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CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

JULY 2022

ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

QUARTERLY UPDATE

Inflationary Forces Driving Everything Higher for Longer

Garrett R. D'Alessandro, CFA, CPWA®, CAIA, AIF®
Chief Executive Officer

Many factors have led to high inflation, including supply constraints, unprecedented monetary stimulus, declines in workforce levels and the war in Ukraine impacting oil and gas prices.

Post-pandemic rapid increases in consumer and business spending have caused the economy to overheat, pushing many prices higher. The Fed's challenge is to tighten enough to slow growth without sharply increasing unemployment, something that has historically proven very difficult to do.

We estimate there is now a 50% probability of a mild recession in 2023. Mitigating factors like healthy private sector balance sheets, rising wages and strong employment could preclude a recession or lead to any recession being short and mild. However, until the path of economic growth becomes clearer, equity and fixed income markets will likely remain vulnerable to declines, and we have continuously adjusted our asset class exposures to moderate client portfolio risk levels.

When the pandemic started, the US economy was facing the prospect of a severe recession. In response, the federal government created programs that put trillions of dollars into the hands of consumers and businesses to lessen the risks of a deep and prolonged recession. The programs achieved the intended objectives, and the US economy recovered from the pandemic quicker and stronger than many had anticipated. However, the combined effect of these efforts has also led to the highest inflation in 40 years.

Headline CPI has now reached 9.1% (chart 1), and though some categories are experiencing higher price increases than others, inflation pressures are broad-based. What is causing inflation to remain so strong?

- Oil and gas prices are rising because of the war in Ukraine and reduction in supply. The same is true for food prices.
- Goods prices are rising because of too much demand and not enough supply.
- Car prices and airline prices are rising due to strong demand and not enough capacity.
- Wages are rising due to a shortage of millions of workers.
- Rental and housing prices are rising due to low interest rates and a lack of inventory.

KEY POINTS

- Economic momentum slowing, recession risk rises to 50%
- Fed needs to slow demand to rein in inflation
- CNR is proactively lowering risk levels in portfolios

Most of these forces are outside the Fed's control, and if officials prevail in the fight against inflation, employment will be key. Extreme labor shortages post-pandemic and rising prices have led workers to demand and receive higher pay increases. While wage gains are still falling behind the increase in prices, large pools of excess savings accumulated during the pandemic and low borrowing costs have helped households bridge the gap, supporting spending and keeping inflation pressures elevated.

In response, Fed officials have now embarked on their most aggressive tightening cycle in decades.

Chart 1: Consumer Price Index (CPI) Components

CPI Category	Index Weight	Y/Y % Change
Transportation	15%	20%
Fuels and Utilities	5%	18%
Food and Beverages	15%	10%
Other Household Expenses	4%	10%
Housing	33%	7%
Other	3%	7%
Apparel	3%	5%
Recreation	6%	5%
Medical Care	8%	5%
Education and Communication	7%	1%
Total	-	9.1%

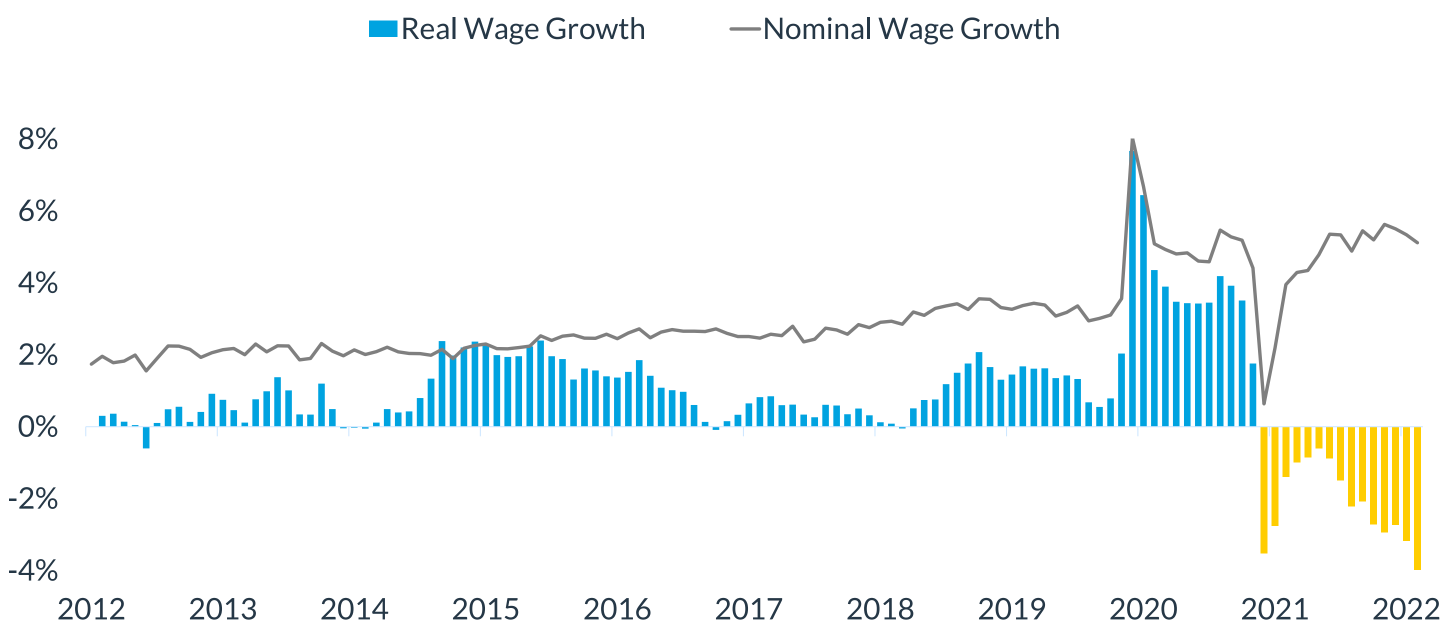
Source: Bureau of Labor Statistics.

