City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

What is the outlook for EM Asia equities?

We believe both the near term and long term outlook for EM Asia equities continues to be attractive.

In the near term, Asian economies are expected to be among the first to recover globally from the COVID-19 crisis, amid billions of dollars in stimulus and relatively effective virus containment.

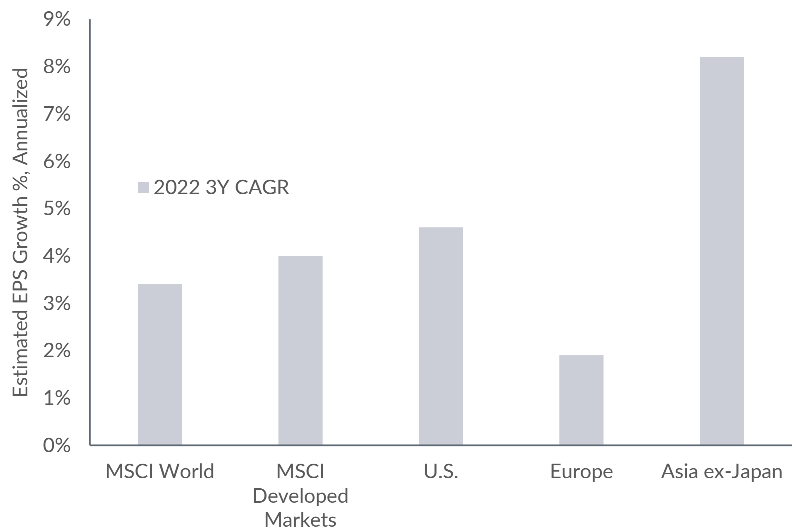
Bright spots have already emerged, such as improving Chinese data for consumer demand and industrial output, as well as sizeable rebounds in June PMIs across the region.

At the same time, most of Asia's emerging markets are better equipped to manage any potential resurgences in the virus, given a strong testing and contact tracing infrastructure in place.

Persistent low interest rates in the U.S. are also a positive, helping take pressure off EM central bankers, strengthening Asian currencies and reducing costs on emerging market companies with dollar-denominated debt.

For long term investors, our proprietary 4Ps Framework analysis continues to indicate the investment opportunity is compelling. The region's growth outlook remains resilient, supported by robust demographic and urbanization trends and high investment rates. EM Asia also boasts a superior earnings growth profile, particularly vs. other non-US developed markets, and remains attractive relative to other geographies.

3 Year Forward Earnings Growth (2020-2022)



Source: Bloomberg Finance LP as of June 2020.

KEY QUESTIONS

What is Fed Chair Powell saying about the U.S. economy?

With the lockdown lifting, have households gone out and spent some of their money?

What did we learn from the recent labor report?

What are earnings growth prospects like for 2H20 and ahead?

What is Fed Chair Powell saying about the U.S. economy?

The reopening of the economy happened sooner than the Fed expected.

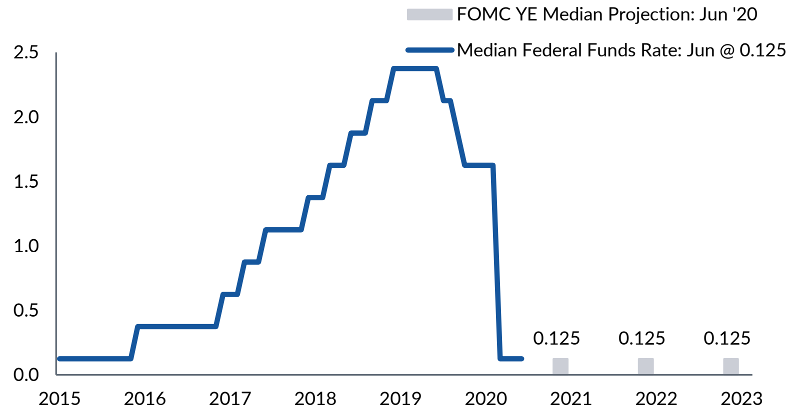
The data shows an upturn in spending (see spending question) and a significant increase in hiring. In the past two months, nonfarm payrolls have increased by 7.5 million (see labor question).

The increase in economic activity is very welcome news.

But at the same time, the lifting of the lockdowns carries some risks. This can be seen in recent increases in coronavirus infections and hospitalizations.

Powell warns that the path of economic growth is dependent upon successful containment/control of the coronavirus.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve Bank as of June 2020.

With the lockdown lifting, have households gone out and spent some of their money?

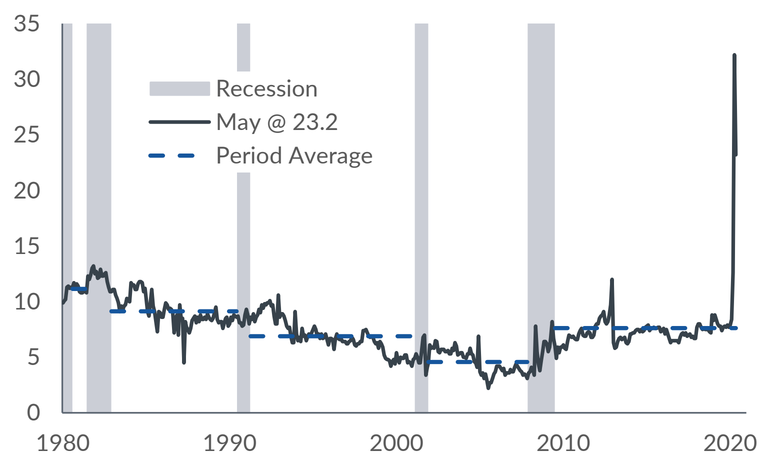
Following weeks of being confined at home and pent up demand for many goods and services, shoppers went out and "shopped 'til they dropped."

