City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

SEPTEMBER 28, 2020

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Why is CNR underweight in European Equities?

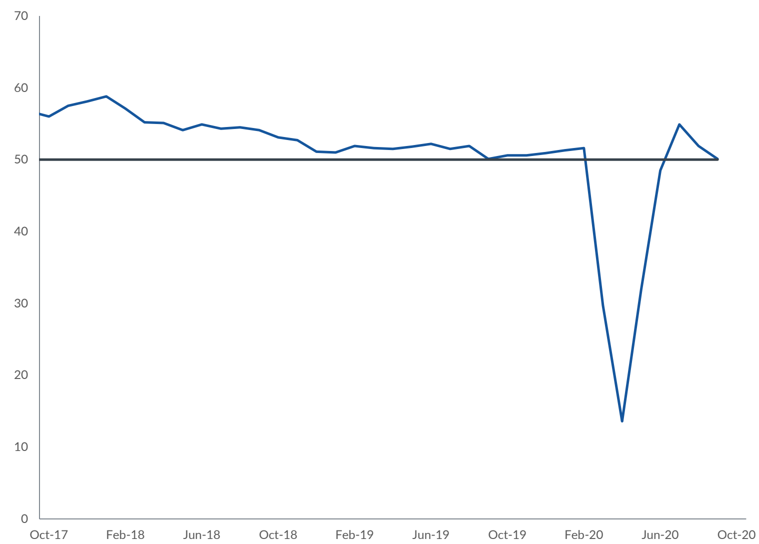
After apparent progress in stemming the coronavirus outbreak this spring, the recent resurgence of infections across Europe is raising concerns about the sustainability of the region's economic recovery.

The Organisation for Economic Co-operation and Development (OEC) warned last week that the recovery is losing pace and will need support from governments and central banks for some time, while European Central Bank (ECB) President Lagarde said the outlook is still "very uncertain."

The further decline in the Eurozone Composite PMI in September adds to the evidence that the initial rebound in activity is already running out of steam. Even if governments manage to avoid a return to stricter containment measures, lower demand from cautious consumers will likely weigh on activity this winter. Overall, output looks set to remain below its pre-crisis level at least until the end of 2022, although there will be significant discrepancies between countries.

Our concerns with European Equities have been the region's weaker growth prospects, higher exposure to global/trade headwinds, negative yields that affect banks' profitability, a less favorable sector representation in the market structure and politics that hinder market/economic reforms. These issues, which led to its past underperformance, are unlikely to ease going forward.

Markit Eurozone Composite PMI



Source: Markit as of September 30, 2020.

The challenge facing investors today is how to construct portfolios in a slow and uncertain macroeconomic environment. Given this, we remain overweight in U.S. equities, which have a greater share of high-quality and growth companies, and underweight in European Equities due to their more cyclical exposure and less resilience to a downside scenario.

KEY QUESTIONS

What is the Fed's new economic outlook?

Is the housing market still strong?

Is more fiscal stimulus forthcoming?

What is the Fed's new economic outlook?

The Fed updated its economic outlook, and it is more optimistic than previously thought. It revised its 2020 GDP projection to be a decline of 3.7%, a vast improvement from June's expectation of -6.5%. It is pleased and surprised at the economic response from the stimulus and relief packages from the Fed and the federal government.

