City National Rochdale | July 30, 2022

Adjusting Investment Strategies During Uncertainty

Summary of July 27th National Webinar

The headwinds of inflation, rising interest rates and global political uncertainty continue to roil markets and raise fears of a recession more than halfway through 2022.

Managers at City National Rochdale, City National Bank's investment advisory organization, provided their July 2022 update on July 27, the same day that the U.S. Federal Reserve raised the federal funds rate by 75 basis points in an attempt to tame inflation.

STRATEGY AMIDST GLOBAL UNCERTAINTY

The level and magnitude of uncertainty around domestic and global issues create a lack of consensus about the upcoming quarters, managers said.

“Because of the wide range of potential outcomes for any of these uncertainties, the ability to have confidence that we are or are not going to go into recession is very low," said Garrett D'Alessandro, City National Rochdale's CEO. “No one has high confidence in their ability to predict what will unfold over the next couple of quarters. That's uncomfortable, but everyone on Wall Street is dealing with it."

That said, Rochdale's leadership has developed investment strategies to manage uncertainty for different risk profiles and anticipates “higher for longer" volatility in the equity and fixed-income markets. They expect it will be at least two or three quarters before the Fed reaches its goal to reduce inflation.

Global volatility is also expected to last for the foreseeable future, so Rochdale has pulled out of European and Asian investments and is underweight in overall equity investments focusing exclusively on high quality U.S. companies. Investment grade corporate and municipal bonds offer reasonable returns at this time, instead of cash.

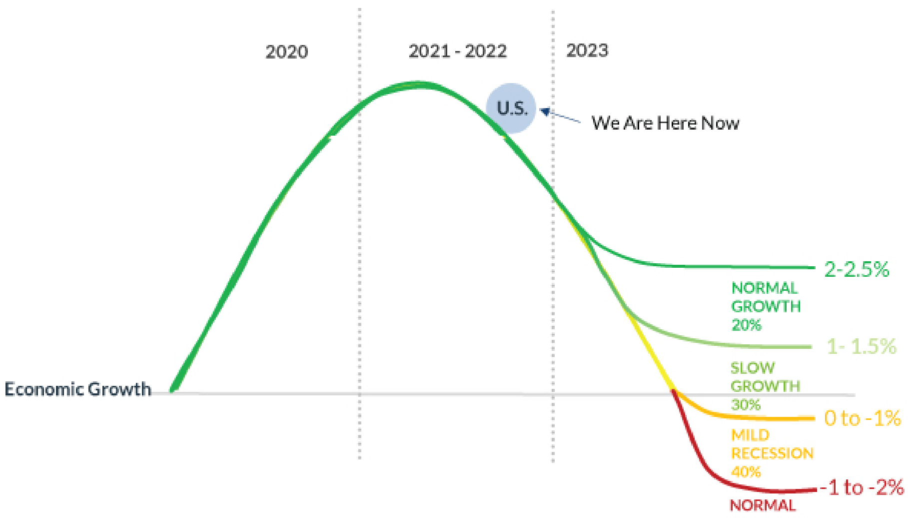
INFLATION REMAINS A CONCERN AS FED SLOWS ECONOMY

The biggest headwind currently is inflation, that continues to reach levels beyond most economist's expectations, said D'Alessandro. Rochdale doesn't anticipate inflation will be pushed back to less than 3% by the end of 2022, which means the Fed will continue to take aggressive steps and drive interest rates higher.

City National Rochdale Forecasts		2022e	2023e
Real Annual GDP Growth		1.5%-2.5%	0%-2.0%
Corporate Profit Growth		3.0%-8.0%	0%-8.0%
CPI Annual		7.0%-8.0%	3.0%-4.0%
Interest Rates	Fed Funds Rate	3.25%-3.50%	3.75%-4.25%
	Treasury Note, 10Yr.	3.25%-3.75%	3.25%-4.00%

