CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

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ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

QUARTERLY UPDATE

Where Is the US Recession?

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

Based on many historically reliable economic and financial indicators, there is a high probability of the US economy entering a mild and short recession during the latter part of 2023 or early 2024.

Although the anticipated recession has been delayed, we believe it has not been averted. One key reason for this is the continued strength of the labor market, which can be attributed to understaffed businesses across industries striving to meet the demands of consumers recovering from the pandemic period. Job losses at the onset of the COVID-19 outbreak were so massive, particularly in face-to-face occupations, that employment has yet to return to its pre-pandemic trend. So, unlike previous economic cycles where rising interest rates led to job reductions, the post-pandemic period of catch-up has kept hiring resilient for now, and employers reluctant to cut workers, even in areas of the economy where demand may be cooling.

Another crucial factor has been the strength of households. Consumer spending has remained sturdy, despite the rise in interest rates, due to three factors. First, ongoing labor shortages have enabled average workers to extract substantial wage increases that are now

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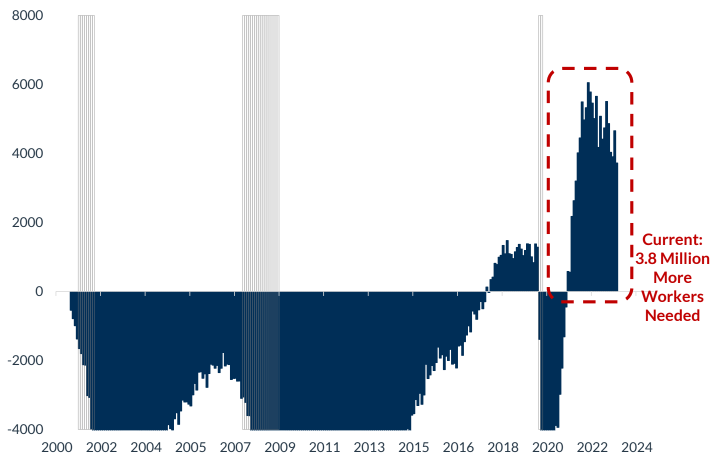
Chart 1: Job Openings Minus Available Workers

(Thousands)



Note: Y axis cut off at -4000 for illustrative purposes.

Sources: St Louis Fed, Bloomberg, as of May 2023.

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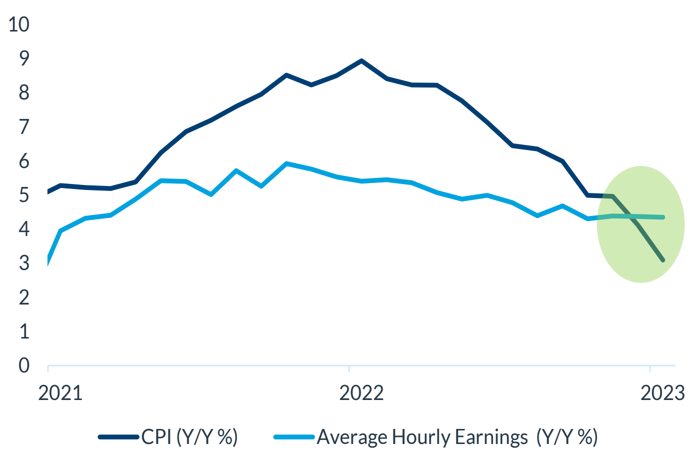
outpacing inflation. Second, the accumulated money that the Federal government mailed to many individuals over the pandemic has not yet all been spent. Finally, there remains pent-up demand from the pandemic period, particularly in services industries, that has kept consumers in a spending mindset and economic growth positive.

Chart 2: Wages Now Growing Faster Than Inflation



Source: St. Louis Fed, as of June 2023.

The challenge resulting from these post pandemic distortions of supply and demand, though, is an inflation rate that, despite meaningful declines over the past year, remains well above the Federal Reserve Bank's (Fed) target of 2%. Consequently, officials are expected to keep policy tighter for longer. The Fed's goal is to slow down consumer spending by making houses, cars and credit cards more expensive. Their actions will also increase interest expenses for businesses, impacting their profitability. Together, this should eventually lead to reduced labor demand and rising unemployment, which, combined with slower wage gains, will help further lower inflation, but also likely push the economy into a mild recession. **Still, the reasons the economy has been able to avoid recession so far — a chronic shortage of millions of American workers, combined with strong household finances —are the very same reasons to expect that a deeper and more prolonged economic downturn won't develop.**

KEY POINTS

- US economy forecasted to enter a mild recession in late 2023 or early 2024
- Consumer spending and hiring remain strong, but set to slow
- Fed expected to keep interest rates higher for longer

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Market Update: Maintaining a Defensive Positioning

Tom Galvin
Chief Investment Officer

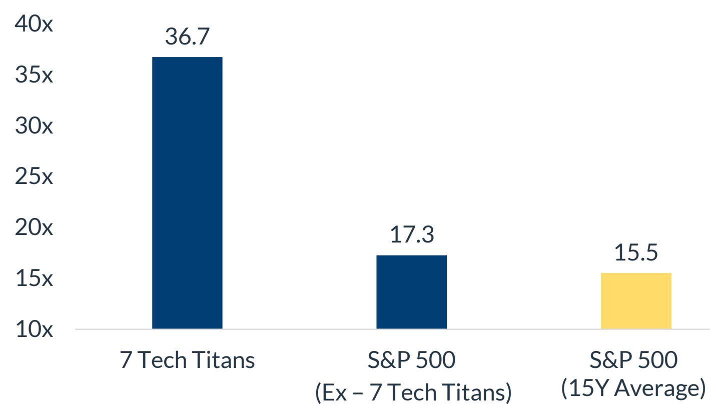
As we cross the midway point of the year, it's hard to say which has been hotter, the stock market or the weather.