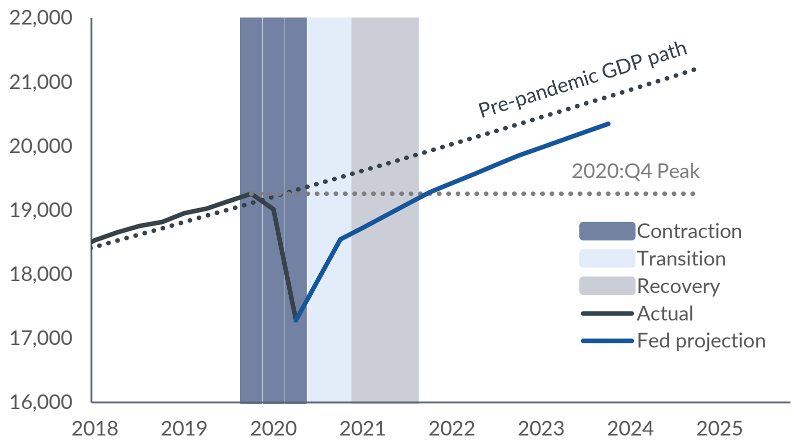
In looking at the phases of the economy (see chart), the blue section reflects the contraction phase from February to April, the period of the lockdown and massive layoffs. We are now in the transition phase (light blue). This is the period of time when some businesses have fully reopened, some have partially reopened, some have yet to reopen, and some are still trying to figure out if they can stay open. It will probably last until year-end. Then the economy will transition into the recovery phase (grey), when the economy will most likely continue to grow at a more consistent pace until the amount of output reaches the previous peak. After that will be the expansion phase.

Based upon the Fed's projections of GDP growth, the country's economic output is not expected to surpass the previous peak (fourth quarter of 2019) until the fourth quarter of 2021.

Each quarter, the Fed updates its projections for GDP, employment and CPI.

GDP

$, billions, 2012 dollars, SAAR



Source: Bureau of Economic Analysis, Federal Reserve Bank, City National Rochdale as of September 2020.

Is the housing market still strong?

The housing market continues to be one of the main engines of growth for this economy. Low mortgage rates and pent-up demand are driving demand.

New home sales are on a strong upward trend. This is one of the more important housing measurements, since new home construction creates many jobs, unlike the sale of an existing home. In August, new home sales topped 1 million, the first time above this threshold since 2006 (see chart). Most of the demand for new homes is in the South, as there is a shift away from higher-cost areas like the Northeast and West.

This data is consistent with other housing metrics, most notably, home builders' confidence. This index has increased for five consecutive months to the level of 83 in September. It stands at an all-time high in the 35-year history of the series.

New Home Sales

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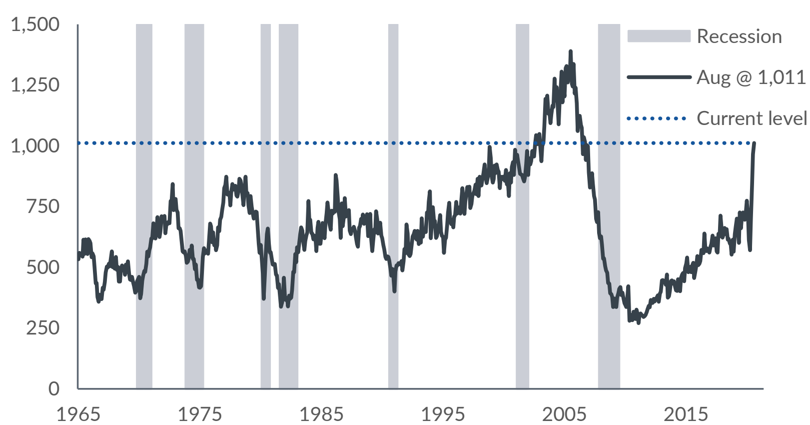


Source: U.S. Census Bureau as of August 2020.

Is more fiscal stimulus forthcoming?

With time running out on the current legislative calendar, the partisan battle over Justice Ginsburg's replacement adds to an already contentious stalemate between lawmakers over the size and shape of further stimulus. As a result, we now believe it's increasingly unlikely that a new bill will pass before the election, and it's unclear at this point how conducive the post-election environment will be for political compromise.

