



January 2023

Market Update

City National Rochdale, LLC is a registered investment adviser and a wholly-owned subsidiary of City National Bank. City National Bank provides investment management services through its sub-advisory relationship with City National Rochdale, LLC.

Investment Strategy Committee Considerations

2023 Economic Outlook

- Recession risk at 75%, but mild expected
- Higher interest rates, inflation and volatility for longer
- Expect lower GDP, earnings, S&P fair value relative to consensus
- Expect Fed to remain tight throughout 2023
- Increased confidence in downward glidepath for inflation
- Encouraging signals of wage moderation
- Job gains, wages, savings and net worth support consumer
- Labor shortages should prevent significant rise in unemployment
- Healthy banking system and strong corporate balance sheets moderate downside risks
- Watchful on private equity
- US economy more resilient than Europe/Asia
- Geopolitical risk remains elevated

2023 Investment Strategy

- Portfolios defensively positioned for mild recession
- Staying cautious, Fed tightening, recession risk
- We expect that balanced portfolios should offer modestly positive returns
- Underweight equities, focus on high-quality US stocks, avoid Europe and Asia
- Bear market expected to continue until inflation subsides and earnings outlook improves
- Forecasting moderate equity returns in 2023, above average volatility
- Equity income attractive in a uncertain environment
- Fixed income returns expected to be mostly positive
- In our view, investment grade corporate and municipals offer attractive yields with lower volatility
- High yield corporates and municipals, while volatile, offer reasonable reward for risk
- Excellent opportunities for liquidity management
- Alternatives may provide diversifying benefits and attractive opportunities

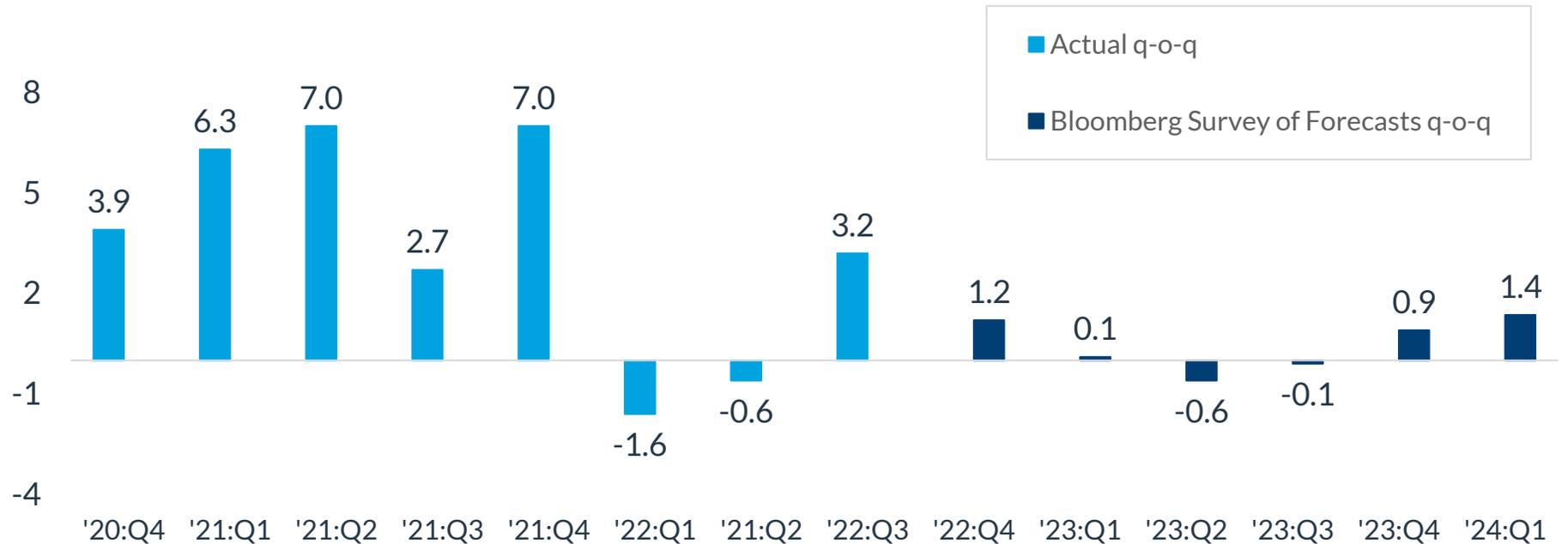
Sources: Bloomberg, CNR Research, as of January 2023
Information is subject to change and is not a guarantee of future results.



GDP

- The economic slowdown is broadening.
- A recession is expected this year.
- Consumer spending and investment are expected to slow.

GDP: Actual and Forecast
% change, q-o-q, annualized



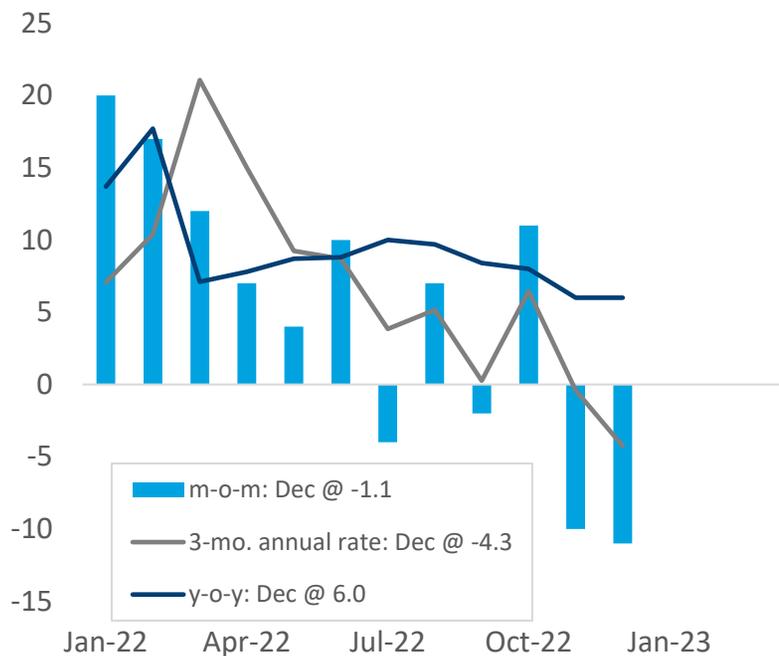
Source: Bureau of Economic Analysis, Bloomberg
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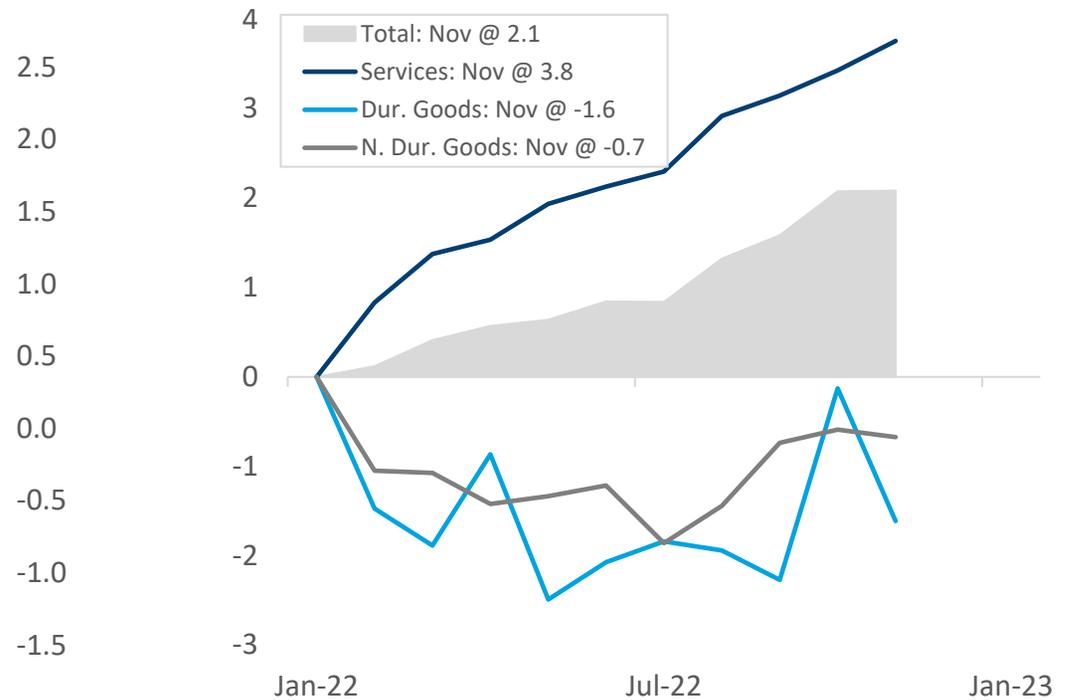
GDP – Consumer Spending

- Consumer spending, especially on goods, is slowing.
- There is also a slowing in discretionary spending, like going out to dinner.

Retail Sales
%, seasonally adjusted



Personal Consumption
cumulative % change, indexed at 0 on January 2022, seasonally adjusted



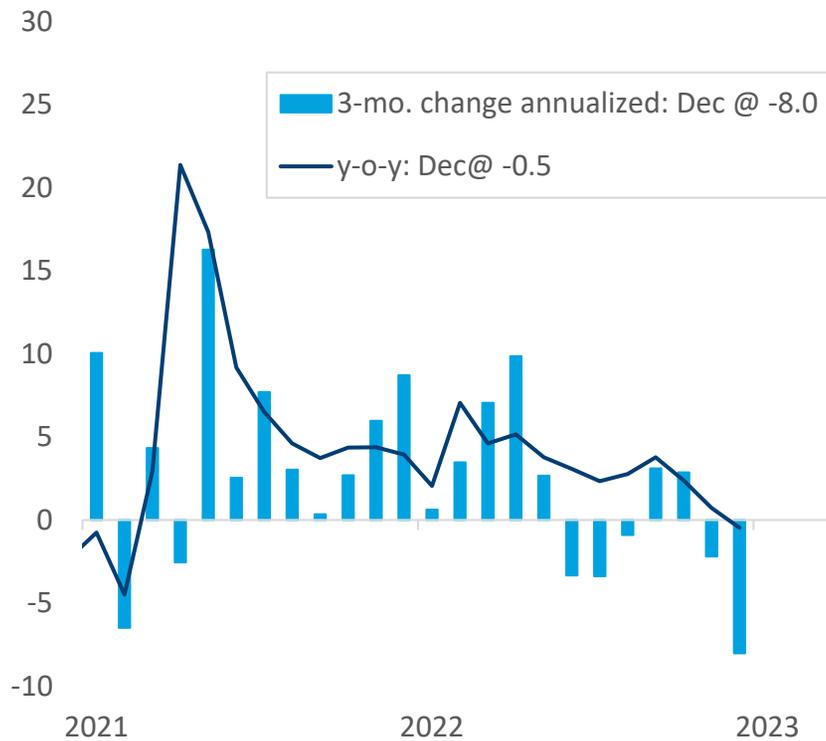
Source: U.S. Census Bureau, Bureau of Economic Analysis
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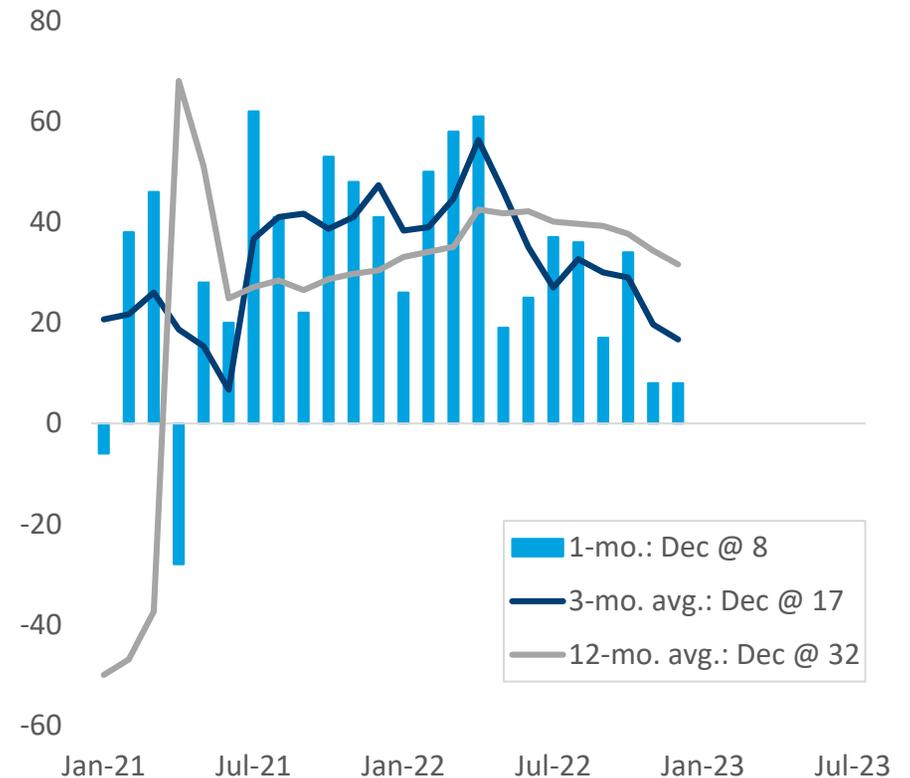
Manufacturing

- The manufacturing sector may be close to a recession.
- Many firms are slowing the rate of hiring and cutting back on the workweek and overtime.

Industrial Production: Manufacturing
%, seasonally adjusted



Change in Manufacturing Employment
'000, seasonally adjusted



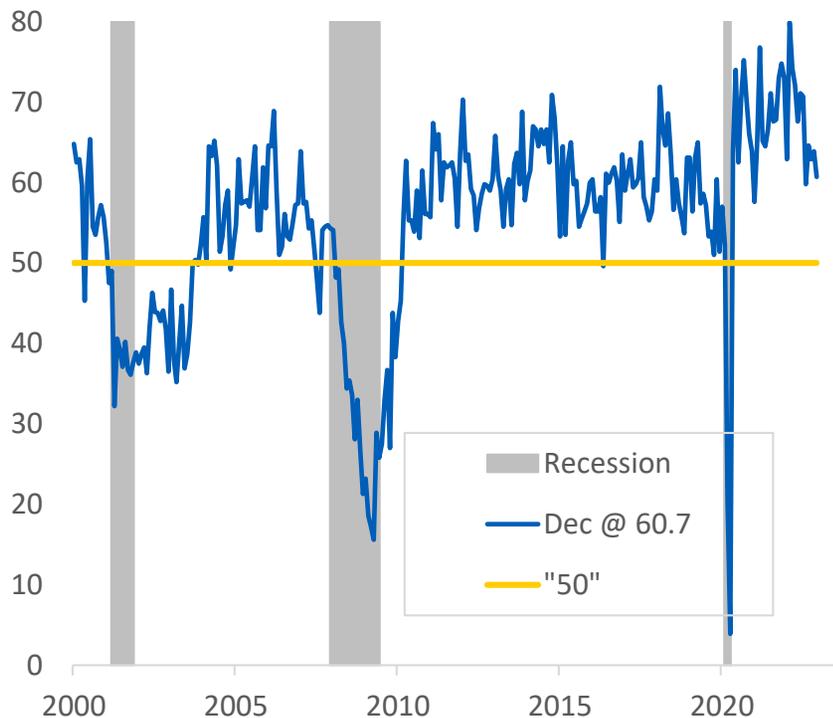
Source: Federal Reserve, Bureau of Labor Statistics
Information is subject to change and is not a guarantee of future results.