While the mercury has been busy breaking records across the country this summer, the rally in US equity prices has continued its sizzling pace with the S&P 500 edging closer to a new all-time high. **Fear of missing out on a new bull market has replaced caution among investors despite a large number of historically reliable recession indicators still flashing warning signs.**

During the first six months of the year, the powerful performance of the S&P 500 was driven by a handful of growth sectors and, in particular, a few large-cap technology stocks supported by enthusiasm over developments in artificial intelligence. However, in recent weeks **rising optimism about the potential for a goldilocks scenario, in which economic conditions are neither too hot to prevent inflation from falling further nor too cold to fall into recession,** has led to a broadening out of positive performance in economically sensitive parts of the market, including small-cap stocks and cyclical sectors, and pushed overall market valuations higher.

This isn't the first time a soft landing has been expected. It almost always happens at this cycle stage, when the imbalances of the economy are responding to the Fed's actions and moving back toward equilibrium. But, changes in interest rates act like a slow-release medicine given to a patient. They take time for their full impact to work their way through the economy, and they can have some nasty and unpredictable side effects. **The unusual nature**

Chart 1: Valuations
12 Month Forward P/E Multiples



Sources: FactSet, CNR Research, as of July 2023.

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

of the pandemic shock and associated government interventions likely have lengthened the lags of traditional recession indicators this cycle, but they have not been suspended, and we still believe a mild recession is in the cards later this year or early 2024 as the cumulative effect of Fed tightening takes its toll on economic activity.

Similar to our concerns about the sustainability of market strength in Asia and Europe earlier this year, overoptimistic investor sentiment on US growth prospects have us questioning the sustainability of the current rally in US equities. Market gains since

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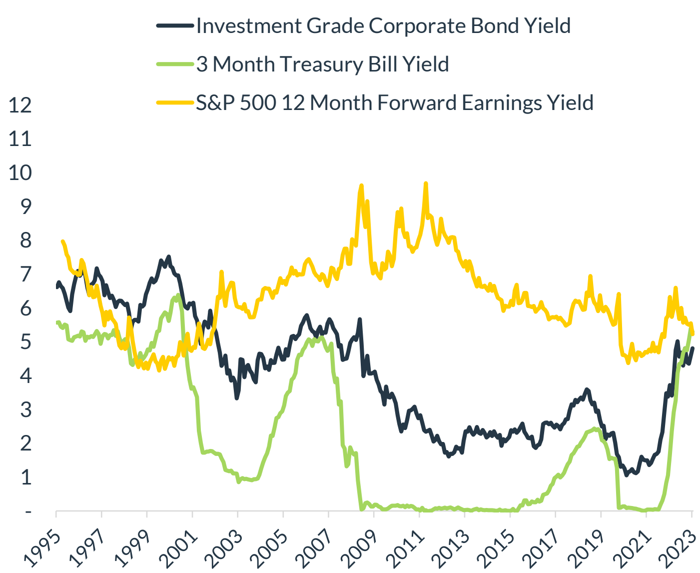
last October's lows have been driven almost entirely by multiple expansions, and **while higher valuations alone are not an impediment to future market gains, they do create a higher perch from which to fall should earnings results fail to meet expectations.** Indeed, with consensus estimates still projecting a reacceleration of corporate profit growth in Q4, earnings misses could be a key source of market weakness and volatility in the months ahead.

Given this, we believe it remains too early to raise equity exposure, especially when we continue to see plenty of opportunities in fixed income. It's been a decade since bond yields have been this attractive and, even though inflation is trending down, various yields have remained elevated, increasing the real rate of return. Short term T-Bills and cash-like alternatives have garnered the most attention, but short to intermediate yields in both municipal bonds and corporates offer additional opportunities. **Bond allocations not only lower overall portfolio volatility, but they also historically perform better than stocks in recessionary periods.**

Chart 2: Yield Comparison



Source: Bloomberg, as of July 2023.

Investment Grade Corporate Bond Yield Index: Bloomberg US Aggregate Index.

Indices are unmanaged, and one cannot invest directly in an index. Information is subject to change and is not a guarantee of future results.

KEY POINTS

- Maintaining defensive positioning with modest underweight to equities
- Market rally likely to come under pressure as recessionary pressures build
- Continue to see better risk-reward opportunities in fixed income

While it may be tempting to chase stock market momentum, it is crucial to stay focused on longer term trends and not to forget that equity prices seldom bottom before recession begins. Just as the summer heat wave will eventually break, we think the stock market is set to cool as recessionary pressures build in the coming months and corporate profits come under renewed downgrades. **Our mildly defensive portfolio positioning is a smart way to stay fully invested as clearer signs of the economy's direction develop,** while our focus on holding high quality and income producing US stocks and bonds can help provide client portfolios with relative stability as the investment environment grows more challenging.