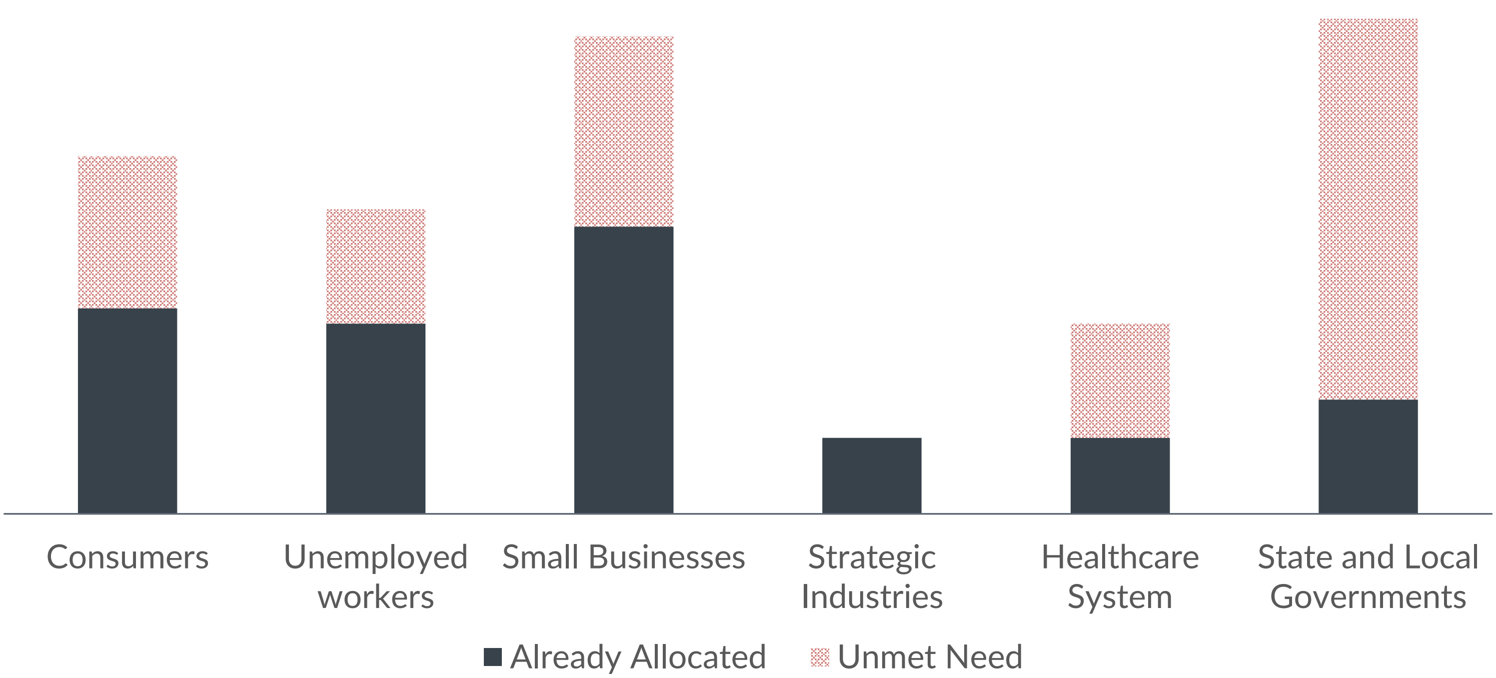
While there is general agreement in Congress that more aid is needed, the sticking point continues to be reconciling the priorities between Democrats and Republicans, as well as the size of additional spending.

Many issues are on the table, including an extension of boosted unemployment payments, another round of direct cash payments, increased assistance to state and local governments, funding for schools and students, hazard pay and liability immunity.

Much of the economic and market strength we have seen over the past few months can be directly attributed to the unprecedented aid coming out of Washington. Trillions of dollars have already been spent to keep families and small businesses afloat during the pandemic — and it has largely worked.

However, many of these emergency programs have now expired or have been exhausted. Unfortunately, all this is coming at a time when the recovery seems to be losing some momentum and COVID-19 cases are again showing signs of increasing across the country.

Potential Government Aid Required



Source: CNR Research. For illustrative purposes.

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Past performance is no guarantee of future performance.

Index Definitions

The Eurozone PMI Composite Output Index tracks business trends across both the manufacturing and service sectors, based on data collected from a representative panel of over 5,000 companies (60 percent from the manufacturing sector and 40 percent from the services sector).

The Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.