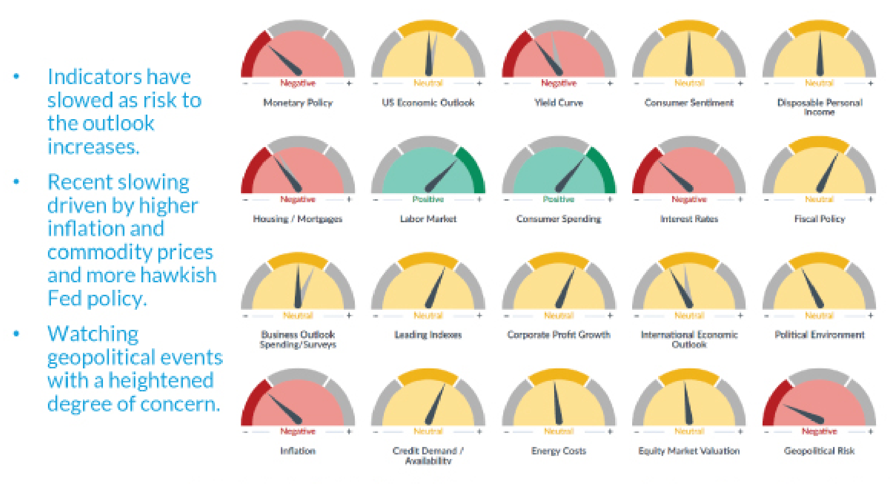
Source: Bloomberg, CNR Research, as of June 2022.

Rochdale's economic outlook is less optimistic and more cautious than the consensus view. While household and business fundamentals remain strong, inflation pressure is anticipated to continue and Fed actions are likely to slow wage growth and the economy. Rochdale anticipates GDP to be 2% for 2022 and range from 0% to 2% in 2023. Inflation is expected to remain elevated at 7% to 8% for 2022 and moderate to 3% to 4% in 2023, according to their projections.



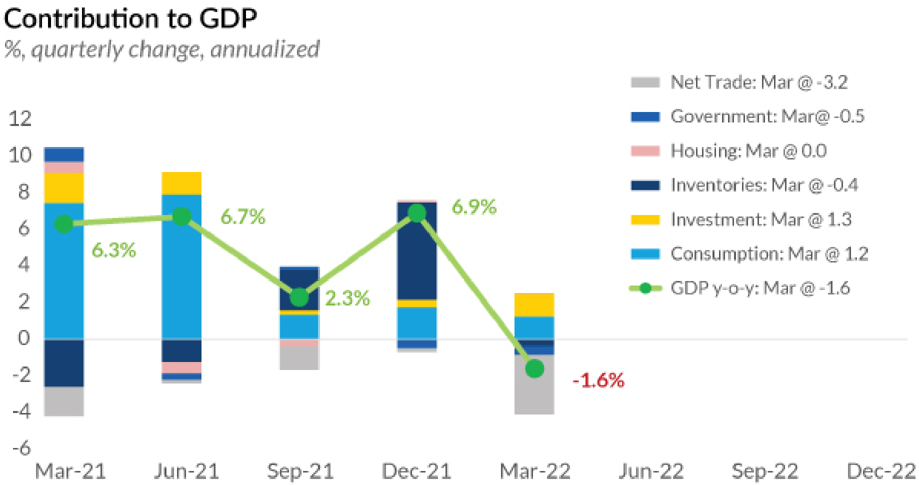
Source: CNR Research, as of July 2022.

Economic momentum is slowing, and Rochdale is evaluating several potential growth probabilities. The risk of recession is now at 50% but continued unprecedented levels of uncertainty may negatively affect the U.S. economy, particularly those that are out of control of the Fed, such as supply chain issues and global political and economic pressures.



Source: CNR Research as of August 2022.

Rochdale's Speedometers, a forward-looking indicator of numerous economic metrics, would ideally show every dial green. This month, the array of headwinds means most are yellow, with only the labor market and consumer spending green.



Source: CNR Research as of August 2022.

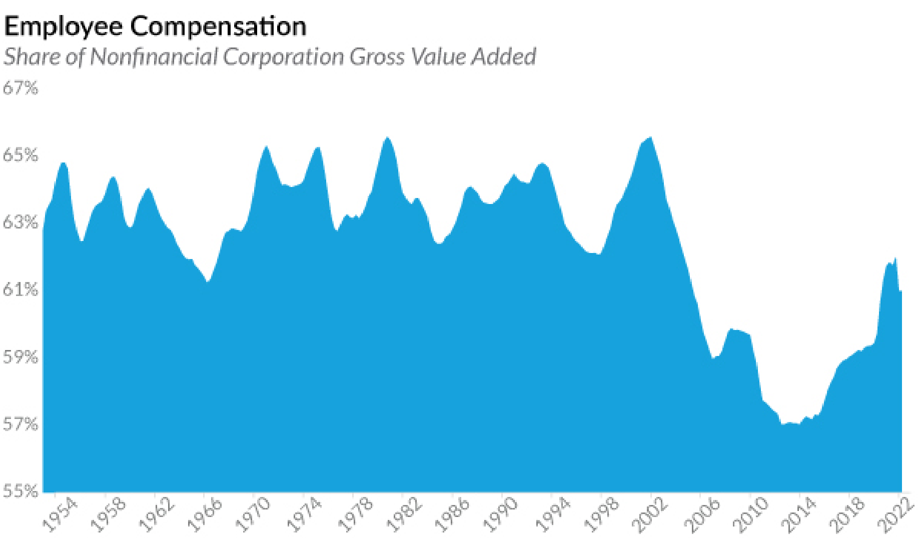
WOULD A POTENTIAL RECESSION BE SEVERE?

