Market Review Commentary

First Quarter 2023

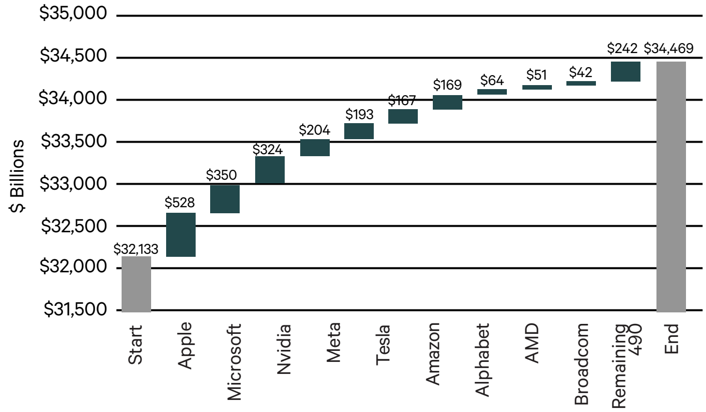
Kayne Anderson Rudnick Investment Management

MARKET PERFORMANCE

After a year of historic double-digit losses in both equities and fixed income in 2022, stocks and bonds delivered positive returns in the first quarter of 2023. The S&P 500 Index returned 7.50% and the Bloomberg U.S. Aggregate Bond Index returned 2.96%, a solid start for both benchmarks. Growth stocks, led primarily by mega-cap technology stocks, dramatically outperformed value stocks as evidenced by the Russell 1000 Growth Index increasing 14.37% versus the Russell 1000 Value Index return of 1.01%. The highest contributors to equity returns in the S&P 500 Index in the first quarter included mega-cap technology companies such as Apple, Microsoft, NVIDIA, Tesla, and Meta.

FIGURE 1: S&P 500® CHANGE IN MARKET CAP

10 Stocks Account for 90% of the S&P Rally Year-to-Date

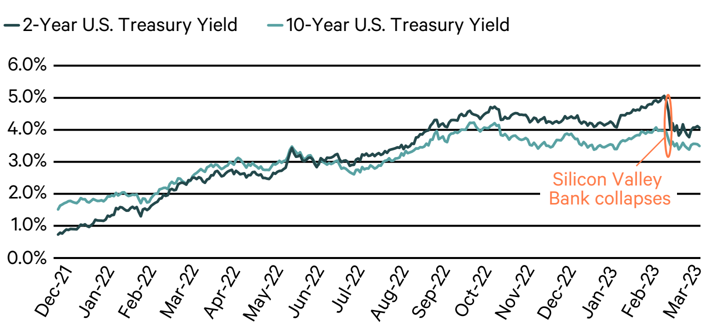


Data presented is as of April 5, 2023, is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

Small capitalization and emerging market stocks lagged the S&P 500 with the Russell 2000 Index returning 2.74% and the MSCI Emerging Markets Index returning 3.96% in the quarter.

Fixed income enjoyed positive returns in the first quarter despite the Federal Reserve's "higher for longer" commentary. The two-year U.S. Treasury yield actually fell from 4.37% to 4.06% and the 10-year U.S. Treasury yield declined from 3.71% to 3.49% during the quarter.

FIGURE 2: 2-YEAR & 10-YEAR U.S. TREASURY YIELDS



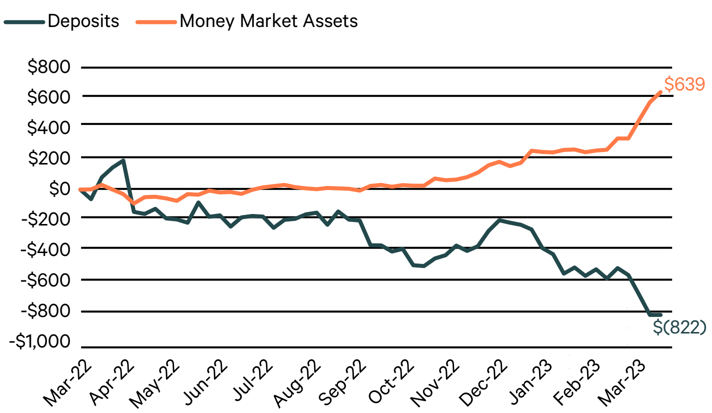
Data presented is as of March 31, 2023, is obtained from Factset Research Systems and is assumed to be reliable. ***Past performance is no guarantee of future results.***

High yield, as measured by the ICE BofA U.S. High Yield Index, outperformed the Bloomberg U.S. Aggregate Bond Index appreciating 3.72% versus 2.96%, respectively. Municipal bonds slightly lagged the broad fixed income market returning 2.78%, as measured by the Bloomberg U.S. Municipal Bond Index. Most of the decline in interest rates occurred during the surprising bankruptcy of Silicon Valley Bank late in the quarter.

