

WEBINAR

# 2024 Outlook

## A Deep Dive into CNR's Economic and Investment Outlook

December 13, 2023

### 2024 Outlook Summary

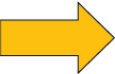
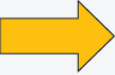

\*Note: this information is as of our December 13th, 2023 Webinar

## Investment Strategies for 2024's Expected Slowdown and Rebound

After a year of surprises, the outlook for 2024 is for a mild economic slowdown during the first half of the year, followed by a mild rebound in the second half, according to our leadership team at City National Rochdale. The expectation is that, while the Federal Reserve is finished with rate hikes, interest rates will remain higher for longer. While some analysts anticipate four rate cuts by the Fed in 2024, CNR expects just two rate cuts sometime in the second half of the year.

Given the anticipated mild slowdown, we expect modest returns across asset classes and will continue our modestly defensive risk positioning focused on high-quality U.S. stocks and bonds, said Tom Galvin, chief investment officer for City National Rochdale.

## Potential Next Steps for Asset Allocation

Scenario		Action
<ul style="list-style-type: none"><li>If mild recession risk falls meaningfully</li></ul>		<ul style="list-style-type: none"><li>Likely to increase exposure to MidSmall Cap equity and credit</li></ul>
<ul style="list-style-type: none"><li>If geopolitical tensions ease and tech EPS growth stalls</li></ul>		<ul style="list-style-type: none"><li>Consider adding non-US equity exposure</li></ul>
<ul style="list-style-type: none"><li>If inflation falls further</li></ul>		<ul style="list-style-type: none"><li>Increase exposure to longer fixed income</li></ul>

Source: CNR Research, as of December 2023.

Information is subject to change and is not a guarantee of future results.

Potential next steps for asset allocation, depending on whether the risk of inflation falls, geopolitical tensions ease and the mild recession risk falls, include increasing exposure to longer-term fixed income, strategically investing in non-U.S. equities or increasing exposure to small cap equities.

## 2024 Outlook

### ***Slow Growth/Mild Recession Likely to Start Year***

- Household and business fundamentals are solid but slowing.

- Downward glide path inflation intact.
- Fed policy remains tight to slow the economy and wages.
- We have below- consensus expectations for GDP and earnings growth.
- We have above consensus estimates for Fed Funds.

City National Rochdale Forecasts		2022	2023e	2024e
Real Annual GDP Growth		2.1%	2.0-2.5%	0.25% to 1.50%
Corporate Profit Growth		5.1%	-1% to 1%	6% to 12%
Headline CPI Year End		6.5%	3.0% to 3.4%	2.50% to 3.25%
Core CPI Year End		5.7%	3.8% to 4.2%	2.50% to 3.00%
Interest Rates	Federal Funds Rate	4.25% to 4.50%	5.25% to 5.50%	4.75% to 5.00%
	Treasury Note, 10-Yr.	3.88%	4.00% to 4.50%	4.00% to 4.50%

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period.

The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers.

e: estimate.

Sources: Bloomberg, proprietary opinions based on CNR Research, as of December 2023.

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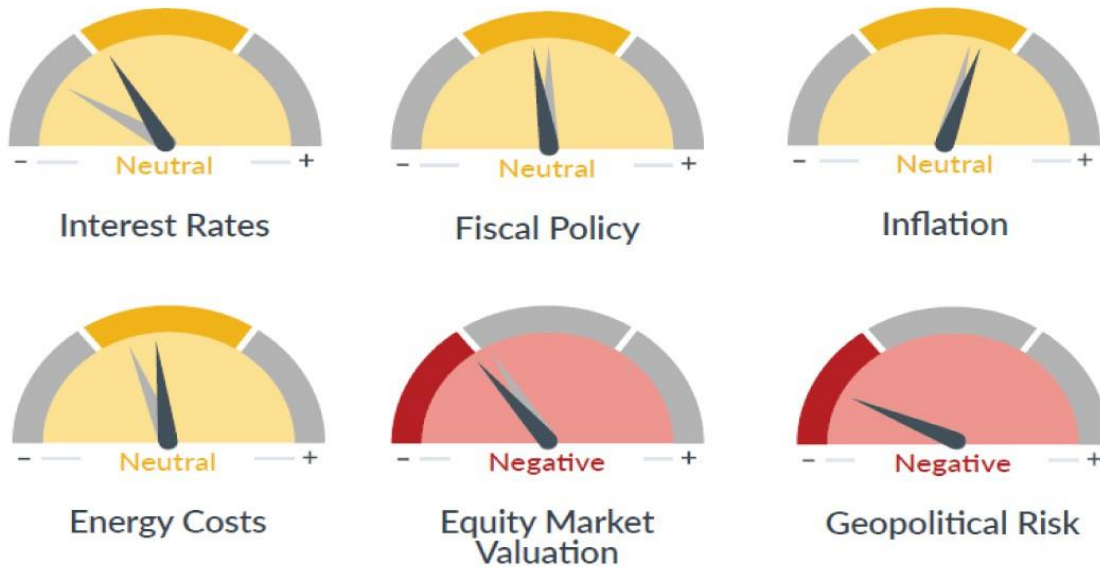
Our outlook for 2024 has changed slightly, with a modestly lower GDP estimate for 2024, and an expectation that the US 10-year treasury yield will remain in the 4.0% to 4.5% range for 2023 and 2024.