The belief is that eventually higher borrowing costs, combined with falling real wages (chart 2), will force consumers to reduce their spending and businesses in turn to slow hiring. This cooling of demand should subsequently bring about lower inflation rates. However, it will take a period of many months, lasting at least into 2023, for this sequence to play out, and if demand does not cool significantly and labor conditions stay tight, the Fed may be forced to tighten even more aggressively and risk tipping the economy into recession.

For now, we don't think a recession is inevitable. But, executing a soft landing is difficult under the best of conditions, and Fed officials have no standard playbook for the multitude of uncertainties that exist around today's outlook. This implies to us that a wider range of outcomes is now possible, and we have been proactively raising the defensive profiles of client portfolios by lowering exposure to growth equities and gradually increasing our commitment to investment-grade fixed income. Rest assured, we will remain agile in our decision making in order to manage client portfolios though these complex circumstances.

Chart 2: Wages Failing to Keep Up with Inflation

(Average Hourly Earnings Y/Y% Change)



Source: Federal Reserve Bank of St. Louis (FRED) as of June 2022.

Market Update: Higher for Longer – Thoughts on Long-Term Equity Returns

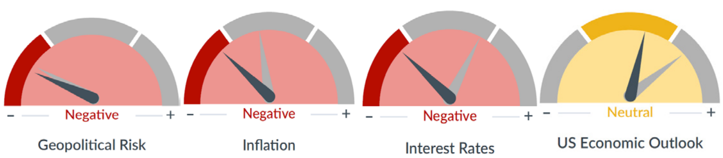
Tom Galvin
Chief Investment Officer

Our strategic thinking has shifted to what we are describing as "higher for longer," meaning an environment where higher for longer geopolitical uncertainty, inflation and interest rates will lead to higher for longer volatility in the economy and financial markets.

KEY POINTS

- Long-term structural shift is likely underway
- Expect more volatility in the economy, inflation and corporate profits
- Expect lower returns and higher volatility in financial markets
- Our long term equity capital market assumptions are below historical averages

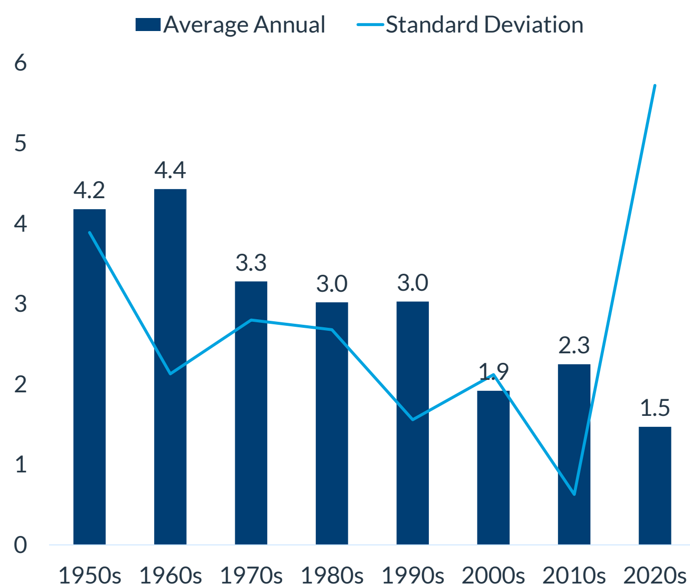
These dynamics, best illustrated by changes in our speedometers, have led us to reduce our near-term forecasts for GDP growth and corporate profits, while increasing our forecasts for inflation and interest rates.



Additionally, this shift is impacting our longer-term outlook for the economy, inflation and equity returns. What do we mean by this? The following charts show a decade-by-decade look at real GDP activity, inflation and stock prices. The bar is the average annual change for each item in each decade, and the line is the volatility, or standard deviation, of those changes.

Looking at real GDP, the US economy after World War II was very strong, averaging 4.2-4.4% growth over the 1950s and 1960s, with relatively low and declining volatility. In the 1970-1990 period, annualized growth slowed to around 3%. During the 1990s, with globalization and the addition of China to the World Trade Organization, the outsourcing of many jobs led to a slowing of real GDP growth rates to 1.9-2.3%

Chart 1: Real GDP Growth



Source: Federal Reserve Bank of St. Louis (FRED), as of June 2022

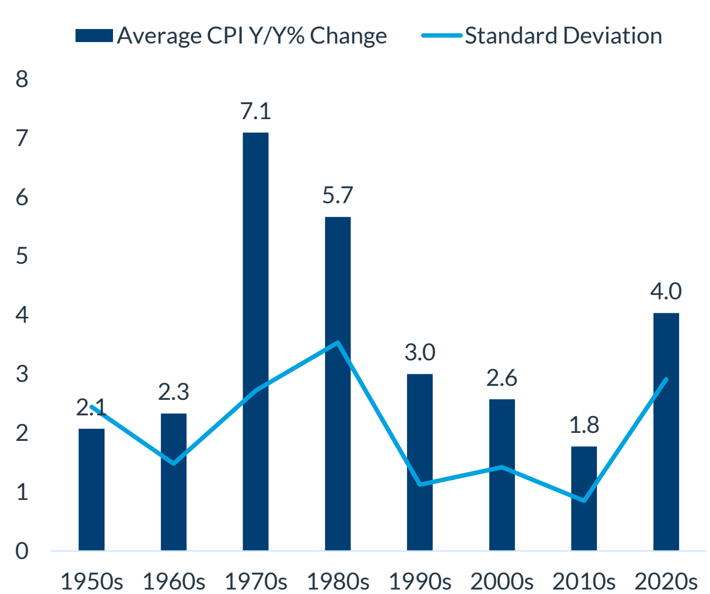
*2020s only reflect data through June 2022. Not a projection of the full decade.