Core Equity – Staying True to Our Approach to Thematic Investing

Tom Galvin
Chief Investment Officer

Amy Chen, CFA
Director, Senior Equity Analyst

In the more than 10 years we've been managing the Core Equity Strategy, **the foundational elements to our success have been identifying secular themes that can drive above average growth potential, and identifying high quality companies with strong fundamentals** selling at reasonable valuations that we can buy and hold for the long term to minimize turnover and capital gains.

KEY POINTS

- Portfolio positioned for mild recession
- Disciplined and fundamentally driven investment process drives stock selection
- Focused on high quality, attractively valued companies and key secular themes

Balancing Secular Growth with Cyclical Pressures

Because we continue to anticipate a mild recession, **we have been focusing on stocks with the right blends of defense and offense,** which come from companies with strong franchises and management teams that can manage their way successfully through the recession, and come out the other side with above average growth prospects. At the thematic level, we have the portfolio positioned with a similar perspective. On the defensive side, we have been overweight healthcare innovators and durable consumer themes. On the offensive side, we have the digital revolution and clean climate theme.

Healthcare Innovators: We own Edward Lifesciences (EW) and HCA Healthcare (HCA), both of which benefit from post pandemic, pent-up demand for elective surgeries. UnitedHealth Group (UNH) is a digital leader in the healthcare insurance business, and a high-quality defensive name that has delivered excellent compounding return over many years.

Durable Consumer Franchises: Costco (COST), WalMart (WMT), McDonald's (MCD), and PepsiCo (PEP) are industry leaders and tend to outperform during recession. We also own Home Depot (HD) on the cyclical side, with secular growth driven by a housing shortage and aging housing stock in the US.

Digital revolution: Despite the AI frenzy sending many prices of many speculative tech stocks soaring, our holdings are rooted by solid balance sheets and strong profitability. Microsoft (MSFT) is one of the largest holdings andhas been prominently featured on the AI stage with Chat-GPT partnership. We also own Equinix (EQIX), a premier data center operator, connecting corporate databases to public and private AI cloud networks, and Adobe (ADBE), a software leader using AI in creative content generation. Our semiconductor holdings, ASML and NXPI, are also well positioned to benefit from AI and industrial automation.

Clean climate: All around the world, governments are fighting global warming by limiting consumption

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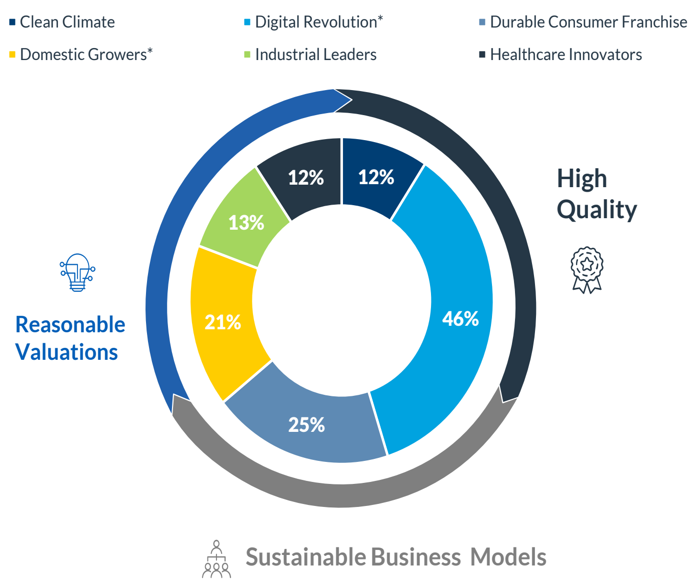
of fossil fuel, and building renewable energy infrastructures. Financial incentives and regulatory requirements are put in place to accelerate those initiatives. We own Quanta Services (PWR) and Trane Technologies (TT), serving to reduce emission and carbon footprints, and Linde (LIN), a

Chart 1: Thematic Research Focus



*Some stocks are included in more than one theme.

Why Valuation Matters

A good company does not immediately translate into a good stock to own. **We have always used a disciplined approach to assess a company's earning power relative to the price of the stock.** One example is Microsoft (MSFT). Valued at 73x P/E at the end of 1999, its multiple subsequently collapsed to 9x after the internet bubble burst. If an investor had purchased the stock at the top, it would have taken sixteen years to get back to breakeven.

Chart 2: Microsoft

Forward Price to Earnings Multiple

Source: Bloomberg, as of June 2023.

Here We Are Again

David Shapiro
Senior Portfolio Manager, Equity Income

Tony Hu, CFA, FRM
Senior Portfolio Manager, Equity Income

Thus far in 2023, we have seen some strong reversals in market trend and near-term outlook. Year to date, we have seen a complete reversal of our dividend universe's strong 2022 outperformance of +20.6%.

For perspective, we look to our benchmark, the DJ US Select Dividend Index, **which has outperformed over its 30+ year history. But long-term outperformance doesn't mean constant outperformance,** and there have been three notable periods of dividend stock underperformance versus the S&P over the past 30 years.

The first was the Tech Bubble. The dividend universe consists of companies further along in their life cycles, investing in growth, to be sure, but also generating cash flow and returning it to shareholders. Technology stocks are a much smaller portion of the dividend universe.

The second was the Great Financial Crisis (GFC). Banks have historically been overrepresented amongst the ranks of attractive dividend payers. The nature of the financial crisis impacted the dividend universe significantly.

