CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

Summary of 2023 Mid-Year Outlook Webinar

June 22, 2023

City National Rochdale provides an economic and investment outlook for the second half of 2023. The majority of economic indicators it monitors continue to suggest that a mild recession is likely sometime later this year. Although inflation is moderating, it remains too high for Fed officials who are expected to keep monetary policy tight until they see more progress or there is evidence of material economic weakness. The labor market continues to be healthy, and real wage gains are helping to support consumers spending for now. However, banks are reducing lending to consumers and businesses, which will weigh on investment, hiring and spending ahead. Despite the recent stock market rally, slowing economic growth could lead to earnings disappointments in coming months and renewed declines in equity prices. The speakers advise remaining underweight in stocks, particularly in Europe and Asia, and instead investing in fixed income and cash management returns. They emphasize the opportunities projected in short term investment grade corporate bonds, high yield bonds and structured credit.

- **00:00:00** In this section, City National Rochdale CEO Garrett D'Alessandro discusses the economic and investment outlook for the second half of 2023. The majority of forward-looking economic indicators CNR monitors continue to suggest that a mild recession is likely sometime later this year. However, the recession is expected to be mild by historical strength given the strength of households and the labor market. Almost all measures of inflation have peaked and are now in a downward glide path, but they remain elevated and the Fed is likely to keep interest rates higher for longer as a result. Banks are reducing their lending to consumers and businesses, which tends to lead to slowing economic growth. The labor market is still strong and wage increases are now growing faster than inflation which should help consumers remain resilient in their spending and supports the mild recession outlook. However, high wages are also a factor contributing to lower profits and potentially negative stock trends. Mr. D'Alessandro states that equity markets have not yet fully priced in the risk of recession. He advises remaining underweight in stocks, particularly in Europe and Asia, and instead investing in fixed income and cash management returns.

- **00:8:00** In this section, Mr. D'Alessandro reviews CNR's 2023 economic forecasts, including those for GDP growth and corporate profits. While below consensus, their relatively moderate negative forecasts reflect a mild recession rather than

declines that would be expected in more normal recessions. Overall, CNR sees a 78% chance of recession ahead, with a 65% likelihood the recession will be mild. CNR's forward looking speedometers reflect this outlook, with most of their dials either negative or signaling caution. He discusses how after a year of Fed rate hikes, interest rates are only now starting to restrict economic activity. The money printed and distributed during the pandemic has benefited households and supported spending, but now that cash is dwindling. Real wage increases versus unemployment will determine how mild recession and restrictive the Fed will be. Although the stock market has gotten off to a strong start this year, returns have been due primarily to just three growth sectors: technology, communications and consumer industries. Tech stocks have contributed heavily to the total return while the contributions from several economically sensitive value leaning sectors have been the lowest on record. The limited participation from other sectors casts doubt on the sustainability of the current rally.

- **00:15:00** In this section, Paul Single discusses the recent activity of the Federal Reserve and their efforts to fight inflation. Despite some recent economic data showing weakness, the Fed has upgraded its view of the economy for this year and increased short-term interest rates. In particular, they remain concerned about the stickiness of inflation in the service sector and the strength in wage growth. The market is starting to realize that the Fed is serious about this, which can be seen through an increase in the Fed funds futures for the December contract. The Fed has several tools to control economic growth, including the Fed funds rate, which is currently at a very high level compared to the natural rate of interest. The Fed is also using quantitative tightening by reducing the size of their bond portfolio, making it harder for people to take out credit. As a result of these actions, the banking system is slowing down their lending.

- **00:20:00** In this section, Mr. Single discusses the significance of the decrease in loan growth amongst banks recently, particularly in commercial and industrial loans to businesses. Decreases in lending are seen historically to correlate with increased restrictions in bank lending policies and ultimately a recession. Credit is an integral part of growing the economy. While labor demand remains strong, tightening in credit availability can lead to a reduction in hiring ahead. This is part of the Fed's plan, as officials want to see a greater balance between labor demand and supply, which should lead to lower inflation. Mr. Single then discusses the US economic outlook in relation to other global economies. The US has led the global recovery, with its economy growing at a rate of 5.4% since the quarter before the pandemic, significantly above other regions of the world. Inflation has been a shared global issue and has led central banks to aggressively raise short-term rates to combat the problem. China is the exception, as its economy has not been as affected by inflation due to the country's COVID-19 lockdowns and low levels of spending. China is lowering rates to try and stimulate its economy, which has begun to taper off and is causing concerns.

- **00:26:00** In this section, Charles Luke delves into fixed income and cash management, highlighting the high levels of liquidity available and the opportunities for staying short. He notes that fixed income performance tends to be particularly strong before and after GDP troughs, with the defensive characteristics of the bond market beginning to come back. CNR expects that there will be robust performance in fixed income as we head toward the end of 2023 with a high yield indicating strong returns. However, the potential economic slowdown and the possibility of defaults in corporate names remains a concern. The data shows that defaults have ticked up to 3.1%, although they still remain below long-term averages of 4.1%. To limit negative impact, Mr. Luke suggests investing in high quality debt with yields above 7% and focusing on the top tier of bonds.

