CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

What are the key takeaways from Q1 earnings results?

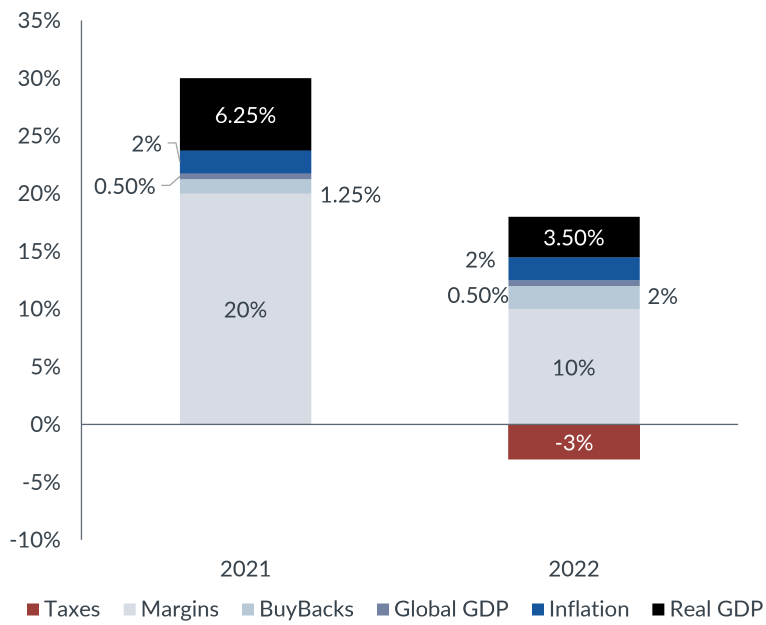
With 99% of companies now reported, Q1 S&P 500 EPS growth is tracking a tremendous 52.4% year-over-year increase and more than double the expectation when earnings season began. Keep in mind the average upside surprise going back to 2010 is a mere 6%. Just as impressive, revenue is on track to grow 10.8%, four percentage points above the March 31 estimate and the most upside FactSet has ever recorded.

Q1's earnings follow three consecutive quarters of huge upside surprises. A number of factors help explain these striking results, including: better than expected progress on reopening, booming manufacturing activity, a strong credit environment, rising commodity prices and a weakening dollar.

However, unlike the previous quarters when better-than-expected results were helped significantly by low expectations, the strong earnings growth in the first quarter reflects the strength of the economic recovery. Business demand is picking up as the vaccinations become more widespread and pandemic restrictions are gradually lifted. At the same time, amid all the attention on inflation fears, corporations have also done an exceptional job of managing costs while increasing productivity.

The strength of earnings growth over the past several quarters has enabled stocks to grow into elevated valuations and the backdrop for corporate profitability should continue to be favorable going forward, supported by increasing global vaccine distribution, further normalization of economic activity and ongoing policy support. In fact, the consensus S&P 500 earnings estimate for the next four quarters has impressively increased by 4% since earnings season began.

CNR S&P 500 EPS Estimates



Source: CNR Research. Past performance is no guarantee of future results.

All this bodes well for higher stock prices ahead. However as interest rates potentially rise further, inflationary pressures build and this bull market grows a bit older, we expect the pace of gains in the second half of the year to slow somewhat and come with more volatility.

KEY QUESTIONS

Without another $1,400 stimulus check, did income and spending increase in April?

What is CNR's view on the recent economic data?

How strong was the recent labor report?

Without another $1,400 stimulus check, did income and spending increase in April?

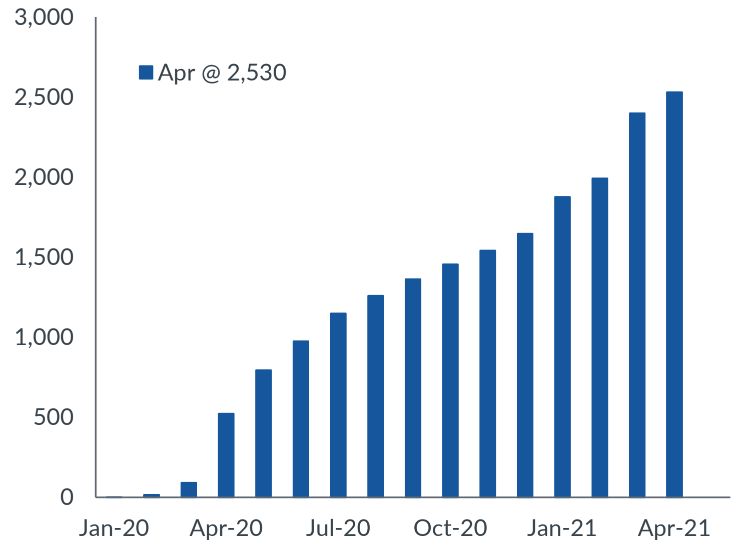
Incomes came crashing down 13.1% because of the absence of the $1,400 check. But organic income growth is solid. Wages and salaries notched a substantial 1.0% gain on the month.

April's spending increased 0.5% month-over-month and was dominated by services, with notable gains in air travel, recreation, and accommodations. The economy is starting to see a rotation away from spending in the constrained goods sector (decline 0.6% m-o-m) to expenditures in the labor-intensive service sector (an increase of 0.6%). This should help ease inflationary pressures and support growth in labor. That said, inflation will still be high over the next few months.