annualized, and volatility on a year-to-year basis fell even lower. **While we're only two years into the decade of the 2020s, GDP growth has slowed further but volatility has moved significantly higher (chart 1).**

Regarding inflation, a similar pattern was evident in the 1950-1960 timeframe. Inflation was low – around 2% – and volatility year in and year out also was low. The 1970s brought a shift to higher inflation as two oil supply shocks, along with rising wages, led to a surge in average yearly CPI increases and rising volatility. By the end of the 1970s, a tighter monetary policy regime came into effect and inflation pressures started to abate in the 1980s, though volatility initially increased. With the combination of continued policy successes and globalization, inflation then declined for three decades – from 3% to 1.8% – and volatility was very low. While we're only two years into the 2020s, inflation is once again up meaningfully and volatility also is on the rise (chart 2).

As it relates to stock prices, the average annual total return for the S&P 500 since 1950 has been around 11%. You can see that some decades are above this level, and some are in line or below this level. Volatility also has varied meaningfully from year to year. Our conclusion is that **since the 1990s, we've been spoiled.** Aside from the post 9-11 period and Great Financial Crisis, economic activity and inflation have been low. And while the first two years of this decade may not be a perfect harbinger of the next eight, we believe we are shifting to a period of higher for longer. How much higher and how much longer isn't clear, but **we believe investors should continue to expect lower returns with higher volatility for equities and should plan appropriately.** Our long-term capital market assumptions for equities assumes returns of 6-7% that are meaningfully below the 11% average since the 1950s (chart 3).

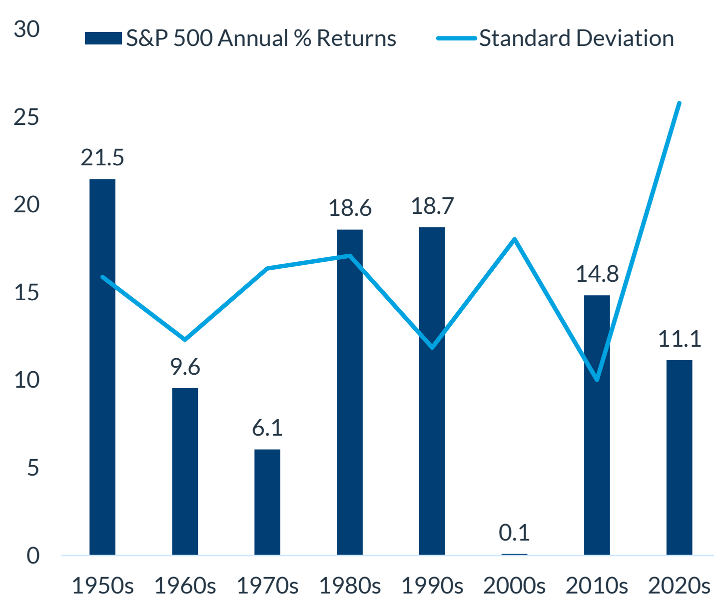
Chart 2: Inflation



Source: Federal Reserve Bank of St. Louis (FRED), as of June 2022

*2020s only reflect data through June 2022. Not a projection of the full decade.

Chart 3: Stock Market Returns



Source: Factset, as of June 2022

Managing Risks While Staying Focused on Quality Companies

Tom Galvin
Chief Investment Officer

For many months, our advice for investors has been to keep your seat belts fastened. After declining another -16% in the second quarter, the S&P 500 is off to one of its worst starts in history and is now down -20% year to date. Other indices have experienced even greater declines.

With the Russell 2000 down -24% and the NASDAQ down 30%, there have been very few places in equities to hide. Even quality stocks are down -23%, a level that approximates the returns for Core Equity stocks so far this year. However, **the underperformance in quality stocks is coming after many years of strong returns and does not change the appeal of these stocks.**

As chart 1 shows, quality stocks have solidly outperformed the S&P 500 over the long term, although not every year. In some years, or over shorter periods of time, quality stocks can lag the broader market by a fair amount, as they have so far in 2022. Still, while not calling a near-term bottom, we believe these stocks are becoming increasingly attractive. **Blue chip companies, with strong management teams and durable franchises, can grow nicely if economic growth continues, and will come out in better shape on the other side should a recession occur.** A nice blend of offense and defense, if you will.

Over the last decade, our primary and preferred approach has been to invest in quality companies for the long term. It's the best way to be tax efficient and create long-term wealth. This strategy has served us well and we are sticking with our focus here.

So, what is a quality company? **We have a proprietary approach, evaluating revenue and earnings stability,**

KEY POINTS

- High-quality stocks have historically outperformed the broad market over the long term
- Quality companies are becoming increasingly attractive
- Blue chip companies are better able to withstand economic weakness

balance sheet and cash flow strength and return on equity. On a weighted average basis, we estimate that our Core Equity Strategy has a 10-15% higher quality rank than the S&P 500. We are also continuing to avoid highly speculative tech stocks and crypto-related investments. Other conscious and proactive steps we are taking this year have included reducing exposure to certain stocks with above-average exposure to Europe and, most recently, stocks in cyclical industries that have greater downside earnings potential should recession risks increase.