## CNR Speedometers® - December 2023

### *Economic & Financial Indicators That Are Forward-Looking Six to Nine Months*

- Indicators improving, but still supportive of mild recession

- Slowing economy likely to keep interest rate from going higher
- Upcoming budget discussions likely to reduce spending
- Downward glide path of inflation and lower energy prices if sustained are positives
- Geopolitical events remain key risk to outlook



Impact on investment: < Positive < Neutral < Negative

Timeframe: < Current < Change from last month

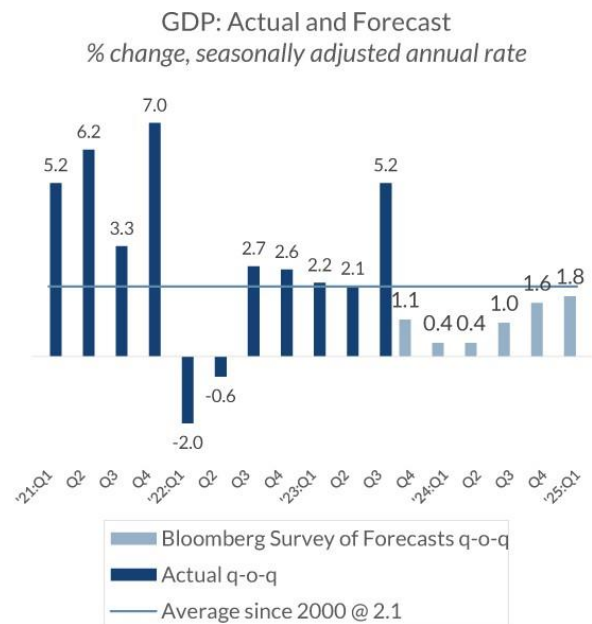
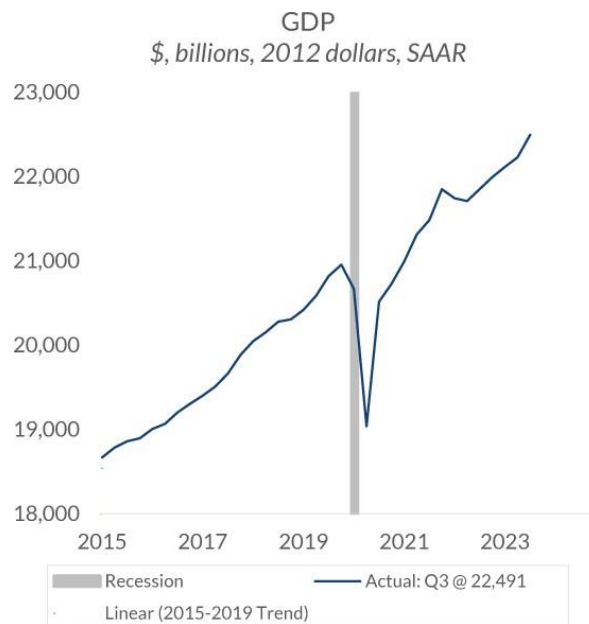
Source: Proprietary opinions based on CNR Research, as of December 2023.

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Our speedometers, which are forward-looking economic indicators of six to nine months, showed improvement this month in several categories, and improvement is expected to continue, Galvin said. Indicators that turned in a more positive direction include interest rates, inflation and energy costs.

## Economy: An Overview

- In the 3.25 years following the recession, the economy has almost fully recovered to the pace of growth it was on before the pandemic and recession.
- The pace of growth is expected to moderate in coming quarters under tight monetary policy.



