CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

NOVEMBER 23, 2021

On the Radar

FAQS ON THE MARKETS AND ECONOMY

What did we learn from Q3 earnings season?

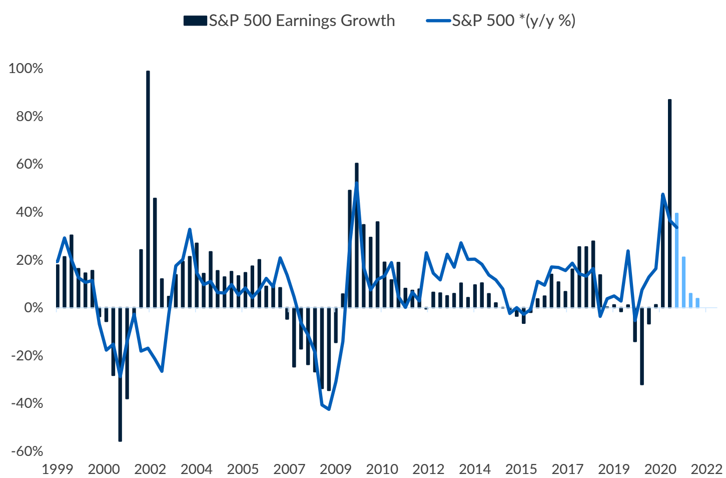
With nearly 90% of companies reported, Q3 S&P 500 earnings are up a robust 39% year-over-year, well ahead of expectation for 28% growth predicted at the end of September. Although not as strong as last quarter's 87% increase, which benefited from the base effects of the pandemic recession a year earlier, it is still the third highest EPS growth rate in over a decade.

The message from companies, along with incoming economic data, is that underlying demand trends remain strong in the face of supply-related shortfalls in recent months. This is effectively resulting in an elongation of the recovery as sales are being delayed rather than lost.

However, there were some cautionary notes when it came to the issue of inflation. The number of companies mentioning inflation in earnings calls was at a decade high, with the threat of higher costs lowering analyst estimates for future profit margin expansion somewhat.

The strength of earnings during the past several quarters has enabled stocks to grow into elevated valuations, and the backdrop for corporate profitability should continue to be favorable through 2022, supported by increasing global vaccinations, further normalization of economic activity and ongoing policy support.

S&P 500 Returns Historically Track Earnings Growth



Source: FactSet.

However, going forward, we expect the rate of earnings growth to moderate as the strong initial pent-up demand from reopening fades, higher costs begin to impact margins, and comparisons growth tougher. We've now likely passed the peak of the earnings growth rate this cycle, and history suggests a deceleration in profit expansion will bring higher volatility and more modest returns ahead.

KEY QUESTIONS

With the elevated levels of inflation, is spending still strong?

How tight is the labor market?

What is the outlook for municipal bond credit quality?

With the elevated levels of inflation, is spending still strong?

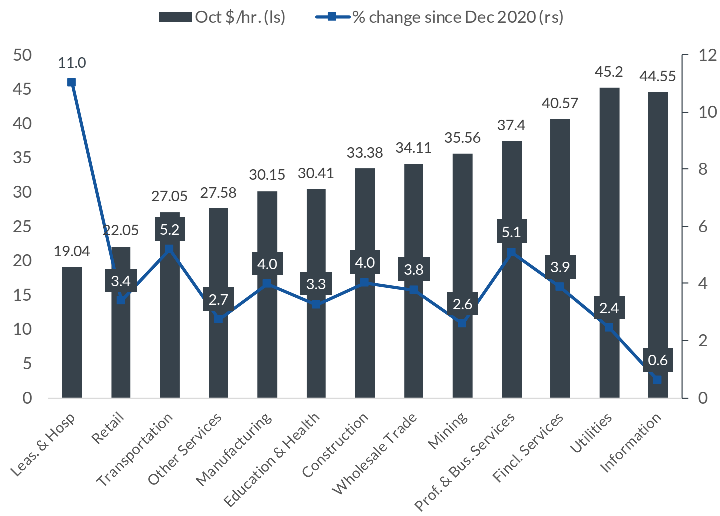
The higher prices have yet to impact retail sales, which were up 1.7% in October and stand at 16.3% for the past year.

This expansion has an exciting phenomenon, due mainly to the shortage of workers in the hospitality, retail, and transportation sectors. These sectors, which suffered the greatest layoffs during the recession, are now having difficulty finding replacement workers, so their wages have been moving up.