Chart 1: Performance: Quality Stocks vs. S&P 500

Sources: FactSet, as of June 30, 2022.

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City National Rochdale Proprietary Quality Ranking (PQR) is the weighted average sum of securities held in the strategy versus the S&P 500 at the sector level.

For more information on the CNR PQR as well as the formula used to calculate the quality rating, please refer to page 16 of this presentation.

Equity Income: Remaining Relatively Resilient

David Shapiro
Senior Portfolio Manager

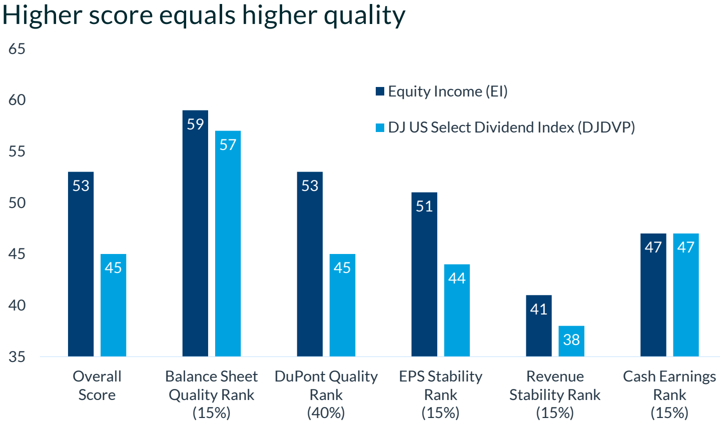
Tony Hu, CFA, FRM
Senior Portfolio Manager

Volatility continued to dominate market headlines in the second quarter, with losses extending and equities entering bear market status. As investors continue to look for places of safety and stability, **dividend stocks have not been immune to the drawdown but have held up much better overall.**

This is what we would expect to see, absent a financial crisis or exogenous shock. Because they predominantly represent established businesses, **dividend stocks are inherently more defensive than non-dividend stocks.** Our benchmark is overweight defensive sectors such as Utilities and Consumer Staples, and materially underweight Technology. No profitless tech here. And amid this inflationary environment, our dividend stock universe is also overweight the Energy and Materials sectors.

Chart 1: Emphasis on Quality

Higher score equals higher quality



Sources: Factset, Bloomberg, as of 6/30/2022

DJ US Select Dividend Index: Dow Jones US Select Dividend Index

Within sectors, dividend stocks have also outperformed the broader market year to date – almost across the board. Rising interest rates have caused the longest duration, highest multiple stocks to de-rate. **Dividend stocks are value stocks, with lower multiples and shorter duration, as more cash flows are delivered to investors via dividends in the nearer term.**

As for the Equity Income portfolio itself, we have been **reducing risk and cyclicality over the last year while employing our rising rate playbook of emphasizing dividend growth over yield.** Annual dividend growth of +4-6% accrues to portfolio value over time, and also serves as an inflation hedge.

We believe the portfolio is well prepared for whatever lies ahead for the economy and market, but we will continue to adapt and adjust as warranted. Our **focus remains on stock and dividend quality, on the stability of sales and earnings, on the resilience of cash flows and dividend income and on owning businesses well positioned to ride out the volatility inherent to the cycle.**

As much as we look for opportunities for capital appreciation and growth, we also continuously evaluate downside risks to our holdings, looking to maintain confidence that pressures down the income statement are controlled, and risks to free cash flows, balance sheets and dividend payout are limited. Minimizing volatility via revenue and earnings stability, and avoiding dividend cuts, will help protect on the downside and help maximize total return over time.

KEY POINTS

- **Emphasizing dividend growth to improve inflation hedge**
- **Focus on downside protection to help ride out volatility over the cycle and maximize total return**
- **Attractive yield and compounded growth drive long-run value and potential equity price appreciation**

Bond Selloff Reflects Surging Inflation, Fed Tightening

Charles Luke, CFA
Managing Director, Co-Director, Fixed Income

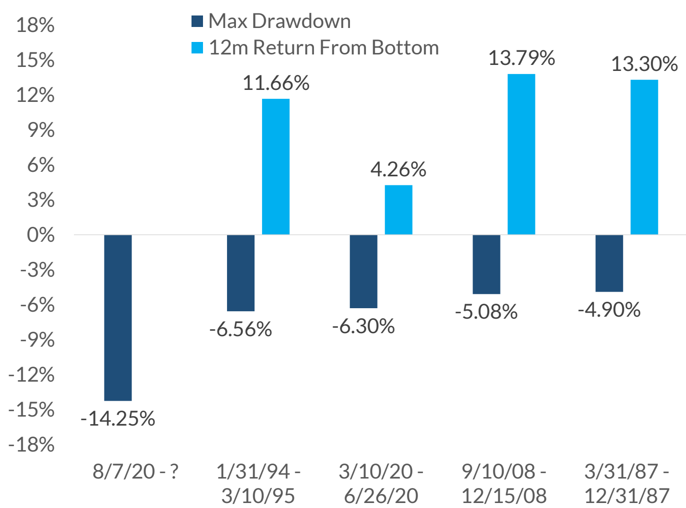
The global bond market continued its historic pullback during the second quarter, with the Bloomberg US Aggregate Bond Index falling -14.3% from its August 2020 high before rallying +1.6% in the last two weeks of June (chart 1).