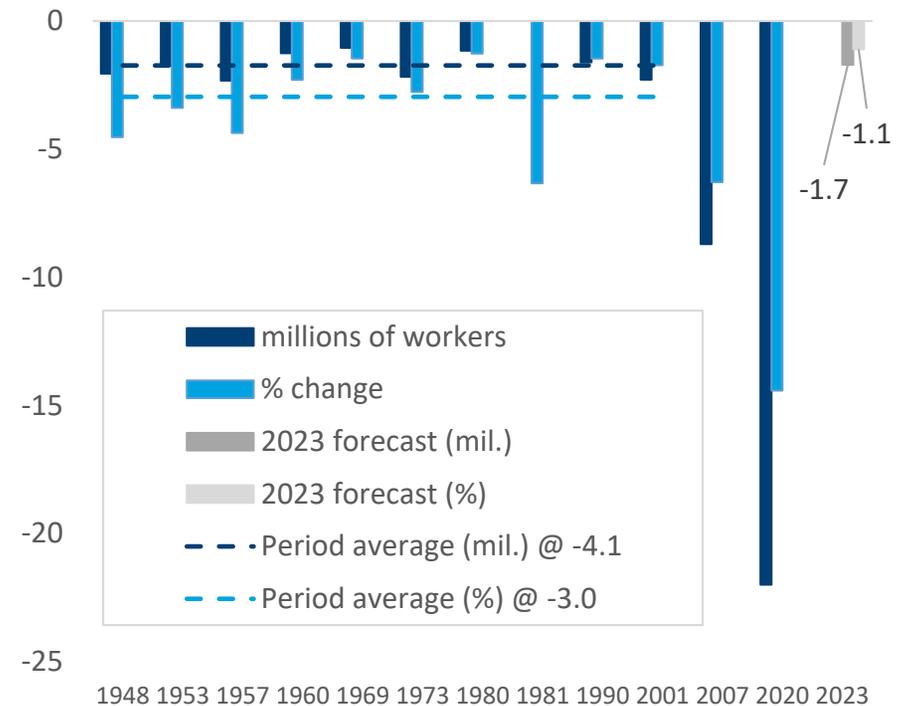
Labor

- Weakness in hiring is widening out among many industries.
- Ongoing labor shortages should keep job losses below levels experienced during average recessions.

Employment Diffusion Index
seasonally adjusted annual rate



Change in Nonfarm Payrolls
for each of the post-WWII recessions



"50" in reference to the diffusion index. See important information for more.

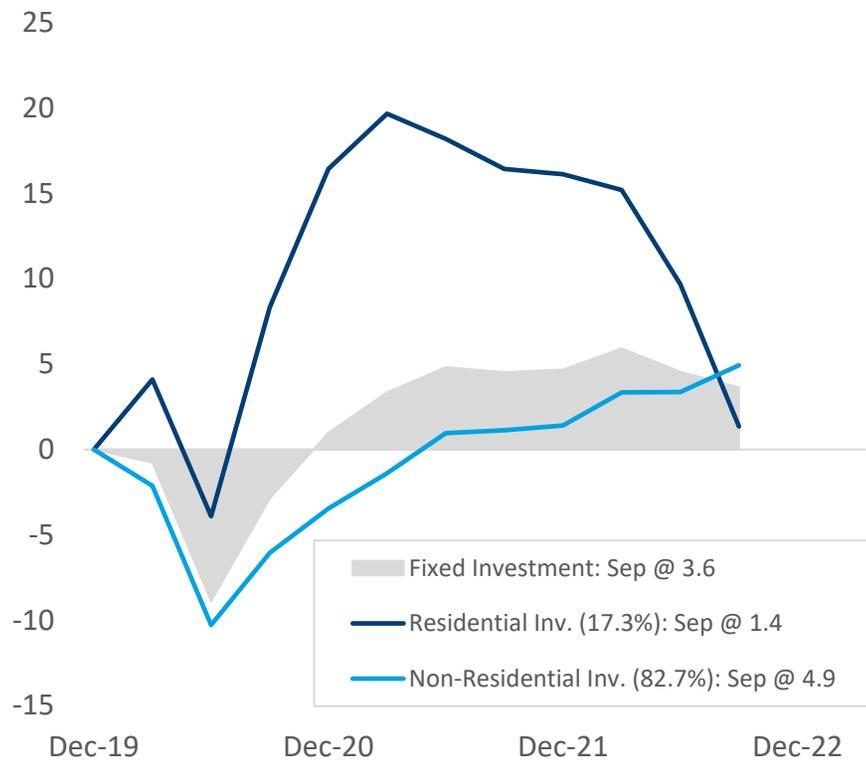
Source: Bureau of Labor Statistics Change in nonfarm payroll is based on the Fed's December projection of the unemployment rate
Information is subject to change and is not a guarantee of future results.



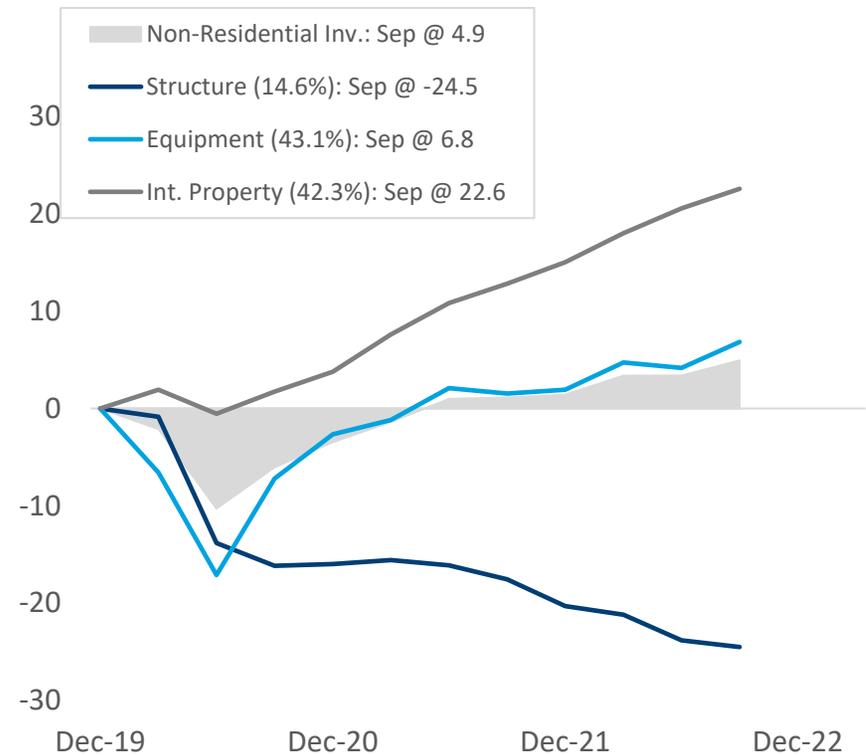
GDP – Investment

- The investment component of GDP is also slowing.
- To no surprise, it is being dragged down by residential investment.

GDP: Fixed Investment
 % cumulative change, indexed at 0.0 on December 2019, seasonally adjusted



GDP: Non-Residential Investment
 % cumulative change, indexed at 0.0 on December 2019, seasonally adjusted



Source: Bureau of Economic Analysis
 Information is subject to change and is not a guarantee of future results.

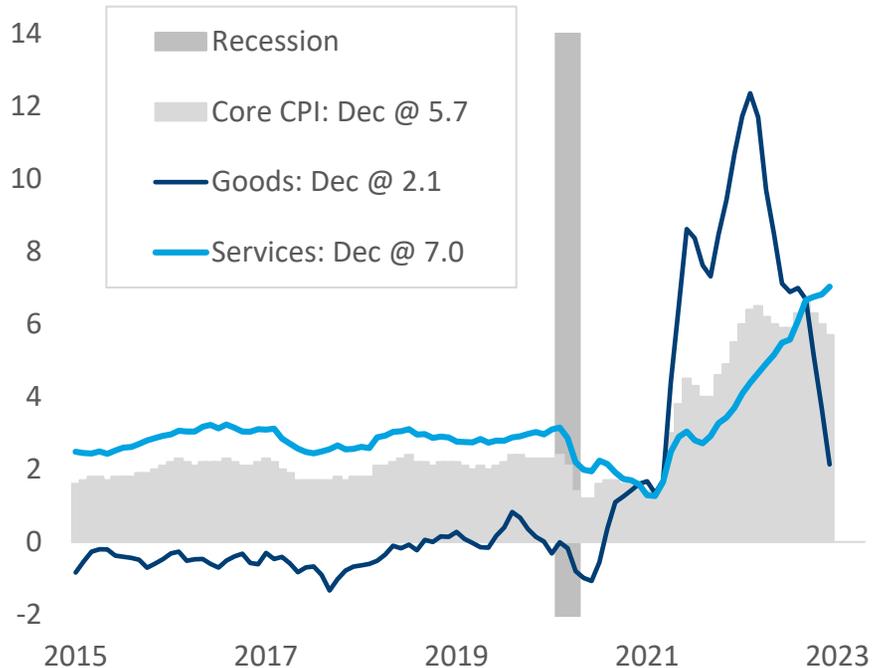


Inflation

- Headline and core inflation are moderating.
- The Fed remains concerned with high level service inflation.
- They are primarily concerned with the labor-intensive portion of service inflation.

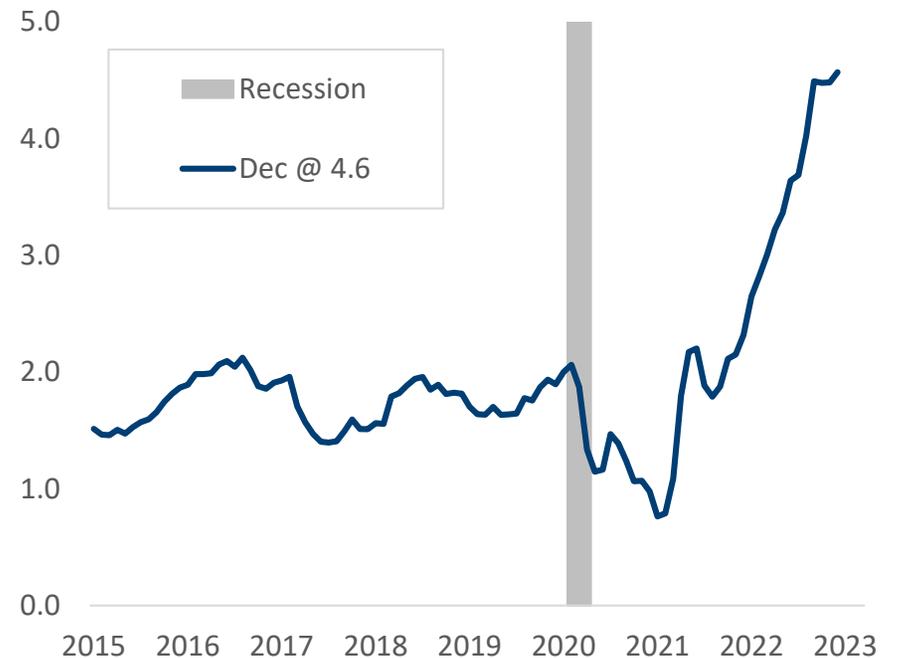
Core CPI: Goods and Services

% change, year-over-year, seasonally adjusted



CPI - Labor Intensive Services

%, CPI excluding food, energy, shelter, and goods



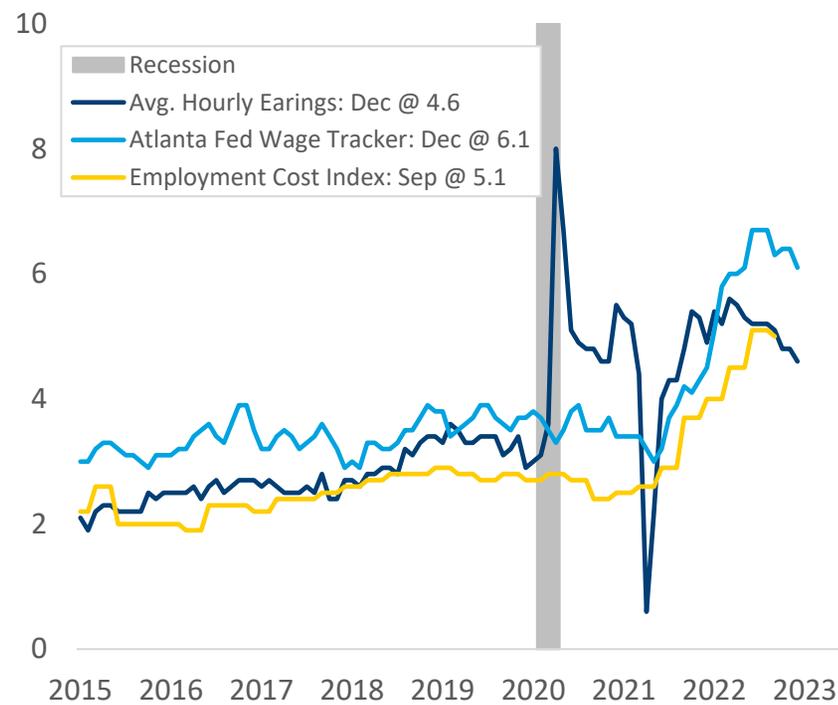
Source: Bureau of Labor Statistics
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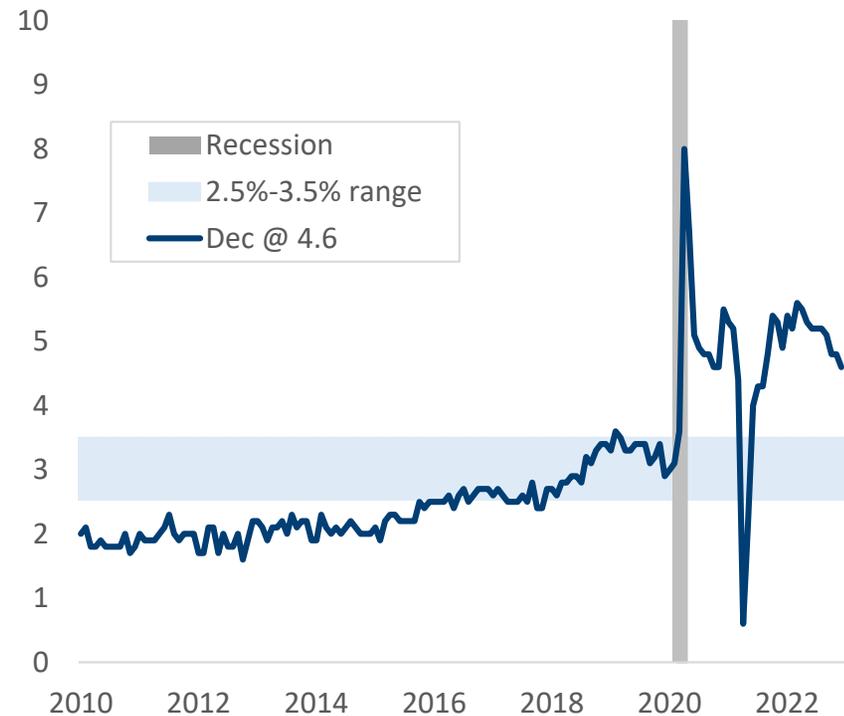
Labor

- Wage growth is beginning to decelerate.
- The Fed views wage growth of 2.5% - 3.5% is consistent with inflation near 2.0%.