So far in this expansion, the significant wage gains have been skewed to those industries, which are at the lower end of the wage scale (chart). For example, leisure and hospitality workers earned just $17.15/hour back in December 2020; since then, they have enjoyed an 11.0% wage gain. This has allowed them to continue their spending. In contrast, the highest-paid workers in the information sector have received very modest wage gains that have lagged inflation. Thus, the inflation squeeze has disproportionately impacted the higher-income households. They, of course, are better positioned to absorb it, given their ample savings and wealth. This is why inflation has not led to any reduction in demand, so far.

Wage Level and Growth

$ and % change, seasonally adjusted



Source: Bureau of Labor Statistics.

How tight is the labor market?

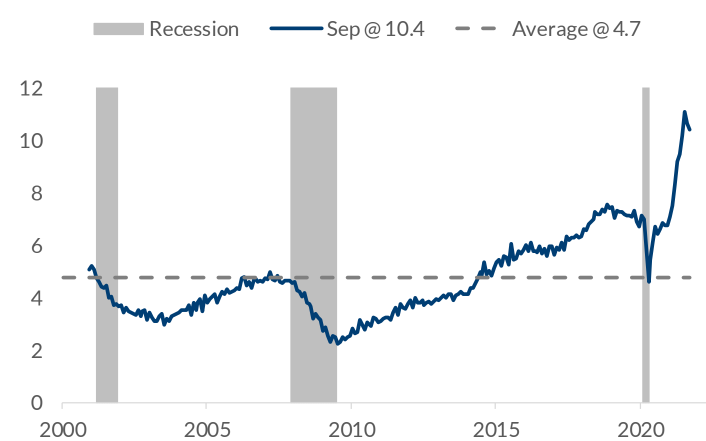
We would say it is very, very tight. For example, although the recent report from the Labor Department showed that job openings slipped slightly in September, they remain above 10.0 million for the fourth consecutive month (chart). For some perspective, before the pandemic, they had never exceeded 7.4 million.

At the same time, the number of people looking for a job is 7.4 million, meaning there are 1.4 jobs for each person looking for a job, an all-time high.

In another measurement, the number of people quitting their job rose to 4.4 million. Before the pandemic, the highest level was 3.6 million. The data seems to be telling us that workers have a great deal of confidence in their ability to get another job, probably one that pays more and has more flexible working conditions.

Job Openings

millions, seasonally adjusted



Source: Bureau of Labor Statistics.

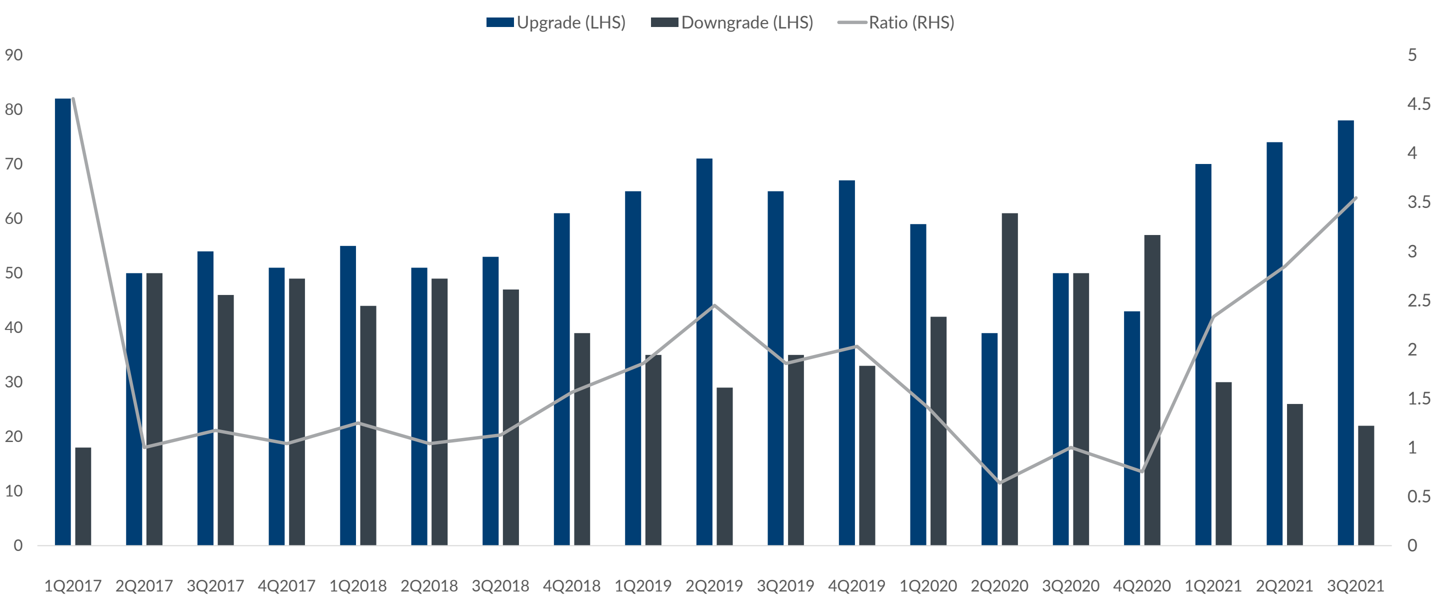
What is the outlook for municipal bond credit quality?

