Market Review Commentary

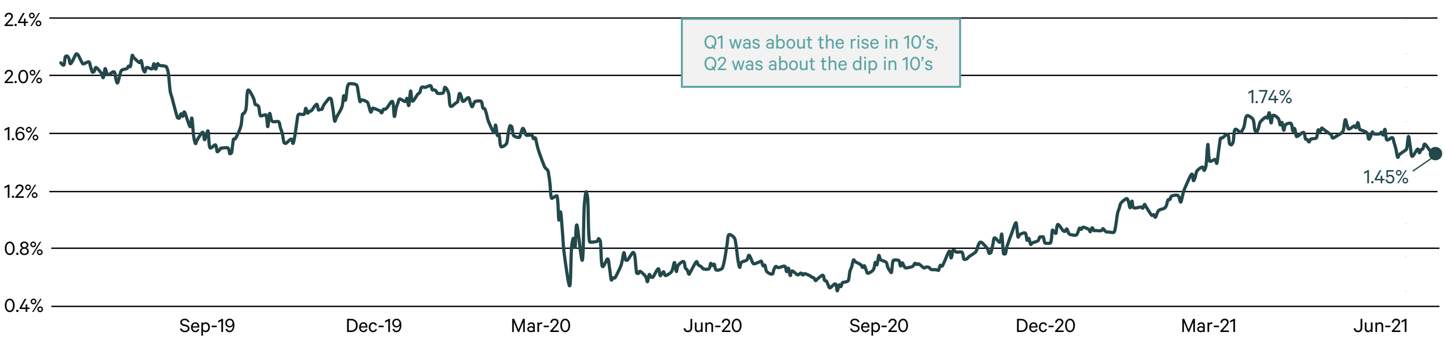
Second Quarter 2021

Kayne Anderson Rudnick Investment Management

Equities continued to advance in the second quarter with the S&P 500 Index appreciating 8.55%, bringing the year-to-date return to 15.25%. Large capitalization growth stocks outpaced value stocks in the quarter with the Russell 1000 Growth Index up 11.93% and the Russell 1000 Value Index up 5.21%. Year-to-date, however, large cap value stocks are still ahead of growth stocks returning 17.05% versus 12.99%, respectively. Small capitalization stocks, as measured by the Russell 2000 Index, lagged their larger counterparts for the quarter returning 4.29%, but they are still slightly ahead for the year-to-date returning 17.54%. International and emerging markets continued to lag U.S. stocks with the MSCI EAFE Index up 5.17% for the quarter and 8.83% for the year-to-date and the MSCI Emerging Markets Index up 5.05% for the quarter and 7.45% for the year-to-date.

Despite improving economic conditions during the quarter, the 10-Year U.S. Treasury yield fell from 1.74% to 1.45%, surprising consensus expectations from three months ago of a continued rate rise.

FIGURE 1: 10-YEAR U.S. TREASURY YIELD



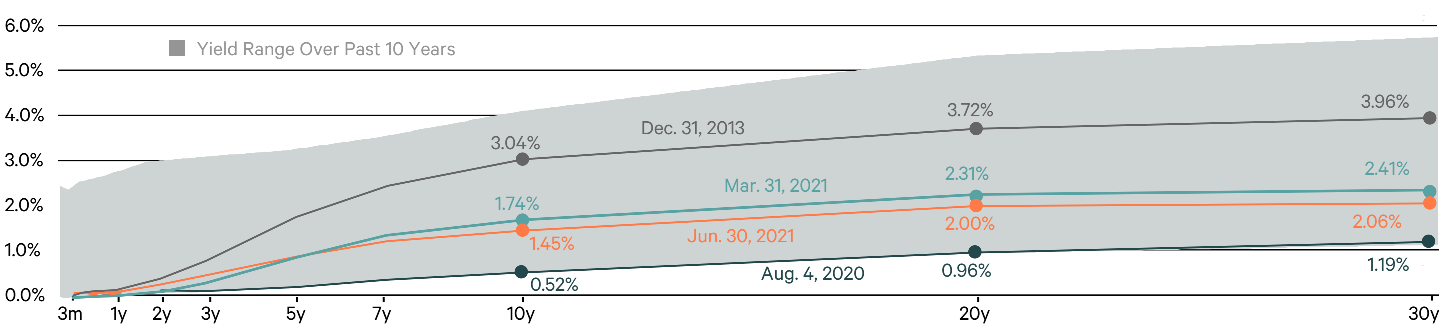
Data presented is as of June 30, 2021. Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

This decline in yields allowed the Bloomberg Barclays U.S. Aggregate Bond Index to advance 1.83% in the quarter, reducing the year-to-date loss to (1.60%). Spread-based fixed income performed well with high yield, as measured by the ICE BofA U.S. High Yield Index, advancing 2.77% for the quarter, bringing the year-to-date return to 3.70%. Municipal bonds, as measured by the Bloomberg Barclays U.S. Municipal Index, advanced 1.42% for the quarter and 1.06% for the year-to-date.

WHY ARE LONG-TERM YIELDS FALLING IF INFLATION IS SUCH A THREAT?