Wages
% change, y-o-y



Average Hourly Earnings
% change y-o-y, seasonally adjusted



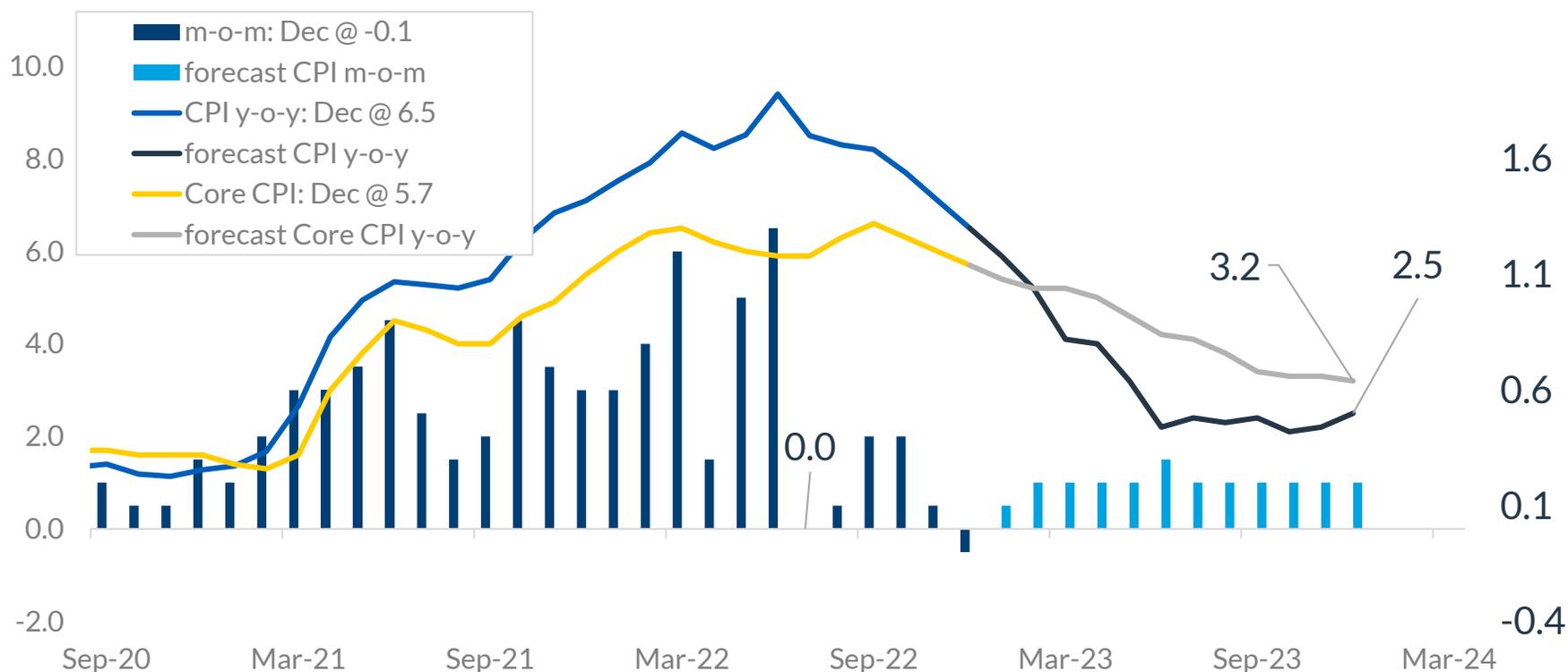
Source: Bureau of Labor Statistics, Federal reserve Bank of Atlanta
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Inflation

- Price pressures are expected to moderate throughout the year.

Consumer Price Index - with Forecast
 %, annual rate, seasonally adjusted



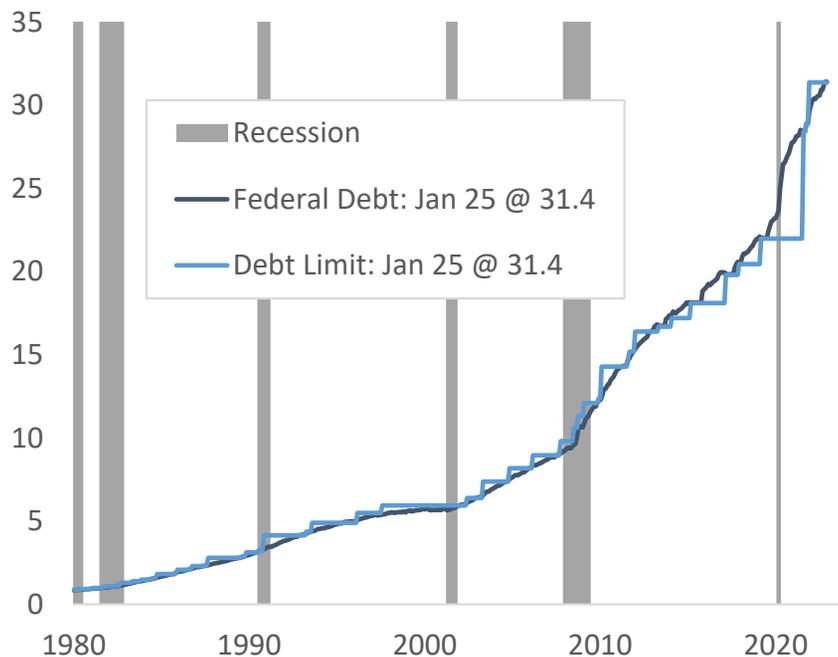
Source: Bureau of Labor Statistics, CNR Research
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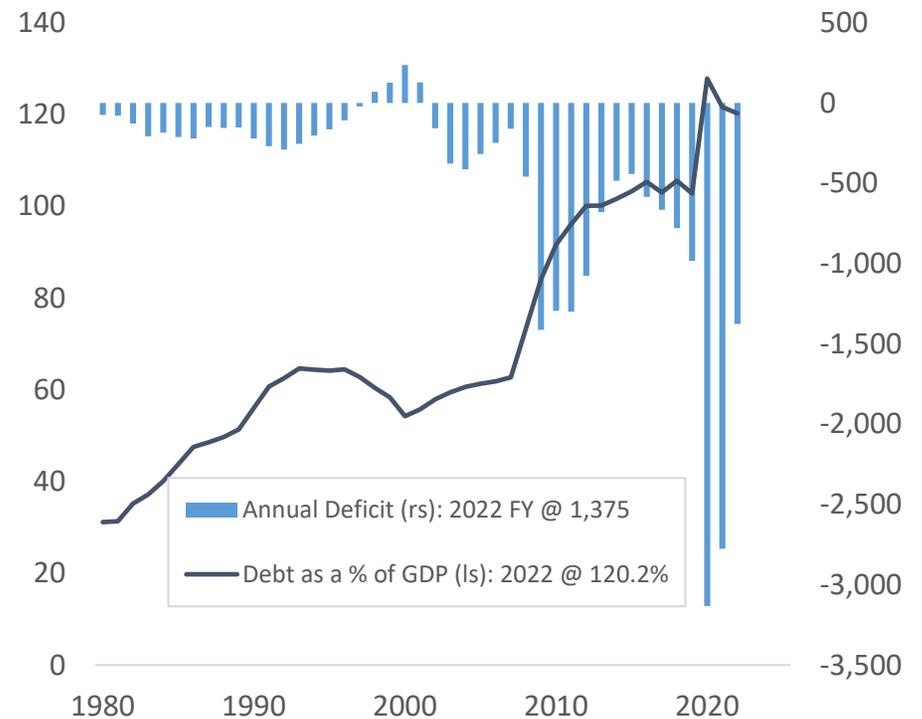
Debt Ceiling

- The debt ceiling is becoming a focus of the financial markets.
- The Treasury expects to have enough money until June.
- It will be a major news item for several months.

U.S. Federal Debt & Debt Limit
\$, trillions



Federal Deficit and Debt
%, millions of dollars

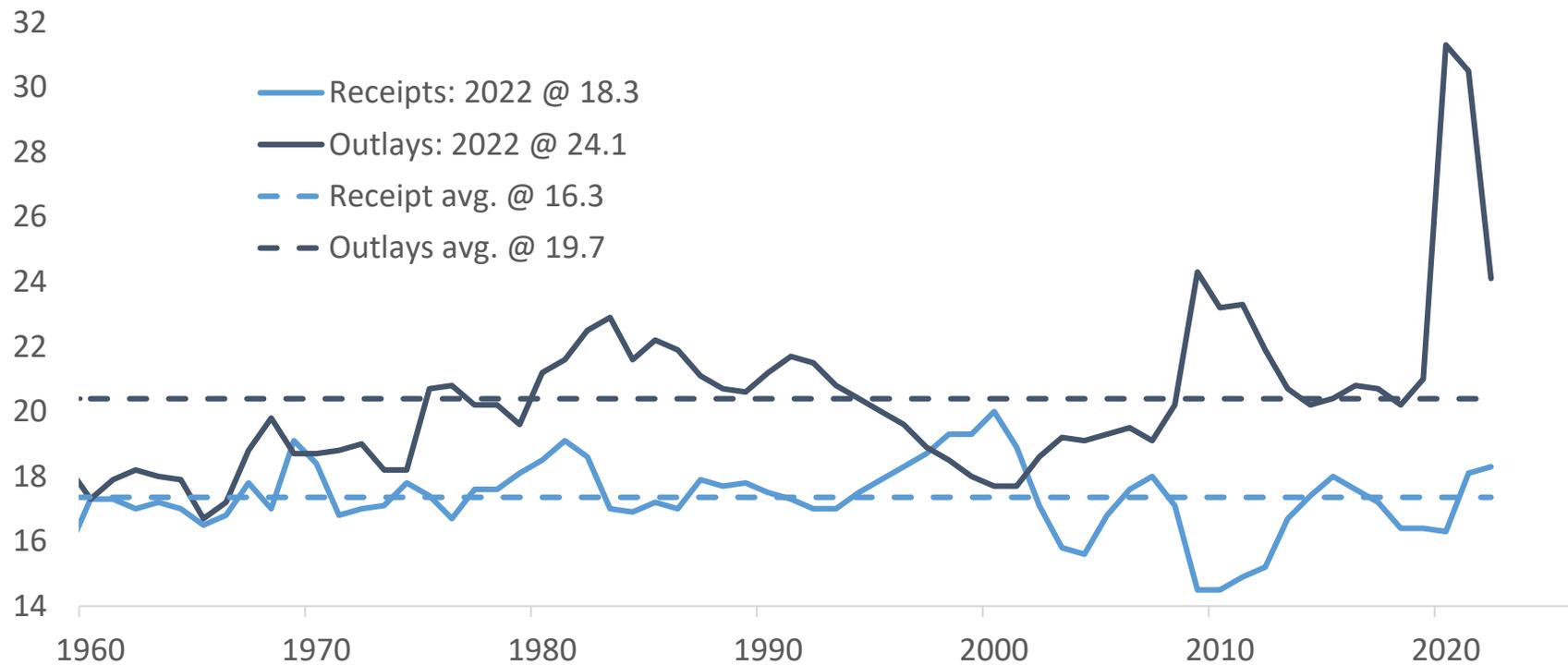


Source: U.S. Treasury
Information is subject to change and is not a guarantee of future results.