Households are in great financial shape. Excess savings continues to grow (chart) and stand at $2.5 trillion. Moreover, consumption is back on track from the pandemic, and spending will continue to grow as the economy continues to open up. As a result, the Bloomberg estimate for Q2 GDP growth is expected to be 9.2%, a faster pace than Q1's 6.4% and the fastest quarterly pace since June 1983 (excluding last year's economy reopening rate of 33.4%).

Personal Savings: "Extra"

$, billions, aggregate increase over 2019 average



Source: Bureau of Economic Analysis as of April 2021.

What is CNR's view on the recent economic data?

The simple message is that demand is outstripping supply. Recent data underscores rising demand for services like air travel, hotel stays, and meals out. Demand is driven by the stimulus money, increased vaccinations, and greater dining capacity.

At the same time, demand for many goods, which had robust sales throughout this recession, continues to stay strong.

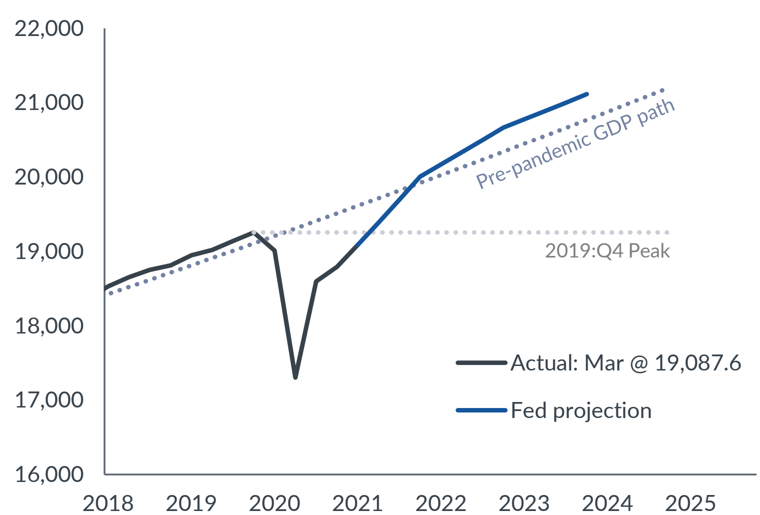
This will push economic output beyond the pre-pandemic high (chart).

Economic reports highlight the rapid improvement in business and household activity across the economy. The demand side of the economy continues to escalate faster and faster. In contrast, the supply side of the economy is not able to keep up. The result is frustration for many businesses and households. It is causing prices to move up. This may cause the transitory inflation to last a little longer than previously thought. We need more data to confirm if this will play out.

It is important to remember, when emerging from a recession, it is far easier to create supply than it is to create demand. As far as problems go, this is a good one to have.

GDP

$, billions, 2012 dollars, SAAR



Source: Bureau of Economic Analysis, Federal Reserve Bank as of March 2021.

How strong was the recent labor report?

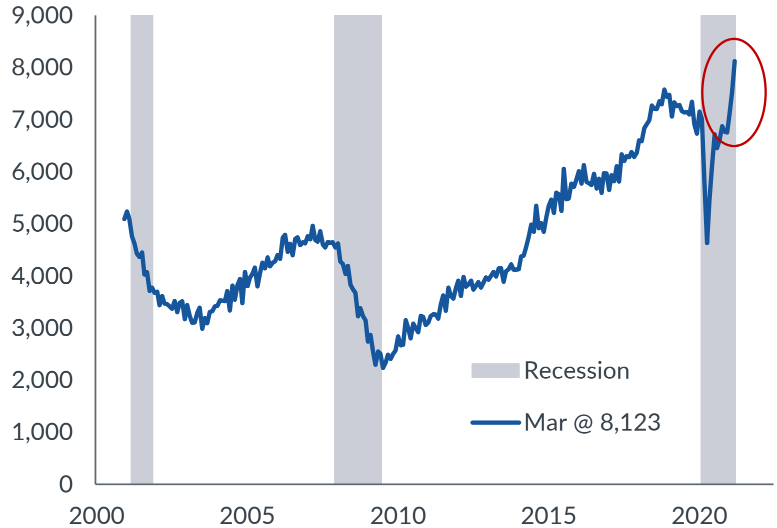
In May, the nonfarm payroll growth was 559,000, which was much better than the April gain of just 278,000. But the May report was still below the market expectation of 675,000.

The unemployment rate fell to 5.8%, the lowest level since the pandemic set in.

About half of the May gain in payrolls was in the leisure and hospitality sectors, showing that public health improvement and massive fiscal stimulus have brought people back out to dine and travel. At least half of the population has been fully vaccinated against COVID-19, which has allowed the lifting of virus-related restrictions on businesses.

Still, 7.6 million fewer people are working now compared to before the recession. Yet, at the same time, there are 8.1 million job openings. The mismatch is creating a great deal of frustration for many businesses and job seekers. The mismatch is attributed to many factors, including job-skill mismatch, generous unemployment insurance benefits, child care needs, and fear of COVID-19 in the workplace.

Job Openings ('000)



Source: Bureau of Labor Statistics as of March 2021.

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