CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

What effect will Delta have on the economy?

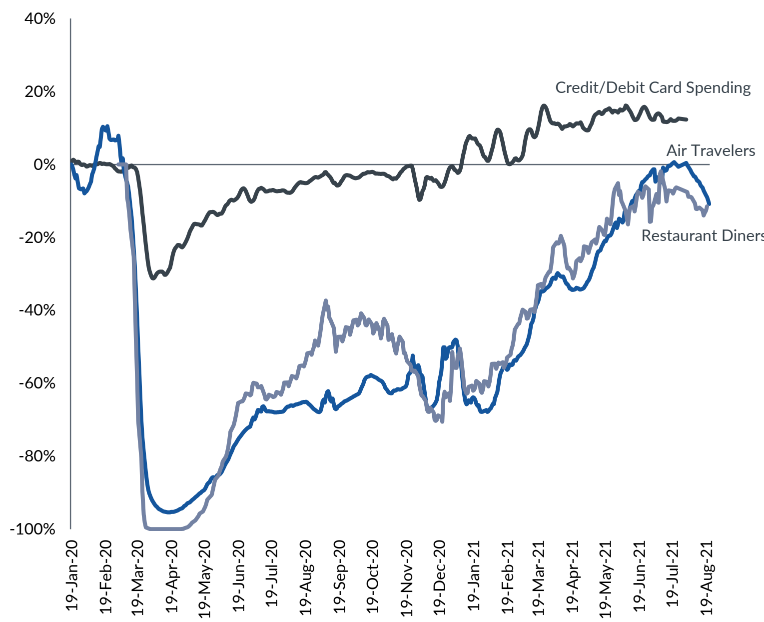
The recent spike in COVID cases, driven by the Delta variant, continues to be concerning. However, new case rates appear to be slowing, particularly in the hard-hit, lower-vaccinated Southeast where most of the problems are concentrated, and forecasters are currently predicting a peak by early to mid-September.

Importantly, current vaccines continue to prove largely effective at preventing severe disease from the Delta variant, and booster shots are anticipated to be authorized for highly vulnerable populations in the next month.

In terms of economic impact we expect a modest headwind to growth over the near term as the resurgence weighs on consumer confidence. Already we are seeing indications in many high frequency indicators of a slowdown or flattening of in-person services such as travel, dining and entertainment. Still, we continue to believe that there is a lack of appetite for renewed stringent lockdowns. Indeed, the states where infection rates are most alarming are the states most resistant to restrictions on economic activity.

Most likely, the result will be the pushing forward of some third-quarter growth expectations into the fourth quarter once infection rates begin to fall again and mobility picks up. Looking forward, we expect that future bouts of pandemic-related volatility will continue to prove less and less disruptive to the economy as vaccination progress slowly builds.

High Frequency Economic Indicators vs. Pre-Pandemic



Source: Opportunity Insights, Affinity Solutions, OpenTable, Bloomberg, Apple.

Although lingering concerns about Delta, high inflation, and recent misses on economic data can make it easy to forget that we're still in the middle of a robust economic recovery, we think it's important to remember that the longer-term outlook remains very positive, which should continue to provide a supportive backdrop for equities.

KEY QUESTIONS

Is the manufacturing sector still running strong?

What did Powell say about the economy at the Fed's conference in Jackson Hole?

Is equity income still attractive for investors?

Is the manufacturing sector still running strong?

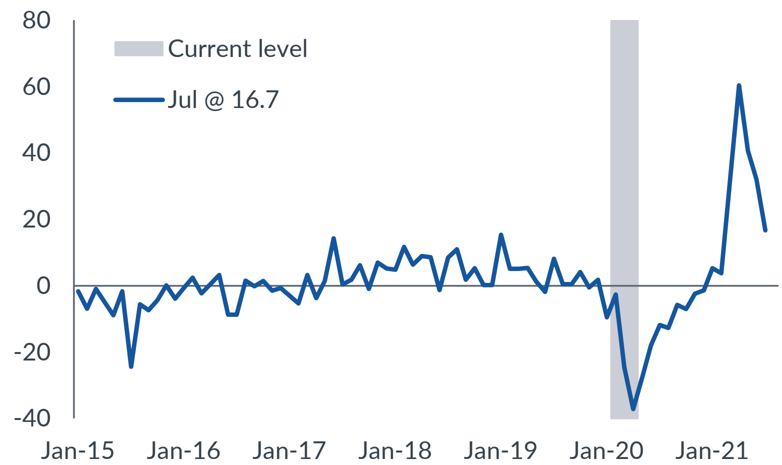
Yes, the amount of new orders for durable goods stands at 16.7% y-o-y. Although there have been wide swings in the yearly change this past year due to the lockdown, the current rate is well above the past expansion average of 4.1%.