And the third was the result of the business interruption from the lockdowns in 2020 and rapid expansion of fiscal and monetary stimulus.

Nevertheless, after each of these periods, **we saw dividend stocks revert to outperformance, and after the most pronounced relative drawdown, the Tech Bubble, multi-year outperformance.**

In a sense, 2023 has seen a combination of the performance pressures of all three of these situations combined. The dividend universe started the year 18% underweight technology and more than 7% overweight financials. We've had a risk-on rally, fueled by AI FOMO*, and high profile bank failures that have driven some counter-trend market support from the Fed.

KEY POINTS

- Prior episodes of pronounced dividend stock underperformance have been followed by pronounced outperformance
- Current underperformance is being driven by a combination of factors, but not dividend risk
- We expect dividend stocks to benefit investors continuing to hold diversified equity portfolios throughout the cycle

However, while there are challenges in certain areas of the economy, and banks certainly face pressures, **we still do not see widespread risks to dividends as in the GFC.** Leverage and liquidity are in far better shape, largely due to the lessons of prior crises. And we continue to see overall dividend growth in-line or better than long-term averages. To us, that's an indicator of compounding value. Meanwhile, **we've**

*Fear of missing out

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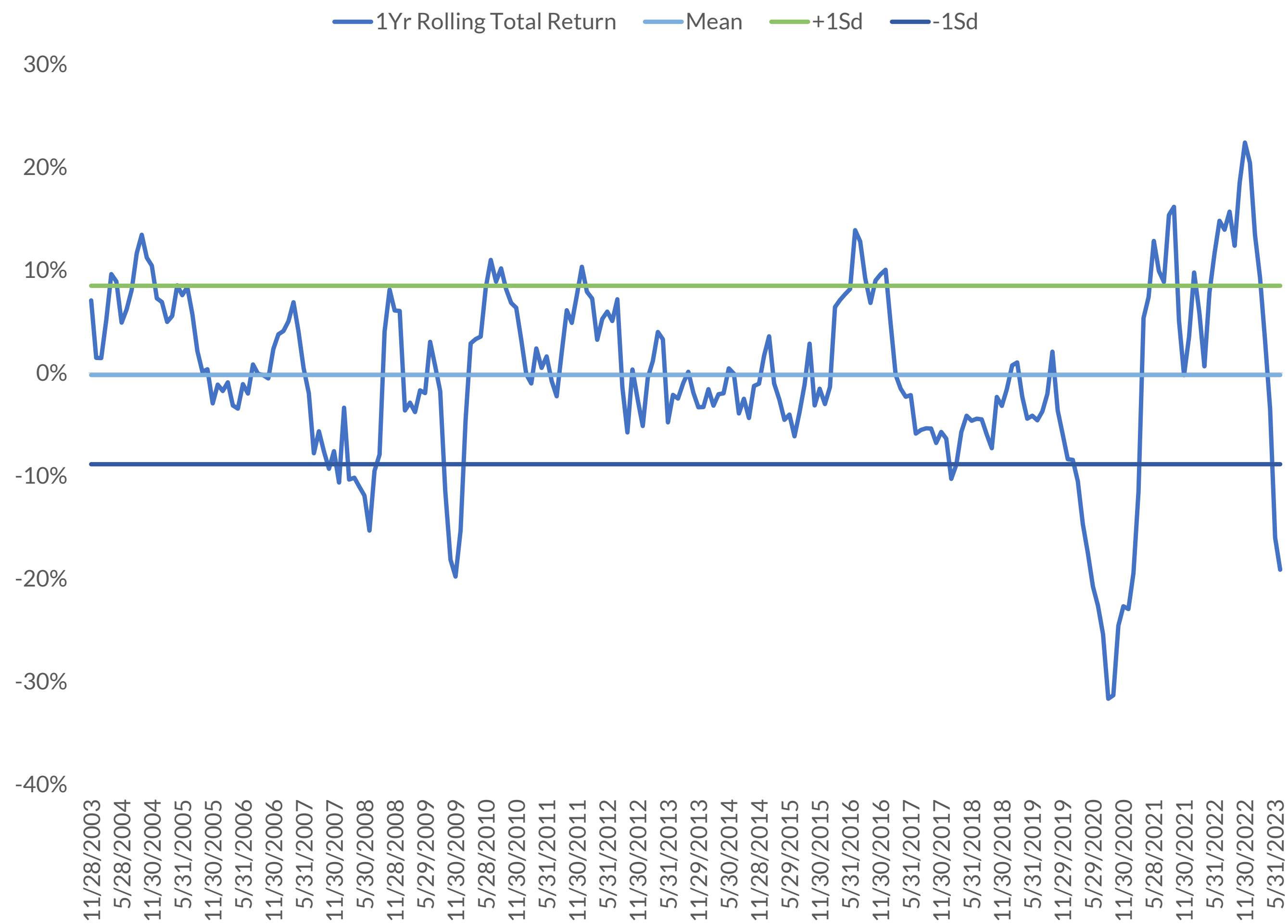
seen an ongoing valuation disconnect that hasn't been seen since the Tech Bubble.

Moreover, we think it is too early to call the all-clear to macroeconomic concerns, and **we expect the more defensive nature of dividend stocks will benefit investors who continue to hold diversified equity portfolios.**

Chart 1: 1-Year Rolling Total Return Difference (DJDVP vs. S&P 500)



Source: Factset, 6/30/23. Past performance is no guarantee of future results.