- **00:35:00** Mr. Luke explains that investing in high yield bonds within a fixed income portfolio will help to achieve goals and targets and should be viewed as a long-term investment. While he expects some near-term price headwinds due to an expected default rate of around 5%, he believes that this is offset by the income component of around 8.5%, making it a core holding in a fixed income portfolio. Mr. Luke emphasizes that opportunities to generate income in the fixed income market are abundant, with tremendous opportunities projected in the short term for investment grade corporate bonds, high yield bonds and structured credit. He also discusses the potential for high returns for fully taxable investors in municipals, representing a tax-efficient way to invest in the market, and he concludes by analyzing the losses suffered by bond portfolios in 2022 and showing how long it would take for bonds to recover.

- **00:41:00** In this section, Tom Galvin focuses on equities and states that they are modestly underweight due to negative EPS revision trends and overvaluation when compared to fixed income opportunities. He also notes that while there has been a 20% advance in stocks, a sustainable rally is unlikely to occur in the near term due to continued reduction in earnings and the stronger performance of stocks when earnings revision trends are upward and positive. Additionally, Mr. Galvin reiterates CNR's emphasis on holding high quality US stocks during uncertain times. The disappointing performance of the Chinese economy recently is due to its export engine being unable to start, corporations and countries de-risking their exposures to China, less job creation and high unemployment rates for recent college graduates. European economies have seen modestly negative economic activity for two quarters in a row after the benefits from a mild winter and declines in energy prices have worn off, while the US economy has been very resilient. Mr. Galvin remains optimistic toward the US economy long term and recommends staying invested, and he sees opportunities for buying undervalued stocks in the Equity Income strategy after a difficult start to the year. The Equity Income strategy also offers counter-cyclical capabilities with a dividend yield of around 4.5%.

- **00:49:00** In this section, Mr. Galvin discusses the S&P 500's strong rebound this year, noting the narrow market leadership. The seven Tech Titans have driven the lion's share of the index's total 15% return YTD. The rest of the S&P 500 is up only 3%. Much of the strong performance in the tech stocks has been driven by enthusiasm over developments in artificial intelligence. Although there is a lot of excitement surrounding the breakthrough of generative AI, there is also a great deal of controversy and potential dangers to society. Microsoft's recent investment in OpenAI and the creation of ChatGPT have sparked a surge in spending, which is likely to continue in the short term. However, there is skepticism about the long-term impact of AI on the economy, as some believe it could lead to worker layoffs and have negative effects on economic growth. Overall, CNR believes the outlook for generative AI is strong, but the cost of development is high and resources are limited. Valuation matters; CNR sees the best opportunities in large cap companies with established earnings, while advising to stay away from speculative tech stocks.

- **00:56:00** In this section, Mr. Galvin concludes by stating that CNR is maintaining its modestly defensive positioning given elevated recession risk and uncertainty. As it relates to fixed income, it remains optimistic on returns going forward and sees numerous opportunities depending on an investors' liquidity requirements, tax budgets, income needs and volatility thresholds. With ST treasuries yielding 5%, IG corporates and munis around 5% and HY corporate and munis over 8%, many opportunities exist. These higher rates are competitions for stocks, and the return premium you can get from stocks vs bonds is the lowest in many years. While the approaching end of the Fed's rate hiking cycle is a clear positive development for risk assets, higher returns from bonds is a headwind for stocks as are the next stages of revision trends at a time of high valuations.

  Looking forward, Mr. Galvin notes that there are several critical variables on watch for potentially increasing equity exposure. On the fundamental side, this would include increased confidence in the outlook for sustainable economic and earnings growth, as well as a faster than expected decline in inflation that could lead to lower interest rates and set the stage for a durable expansion. While CNR is not forecasting, nor positioned for a secular decline in tech stocks, a removal in tensions around Taiwan would also be beneficial. Finally, if the markets fell to a level where the risk/reward was attractive enough a strong long term buying opportunity in stocks may present itself that could supersede these other factors.

Important Information

City National Rochdale, LLC, is a SEC-registered investment adviser and wholly owned subsidiary of City National Bank. Registration as an investment adviser does not imply any level of skill or expertise. City National Bank and City National Rochdale are subsidiaries of Royal Bank of Canada. City National Bank provides investment management services through its subadvisory relationship with City National Rochdale, LLC.

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.

The information presented does not involve the rendering of personalized investment, financial, legal or tax advice. This presentation is not an offer to buy or sell, or a solicitation of any offer to buy or sell, any of the securities mentioned herein.

