, recent jobs data came in above Wall Street expectations. Market participants now believe the Fed may pause rates at its next meeting in June and wait for more data, but the risk is that the Fed may resume rate increases in July and as needed going forward—data dependent—as has been the case throughout this rate-increase cycle.

ECONOMY SLOWING — STOCK MARKET BREADTH NARROWS

As the Fed rate increases continue to ripple through the economy, there are signs of slowing. The consumer is becoming more cautious and, in some cases, trading down to lower-cost consumable goods, while discretionary retail items are facing pressure. In the stock market, during the month, the largest technology stocks showed the most momentum, with the technology industry benefitting from the mere mention of artificial intelligence (AI). We believe the market's top-heavy concentration of strength is generally not a positive sign. Broader market participation will be closely watched as an indicator of market direction. In our view, safe haven and defensive assets continue to benefit in this environment.

FIGURE 2: S&P 500® PERFORMANCE

S&P 500 Price (Top Chart) vs. % of Stocks Above 200-Day Moving Average (Bottom Chart)



Data is as of June 2, 2023, is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

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 37 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.***