Data current as of December 12, 2023

Source: Bureau of Economic Analysis, Bloomberg Composite of Economic Forecasts

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Expectations of a significant economic slowdown failed to materialize, with consumer consumption continuing to show strength, said Paul Single, managing director, senior economist and senior portfolio manager for City National Rochdale. GDP growth is expected to remain in positive territory, which has generated excitement in the media about the prospect of a soft landing. Still, a mild slowdown is expected for the first half of 2024.

## Today's Municipal Yields vs Trailing 10- & 20-Yr Averages

Higher Starting Yields Should Point Towards Better Returns Going Forward

Index	Yield / TEY* 12/04/2023	Avg Yield / Total Return Trailing 10 Years	Avg Yield / Total Return Trailing 20 Years
BBG Muni Intermediate (5-10 Yr)	3.04% / 5.14%	1.93% / 2.45%	2.49% / 3.47%
BBG 60% Muni HY / 40% IG	4.89% / 8.26%	4.10% / 3.95%	4.75% / 4.48%

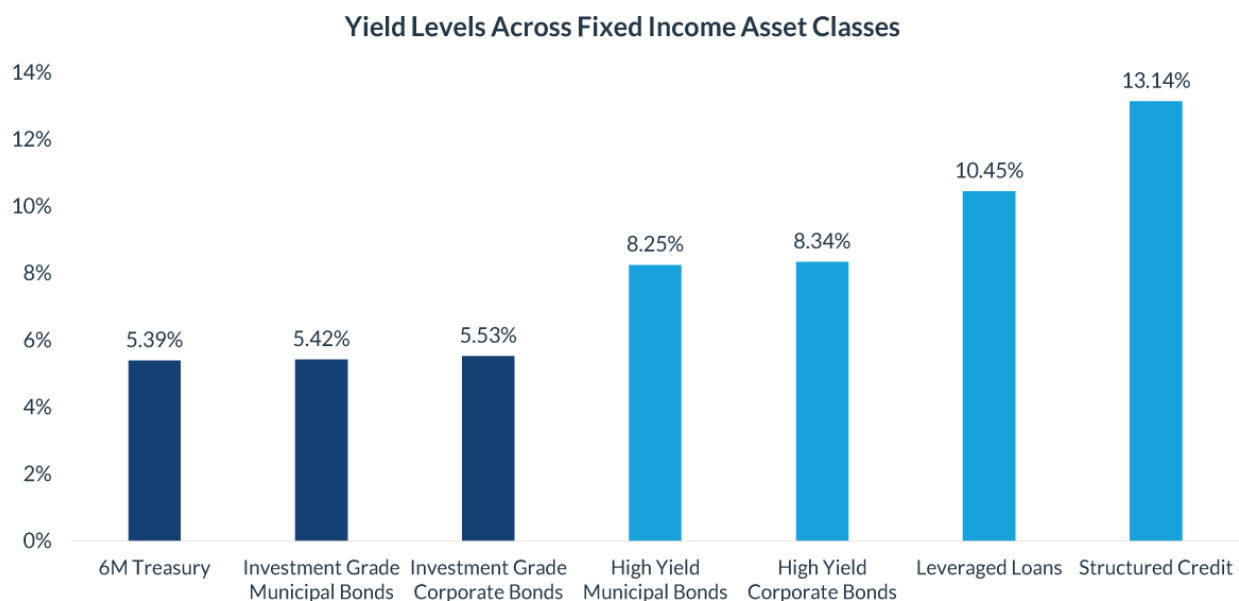
\*Taxable Equivalent Yield (TEY): Assumes 37% Federal tax and 3.8% Net investment income tax. As of 12/04/2023. Bloomberg Municipal Intermediate (5-10 year) Index, Bloomberg 60% High Yield/40% Investment Grade Municipal Index.

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The outlook for investing in municipal fixed income strategies remains positive, particularly for investors in higher tax brackets, said Michael Taila, managing director and co-director for fixed income for City National Rochdale.

## Yields Are Substantially Higher

- Higher yields have opened the door to a more diversified fixed income allocation.



Municipal bond index yields are tax-adjusted at 37% federal and 3.8% Medicare surcharge rates.

Sources: Bloomberg, CNR Research, as of November 2023. Information is not representative of any CNR product or service.

Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses. Information is subject to change and is not a guarantee of future results.

Index information: 6M Treasury: Bloomberg U.S. 6M Treasury Bill Index. Investment Grade Municipal Bonds: Bloomberg U.S. 1-15 Yr. Municipal Bond Index. Investment Grade Corporate Bonds: Bloomberg U.S. Intermediate Corporate Bond Index. High Yield Municipal Bonds: Bloomberg 60% Tax-Exempt HY/40% LB Municipal Bond Index. High Yield Corporate Bonds: Bloomberg U.S. High Yield Corporate Bond Index. Leveraged Loans: Morningstar LSTA US Leveraged Loan Index. Structured Credit: Palmer Square CLO BB Index.