Inflation hawks need to explain why long-term yields have fallen over the last three months despite improving economic activity, increasing mass vaccinations, and continued supply bottlenecks in many industries. Reasons provided, such as the foreign buying of U.S. Treasuries, quantitative easing by the Federal Reserve, or simple profit taking do not seem to provide sufficient explanation. We believe that the best indication of long-term inflation expectations is the 30-year bond rate, which materially fell in the quarter from 2.41% to 2.06%.

FIGURE 2: U.S. TREASURY YIELD CURVE



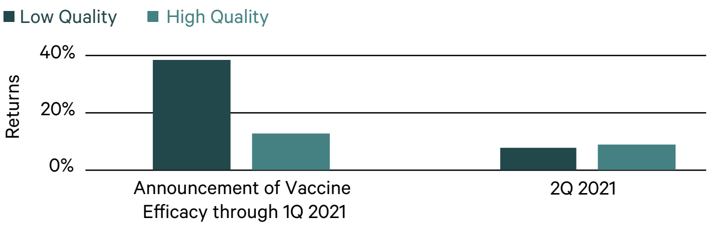
Data is obtained from Factset, Federal Reserve, J.P. Morgan Asset Management and is assumed to be reliable. Forecasts are not a reliable indicator of future performance. Positive yield does not imply positive return. ***Past performance is no guarantee of future results.***

When investors speak of potential interest rate increases, it is important to understand which maturity they are referring to. The Fed only controls the very short end of the yield curve, and despite an expanding balance sheet of Treasuries held, they still don't control 10, 20 or 30-year rates. There are many historical instances of the Fed increasing short-term rates only to see longer-term rates actually decline as the yield curve flattens or even inverts. So while inflation data may appear well above the long-term trend of 2% over the balance of this year, we should expect to see more normal inflation data as we get into 2022.

IS THE LOW QUALITY RALLY OVER?

Low quality stocks tend to outperform at the bottom of a recession when economic activity is about to rapidly accelerate as the economy emerges from recession. This process started in early November 2020 when the vaccine results of over 90% efficacy were announced. Low quality performed about in line with high quality in the second quarter suggesting the stock market is anticipating continued growth. However, the rapid acceleration phase may already be behind us. Remember the market is always trying to anticipate economic conditions over the next 6-to-12 months, and it seems likely that growth will continue but at a more moderate rate. Less fiscal support for individuals and increased taxes for corporations and high income taxpayers seem like a virtual certainty and will clearly slow growth rates into 2022. It will be interesting to see over the next year if indeed low quality outperformance has already run its course.

FIGURE 3: HIGH QUALITY VS. LOW QUALITY PERFORMANCE
Russell 3000® Index

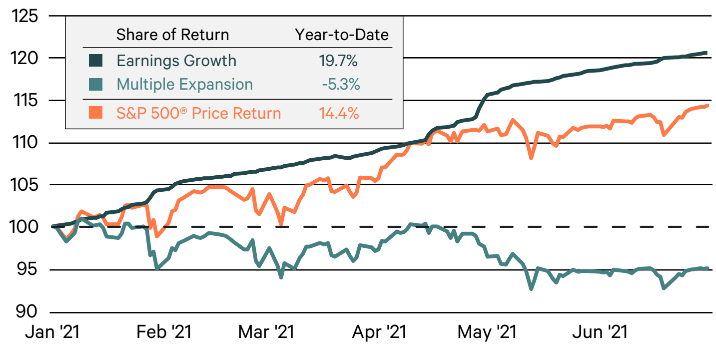


Announcement of vaccine efficacy date is November 6, 2020. Data is obtained from Factset and is assumed to be reliable. Low Quality is represented by stocks with a beta of 2.0 and High Quality is represented by stocks with a beta of 0.5-1.0. ***Past performance is no guarantee of future results.***

WHAT SHOULD AN INVESTOR DO?

Despite elevated valuations, we believe investors should stay the course and remain invested. Price/earnings ratios are higher than normal, but this is not unusual when earnings are rapidly recovering and corporate earnings were nothing short of sensational in the first quarter. Ironically, P/E ratios may decline as the earnings recovery unfolds. However, as long as earnings growth exceeds multiple contractions, we believe returns should be favorable for investors. We also feel having some balance between growth and value in a well-diversified equity portfolio is an important consideration at this point in the economic cycle as growth continues but moderates.

FIGURE 4: PERCENT CHANGE IN S&P 500®, EARNINGS AND VALUATIONS | Year-to-Date, Indexed to 100



Data presented is as of June 30, 2021. Data is obtained from Factset, Compustat, Standard & Poor's, J.P. Morgan Asset Management and is assumed to be reliable. Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. ***Past performance is no guarantee of future results.***

In our proprietary equity portfolios, we will continue to purchase high quality businesses regardless of the current economic regime. We believe competitive protections and differentiation are the key investment metrics which matter the most over the long term.

We thank you for your continued trust and confidence in managing your assets.

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 35 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. Developed international markets are represented by the MSCI® EAFE Index which is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. 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 Barclays 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 Barclays 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.***