Market Review Commentary

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Kayne Anderson Rudnick

MARKETS SLIDE AFTER FED REAFFIRMS COMMITMENT TO RATE INCREASES

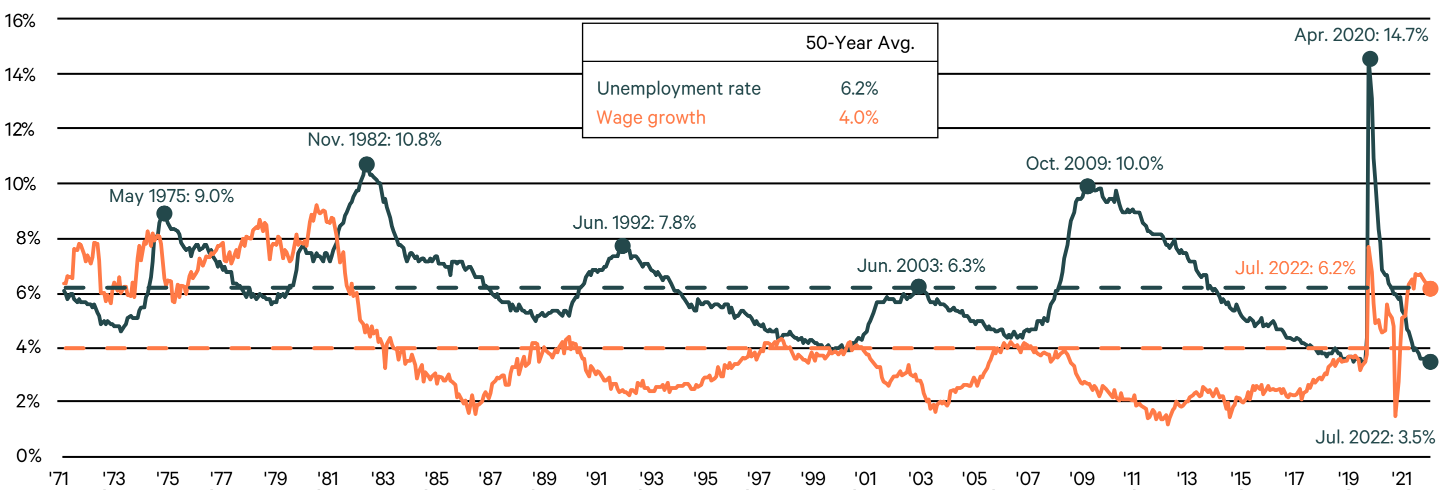
After a brief summer rally, equities declined at the end of August when the Federal Reserve announced it will continue to raise interest rates, even if that means inflicting pain on the economy and cooling the hot job market. The S&P 500 Index declined 4.08% in the month, while the Russell 2000 Index of small capitalization stocks dropped 2.05%. Growth stocks, as represented by the Russell 1000 Growth Index, returned -4.66% and underperformed the Russell 1000 Value Index return of -2.98%. Driving the negative sentiment was the Fed's statement that until inflation is under control, interest rate increases will continue. Up until the Fed's annual meeting in Jackson Hole, Wyoming at the end of the month, market participants were hopeful that the Fed would pivot from its tightening policy, given signs of slowing economic growth, and slow its pace of interest rate increases.

With the Fed stating it will not change course from tightening anytime soon, markets soured on the news and refocused on how long it may take to bring down inflation. Markets will likely continue to be volatile until there is more clarity on inflation, earnings, and employment, among other things. The market will be looking at all economic data for bright spots or further signs of weakness.

While employment remains strong with few signs of weakening, this presents a challenge to the Fed in dampening inflation. With robust employment, it will perhaps take longer for the Fed to control inflation, as it may become harder to slow spending with full employment and may require more rate increases to bring inflation in line with the Fed's expectations. Expect labor and job reports to be a major catalyst for moving the stock market up or down.

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

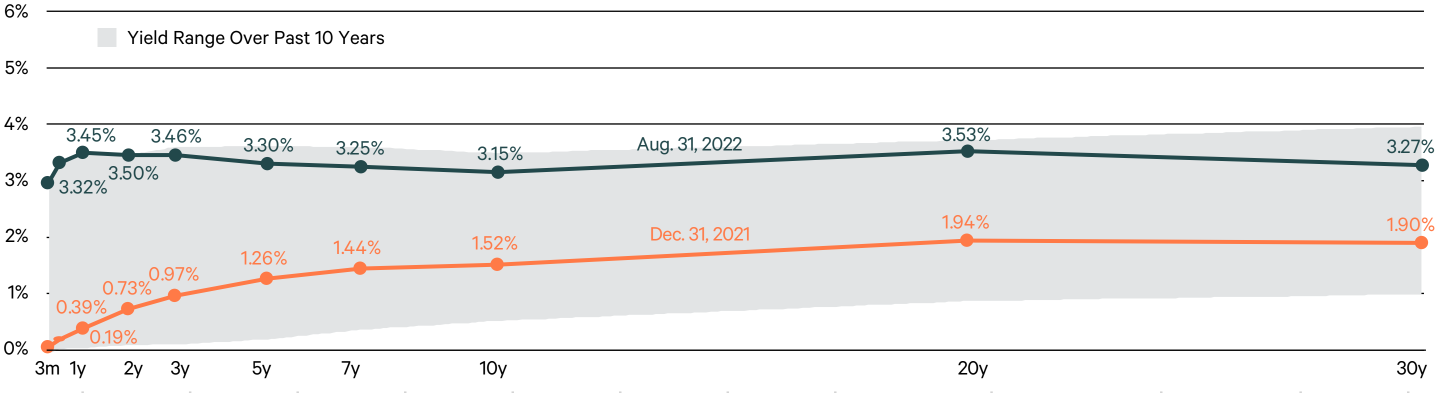
Private Production and Non-Supervisory Workers, Seasonally Adjusted, Percent



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

The yield on the 10-Year U.S. Treasury notched higher in the month while the yield on the 2-Year U.S. Treasury ended above the 10-Year yield, which is a classic recession signal. As we have mentioned, we believe we are in a recession, as defined by two consecutive quarters of GDP contraction. However, other reports indicate a recession is looming. Nonetheless, the bearish macro backdrop appears to be broad-based with investors trying to assess what the next six-to-twelve months may look like.

FIGURE 2: U.S. TREASURY YIELD CURVE



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Russia's continued threat of shutting down a major gas pipeline in Europe, more COVID-19 lockdowns in China, and China's more aggressive stance toward Taiwan contribute to more negative sentiment. These events are the known threats, which are difficult to navigate. Any additional "unknown" threats to emerge may further threaten an already fragile market.

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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kayne.com
800.231.7414