Higher yields offer opportunities for a more diversified taxable fixed income strategy, said Charles Luke, managing director, co-director for fixed income for City National Rochdale. Rates are extremely attractive, especially compared to the past 15 years.

“The last time we saw yields this high was July 2008,” Luke said.

However, volatility should be anticipated in high yield bonds in the year ahead, and maturities may remain subdued until 2025 because higher interest rates don’t impact corporations that are not refinancing bonds.

## 2024 Outlook for Alternative Investments

### Outlook Highlights

- Public market diversification
- Higher current income levels versus traditional core fixed income
- Potential risk reduction and return enhancement
- Defensive versus volatile rates and an inflation hedge

### Income Based Alternative Investments

- Current yield levels range from 8% to 14%
- Potential for capital appreciation
- Overall higher return expectations versus core fixed income, with greater potential volatility



Source: Bloomberg (Palmer Square Indices, Cliffwater Associates Indices), City National Rochdale as of December 2023.

Information is subject to change and is not a guarantee of future results.

Return expectations derived from discussions within the CNR Investment Strategy Committee (ISC) and is not a guarantee of future results

Based on the economic conditions on December 13, 2023, income-based alternative investments had a strong year, above expectations, while growth-based alternative investments were more challenging because of the slowdown in mergers and acquisitions, said Thomas Ehrlein, director of investment solutions and research for City National Rochdale. Alternative investments provide a risk reduction to public markets and a higher current income than traditional core fixed income investments, Ehrlein said, and they can be used to enhance a 60/40 portfolio over the long term.

## Dividend Stock 2024 Return Framework

- ◆ After challenging year, we see potential total return improvement trending back towards historic return trends



Source: FactSet, as of November 30, 2023.

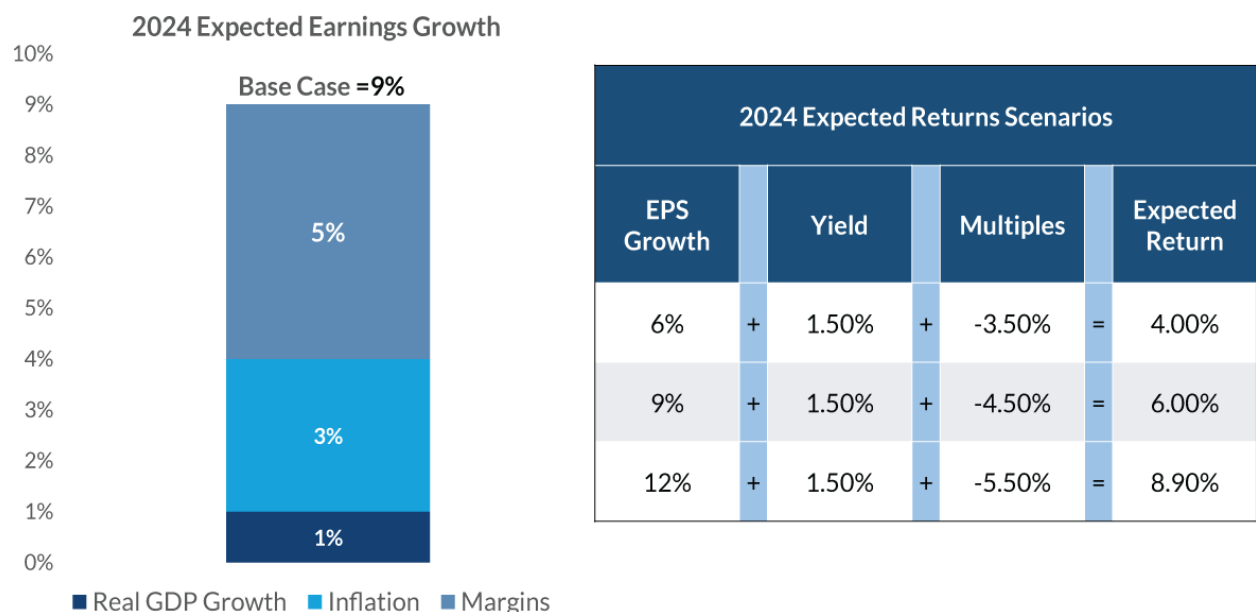
Information is subject to change and is not a guarantee of future results. Expected returns shown represent CNR's forecast of each respective asset class based on market indices, and not for any CNR products for services. There is no assurances that any of the expected returns may be realized, and actual returns may be lower given market conditions. CNR actual strategy returns in these asset classes may be considerably lower. Dividend stocks represented by the Dow Jones US Select Dividend.