Debt Ceiling

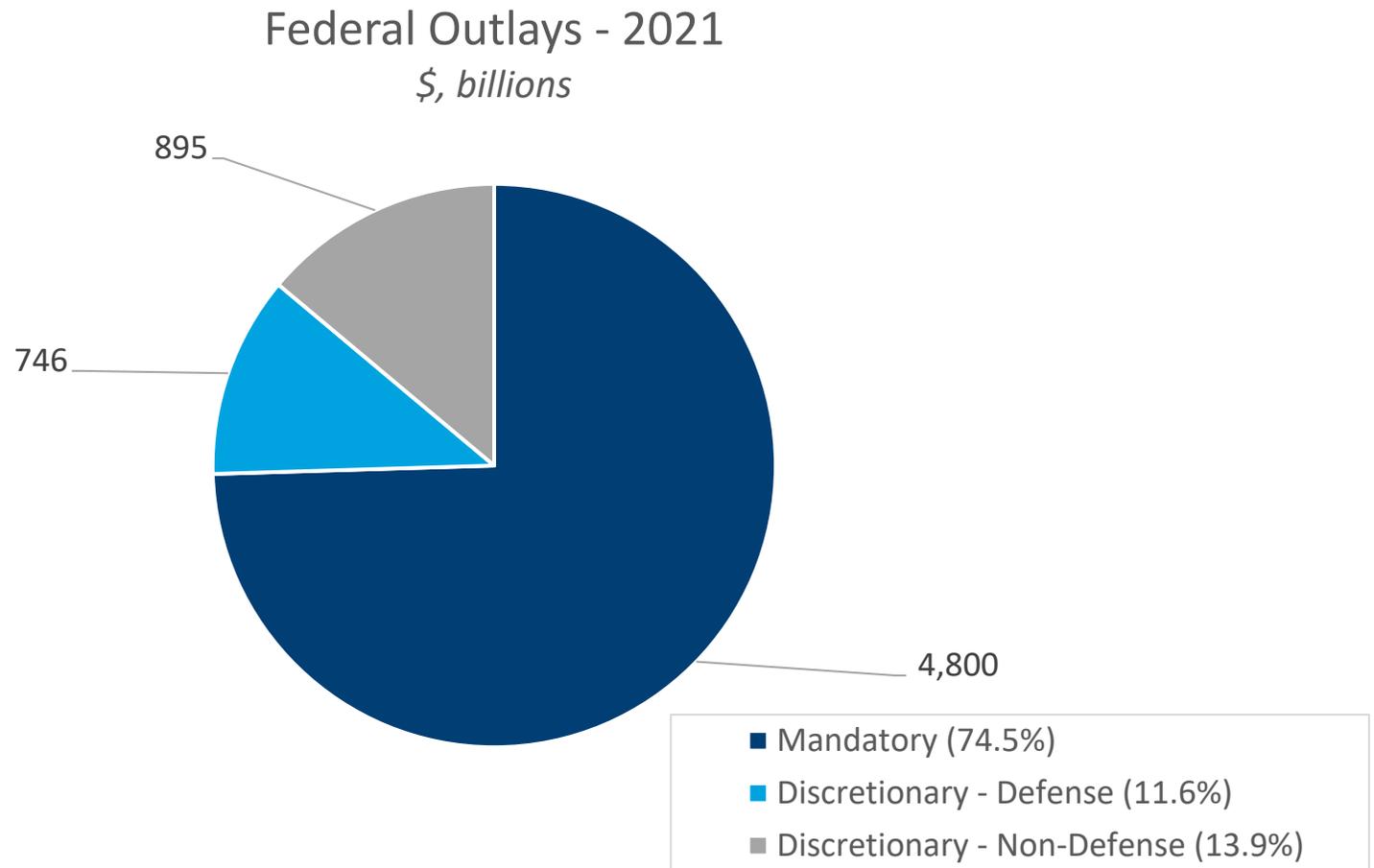
Federal Revenue and Outlays as a Percent of GDP



Source: US Treasury
 Information is subject to change and is not a guarantee of future results.



Debt Ceiling



Source: Congressional Budget Office
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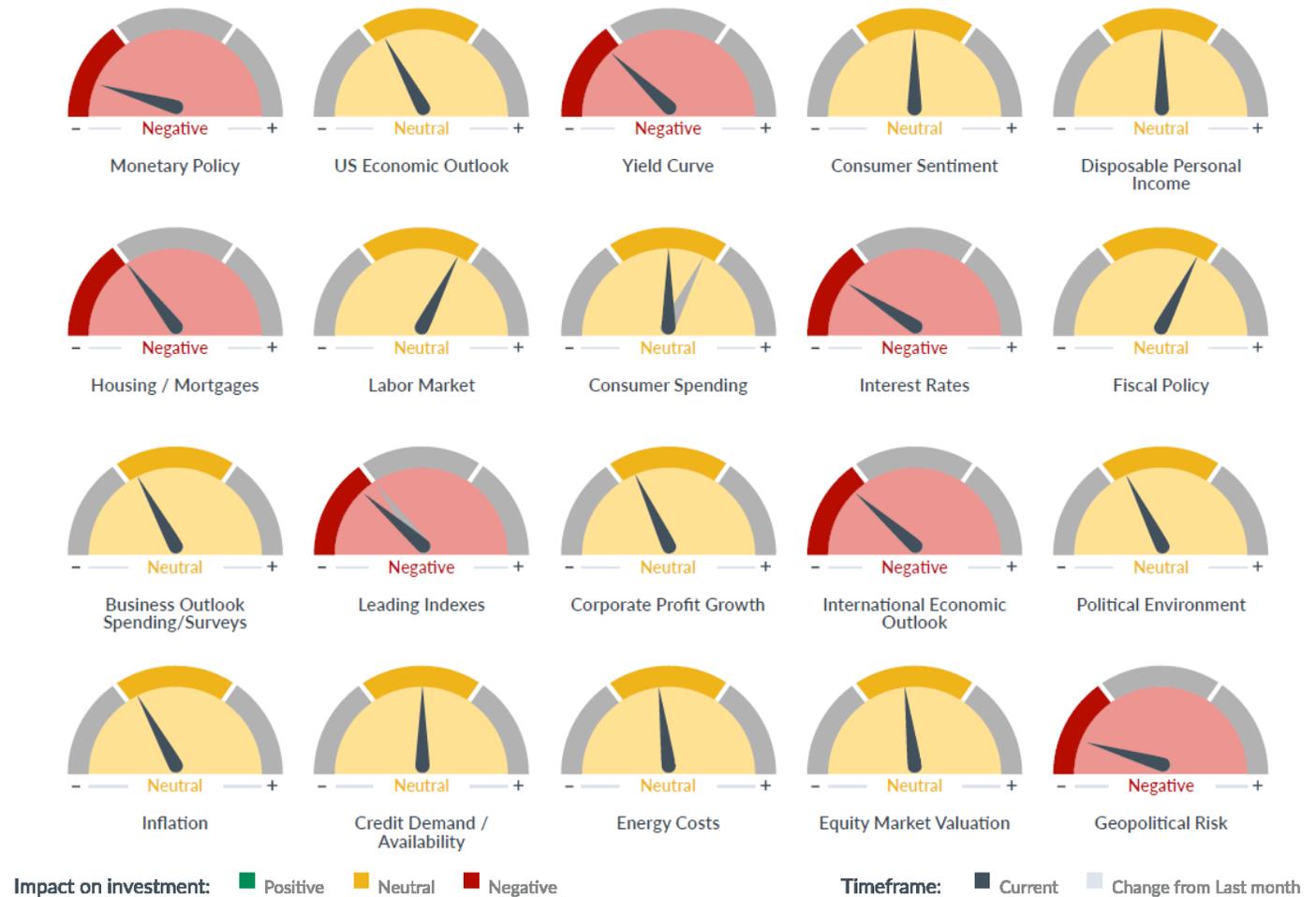


CNR Speedometers® – January 2023

Economic & Financial Indicators That Are Forward-Looking Six To Nine Months

- Indicators have slowed as risk to the outlook increases.
- Recent slowing driven by impact of higher inflation and more hawkish Fed policy.
- Watching geopolitical events with a heightened degree of concern.

Impact on Economy and Financial Markets



Source: Proprietary opinions based on CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results.



2023: Economic Momentum Slowing, Recession Risk Rising

- Household and business fundamentals are still solid but slowing.
- Inflation pressures to remain elevated, but moderating.
- The Fed remains tight to the slow economy and wages.
- We have below-consensus expectations for GDP and earnings growth.
- We have consensus estimates for interest rates.

City National Rochdale Forecasts		2022e	2023e
Real Annual GDP Growth		1.0% to 2.0%	-1.25% to 0.75%
Corporate Profit Growth		5.0% to 6.0%	-6.5% to 1.5%
Headline CPI Year End		6.5%	2.6%
Core CPI Year End		5.7%	3.1%
Interest Rates	Fed Funds Rate	4.00%-4.25%	5.00% to 5.25%
	Treasury Note, 10-Yr.	3.88%	3.50% to 4.25%

Gross Domestic Product (GDP): Gross domestic product 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.

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

Sources: Bloomberg, Proprietary opinions based on CNR research, as of January 2023.

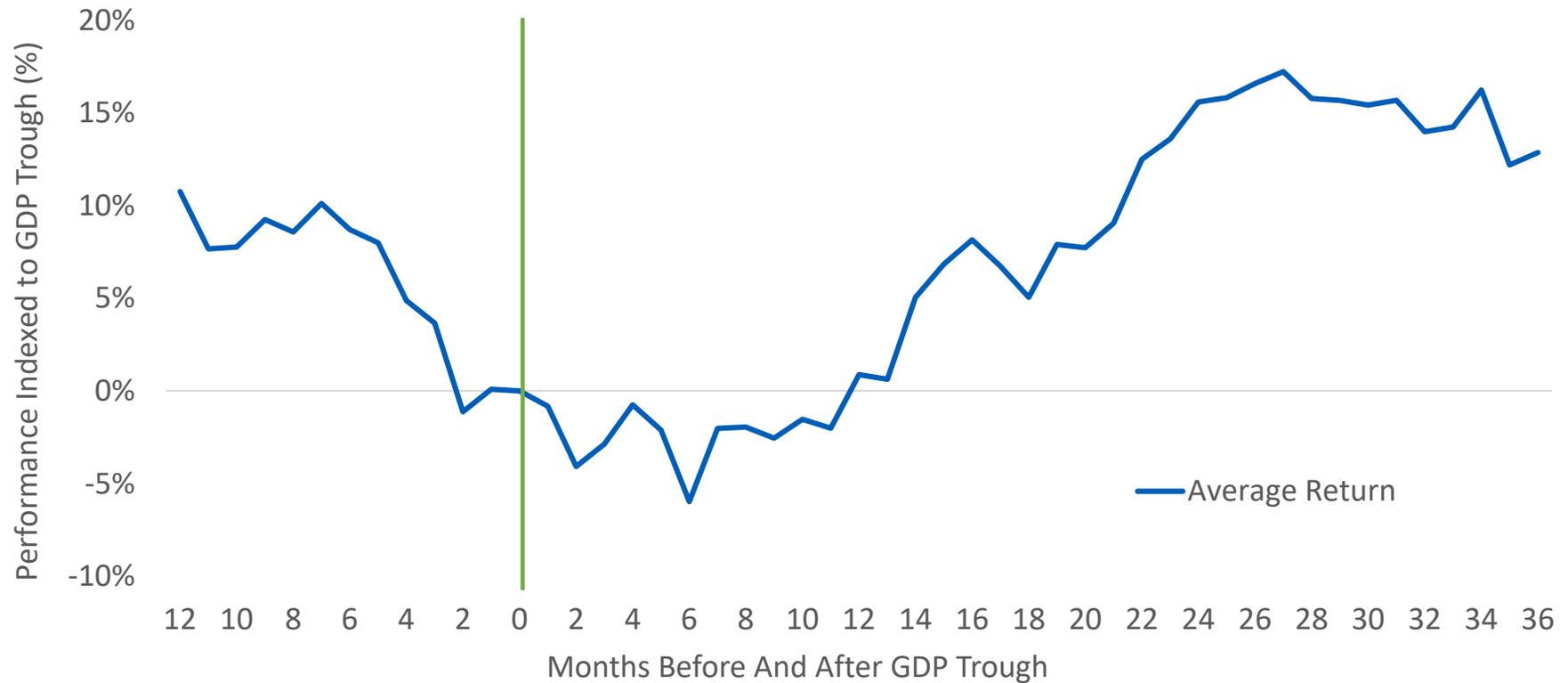
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2023 Equity Market Outlook: Near Term Caution

- Mild recession outlook implies further downside risk.
- Equities remain vulnerable until economic growth bottoms.
- Negative earning revision trend likely in our view.

S&P 500 Index Performance Before & After GDP Troughs¹



¹Covers performance periods with GDP troughs in 1970, 1973, 1981, 1990, 2001 and 2008

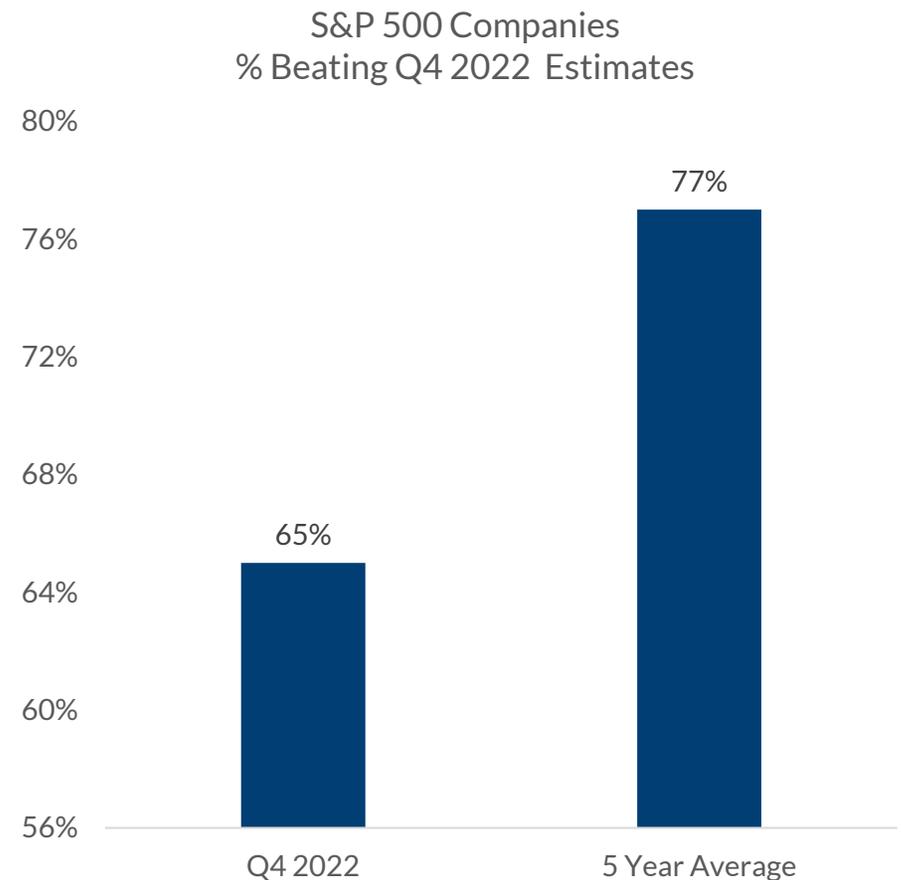
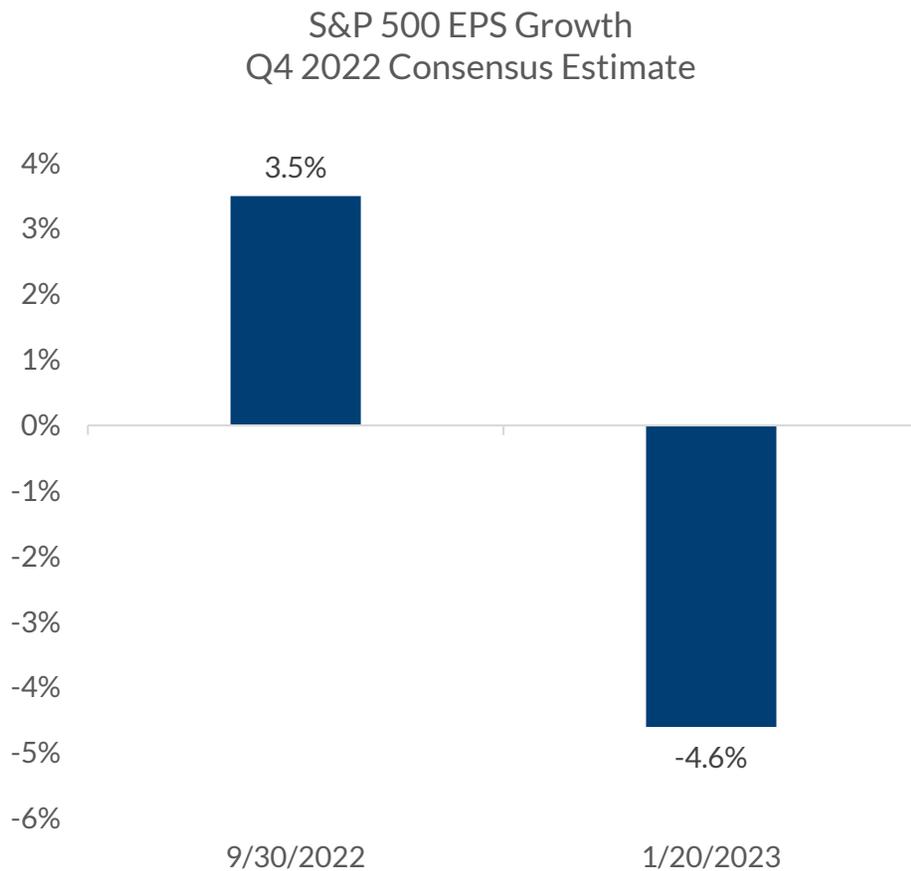
Sources: Bloomberg, CNR Research, as of December 2022.