KEY POINTS

- Global bond markets continued to suffer during the second quarter
- Investment Grade and High Yield corporate spreads have moved higher, but not to worrisome levels
- The Fed is focused on fighting inflation at the expense of a potential recession

This is more than double the next largest pullback, reflective of surging inflation and an increasingly hawkish tone from the Fed. **US Treasury yields[1] have jumped +1.5% year to date and +2.4% since their August 2020 low, (chart 2) weighing on bond valuations at a time when index[2] interest rate sensitivity was near all-time highs.**

Chart 1: Largest Drawdowns over Past 40 Years
Bloomberg US Aggregate Bond Index



Source: Bloomberg, as of June 30, 2022

Increasingly aggressive monetary policy also injected recession fears into credit markets, with investors expecting that rapidly increasing short-term rates will slow consumption and economic growth. Credit spreads have reflected this, with high-grade[3] and high-yield[4] corporate bonds trading +37bps and +224bps wider, respectively, than in the first quarter of 2022 (chart 3).

The second quarter saw a material change in market priorities, which had centered on: How high will inflation rise? Have we seen a peak? Can the Fed actually bring down inflation caused by supply side constraints? **After the Fed's June interest rate hike of 75bps (the first increase of this size since 1994) the market's focus shifted quickly to: When will the economy begin to slow?** The aggressive rate hike, with more to come, have pulled forward recessionary forecasts.

Given this outlook, it is likely short-term rates will continue to increase alongside Fed rate hikes, while yields on longer-maturity Treasuries may begin to steady. The 10-year Treasury yield posted a year-to-date peak of 3.48% on June 14 before finishing the quarter at 3.02%.

While interest rates have increased, credit concern within Investment Grade and High Yield remains under control. **If a recession does occur, we expect defaults to rise to historical averages, which will create pressure on the market, especially within High Yield, given the potential for weakening economic fundamentals.**

Volatility in rates and credit will create opportunities within taxable fixed income. We recommend utilizing episodes of weakness to build out allocations in line with strategic objectives.

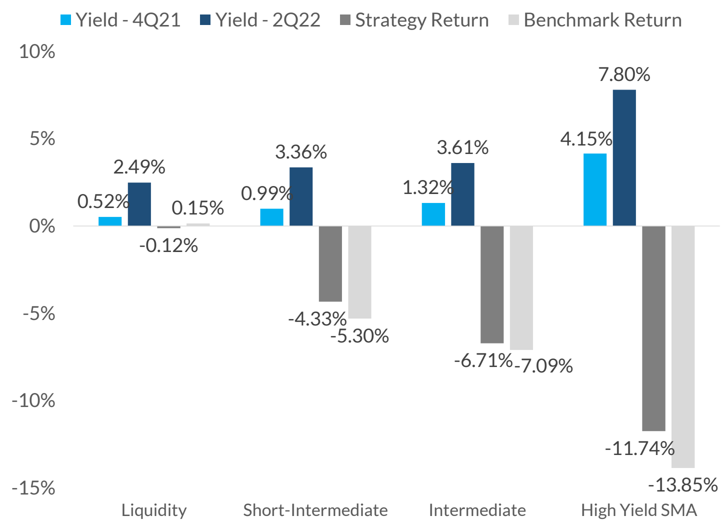
1 Bloomberg Ticker "GT10 Govt"

2 Bloomberg US Aggregate Bond Index "LBUSTRUU Index"

3 Bloomberg US Aggregate Corporate Index "LUACOAS Index"

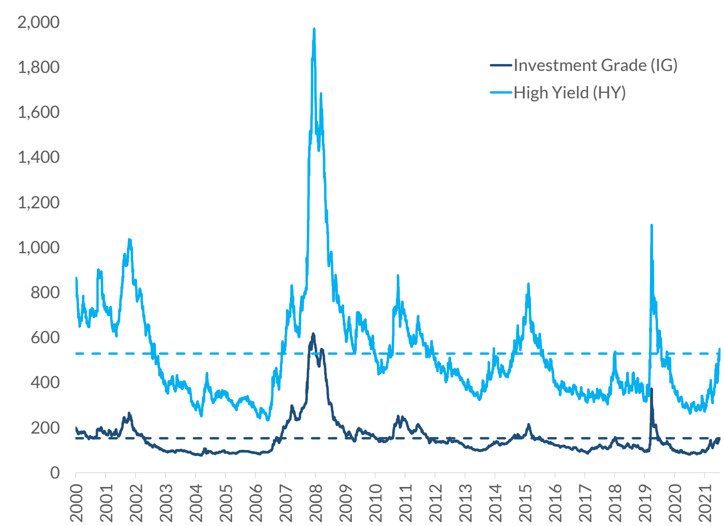
4 Bloomberg US Corporate High Yield Index "LF98OAS Index"

Chart 2: Taxable Fixed Income
Yields and YTD Performance



Source: Bloomberg, as of June 30, 2022

Chart 3: US Corporate Credit Spreads (bps)



Source: Bloomberg, CNR Research, as of June 30, 2022

Past performance or performance based upon assumptions is no guarantee of future results.

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Index returns do not include fees for trading costs (i.e., commissions) or any fees charged by your financial advisor, custodian, City National Rochdale or other third-party managers, and if they were included would reduce the returns.

Municipals Seesaw into the Summer

Michael Taila
Managing Director, Co-Director, Fixed Income

William D. Black, CFA
Managing Director, Senior Portfolio Manager

Municipals encountered choppy markets during the second quarter, as investors weighed inflation implications and Fed tightening against "hard to ignore" yields on investment grade (IG) and high yield municipal (HYM) bonds, leading to mixed performance. The challenging market environment is unlikely to abate soon.