The Bond Market Remains Strong

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

Taxable fixed income markets were resilient over Q2 2023. Despite negative returns from higher rates, income offset disruptive price moves.

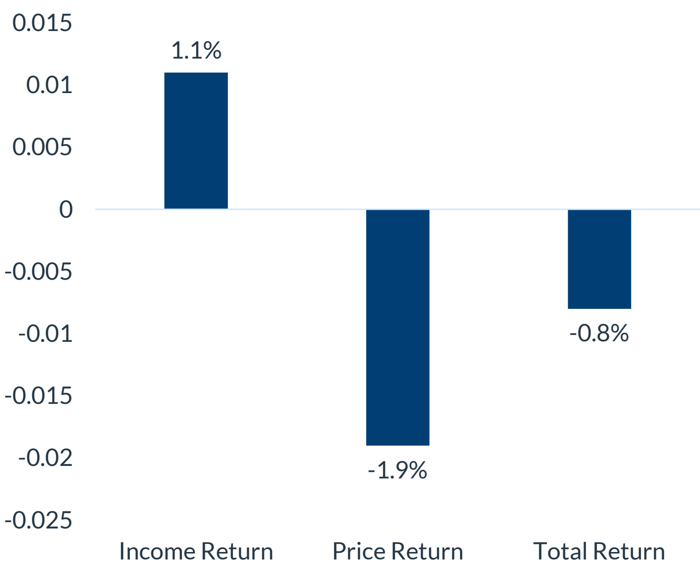
The Bloomberg U.S. Government/Credit Intermediate Index earned 1.1% from yield while price performance fell -1.9%, resulting in a total return of -0.8%.[1] **High yields make bond prices less volatile, and returns are more stable, especially relative to the low interest rate period of the last decade.** Year to date 2023 performance remains positive, up 2.0%, and, since the market bottom on October 20, 2022, bonds are up 5.0%.[2] Steady progress is being made to recover 2022 losses.

While returns were negative, we remain optimistic on the bond market. We believe yield will continue to add positive performance, which in the absence of significantly higher rates will lead to above average returns. At these rates, we expect **the reinvestment of principal and interest to compound the effects of income, leading to further portfolio stability.**

The credit environment continued its strong 2023 performance, with spreads dropping another 0.2% in investment grade and 0.6% in high yield corporate bonds on the back of a salvo of positive economic surprises at the end of the quarter, including healthy upward revisions to Gross Domestic Product (GDP) and personal consumption.[3,4]

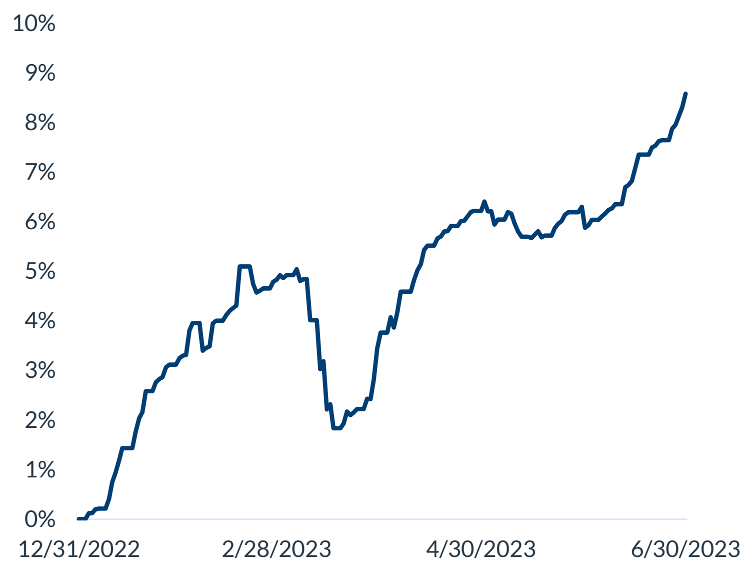
High yield markets continue to surprise us. U.S. high yield bonds, U.S. leveraged loans and emerging market high yield bonds were up 1.8%, 3.2% and 1.6%, respectively.[5] That takes year-to-date performance to 5.4%, 6.5% and 3.2%.[5] Of note, the expected negative impact from higher rates has yet to arrive in leveraged lending. The sector continues to outperform similarly rated corporate debt. In addition, **high yield tranches of collateralized loan obligations are experiencing a**

Chart 1: Bloomberg Gov/Credit Index Q2 2023 Return Decomposition



Source: Bloomberg Gov/Credit Intermediate Index, LF97TRUU as of June 30, 2023

Chart 2: Palmer Square BB CLO Index Cumulative 2023 Return



Source: Palmer Square BB CLO Index, PCLOBBTR, as of June 30, 2023

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significant positive upswing, climbing 4.6% over the quarter and 8.6% for the year.[6]

We continue to recommend an overweight to bonds to reduce portfolio risk as odds of a recession remain elevated and **we believe the market is on track to produce above average returns in 2023.**

KEY POINTS

- Income is the main driver of returns over the quarter and year-to-date
- The credit environment has not deteriorated, which is supporting high, positive total return
- The pinch from higher rates has not occurred in the leveraged lending market, which is outperforming comparable positions