This information is not intended as a recommendation to invest in a particular asset class, strategy or product.
This document may contain forward-looking statements relating to the objectives, opportunities and future performance of the US and global markets generally. Forward-looking statements may be identified by the use of such words as: "expect," "estimated," "potential" and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of any particular investment strategy. All are subject to various factors, including, but not limited to, general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting a portfolio's operations that could cause actual results to differ materially from projected results. Such statements are forward-looking in nature and involve a number of known and unknown risks, uncertainties and other factors, and accordingly, actual results may differ materially from those reflected or contemplated in such forward-looking statements. In addition, certain information upon which assumptions have been made has been provided by third-party sources and, although believed to be reliable, the information has not been independently verified and its accuracy or completeness cannot be guaranteed. Prospective investors are cautioned not to place undue reliance on any forward-looking statements or examples. None of City National Rochdale nor any of its affiliates or principals nor any other individual or entity assumes any obligation to update any forward-looking statements as a result of new information, subsequent events or any other circumstances. All statements made herein speak only as of the date that they were made.

The information presented is for illustrative purposes only and based on various assumptions which may not be realized. No representation or warranty is made as to the

reasonableness of the assumptions made or that all assumptions used have been stated or fully considered.

Quality Ranking: City National Rochdale Proprietary Quality Ranking is the weighted average sum of securities held in the strategy versus the S&P 500 at the sector level using the below formula.

City National Rochdale Proprietary Quality Ranking formula: 40% Dupont Quality (return on equity adjusted by debt levels), 15% Earnings Stability (volatility of earnings), 15% Revenue Stability (volatility of revenue), 15% Cash Earnings Quality (cash flow vs. net income of company) 15% Balance Sheet Quality (fundamental strength of balance sheet). *Source: City National Rochdale proprietary ranking system utilizing MSCI and FactSet data. **Rank is a percentile ranking approach whereby 100 is the highest possible score and 1 is the lowest. The City National Rochdale Core compares the weighted average holdings of the strategy to the companies in the S&P 500 on a sector basis. As of September 30, 2022. City National Rochdale proprietary ranking system utilizing MSCI and FactSet data.

4P analysis: The 4P analysis is a proprietary framework for global equity allocation. Country rankings are derived from a subjective metrics system that combines the economic data for such countries with other factors including fiscal policies, demographics, innovative growth and corporate growth. These rankings are subjective and may be derived from data that contain inherent limitations.

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.

High yield securities. Investments in below-investment-grade debt securities, which are usually called "high yield" or "junk bonds," are typically in weaker financial health. Such securities can be harder to value and sell, and their prices can be more volatile than more highly rated securities. While these securities generally have higher rates of interest, they also involve greater risk of default than do securities of a higher-quality rating.

Real estate sector or REITs. Concentrating assets in the real estate sector or REITs may disproportionately subject a portfolio to the risks of that industry, including the loss of value because of adverse developments affecting the real estate industry and real property values. Investments in REITs may be subject to increased price volatility and liquidity risk; concentration risk is high.

Municipal securities.
Investments in the municipal securities of a particular state or territory may be subject to the risk that changes in the economic conditions of that state or territory will negatively impact performance. These events may include severe financial difficulties and continued budget deficits, economic or political policy changes, tax base erosion, state constitutional limits on tax increases and changes in the credit ratings.

Glossary

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.

Index Descriptions

Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

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.

Russell 2000® Index. 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.

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.

MSCI EM Index. The MSCI Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market results in the global emerging markets, consisting of more than 20 emerging market country indexes.

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

Bloomberg US Investment Grade Corporate Bond Index. The Bloomberg US Investment Grade Corporate Bond Index measures the performance of investment grade, corporate, fixed-rate bonds with maturities of one year or more.

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 EQ:FI 60:40 Index. Bloomberg US EQ:FI 60:40 Index is designed to measure cross-asset market performance in the US. The index rebalances monthly to 60% equities and 40% fixed income. The equity and fixed income allocation is represented by Bloomberg US Large Cap and Bloomberg Barclays US Agg respectively.
Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD

Citi Economic Surprise Index: The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median).

ISM PMI Index. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

SIFMA Municipal Swap Index. The SIFMA Municipal Swap index is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system. The index is calculated on an actual/actual basis and is published every Wednesday by 4 p.m. Eastern Time.

Palmer Square CLO Debt Index. The Palmer Square CLO Debt Index is a rules-based observable pricing and total return index for collateralized loan obligation ("CLO") debt for sale in the United States, original rated A, BBB, or BB or equivalent.

Morningstar LSTA US Leveraged Loan Index. The Morningstar LSTA US Leveraged Loan Index is a market-value weighted index that tracks the performance of the US leveraged loan market

Non-deposit investment Products are: • not FDIC insured • not Bank guaranteed• may lose value