Policy actions and fluctuating market demand should influence the performance trajectory of IG and HYM bonds during the second half. **We expect municipal investors to engage the market during periods of weakness, unlocking attractive long-term portfolio value.** For liquidity mandates, absolute yields on the front end of the curve continue offering a meaningful advantage over traditional money market instruments. In the near term, municipal market returns should ebb and flow alongside Treasuries, with periodic directional overshoots in response to technical factors.

With summer underway, municipal participants will pay close attention to seasonal market forces that typically lead to price support, given the [usually] lower bond supply and reinvestment needs. However, combined fund outflows of around $75B YTD will likely test investors' confidence should trends persist. We expect municipal market liquidity to normalize when Treasury rates show a more stable trading range, slowing investor redemptions and a return to net additions. Still, HYM bonds present good value to investors as the forced selling of longer-maturity bonds in response to inflation/rising rates has caused their nominal yields to increase more quickly than comparable Treasuries (chart 1). **In our view, nominal yields in the municipal market provide potential performance tailwinds on a forward-looking basis.**

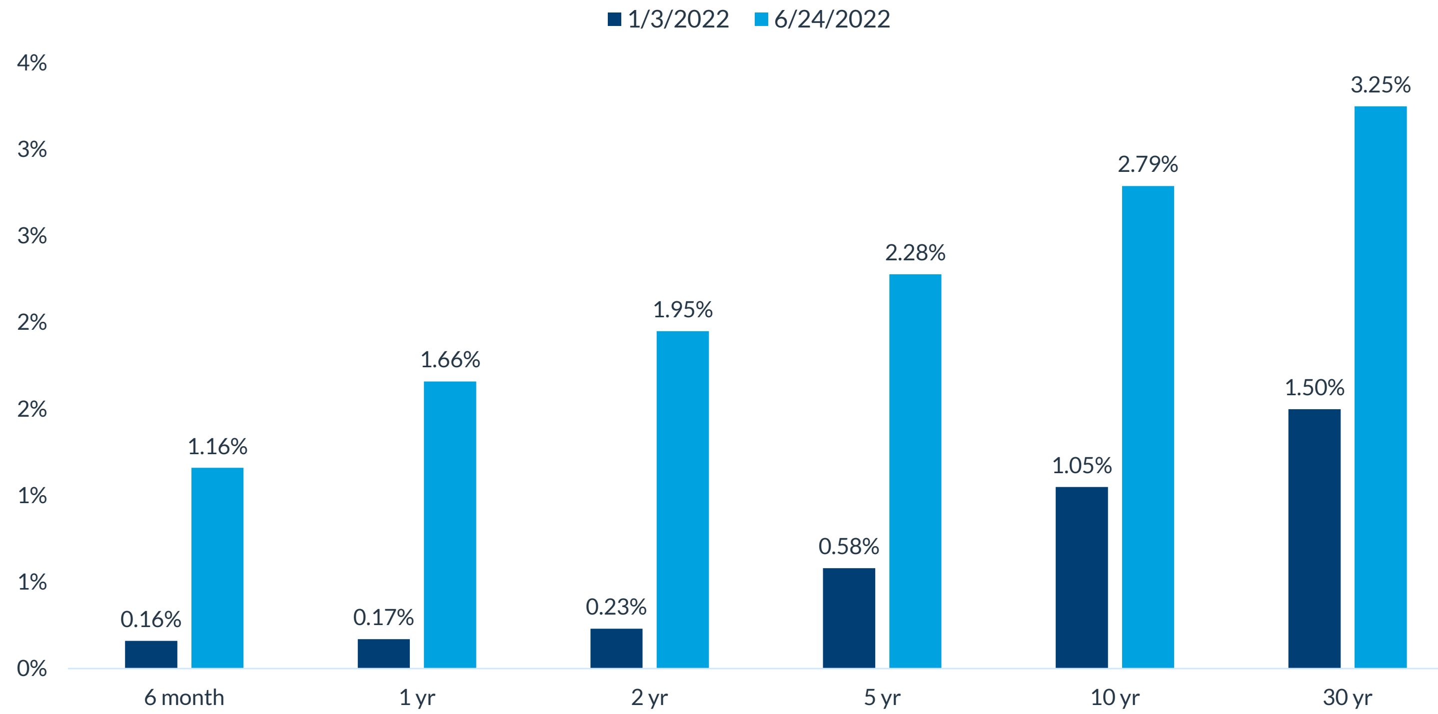
Our constructive outlook for municipal credit reflects revenue outperformance and budget surpluses since 2021 for most issuers. **Many state and local governments have bolstered reserves and prudently allocated robust federal aid, lessening their operational risk heading into the next budget cycle (chart 2).** We continue monitoring select sectors while assessing the impact of financial market volatility on the health of public pension plans. Moderation in the economy will affect tax collections as spending and labor growth slow. We see opportunities to trade up credit quality at little cost as spreads remain somewhat compressed, especially for low-IG bonds.