Past performance is not a guarantee of future results. An index is unmanaged and is not available for direct investment.



Q4 Earnings Season Indications so Far

- Consensus Q4 earning estimates have declined significantly since the end of Q3.
- The percentage of companies beating earnings expectations is so far well below the 5 year average.
- Margins have been the biggest driver of lower than expected, earnings primarily due to rising costs.



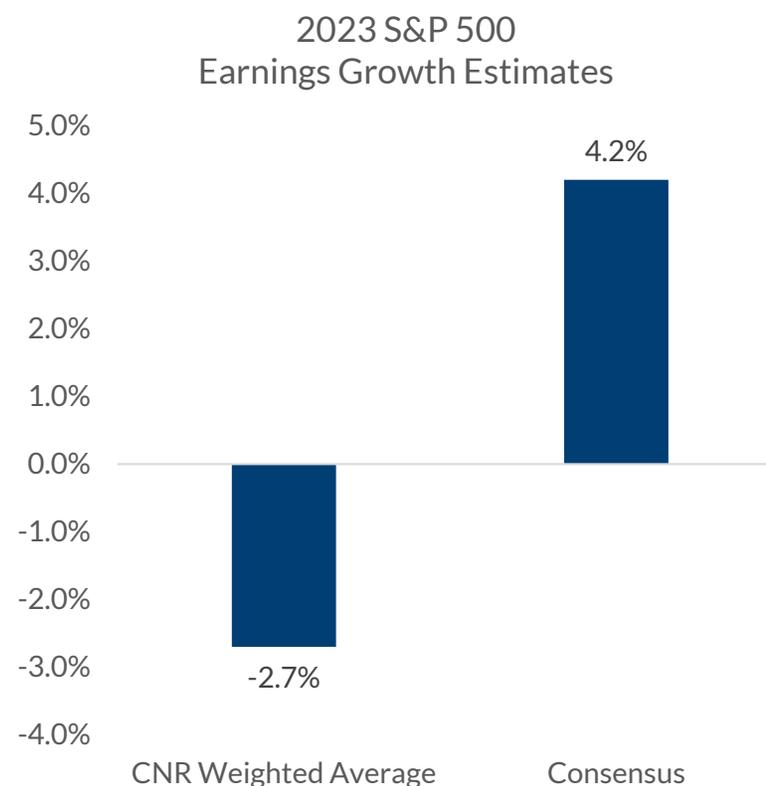
Sources: FactSet. Information is subject to change and is not a guarantee of future results. Information is subject to change and is not a guarantee of future results.



2023 Earnings Outlook: An Unusually Wide Range

- The multitude of uncertainties around the outlook implies a wider range of potential earnings outcomes.
- Consensus estimates remain too high and have not yet discounted the increasing risks of an economic downturn.
- Lower margins from higher input costs, stronger dollar and expected weakness in Europe.
- Further negative earnings revisions in the coming months could be a source of further market declines.

Economic Outcome	Slow Growth	Mild Recession	Normal Recession
Probability	25%	60%	15%
Real GDP	1.25%	-0.50%	-1.50%
Inflation	4%	3%	3%
Europe Weakness	-3%	-3%	-3%
Other	4%	-4%	-11%
Total Margins	3%	-5%	-14%
Buybacks	1%	0%	0%
15% Corporate Minimum Tax	-1%	-1%	-1%
Total EPS Growth	8.3%	-3.5%	-13.5%



Sources: CNR Research, FactSet, as of January 2023. Information is subject to change and is not a guarantee of future results.



2023 Critical Issues to Watch

	Earnings	P/E Multiple
Positive	• Inflation moderation	• Valuation correction
	• Dollar headwind abating	• Earnings yield favorable vs. Fixed Income
	• Mild recession	
Negative	• Margins still elevated	• Absolute PEs still not attractive
	• Consensus earnings estimates too high	• Downside risk if real rates go higher
	• Risk of exogenous shocks remains	• Risk of exogenous shocks remains

S&P 500 Forward Price/Earnings Ratio



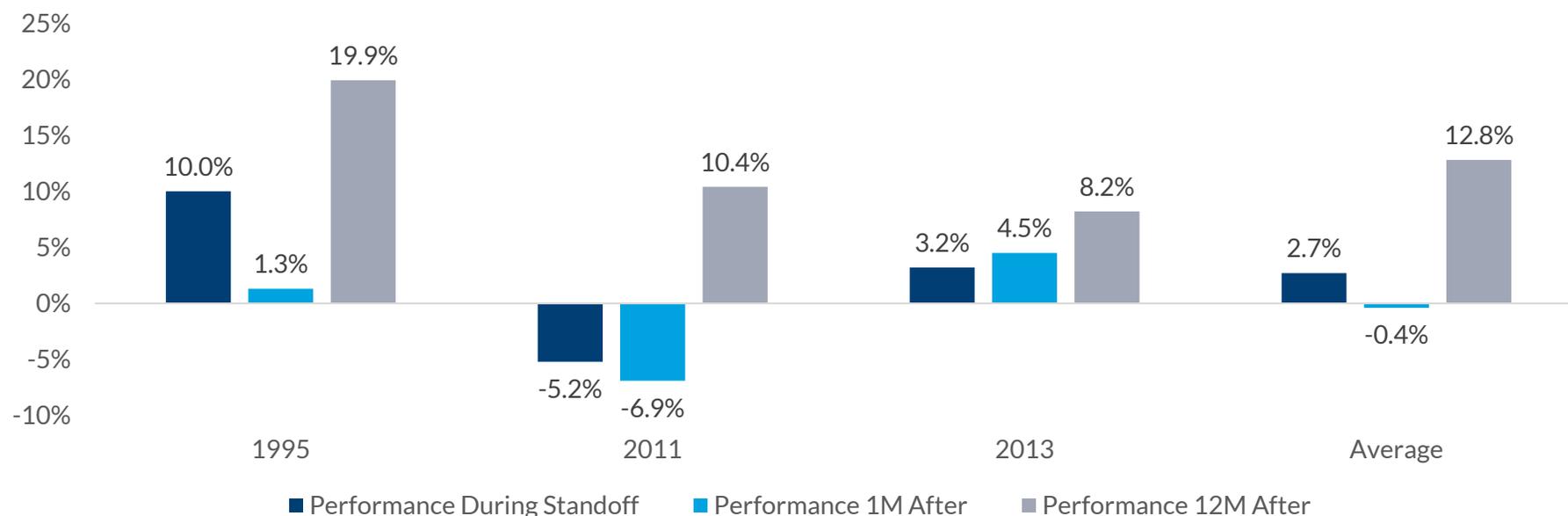
Sources: FactSet, CNR Research, as of December 31, 2022. Information is subject to change and is not a guarantee of future results.



US Debt Ceiling – Another Source of Potential Volatility

Debt Ceiling Standoff	Date	Performance During Standoff	Performance 1M After	Performance 12M After	Details
1995	Oct 1995 - Mar 1996	10.00%	1.30%	19.90%	Two periods of government shutdowns (5 and 21 days)
2011	May 2011 - Aug 2011	-5.20%	-6.90%	10.40%	S&P downgrades U.S. credit rating from AAA to AA+
2013	May 2013 - Oct 2013	3.20%	4.50%	8.20%	Government shutdown for 16 days

S&P 500 Performance & US Debt Ceiling Standoffs



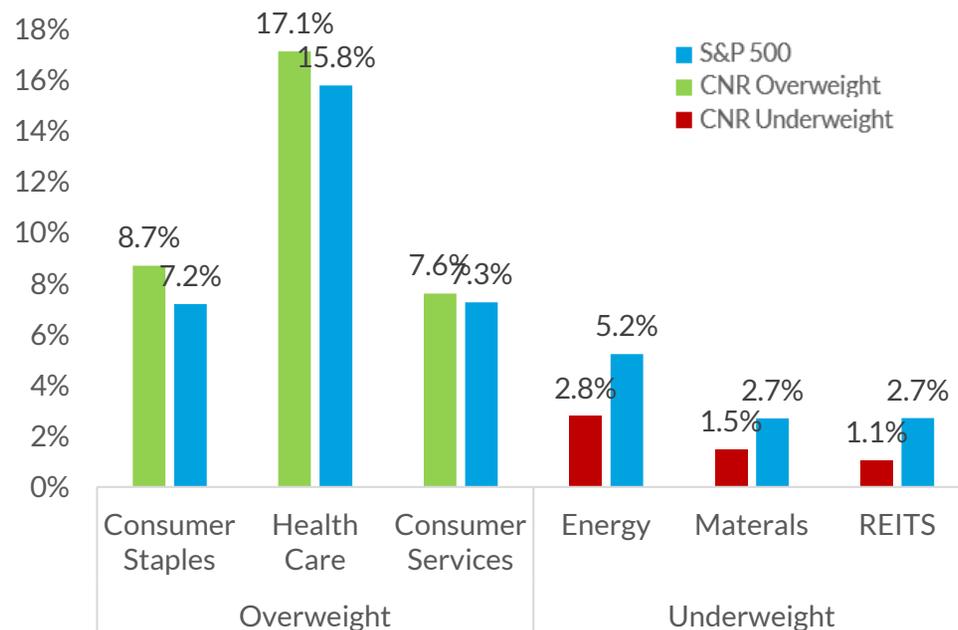
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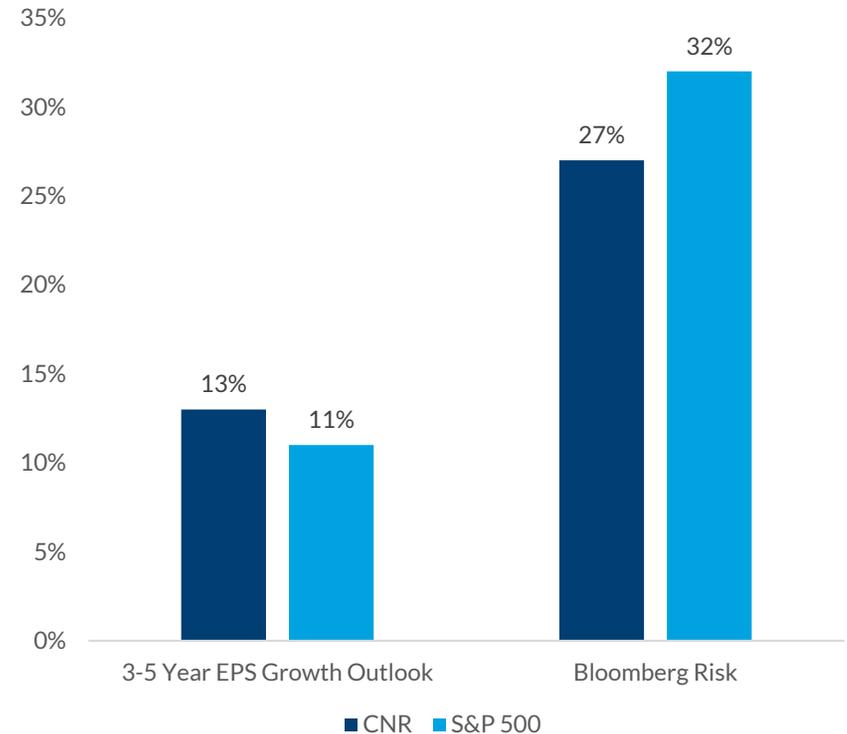
Core Equity Positioned for Mild Recession

- Proactively lowered exposure to cyclical industries.
- Increased exposure to stable growers.
- Above average earnings growth, below average risk.