The ability for manufactures to keep up with demand has not been met. Manufacturers have had to deal with shortages of labor and supplies. Demand remains persistently strong. This strong demand should keep production supported well into next year.

It is interesting to note that business investment has been rotating out of the technology (it was strong this past year as businesses needed to buy computers to supply workers at home) and into metals and machinery as manufacturers appear to be beefing up for higher levels of production. Orders for computers and electronics are down 1% YTD, and orders for metals and machinery are up 13% YTD.

Durable Goods

% change, y-o-y, seasonally adjusted



Source: U.S. Census Bureau as of July 2021.

What did Powell say about the economy at the Fed's conference in Jackson Hole?

The economy continues to grow, despite lingering uncertainties surrounding the surge in coronavirus cases.

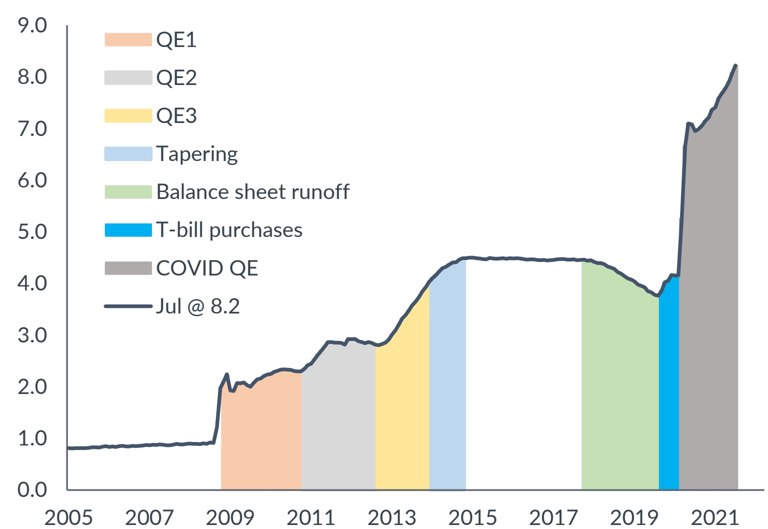
He continues to believe the high level of inflation, which is higher than the Fed thought it would be, will be temporary.

Powell believes the labor market will continue to gain momentum, which will allow the Fed to take away some of the stimulus they have been providing since the onset of the COVID crisis. This, because the economy has been able to come close to meeting the Fed's goals regarding inflation and employment.

The Fed is currently purchasing $120 billion in bonds each month. In the near future, the Fed may reduce that amount. Powell did not offer any details of when they will start or how long it will take.

Powell was very clear in noting that the tapering of bond purchases is not the same as the tightening of monetary policy. Nor does it mean the Fed will begin raising interest rates when the tapering is done. The test to determine the need to tighten monetary policy is far more stringent.

Fed Balance Sheet ($, trillion)



Source: Federal Reserve Bank as of July 2021.

Is equity income still attractive for investors?

We continue to see attractive prospects for equity income stocks in general, and especially favorable arguments for the carefully selected stocks in our Equity Income portfolio. While dividend stocks have outperformed the broader market this year, they have corrected -7% off of the high through the end of July and have yet to recover, in contrast to the broader market which continues to make new highs.