KEY POINTS

- **Fed decisions should drive market performance and sentiment**
- **Credit fundamentals support broad near-term stability**
- **Market yields provide an attractive entry point for long-term investors**

Chart 1: AAA Municipal Bond

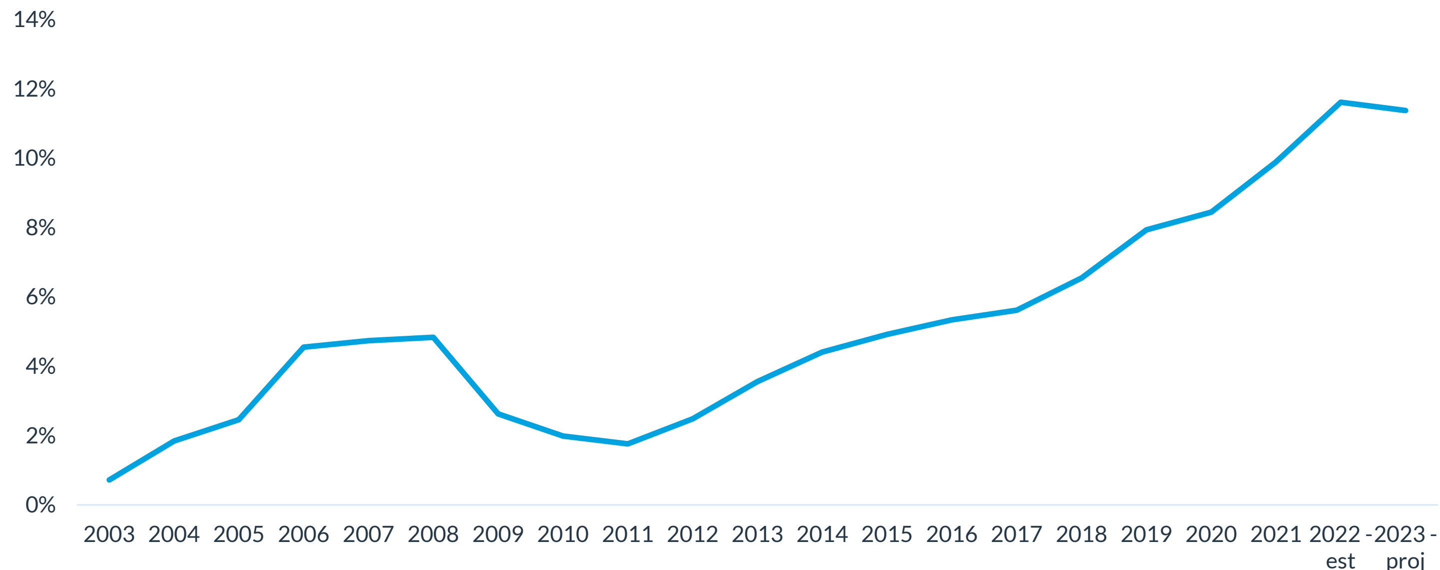
YTD Yield Change



Source: Bloomberg, as of June 24, 2022

Chart 2: State Median Rainy Day Balances

as a % of General Fund Spending



Source: NASBO Fiscal Survey of the States Spring 2022 Edition

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No More Mister Nice Guy

Paul Single
Managing Director, Senior Economist, Senior Portfolio Manager

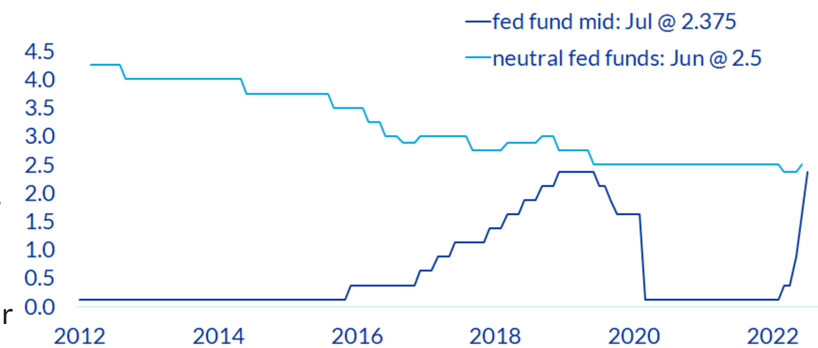
The Fed has accelerated its timetable for removing monetary stimulus. The Central Bank has updated its quarterly year-end federal funds rate projection to 3.4%. Back in March, their year-end projection was 1.9%.

This planned move will put the federal funds rate above the neutral rate of 2.375%, indicating that the rate will be in economically restrictive territory. This will mark the first time the funds rate has moved into this territory since the Fed started calculating the neutral rate back in 2012 (chart 1).

The Fed is growing concerned that inflation is becoming increasingly entrenched in Americans' lifestyle, and is ramping up actions to combat it. The catalyst for the Fed's more hawkish stance was the June Consumer Price Index (CPI) report, which was released on July 13. The CPI rate jumped to 9.1% year over year, its biggest increase since 1981, showing that price pressures remain broad-based. This has caused Fed Chair Jerome Powell to shift his stance. He has admitted that the Fed's painless goal of a soft landing for the economy may not be achieved. He also stated that the unemployment rate could increase, and that the economy's risk of entering a recession "is certainly a possibility."