CNR Core Equity Sector Overweights/Underweights vs S&P 500



Above Average Earnings Growth, Below Average Risk



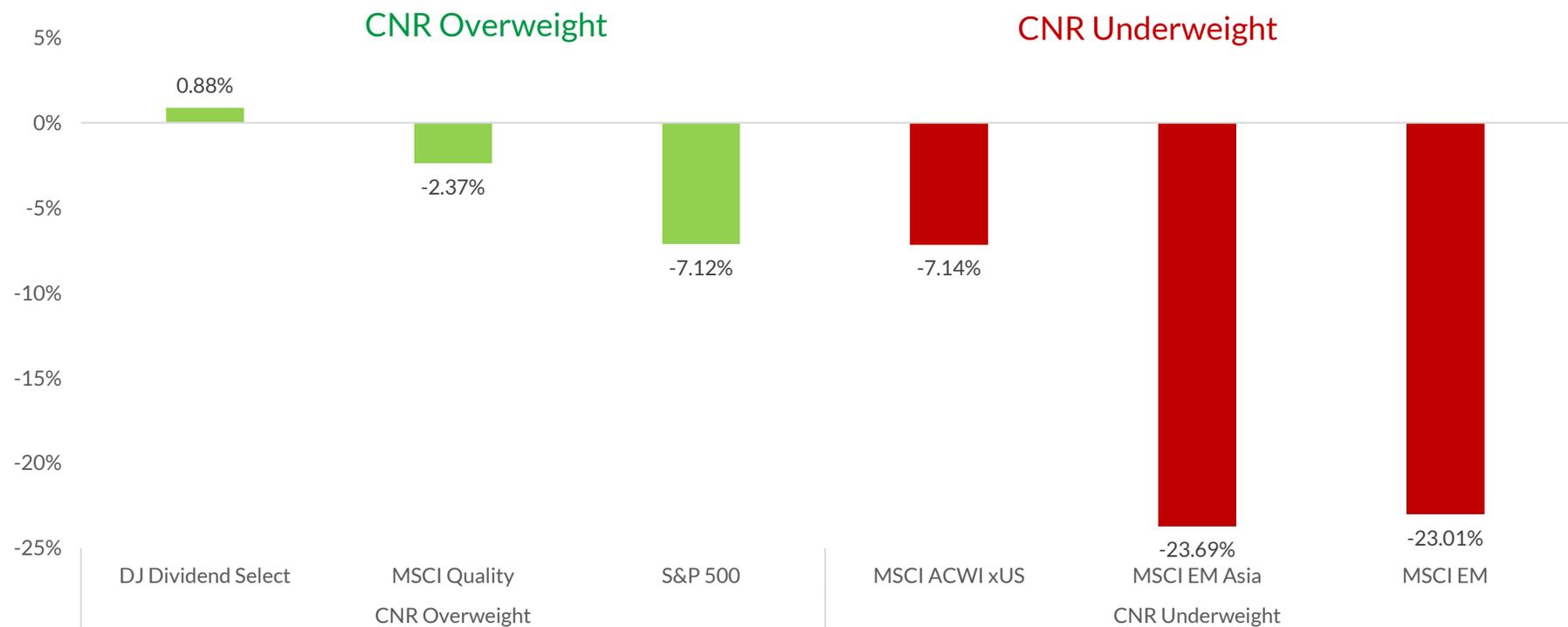
Sources: FactSet, Bloomberg, CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results.



2023 Equity Positioning

- Sought to de-risk equity exposure for mild recession.
- Focused on high quality US stocks.
- Revision trends supportive of this view.

2023 Earnings Growth Revisions
Since 12/31/21



Source: FactSet, CNR Research, as of January 2023.

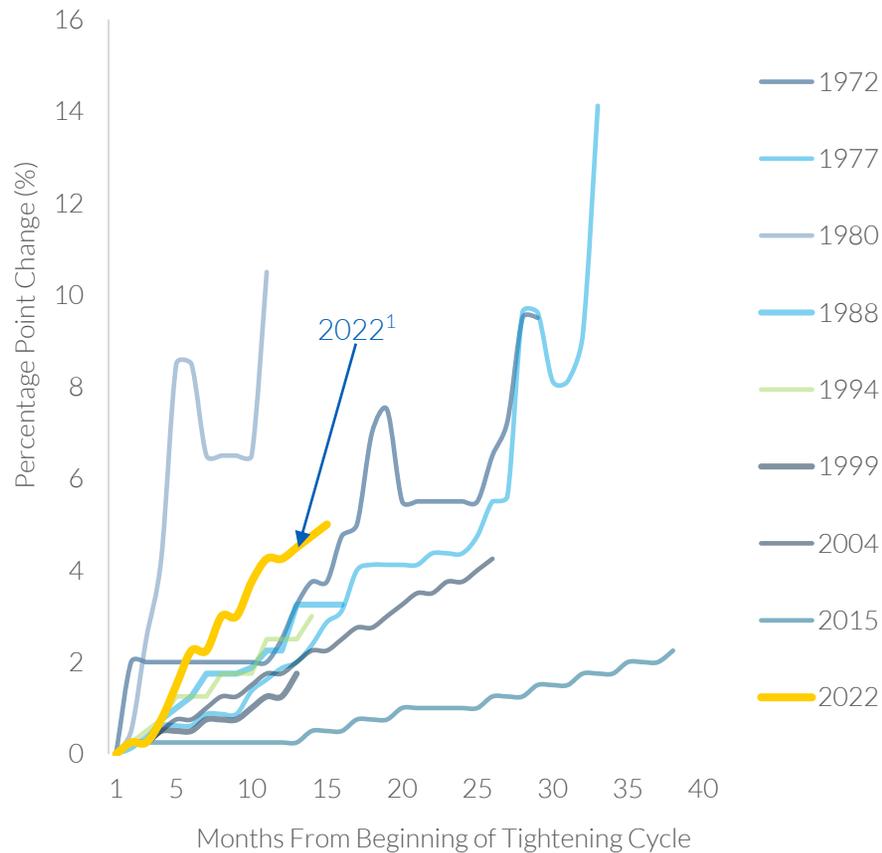
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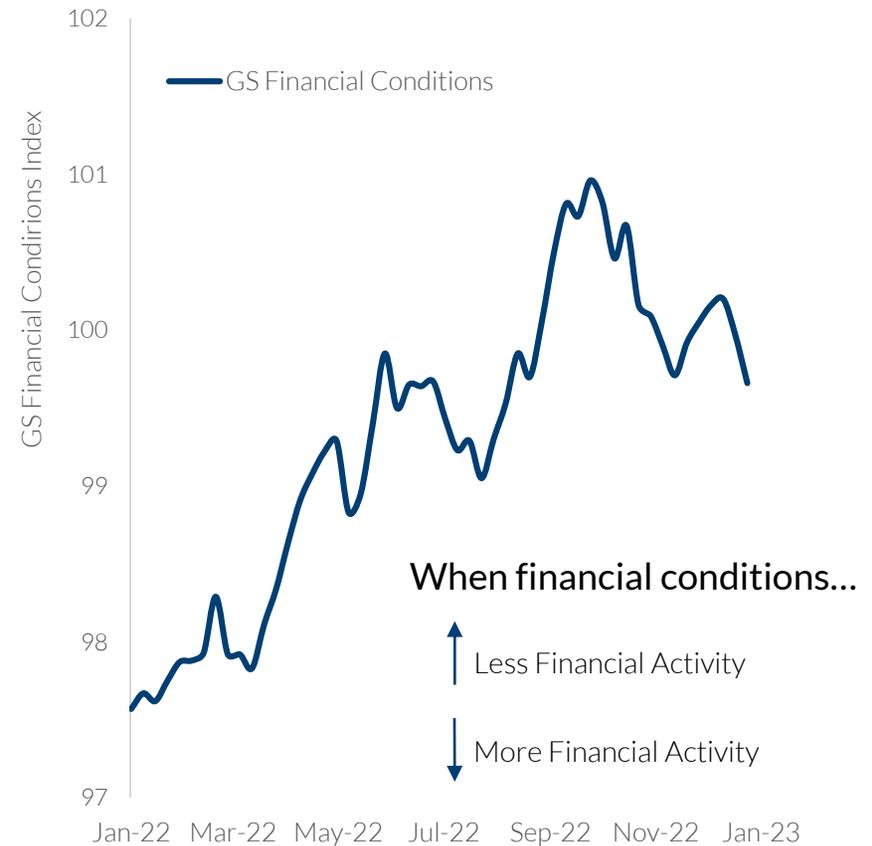
Federal Reserve Tightening To Continue

- Second fastest Federal Funds rate increase in history is putting pressure on the economy.
- However, a significant concern for the Fed is easing financial conditions, despite higher rates.

Federal Funds Rate Across Tightening Cycles



US Financial Conditions



¹Using CNR Projected Federal Reserve target rate of 5.00%-5.25%

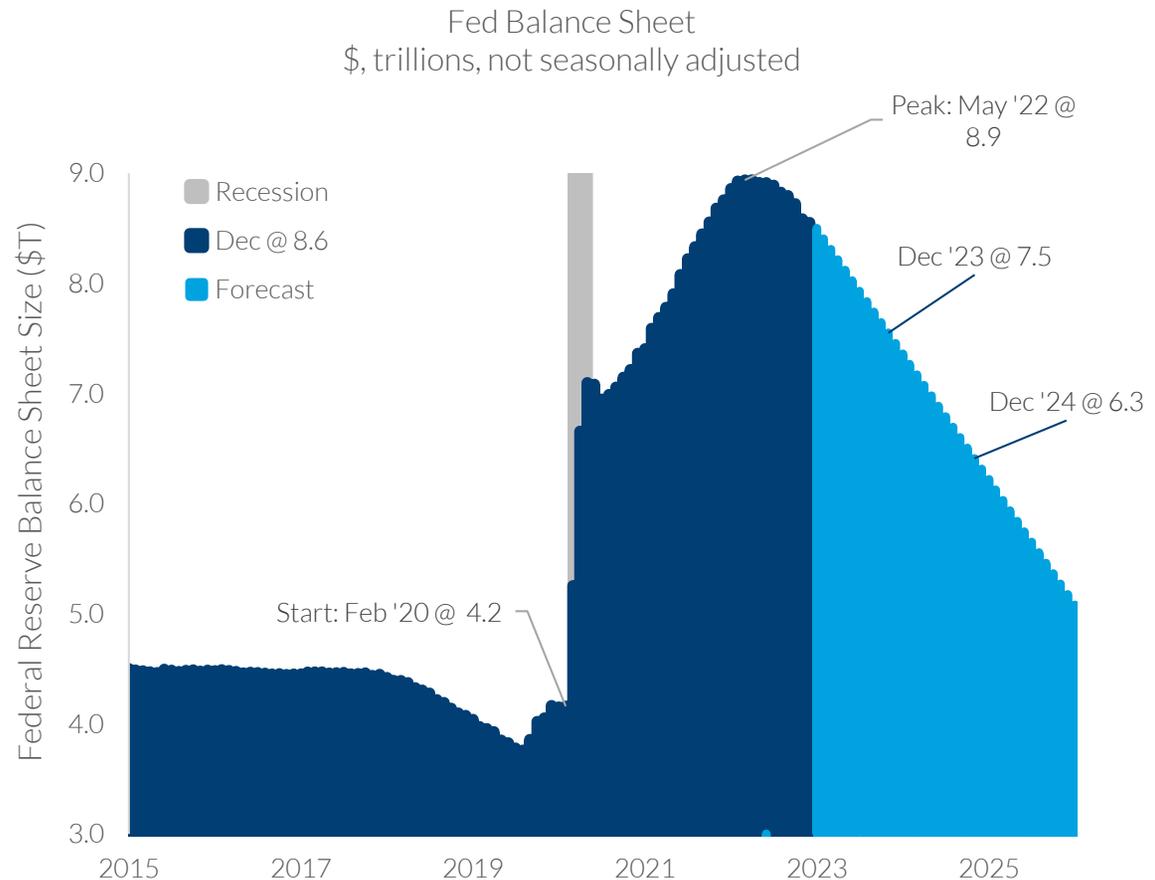
Sources: Bloomberg, Goldman Sachs, CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results.



Federal Reserve Balance Sheet

- The balance sheet has not been a news item, but is still a source of volatility.
- Interest rates and the mortgage market are closely tied to the size of the balance sheet.

- › Balance sheet growth helped keep rates low to support asset prices
- › Purchases of mortgage securities helped provide capital to support home lending
- › The Fed’s target rate is an important part of policy, but a smaller balance sheet is a factor in the higher-for-longer environment
- › The market for bonds and mortgage loans is shrinking as stimulus is reduced



¹Covers performance periods with GDP troughs in 1970, 1973, 1981, 1990, 2001 and 2008

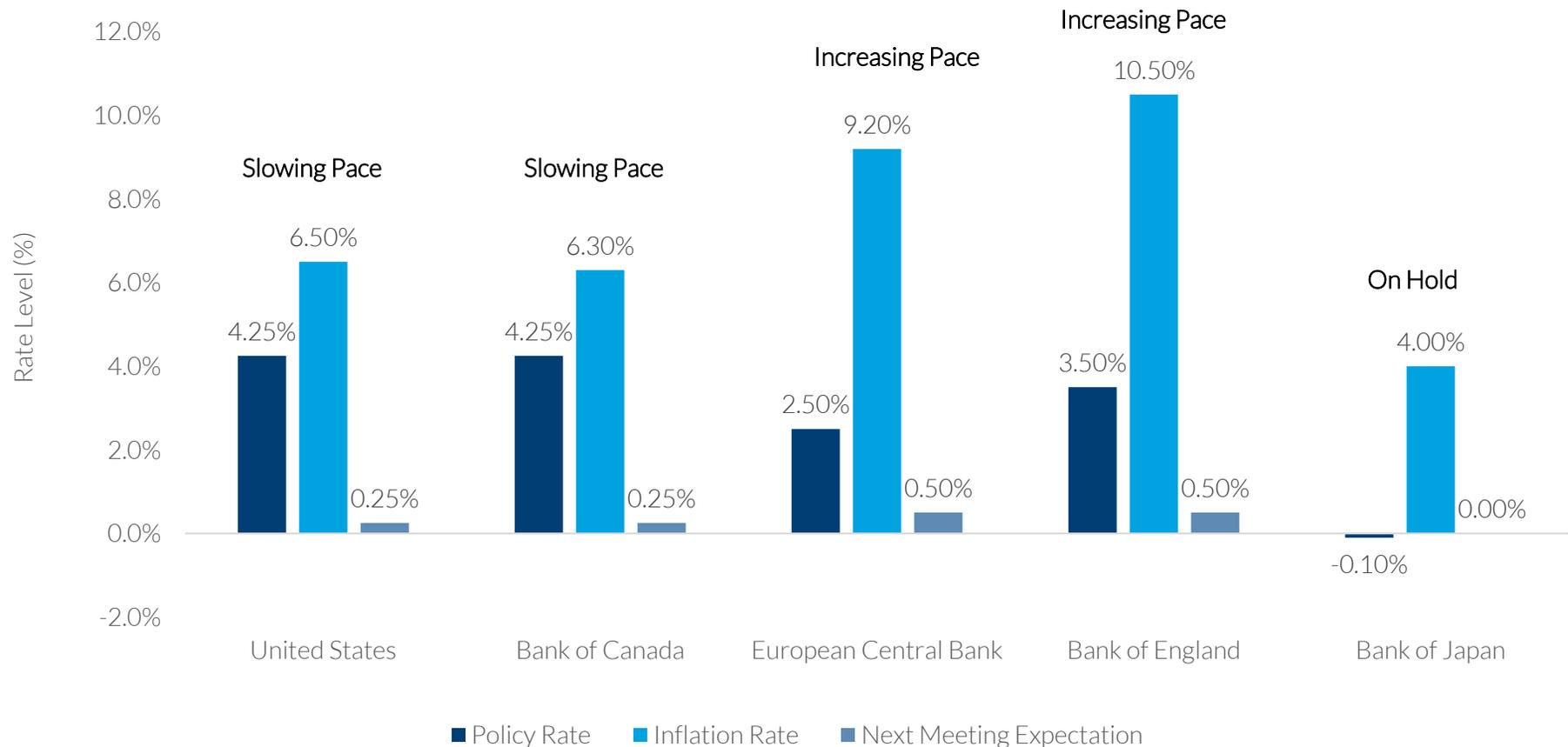
Sources: Bloomberg, CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results.