[1] Bloomberg Government/Credit Intermediate Index, Ticker: LF97TRUU

[2] Bloomberg Government/Credit Intermediate Index, Ticker: LF97TRUU

[3] Bloomberg Corporate Bond Index (LUACTRUU) and Bloomberg High Yield Corporate Bond Index (LF98TRUU)

[4] GDP Upward Revision: GDP CQOQ, Personal Consumption Revision: GDPCTOT%

[5] U.S. High Yield Bonds: Bloomberg U.S. High Yield Index, Bloomberg: LF98TRUU Index

Leveraged Loans: Morningstar LSTA Leveraged Loan Index, Bloomberg: SPBDAL Index

Emerging Market High Yield Bonds: Ice BofA High Yield USD Emerging Markets Liquid Corporate Plus Index, Bloomberg: EMHY Index

[6] Palmer Square BB CLO Index, PCLOBBTR

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Munis Roll into Halftime on a Positive Note

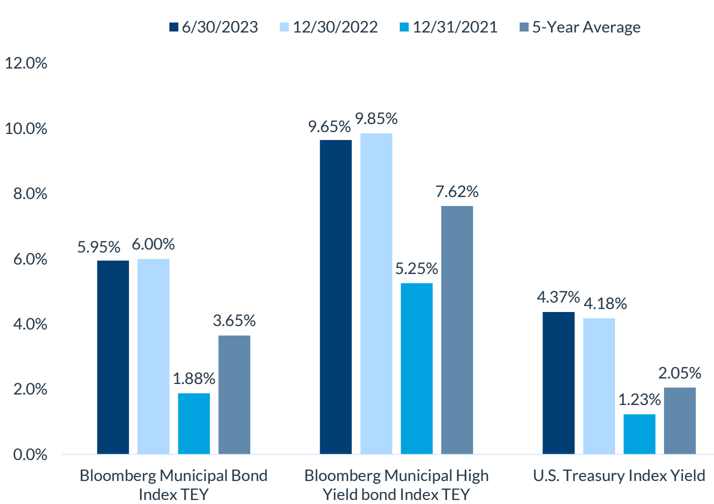
Michael Taila
Managing Director, Co-Director, Fixed Income

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

With an eye toward the [historical] seasonally supportive summer months, municipal bonds capped off the first half of the year in a position of strength as robust June returns reversed earlier quarterly weakness.

Investment grade (IG)[1] and high yield municipal (HYM)[2] bonds churned out 1% and 1.77% June performance, the strongest monthly gains in at least five years, while year to date (YTD) index returns, per Bloomberg, delivered 2.67% and 4.43% returns, respectively, comfortably outperforming Treasuries. **The appetite for municipal bonds remains healthy as cyclically high nominal yields in IG and HYM continue offering long-term investors opportunities to purchase attractive tax-exempt income with the potential to earn additional returns in the coming months.** With the economic and policy environment somewhat uncertain, allocating to

Chart 1: Municipal Tax-Equivalent Yields Offer Relative Value

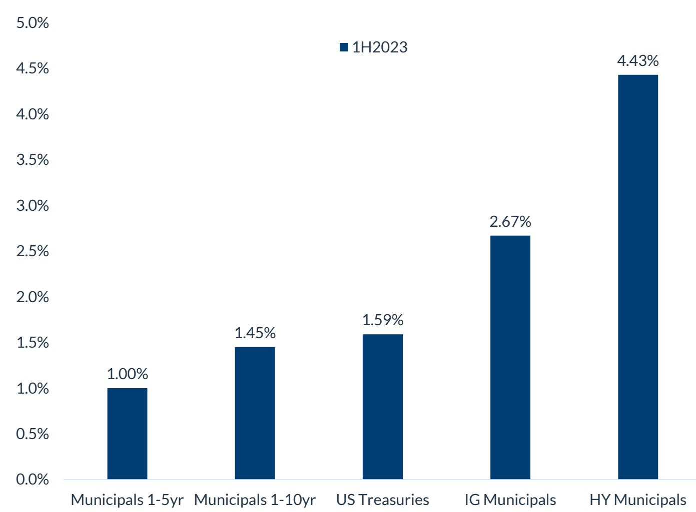


Source: Bloomberg, as of June 30, 2023
Tax-equivalent yield assumes 37% Federal + 3.8% Medicare Surcharge.

[1] Investment Grade (IG) Municipal Bond Index: The Bloomberg US Municipal Bond Index measures the performance of investment grade, US dollar-denominated, long-term tax-exempt bonds.

[2] High Yield (HY) Municipal 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.

Chart 2: Municipal Bond Returns Solid Year to Date (YTD)*



Source: Bloomberg, as of June 30, 2023
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municipal bonds can improve portfolio defensiveness, capital preservation and diversification, given their relatively low correlation to other asset classes.

The supply deficit YTD, primarily due to lower new issue volume and strong cash flow from maturing bonds and redemptions, contributes to municipal bonds' recent price support. Bloomberg data shows an approximate 20% YoY decline in gross supply due to higher rates this year as volatility kept issuers on the sidelines. Although many market observers have lowered their full-year estimates, municipal bond supply could improve over the near term if the path of rates becomes clearer. Valuations remain stretched within ten years on the municipal curve as investors have sought refuge in lower-duration securities as the market weighs policy implications and rate trajectory. **While longer-dated tenors offer incremental benefits, unanticipated rate volatility would seemingly open up compelling opportunities across the curve to take advantage of more attractive ratios of municipal yields to comparable Treasury securities.** Moreover, should municipal bond mutual fund flows achieve more consistent net additions during the second half of 2023, the return outlook could improve, particularly should technical strength persist and rates remain rangebound, allowing coupon "carry" to buffer potential price fluctuations.