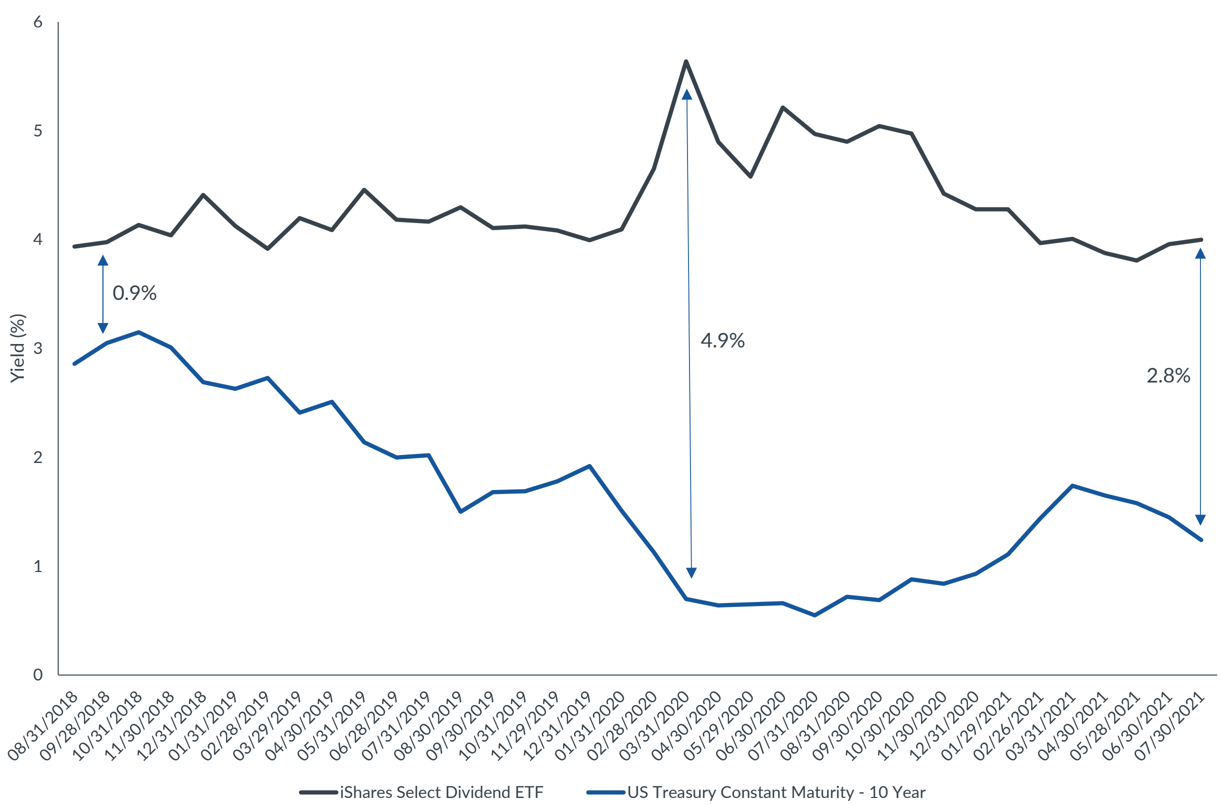
This comes despite yields heading lower. Post COVID-crisis, yield is as scarce as ever. And despite some recovery from 2020, the relative advantage of income stock yields remains elevated. The spread between 10-year treasuries and dividend stock yields remains relatively attractive for the asset class.

Meanwhile, valuation spreads between dividend stocks and the broader market remain compelling, and continue to promise the evergreen benefits of long-term performance and lower volatility.

Moreover in an inflationary environment, the income growth that is possible with dividend equities stands out vs. that of fixed income, provides a hedge, and underpins value. After a year in which dividend growth lagged due to the deep, if short-lived, recession, we see dividend growth re-accelerating over the next 12-18 months.

Our Equity Income portfolio has been incrementally tilted towards sectors that benefit from economic growth, an inflationary environment, and post-crisis recovery, with greater weight allocated to financials, energy, advertising, and consumer discretionary. We will continue to focus on competitively advantaged companies with attractive and sustainable dividends that can be purchased at attractive valuations.

Dividend Stocks Dividend Yield vs. 10 Year Treasury



Source: FactSet.

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Investing in international markets carries risks such as currency fluctuation, regulatory risks, and economic and political instability.

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