Market Review Commentary

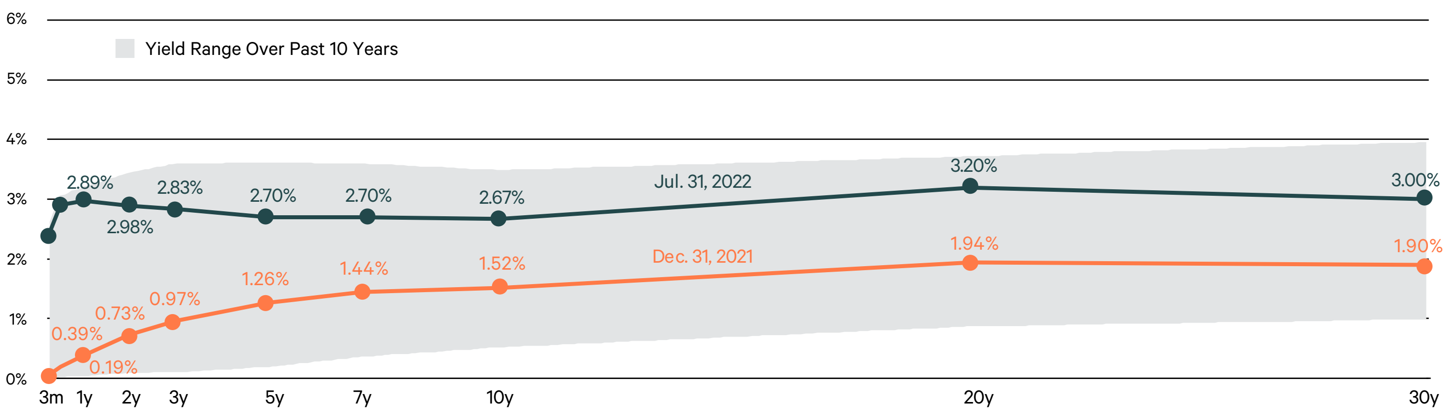
July 2022

Kayne Anderson Rudnick

While rising interest rates and inflation continue to weigh on consumers and businesses, the S&P 500 Index gained 9.22% and the Russell 2000 Index of small capitalization stocks increased 10.44% in July. Growth stocks performed more strongly than their value counterparts with the Russell 1000 Growth Index returning 12.00% and the Russell 1000 Value returning 6.63% in the month. These positive returns were driven largely on investor sentiment that a weaker economy will slow the Federal Reserve's pace of planned interest rate increases. However, despite July's strong performance, the indexes are still in negative territory year-to-date (-12.58% for the S&P 500, -15.43% for the Russell 2000, -19.44% for the Russell 1000 Growth, and -7.08% for the Russell 1000 Value), so the question remains whether stocks can continue to perform as the Fed ponders further monetary tightening.

Despite the debate among certain media and government officials over the definition of a recession, we are in a technical recession. We define a technical recession as two consecutive quarters of economic contraction. Looking at the U.S. Treasury yield curve for recession guidance, shorter-term Treasury yields are higher than longer-term Treasury yields, which is known as a yield curve inversion. The inversion of the yield curve has been as good of a historical indicator of recession or tougher times ahead as any. However, unlike past recessions, employment remains strong. We believe the strong employment landscape coupled with high personal savings rates are positive tailwinds to dampen inflation and recession worries.

FIGURE 1: U.S. TREASURY YIELD CURVE

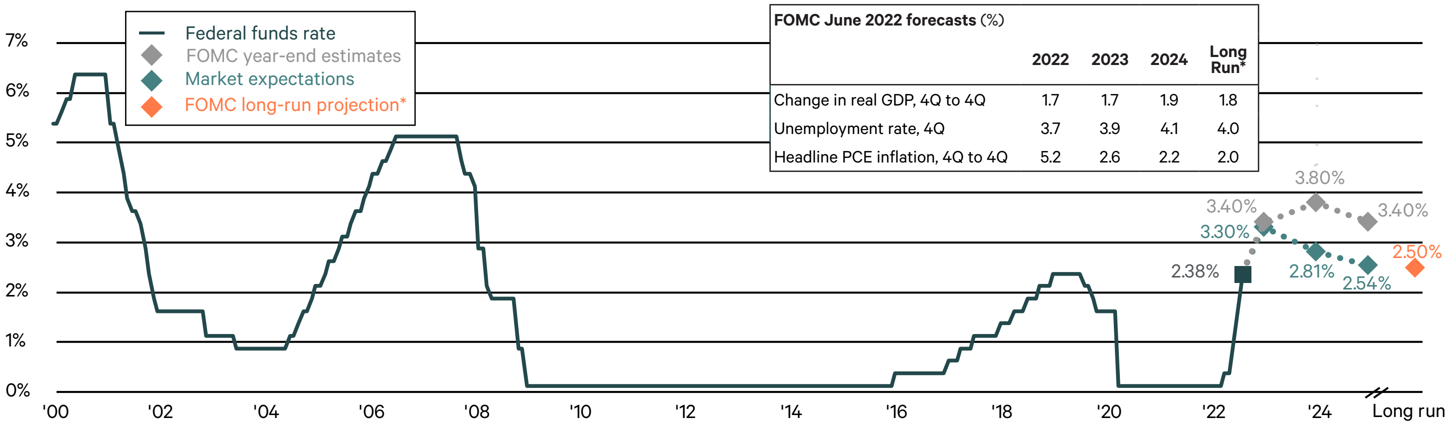


Data is as of July 31, 2022 and is obtained from FactSet, Federal Reserve and J.P. Morgan Asset Management and is assumed to be reliable. ***Past performance is no guarantee of future results.***

That said, more favorable inflationary trends such as lower gas prices, reduced housing demand, weaker inventories, and reduced consumer and business spending, may be an indication that the Federal Reserve's interest rate increases are starting to more broadly filter into the economy to slow growth. For those Americans acting more cautiously than need be, as recessions can be self-fulfilling, these emerging inflation trends look promising as they are tracking in the right direction. More data will need to show slower economic growth, which may help the markets respond more positively (such as what we saw this month). The key going forward will be clear indications supported by good data that inflation is trending down and staying down. At that point, the Fed can assess how cumulative rate rises are influencing the economy and establish a more informed monetary policy. We would then have reason to believe that rate hikes are moving nearer to an end.

FIGURE 2: FEDERAL FUNDS RATE EXPECTATIONS

FOMC and Market Expectations For the Federal Funds Rate



FOMC June 2022 forecasts (%)

	2022	2023	2024	Long Run*
Change in real GDP, 4Q to 4Q	1.7	1.7	1.9	1.8
Unemployment rate, 4Q	3.7	3.9	4.1	4.0
Headline PCE inflation, 4Q to 4Q	5.2	2.6	2.2	2.0

*Data is as of July 31, 2022 and is obtained from Bloomberg, FactSet, Federal Reserve and J.P. Morgan Asset Management and is assumed to be reliable. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.* ***Past performance is no guarantee of future results.***

While the Fed has effective tools to limit demand in the economy, hard-to-predict events that contribute to inflation pressures, such as the war in Eastern Europe and China's zero COVID lockdowns, increase the risk of policy error, making it more important than ever to focus on high quality companies. Time also is an important element. The longer inflation lasts, the more it becomes embedded in expectations (wages, contracts, etc.), and harder to dislodge. Historically, to break inflationary spikes the federal funds rate had to be increased to exceed the rate of inflation. We view it unlikely that the market can find a bottom until we have at least a line of sight to the end of rate increases. When that happens, we believe that there is a good chance for long duration assets to rebound.

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.

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