Municipal bond credit quality has exhibited a fair amount of resiliency, despite market volatility, inflationary concerns, FOMC policy actions and a slowdown in the economy. **With an aged credit cycle and lingering recession risk, albeit diminished, many staple municipal sectors remain in reasonably good shape with sufficient balance sheet resources (i.e., reserves) to counter declines in revenue production.** Rating agency upgrades exceed downgrades, defaults remain small and effective issuer management should allow them to navigate potentially slimmer operating margins or discrete shortfalls in their spending plans. Based on recently adopted budgets for state and local governments, the solid fiscal performance over the past two years is receding. Thus, credit selectivity and sector orientation remain key considerations in allocation decisions.

KEY POINTS

- Technical tailwinds underpin more durable performance potential
- Attractive tax-exempt income availability anchors asset class preference
- Remain guarded even with resilient credit conditions

*Indicies used:

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

Bloomberg Municipal Bond High Yield Index: covers the U.S.-dollar denominated, non-investment grade, fixed-rate, municipal bond market and includes securities with ratings by Moody's, Fitch and S&P of Ba1/BB+/BB+ or below.

Bloomberg Custom Municipal Short 1-5 Index: is the 1 to 5 year maturities of the US Municipal bond index.

Bloomberg Custom Municipal Short-Intermediate 1-10 Index: Index is the 1 to 10 year maturities of the US Municipal bond index.

Bloomberg US Treasury Index: includes all publicly issued, U.S. Treasury securities that are rated investment grade, and have $250 million or more of outstanding face value.

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The Inflation Story Is Improving, but Victory Has Yet to Be Declared

Paul Single

Managing Director, Senior Economist,
Senior Portfolio Manager

Since March of last year, the Federal Reserve has been on a campaign to tighten monetary conditions to help reduce inflationary pressures.

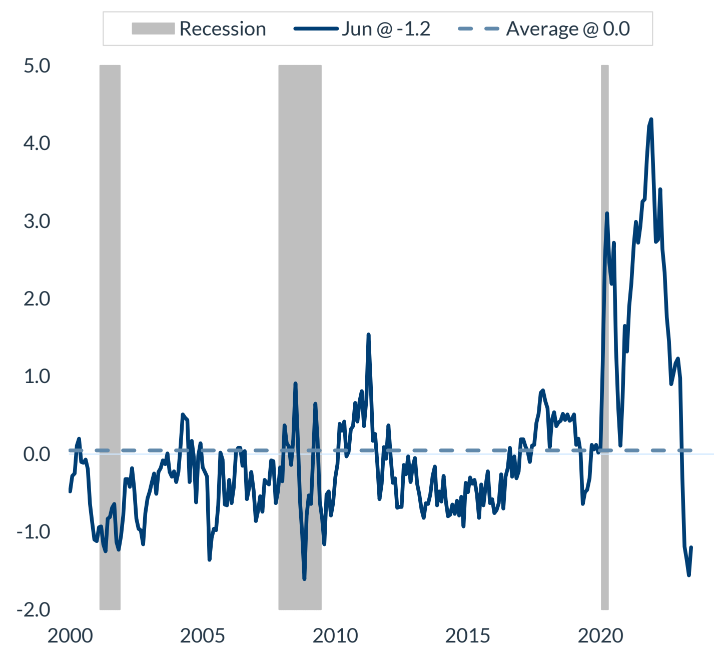
They have raised the federal funds rate by 525 basis points to the median level of 5.375%,[1] and they have reduced the amount of their bond holdings (quantitative tightening) by $880 billion (10.4%).[1] All of this is an effort to reduce the pace of the strong level of consumer demand for goods and services, which the Fed views as the major cause of the elevated inflation.

It appears to be working. The consumer price index, the most well-known of the inflation measurements, has fallen to 3.0% from last June's peak of 9.1%, nearing the Fed's target of 2.0%. Some of that improvement has been beyond the Fed's control. For example, the cost of transporting goods is cheaper now than it was before the recession (chart 1). This is due to logistical improvements and a sharp reduction in demand for many goods now that the pandemic is behind us. Also, energy, food and medical costs have fallen in the past year (chart 2), some significantly.

But **the Fed is concerned about other areas of the economy regarding inflationary pressures.** The most notable is housing costs, the largest component of CPI, making up 34.7% of the index. The pricing pressures shot up in 2021 and early 2022 when mortgage rates were low. But when mortgage rates increased in the latter half of 2022, it caused a significant decline in demand, and