Global Central Bank Policy

- Based on the level of inflation and lower policy rates, Europe remains vulnerable.
- While the speed of rate increases is slowing in North America, the Fed and BOC are committed to tackling inflation.

Developed Market Central Bank Policy



Sources: Bloomberg, CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results..



Why Are Interest Rates Falling?

- Rates peaked in Oct. 2022 at 4.2% and have fallen to 3.5%, while curve inversion is extreme.
- Higher yielding markets have attracted capital, but risk remains that rates will move higher.

What is curve Inversion?

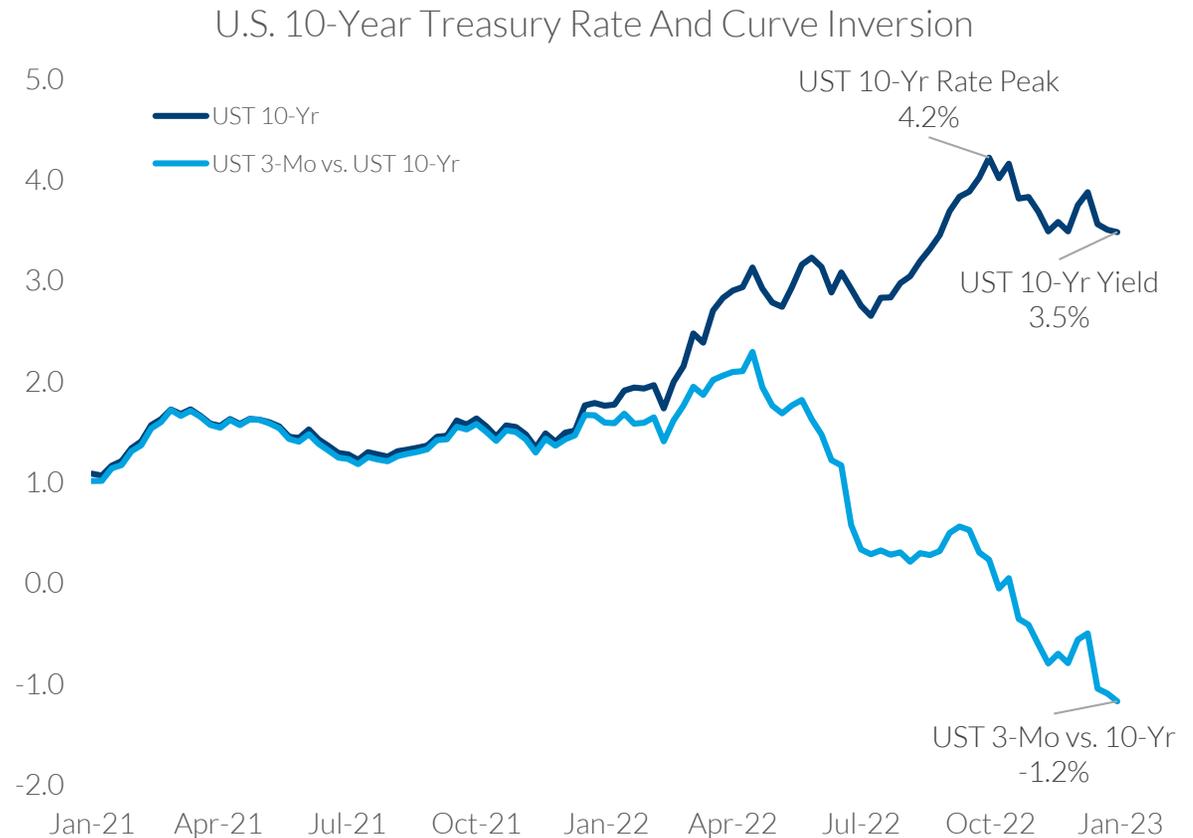
- › When the difference between longer-term rates is lower than short-term rates.

What does it mean?

- › Typically, low long-term rates indicate that growth may slow, and that inflation is easing.

Why is it important?

- › Past recessions have followed curve inversion and some economists believe it has predictive power to forecast recessions.



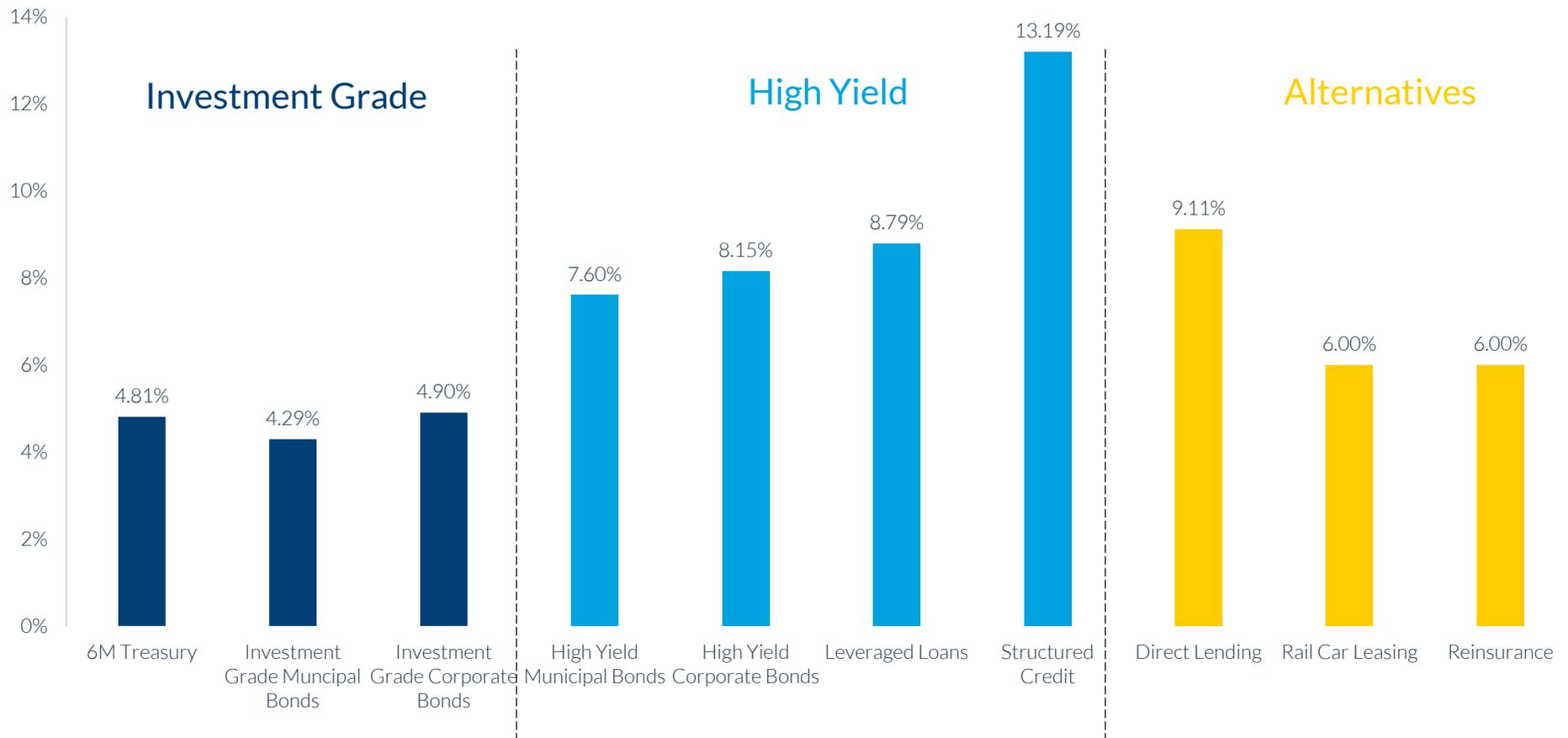
Sources: Bloomberg, CNR Research, as of January 2023. Information is subject to change and is not a guarantee of future results.



Yields Are Substantially Higher

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

Fixed Income And Alternative Market Yields



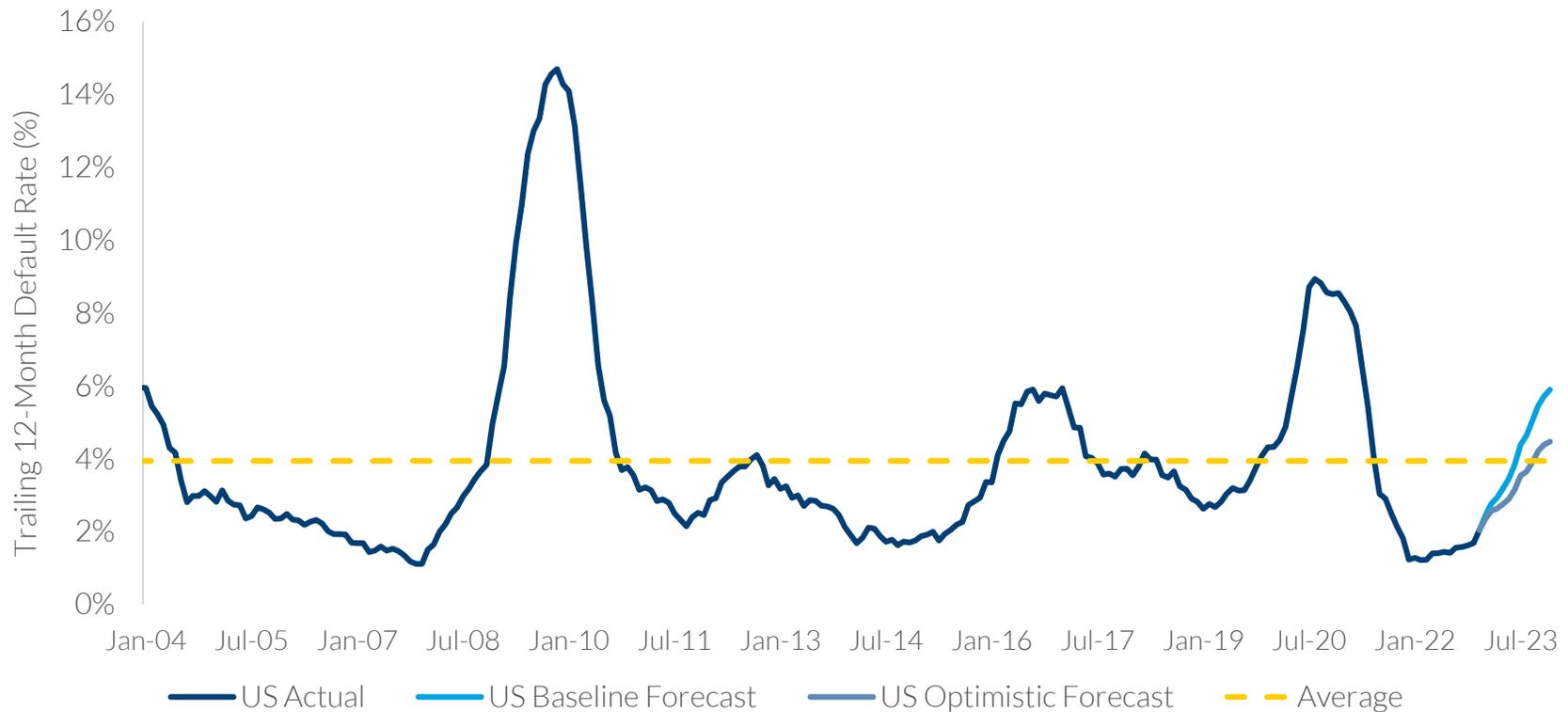
High Yield Municipal Bond yield base rate of 4.49%, tax-adjusted at 37% federal and 2.8% Medicare surcharge tax. Sources: Bloomberg, CNR Research, as of January 22, 2023. Information is not representative of any CNR product or service. Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses. Information is subject to change and is not a guarantee of future results. See index definitions for more information.



Defaults Rates May Approach Historical Averages

- Higher interest rates will begin to erode credit quality, but we do not expect a deep default cycle.

Moody's U.S. High Yield Default Rates And Forecasts

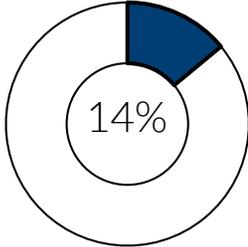
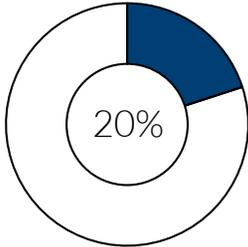
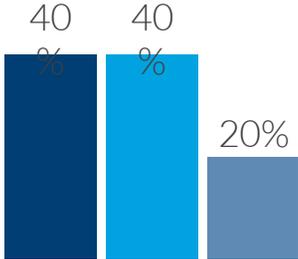
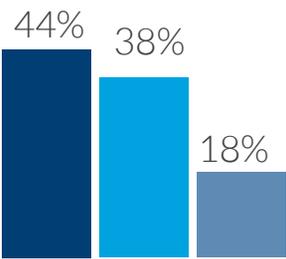


Sources: Moody's Analytics, CNR Research, as of December 2022. Information is subject to change and is not a guarantee of future results.



The Maturity Wall: Corporate Default Implications

- Despite the potential for rising defaults, corporate issuers have room to maneuver for the next 18 months.

Debt maturing in the next:	18 Months	Three Years
Total Debt Maturing <i>Global Corporate Markets</i>	\$2.73 tril.	\$6.36 tril.
Percent of total debt	12%	28%
Speculative-grade share		
Amount Rated 'B-' and lower	\$80.3 bil.	\$309 bil.
Regional Breakout		

Data as of July 1, 2022.