Consumer spending rose a record 8.1% in May. The previous monthly record increase was just 1.3% in 1999. This would be very impressive if it were not for the significant declines in spending over the previous two months (-12.2% in April and -6.4% in March). Personal consumption expenditures (which measures spending on goods and services) is down 11.7% since the February peak.

Personal income fell 4.2% on the month, but that follows on the heels of a 10.8% increase in the previous month. In the past couple of months, the federal government has made significant payments to households (e.g., $1,200 stimulus checks and enhanced unemployment insurance), which has boosted income.

Despite the increased spending and reduction in income, the savings rate remains elevated at 23.2%, down from April's record 32.2% (chart). We believe households are stretching the aid money until they are sure they have jobs to return to. Although payrolls have jumped 7.5 million in the past two months, it is still 14.7 million below the February level.

Personal Savings as a Percent of Disposable Personal Income (%)



Source: Bureau of Economic Analysis as of June 2020.

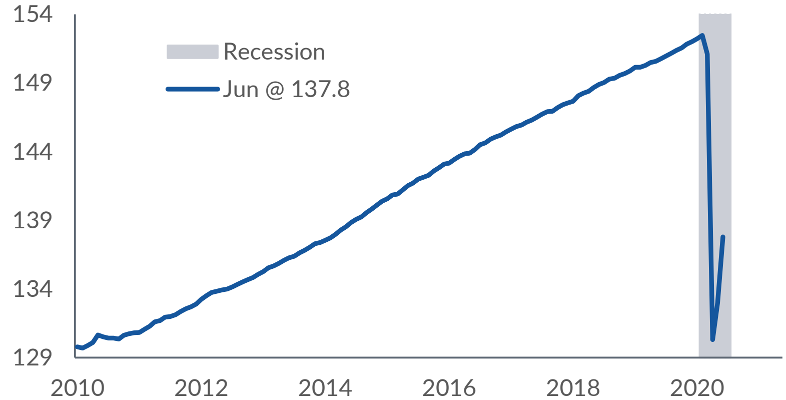
What did we learn from the recent labor report?

The labor market has improved substantially in the past two months. June nonfarm payroll surged a record 4.8 million. Add that to the May gain, and 7.5 million people have returned to work. The unemployment rate fell to 11.1% from 13.3% in May, and both are below the April high of 14.7%.

This good news sets the stage for economic improvement. But to put some context around these numbers, even with back-to-back record increases in nonfarm payrolls, it stands 14.7 million below the February record high of 152.5 million (chart). The unemployment rate is still at elevated levels. It was above the previous record high of 10.7% in 1982. It was just 3.5% in February.

The data reinforces the belief that the economy is still fundamentally strong and should facilitate a robust recovery. The trajectory of the recovery could be highly dependent upon the pace of getting the pandemic under control.

Nonfarm Payrolls
Millions



Source: Bureau of Labor Statistics as of June 2020.

What are earnings growth prospects like for 2H20 and ahead?

After the best quarter for U.S. stocks since 1998, equity valuations by some measures are now at the highest levels in two decades, and a recovery in earnings will likely be key for markets to take the next step higher.

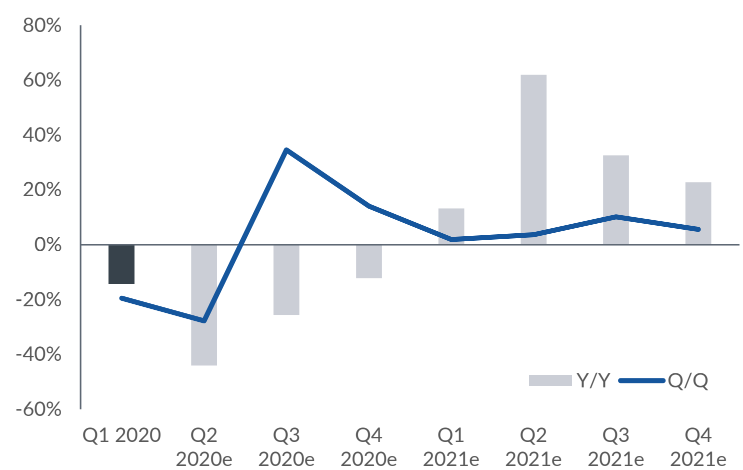
The Q2 earnings season begins in the next few weeks, which should mark the worst of the entire pandemic cycle. Companies will be reporting on results for the April through June period, when much of the economy was shut down.

As of now, S&P 500 earnings are estimated to have declined -43.9% over the quarter, which would be the largest year-over-year decline since Q4 2008 (-69.1%). However, with so much uncertainty surrounding the impact of the virus, reported results are likely to take a backseat to company guidance as investors try to get a handle on how businesses are functioning and what growth potential there is in the back half of the year and into 2021.

Investors have been increasingly optimistic and forward looking since the March lows, eyeing a recovery in corporate profits beginning in the third quarter. In fact, after hitting its lowest level in 18 years, sentiment has shown a significant change in tone recently with analysts raising their EPS forecasts for the second, third and fourth quarters.

We believe valuations can remain elevated going forward given the unprecedented amount of stimulus, record-low interest rates, lack of inflation and lack of attractive alternatives to equities. Nevertheless, earnings expectations will likely take over as the primary driver of market returns in the months ahead.

S&P 500 Consensus Earnings Estimates
(% Change)



Source: S&P 500 as of June 2020.

Overall, CNR expects S&P 500 earnings to decline by about 27% in 2020 before growing 30% in 2021.

Index Definitions

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

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Past performance is no guarantee of future performance.