We are already starting to see that the Fed's monetary policy actions are beginning to impact the financial markets. For example, the Fed is raising

Chart 1: Federal Funds and Neutral Federal Funds



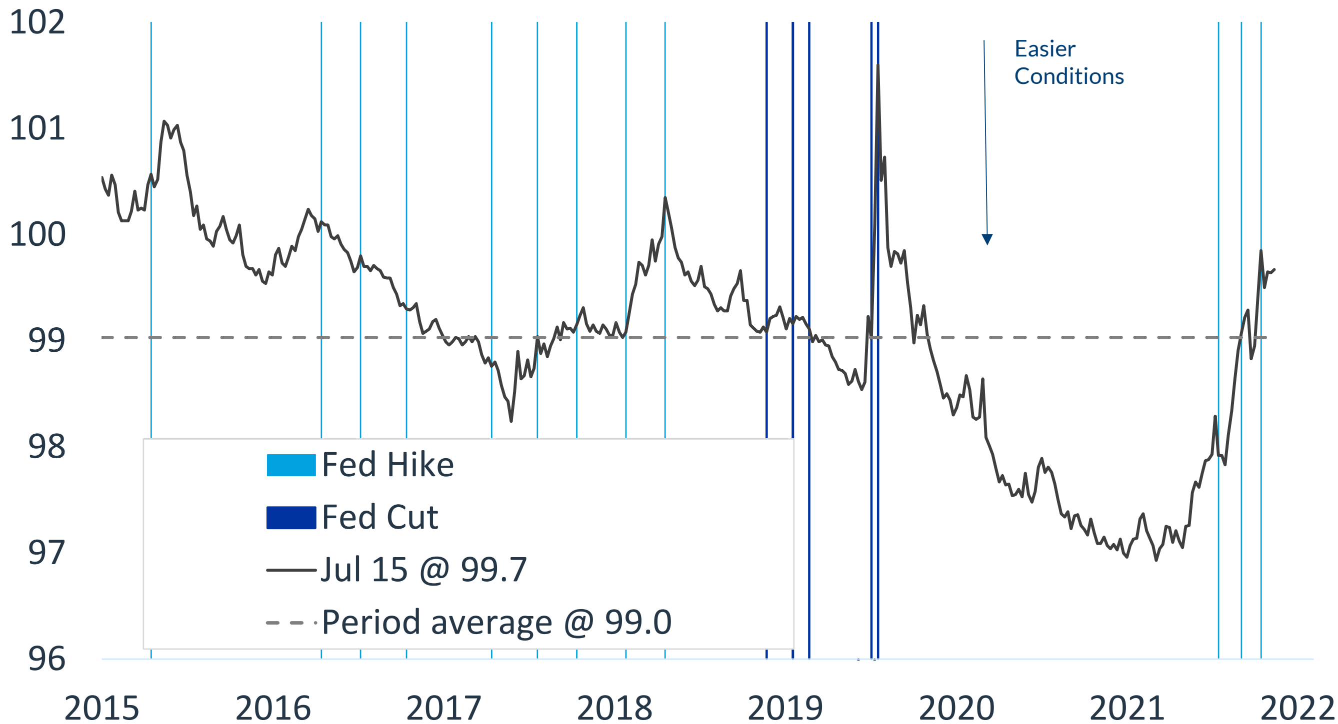
Source: Federal Reserve as of June 2022

KEY POINTS

- The Fed's primary focus is bringing down inflation
- The Fed will be increasing interest rates at a brisk pace to slow the economy
- The Fed's actions may cause the unemployment rate to increase

short-term interest rates and reducing the size of its bond portfolio, which should put upward pressure on longer-term interest rates. **As a result of Fed actions so far, financial conditions have recently tightened:** There is a bear market for the S&P 500, credit spreads have widened and the dollar has strengthened. The Goldman Sachs Financial Conditions Index, which is considered one of the best measurements of overall financial conditions, has moved above its long-term average (chart 2). The Fed now expects US economic growth of 2.4% this year on an annualized basis (versus 2.6% previously) and 1.6% in 2023 (versus 2.2%).

Chart 2: Goldman Sachs Financial Conditions Index



Source: Goldman Sachs, as of July 2022

Important Information

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Concentrating assets in a particular industry, sector of the economy, or markets may increase volatility because the investment will be more susceptible to the impact of market, economic, regulatory, and other factors affecting that industry or sector compared with a more broadly diversified asset allocation.

Private investments often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important tax information.

Alternative investments are speculative, entail substantial risks, offer limited or no liquidity, and are not suitable for all investors. These investments have limited transparency to the funds' investments and may involve leverage which magnifies both losses and gains, including the risk of loss of the entire investment. Alternative investments have varying and lengthy lockup provisions. Please see the Offering Memorandum for more complete information regarding the Fund's investment objectives, risks, fees and other expenses.

Investments in below-investment-grade debt securities, which are usually called "high-yield" or "junk bonds," are typically in weaker financial health and 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.

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. Investing in international markets carries 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. Emerging markets can have greater custodial and operational risks and less developed legal and accounting systems than developed markets.

There are inherent risks with fixed-income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity or junk bond. 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. The yields and market values of municipal securities may be more affected by changes in tax rates and policies than similar income-bearing taxable securities. Certain investors' incomes may be subject to the Federal Alternative Minimum Tax (AMT), and taxable gains are also possible. Investments in below-investment-grade debt securities, which are usually called "high yield" or "junk bonds," are typically in weaker financial health and 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.

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 does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future performance.

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Index Definitions

S&P 500 Index: The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market cap because there are other criteria that the index includes.

Bloomberg Barclays US Aggregate Bond Index (LBUSTRUU): The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

GT2 Govt, GT3 Govt, GT5 Govt, GT10 Govt, GT30 Govt: US Government Treasury Yields

DXY Index: The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

Dow Jones U.S. Select Dividend Index (DJDVP): The Dow Jones U.S. Select Dividend Index looks to target 100 dividend-paying stocks screened for factors that include the dividend growth rate, the dividend payout ratio and the trading volume. The components are then weighted by the dividend yield.

P/E Ratio: The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

The Commodity Research Bureau (CRB) Index acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors.

The MSCI indexes are market cap-weighted indexes, which means stocks are weighted according to their market capitalization — calculated as stock price multiplied by the total number of shares outstanding.

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 footnoted 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 June, 2022.