Chart 1: Global Supply Chain Pressure Index

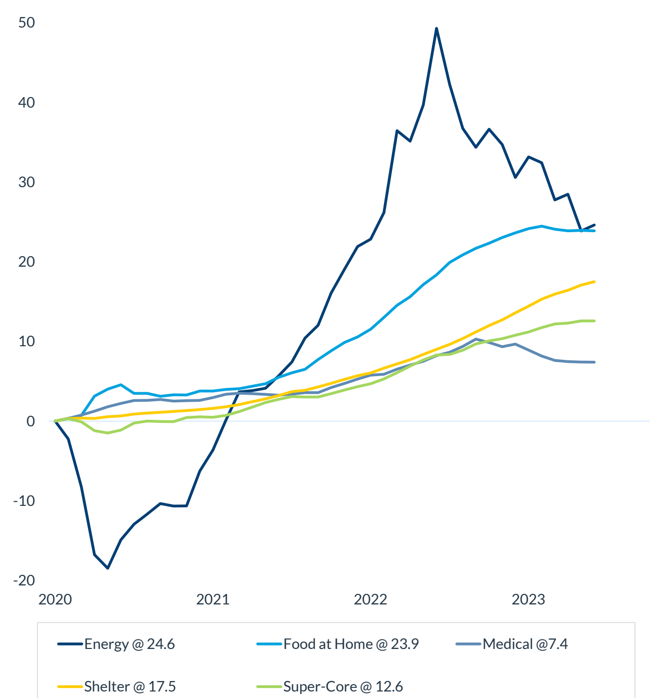
value, not seasonally adjusted



Source: Federal Reserve Bank of New York, June 2023

Chart 2: CPI: Selected Components

%, cumulative change since January 2020 to June 2023



Source: Bureau of Labor Statistics, June 2023

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pricing pressures moderated (chart 2). **Another concern is "super-core," which is the cost of services without housing.** Generally speaking, this category of inflation is the cost of services that are highly dependent upon labor costs (dry cleaning, auto repair, etc.). With the labor shortage, these costs have increased significantly in 2022.

In both the housing and super-core cases, the yearly inflation rate remains too high for the Fed; the annual changes are up 7.8% and 4.0%, respectively. These prices tend to be "sticky" and move slowly. **It will force the Fed to keep interest rates higher for longer.**

KEY POINTS

- The Federal Reserve has been on a campaign to tighten monetary conditions to help reduce inflationary pressures.
- The consumer price index has fallen to 3.0% from last June's peak of 9.1%.
- Fed actions have helped, but some of the improvements have been beyond the Fed's influence, like declining energy, food and medical costs.

Footnote:

[1] The Federal Reserve

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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 US It is not an exact list of the top 500 US 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 US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners.

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.

S&P Leveraged Loan Indexes (S&P LL indexes) are capitalization-weighted syndicated loan indexes based upon market weightings, spreads and interest payments. The S&P/LSTA Leveraged Loan 100 Index (LL100) dates back to 2002 and is a daily tradable index for the US market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria. Its ticker on Bloomberg is SPBDLLB.

IA SBBI US LT Government: The index measures the performance of US dollar-denominated bonds issued in the US investment-grade bond market including US and non-US corporate securities that have at least ten years to maturity and a credit rating of AAA/AA.

IA SBBI US LT Corporate: IA SBBI US Long Term Corporate Bond Index: The index measures the performance of US dollar denominated bonds issued in the US investment grade bond market including US and non US corporate securities that have at least ten years to maturity and a credit rating of AAA/AA.

ICE Bank of America MOVE Index: The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a gauge of interest rate volatility in the U.S. Treasury market. It is calculated from options prices, which reflect the collective expectations of market participants about future volatility. The index measures the implied volatility of U.S. Treasury options across various maturities.

Bloomberg US Corporate Bond Index: The Bloomberg Barclays 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.

Bloomberg US Financial Institutions Capped Index: The index measures the performance of U.S. dollar-denominated publicly-issued investment-grade corporate bonds in the financial sector. The index is market-capitalization weighted with a 5% cap on any one issuer and a pro rata distribution of any excess weight across the remaining issuers in the Underlying Index.

Bloomberg US 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.

Ice BofA High Yield USD Emerging Markets Liquid Corporate Plus Index: the ICE BofA High Yield US Emerging Markets Liquid Corporate Plus Index is a subset of the ICE BofA Emerging Markets Liquid Corporate Plus Index, which includes only securities rated BB1 or lower.

Bloomberg: LF98YW Index: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Non-deposit Investment Products: ■ are not FDIC insured ■ are not Bank guaranteed ■ may lose value

"YW" is the ticker to pull the yield-to-worst on the index.

Bloomberg: LF98TRUU Index: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. This is the total return index level.

Morningstar SPBDLLY Index: Yield to maturity time series of the Morningstar LSTA US Leveraged Loan 100 Index. The Morningstar LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the US leveraged loan market.

Bloomberg Investment Grade 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 Municipal Bond Index: measures the performance of investment grade, US dollar denominated, long term tax exempt bonds.

Bloomberg Municipal Bond High Yield Index: covers the U.S.-dollar denominated, non-investment grade, fixed-rate, municipal bond market and includes securities with ratings by Moody's, Fitch and S&P of Ba1/BB+/BB+ or below.

Bloomberg Custom Municipal Short 1-5 Index: is the 1 to 5 year maturities of the US Municipal bond index.

Bloomberg Custom Municipal Short-Intermediate 1-10 Index: Index is the 1 to 10 year maturities of the US Municipal bond index.

Bloomberg US Treasury Index: includes all publicly issued, U.S. Treasury securities that are rated investment grade, and have $250 million or more of outstanding face value.

Investment Grade (IG) Municipal Bond Index: The Bloomberg US Municipal Bond Index measures the performance of investment grade, US dollar-denominated, long-term tax-exempt bonds.

High Yield (HY) Municipal 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.

Definitions

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.

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).

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.

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