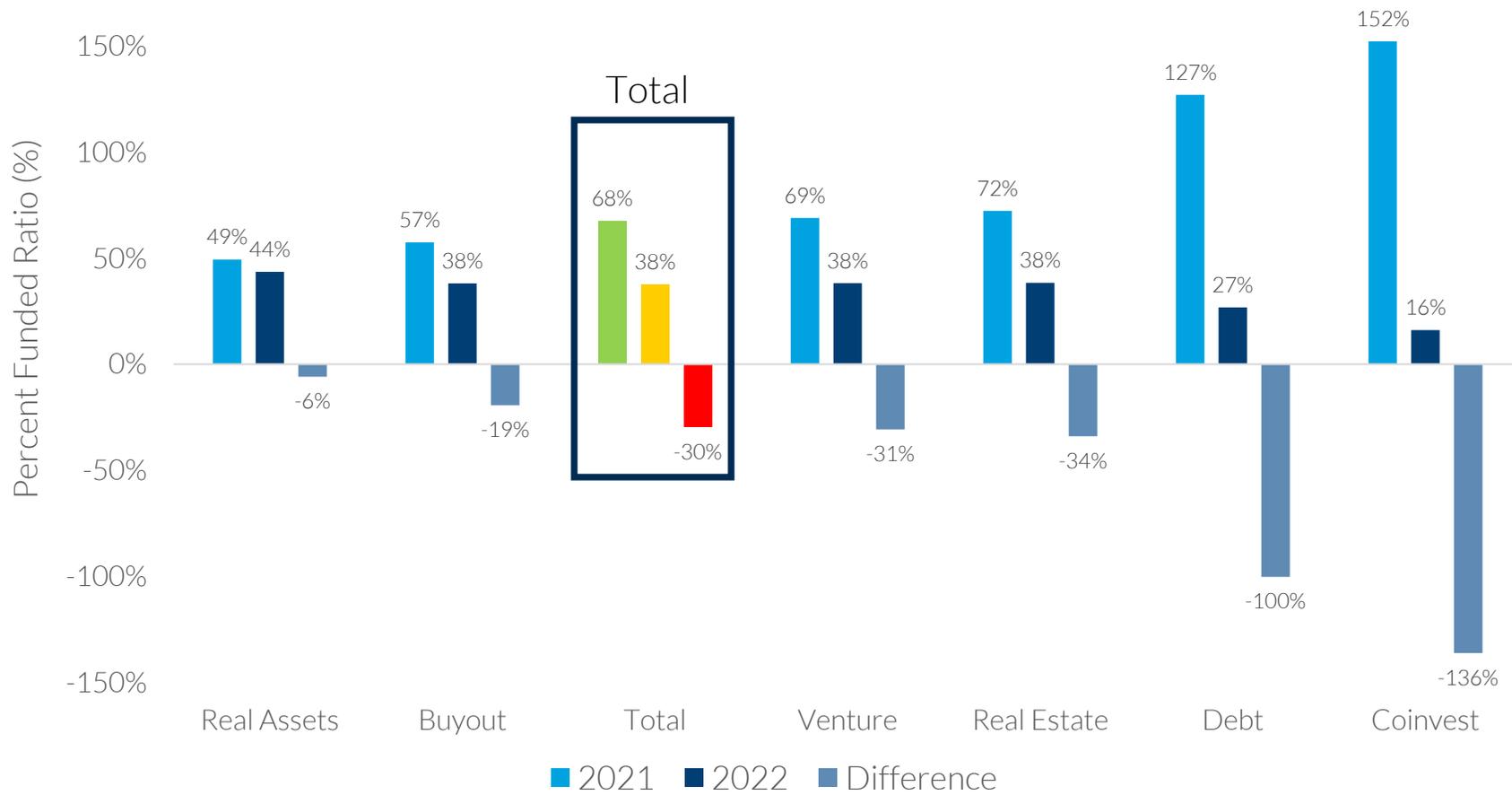
Sources: S&P Global Ratings Research, CNR Research. Information is subject to change and is not a guarantee of future results.



Private Equity Showing Signs of Weakness

- Target raises for deals launched this year are nearly double the same period last year.
- Funding levels are half of last year’s volume and funds remain significantly below target raises.

Private Equity % Funded, 2022 vs. 2021



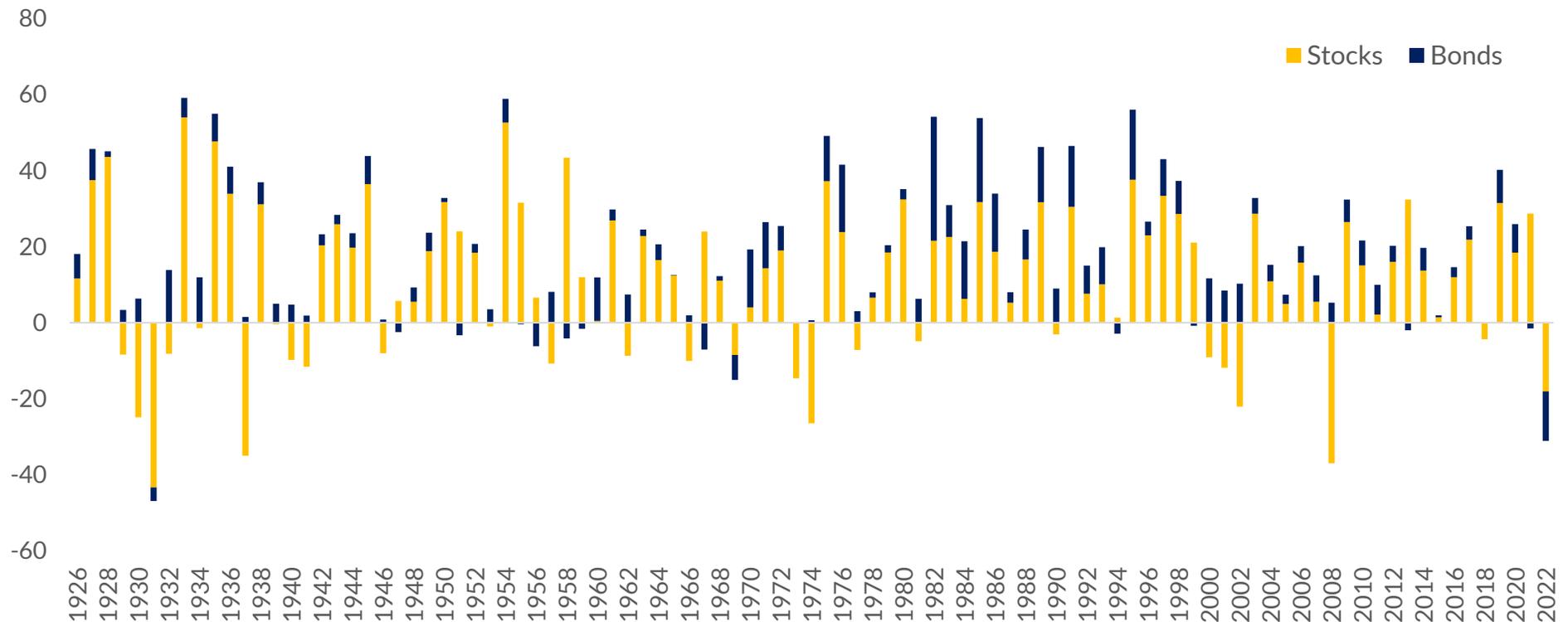
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Fixed Income Declines Were the Real Shocker in 2022

- 2022 was the first year in history when both stocks and bonds declined by more than 10%.
- The -13% decline in fixed income was the biggest annual decline on record.
- It is very rare for fixed income to decline two years in a row.
- When fixed income declined by more than 5%, the average return 12 months later was 8%.

Annual Returns



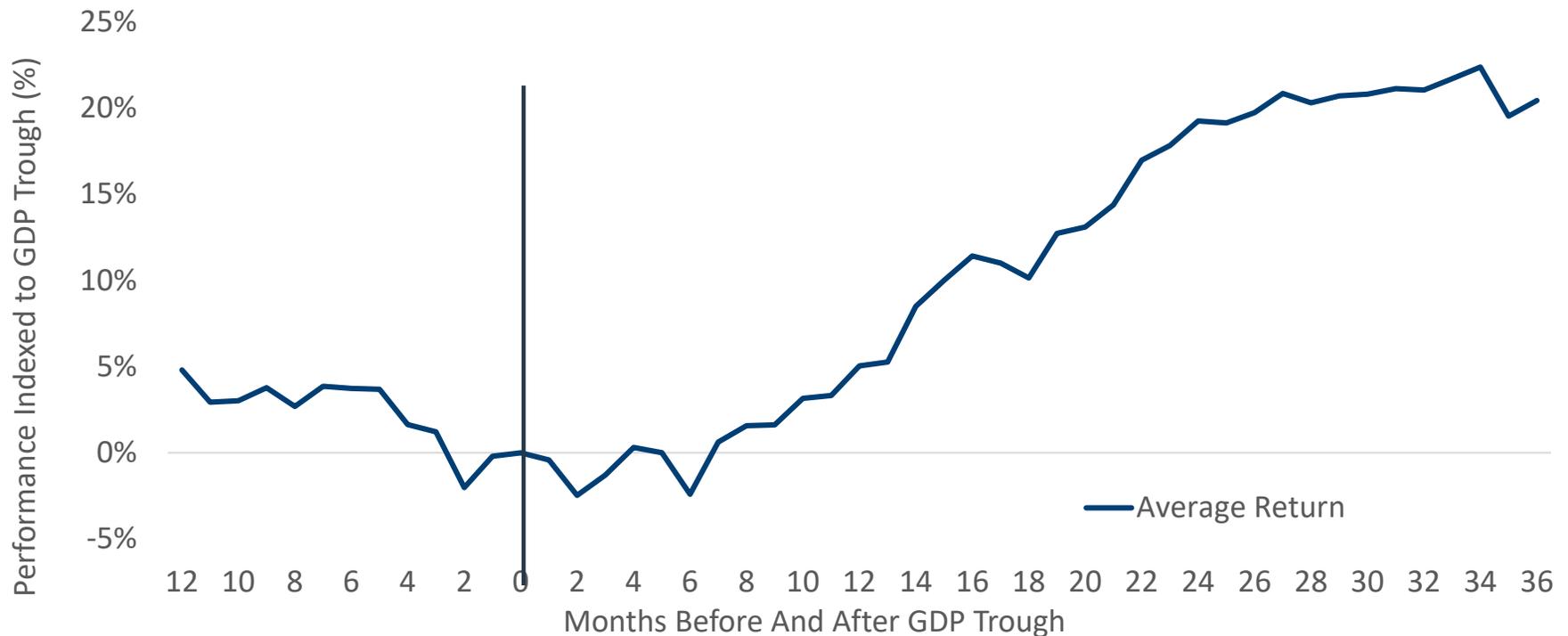
Source: Ibbotson Associates Index Data via Morningstar Direct. Factset *60/40 split between Equities and Fixed Income. Equities index: S&P 500. Fixed Income index: Bloomberg US Aggregate Bond Index. Hypothetical value of assets held in untaxed portfolios invested in US stocks, and bonds. Stocks, and bond investments are represented by total returns of the S&P 500 and 50% IA SBBI US LT Government/50% IA SBBI US LT Corporate 1/1926-1/1976, Bloomberg US Aggregate 1/1976-present. Past performance is no guarantee of future results.



Near Term Caution, Longer Term Optimism

- History suggests longer term returns will be positive, but further downside is possible near term.
- Fixed income returns likely to lead, supports CNR overweight.
- Equity returns likely to lag, supports CNR underweight.

60/40 Portfolio Performance Before & After GDP Troughs¹



¹ Covers performance periods with GDP troughs in 1970, 1973, 1981, 1990, 2001 and 2008

Sources: Bloomberg, CNR Research, as of June 2022. Past performance is not a guarantee of future results. Information is not representative of any CNR product or service.

*60/40 split between Equities and Fixed Income. Equities index: S&P 500. Fixed Income index: Bloomberg US Aggregate Bond Index. Hypothetical value of assets held in untaxed portfolios invested in US stocks, and bonds. Stocks, and bond investments are represented by total returns of the S&P 500 and 50% IA SBBI US LT Government/50% IA SBBI US LT Corporate 1/1926-1/1976, Bloomberg US Aggregate 1/1976-present. Past performance is no guarantee of future results.



Q&A



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.

Muni Bond: A municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools. These bonds can be thought of as loans that investors make to local governments.

Bloomberg Barclays U.S. Corporate High Yield Bond Index: measures the USD denominated, high-yield, fixed-rate corporate bond market.

Dow Jones Select Dividend Index: 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.

The Intercontinental Exchange (ICE): The Intercontinental Exchange (ICE) is an American company that owns and operates financial and commodity marketplaces and exchanges.

The Bloomberg Aggregate Bond Index: "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.

U.S. Treasury Yield Curve: refers to a line chart that depicts the yields of short-term Treasury bills compared to the yields of long-term Treasury notes and bonds.

Consumer Price Index (CPI): is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Bloomberg Barclays US Aggregate Bond Index: 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.

MSCI Emerging Asia PE: The MSCI Emerging Markets Index is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations. It is one of a number of indexes created by MSCI Inc., formerly Morgan Stanley Capital International.

Global Equity Markets: a global market in which shares of companies are issued and traded, either through exchanges or over-the-counter markets.

Diffusion Index: Used in technical analysis, a diffusion index measures the number of stocks that have advanced in price or are showing positive momentum. It is useful for determining the underlying strength of the stock market overall, as lots of stocks advancing show a strong market, while few(er) stocks advancing show a weaker market. In the stock market, the diffusion index is usually measured from day to day. Advancing stocks are those that moved up from the prior closing price.



Index Definitions

6M T-Bills: The 6 Month Treasury Bill Rate is the yield received for investing in a US government issued treasury bill that has a maturity of 6 months.

2-Year Treasury Notes: negotiable debt obligations issued by the U.S. Treasury Department (other than a Stripped Treasury Security) having a remaining maturity of more than one year but not more than two years.

Liquidity Management: The liquidity index calculates the days required to convert a company's trade receivables and inventory into cash.

Investment Grade Municipal Bonds: Investment-Grade Municipal Bond Investment-grade municipal bonds are debt securities, issued by state and local governments carrying the lowest credit risk that a bond issuer may default. Investment Grade Municipal Bonds: Bloomberg Municipal Bond Inter-Short 1-10 Year Total Return Index.

Investment Grade Corporate Bonds: Investment grade corporate bonds are low-risk bonds. Because they are bonds, they are not tied to equity. Instead, they are like debt notes issued by a corporation. Investment Grade Corporate Bonds: Bloomberg Intermediate Corporate Bond Index.

High Yield Corporate Bonds: "U.S. High Yield Corporate" is represented using the U.S. High Yield Index.

High Yield Municipal Bonds: Bloomberg 60% Tax-Exempt HY / 40% LB Municipal Investment Grade Total Return Index.

Leveraged Loans: S&P LSTA Leveraged Loan Index, 6m T-Bills – ICE BofA 6-Month Treasury Bill Index, U.S. High Yield Corporate: 1-3 Years – ICE BofA U.S. High Yield 1-3 Year Index, Intermediate Municipal – Bloomberg 1-15 Yr Municipal Index, U.S. High Yield Corporate – Bloomberg U.S. High Yield Corporate Index, Intermediate IG Corporate – Bloomberg Intermediate Corporate Index, High Yield Municipal – Bloomberg 60% Tax-Exempt HY/40% LB Municipal Index.

Speculative Technology: Companies in early stages of business development with negative net income that provide technology products or services.

Digital Revolution: Companies that provide technology products or services, and/or use technology products and services in a manner that enhances their business.



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