Dividend stock returns are back to attractive levels and are anticipated to improve in 2024 to historic trend levels, said David Shapiro, senior portfolio manager and senior equity analyst for City National Rochdale. Key overweight sectors include REITs, energy, consumer staples and industrials, while key underweight sectors include consumer discretionary spending, utilities and materials.

## Modest Returns Expected for S&P 500 in 2024

- ◆ Expect earnings growth to range 6-12% in 2024.
- ◆ Consensus appears too high in first half of year, expect recovery in earnings in second half of 2024.
- ◆ EPS growth foundational for expected returns.
- ◆ Given high current valuations declines in multiples likely to be a headwind to total return.



Source: CNR Research, as of December 2023.

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Earnings growth is forecasted to range from 6% to 12% in 2024, with modest returns for the S&P 500 of 4% to 8.9% expected, Galvin said. Long-term investors should continue to focus on sectors with less cyclical exposure. “We expect to selectively increase exposure to AI while staying underweight on some of the tech titans that have high valuations.”

Tune in to our next webinar on January 25 to hear updates and changes to the CNR forecasts.

### **Review Your Portfolio with Your Wealth Planners Today**

City National encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to get help with your wealth planning needs.

## **Important Information**

All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money. Diversification may not protect against market risk or loss. Past performance is no guarantee of future performance. Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses. Equity investing strategies & products. There are inherent risks with equity investing. These risks include, but are not limited to stock market, manager or investment style. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Fixed Income investing strategies & products. There are inherent risks with fixed income investing. These risks include, but are not limited to, interest rate, call, credit, market, inflation, government policy, liquidity or junk bond risks. When interest rates rise, bond prices fall. This risk is heightened with investments in longer-duration fixed income securities and during periods when prevailing interest rates are low or negative.

Investing in international markets. There are inherent risks with international investing. These risks include, but are not limited to, risks such as currency fluctuation, regulatory risks, and economic and political instability. Emerging markets involve heightened risks related to the same factors, as well as increased volatility, lower trading volume and less liquidity. In addition, emerging markets can have greater custodial and operational risks and less developed legal and accounting systems than developed markets. Investments in emerging markets bonds may be substantially more volatile, and substantially less liquid, than the bonds of governments, government agencies, and government-owned corporations located in more developed foreign markets.

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### **Index Definitions**

**S&P 500 Index.** The Standard & Poor's 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

**MSCI EAFE Index.** The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization weighted index that is designed to measure developed equity market results, excluding the US and Canada.

**Bloomberg US Corporate High Yield Index.** The Bloomberg US Corporate High Yield Index measures the performance of non-investment grade, US dollar-denominated, fixed-rate, taxable corporate bonds.

**Bloomberg Municipal Bond Index.** The Bloomberg US Municipal Bond Index measures the performance of investment grade, US dollar-denominated, long-term tax-exempt bonds.

**Bloomberg Municipal High Yield Bond Index.** The Bloomberg Municipal High Yield Bond Index measures the performance of non-investment grade, US dollar-denominated, and non-rated, tax-exempt bonds.

**Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD:** The Bloomberg US Corporate Bond 1-5 Year Index measures the investment grade, fixed-rate, taxable corporate bond market with 1-5 year maturities.

**Bloomberg US Investment Grade Corporate Bond Index:** The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**The Russell 2000® Index:** is a market capitalization-weighted index measuring the performance of the small-cap segment of the US equity universe and includes the smallest 2,000 companies in the Russell 3000® Index.

**DJ US Select Dividend Index®.** The Dow Jones US Select Dividend Index® measures the performance of the top 100 US stocks by dividend yield.

**Bloomberg US Aggregate Bond Index:** The Bloomberg US Aggregate Bond Index measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bonds.

**Alternatives – Income based performance:** Returns illustrated are 50% Palmer Square BB CLO Index/50% Palmer Square BBB CLO Index.

**Indexes are unmanaged and do not reflect a deduction for fees or expenses. Investors cannot invest directly in an index.**

**Definitions:**

Commercial and Industrial (C&I) Loan A commercial and industrial (C&I) loan is a loan made to a business or corporation.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

The Consumer Price Index (CPI) measures the monthly change in prices paid by US consumers.

Yield to Worst (YTW) is the lower of the yield to maturity or the yield to call. It is essentially the lowest potential rate of return for a bond, excluding delinquency or default.

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