FIRST QUARTER CROSS CURRENTS

We came into 2023 with clear consensus among investors that the year would bring at least a mild recession. January data was stronger than expected and the market quickly priced in a "no landing" scenario. February data was somewhat weaker, and the market started to price in a "soft landing" outcome. Then a regional bank crisis emerged, and the market started to price in a "hard landing" scenario. Fortunately, banking fears started to dissipate the last two weeks of the quarter. Multiple cross currents in interest rates, inflation, economic growth, and investor sentiment have made for a difficult forecasting environment for investors. While the short-term outlook is somewhat murky, we believe that the long-term outlook should be attractive. Cash is piling up on the sidelines, investors are generally negative, speculation is absent from equities (IPOs, SPACs, and memes are dormant), and businesses are very cautious in hiring and expansion plans. Historically, these types of conditions have led to meaningful long-term investing outcomes, although it will remain to be seen how markets will respond for the remainder of 2023.

FIGURE 3: COMMERCIAL BANK DEPOSITS VS. MONEY MARKET ASSETS

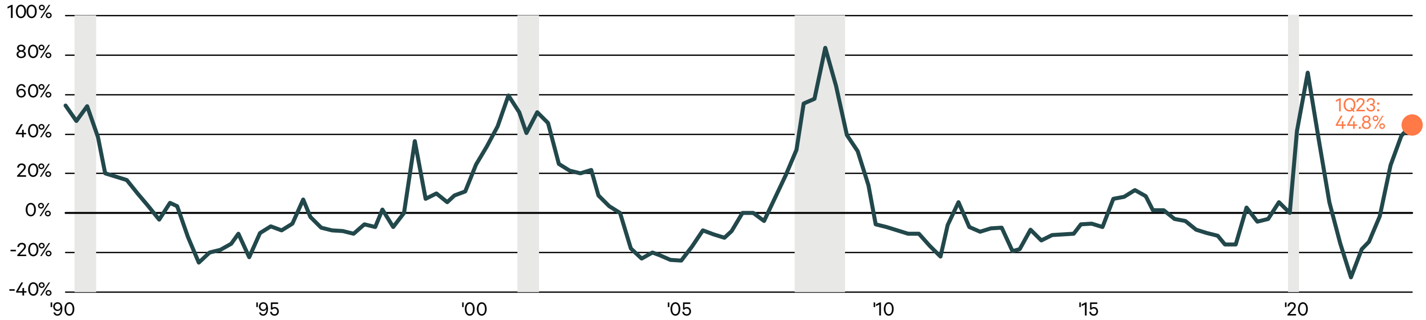


Data presented is as of March 29, 2023, is obtained from Strategas and is assumed to be reliable. Data is indexed to March 16, 2022. ***Past performance is no guarantee of future results.***

ANOTHER BANKING CRISIS?

Silicon Valley Bank was the latest casualty in the long history of the Federal Reserve "raising rates until something breaks." The speed and magnitude of the bankruptcy was unprecedented. Throughout history an inverted yield curve creates problems for a banking business model that relies on borrowing short term and lending long term. Increased borrowing costs combined with a declining loan portfolio can quickly create a crisis for financial institutions. Examples include the Savings and Loan Crisis in 1990 and the Great Financial Crisis of 2008. From our perspective, this banking crisis seems non-systemic and more isolated to the specific fundamentals of Silicon Valley Bank and Signature Bank, but we will continue to monitor for any further signs of banking deterioration. It certainly has had a potential tightening effect on the economy and has made interest rate policy more difficult to forecast for the Federal Reserve. The significant decline in market yields has occurred due to the pressure on many small and medium-sized lending institutions and we believe this has increased the likelihood that the Fed is close to or done raising interest rates.

FIGURE 4: NET PERCENTAGE OF BANKS TIGHTENING LENDING STANDARDS
Commercial and Industrial Loans for Large and Middle-Market Firms



Data presented is as of March 31, 2023, is obtained from Bloomberg, FDIC, Federal Reserve and J.P. Morgan Asset Management and is assumed to be reliable. ***Past performance is no guarantee of future results.***

WHAT SHOULD AN INVESTOR DO NOW?

Perceived safe havens and quality stocks performed well in the first quarter as investors have continued to grapple with high uncertainty in the market outlook. As you know, our investment philosophy focuses on quality companies with a sustainable competitive advantage. It is unclear how long these cross currents will last or if the Fed is already close to or done raising interest rates. Either way, we will continue to seek out businesses that can perform in good and bad times for our clients.

Thank you for your trust and support in this uncertain short-term environment.

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. Emerging markets are represented by the MSCI® Emerging Markets (EM) Index which is a free float-adjusted market capitalization index tracking the equity performance of global emerging markets. The Bloomberg U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The ICE BofAML U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prefunded bonds. 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.***

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