Municipal credit fundamentals continue trending favorably, with solid gains in financial markets and economic productivity translating into strong revenue performance, enhanced budget flexibility, and lower operational risk for now. The U.S. Census reported that total state tax collections recovered to their pre-pandemic levels during 1Q2021 and continue experiencing healthy growth YTD based on available data. For example, the California Controller reported general fund revenues July through October are above FY 2022 budget estimates by more than 23%. Further, the California Legislative Analyst's Office released its revised budgetary outlook for the state, projecting a surplus exceeding $30 billion to carry into FY 2023. State and local government (SLGs) balance sheets are well-positioned to counter the residual impact of the pandemic helped largely by unprecedented levels of federal stimulus. SLGs should absorb temporary economic disruptions if additional COVID-19 caseloads rise in the coming months.

The reopening of the economy is leading to many issuers in most sectors experiencing stable or positive rating actions or outlook revisions. Moody's reported issuer rating upgrades surpassed downgrades for the third consecutive quarter in 3Q2021, while S&P issuer outlooks are improving at a relatively healthy pace. In February 2021, approximately 60% of transportation issuers held a negative outlook, versus roughly 30% as of November, reflecting a sharp rebound in utilization (i.e., toll roads and airports), strengthening their financial resiliency. However, individual sector performance will vary widely. The pandemic significantly affected not-for-profit hospital operations. Still, ongoing pressure from labor shortages/costs and supply chain disruptions continue to chisel away at margins for those facilities still reeling from the impact of the Delta variant. With federal funding winding down, the sector will likely confront risks over the near to medium term with larger health systems benefiting from scale best positioned to adapt to industry changes.

Student enrollment stress is likely to persist for many higher education institutions, a trend exacerbated by the pandemic. Any evidence of a more robust state funding environment should help support public colleges and universities while more student-dependent private institutions remain exposed to significant competitive pressures. We expect schools with pricing power, brand value, and larger endowments to fare better than others. The passage of the $1 trillion Infrastructure Investment and Jobs Act (IIJA) should spur economic activity and improve revenue prospects as project investments occur. SLGs, transportation, and utilities, like water, sewer, and power, will receive funding to help address asset deficiency and, for some issuers, alleviate debt needs. On balance, the IIJA is credit positive for many municipal sectors that could additionally benefit from the proposed Build Back Better plan should it become law.

Moody's Upgrade - Downgrade Activity + Ratio



Source: Moody's Investors Service as of September 30, 2021.

Index Definitions

The Standard and Poor's 500 (S&P 500) is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

Important Disclosures

The information presented does not involve the rendering of personalized investment, financial, legal, or tax advice. This presentation is not an offer to buy or sell, or a solicitation of any offer to buy or sell, any of the securities mentioned herein.

Certain statements contained herein may constitute projections, forecasts, and other forward-looking statements, which do not reflect actual results and are based primarily upon a hypothetical set of assumptions applied to certain historical financial information. Certain information has been provided by third-party sources, and although believed to be reliable, it has not been independently verified, and its accuracy or completeness cannot be guaranteed.

Any opinions, projections, forecasts, and forward-looking statements presented herein are valid as of the date of this document and are subject to change.

There are inherent risks with equity investing. These include, but are not limited to, stock market, manager, or investment style risks. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

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

There are inherent risks with fixed income investing. These may include, but are not limited to, interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond risks. When interest rates rise, bond prices fall. This risk is heightened with investments in longer-duration fixed income securities and during periods when prevailing interest rates are low or negative.

Investing involves risk, including the loss of principal.

As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money.

Past performance is no guarantee of future performance.

This material is available to advisory and sub-advised clients, as well as financial professionals working with City National Rochdale, a registered investment advisor 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.