Rochdale anticipates economic volatility to continue and expects the Fed to be more aggressive in its policies.

“We are lowering corporate earnings expectations into 2023," said D'Alessandro. “We're not calling for a severe recession or even a normal recession at this point. All we're saying is that we don't have rosy-colored glasses on."

In addition to domestic pressures, global issues continue to impact the U.S. economy, including Ukraine and commodity problems. Rochdale added China to its list of global headwinds.

“China is taking a very harsh stand and buckling down on capitalism and business and corporations," said D'Alessandro. “We're unwilling to be exposed to that type of potential risk."



Source: US Bureau of Economic Analysis (BEA).

A longer-term issue is wage pressure, with the balance of power shifting between corporations and labor since 2018 and escalating now because of labor shortages, said D'Alessandro.

The share of corporate profits was about 60% from the 1950s into about 2000, when corporations began keeping more profits.

“Companies need to bid up, pay more, be aggressive and share more of their corporate profits with their workers," said D'Alessandro. “We actually think that's a very good trend even though it might lower corporate profits. I believe in the resiliency of companies. They'll be more productive and innovative. Sharing more with workers, we think, will be healthy in the long-term."

Bull Market Peak	Bear Market Bottom	Months	S&P 500 Return	Max Bear Market Rally
Aug-56	Oct-57	15	-22%	16%
Dec-61	Jun-62	7	-28%	7%
Feb-66	Oct-66	8	-22%	7%
Nov-68	May-70	18	-36%	10%
Jan-73	Oct-74	21	-48%	11%
Nov-80	Aug-82	21	-27%	12%
Aug-87	Dec-87	3	-34%	15%
Mar-00	Oct-02	31	-49%	25%
Oct-07	Mar-09	17	-57%	27%
Feb-20	Mar-20	1	-34%	-
Jan-22	**?**	**7**	**-23%**	**9%**
Average		**14**	**-36%**	**15%**
Median		**16**	**-36%**	**12%**

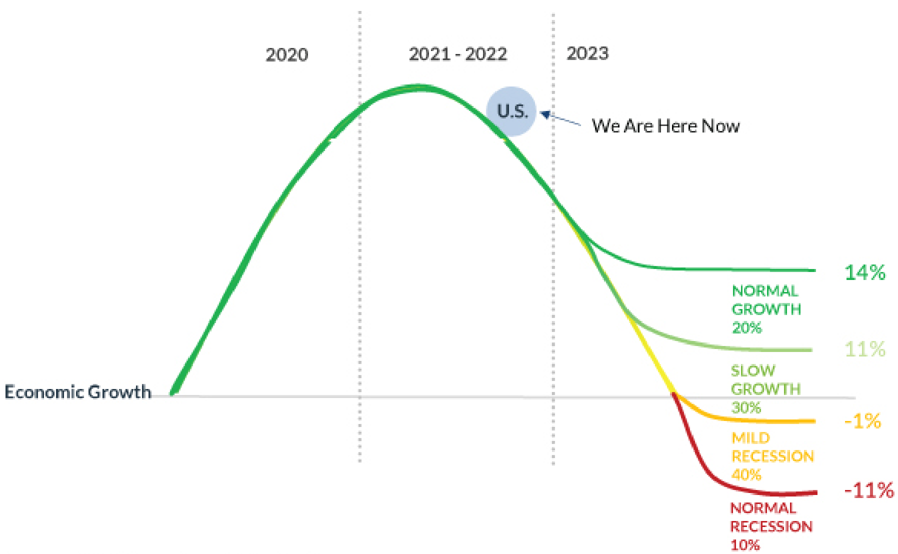
Source: Factset.

Please note: Past performance is no guarantee of future results. Indices are unmanaged and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

WILL THE BEAR MARKET CONTINUE?

Rallies are normal during bear markets, but investors shouldn't necessarily anticipate stocks to continue to go up, said Tom Galvin, chief investment officer for City National Rochdale. He doesn't believe the bottom has been reached yet.

“The average length of a bear market is about 14 months and we're in about seven months on this one," said Galvin. “So, we're about halfway through timewise. We're down about 23% so far, which means we're about two-thirds of the way for an average bear market in terms of declines."



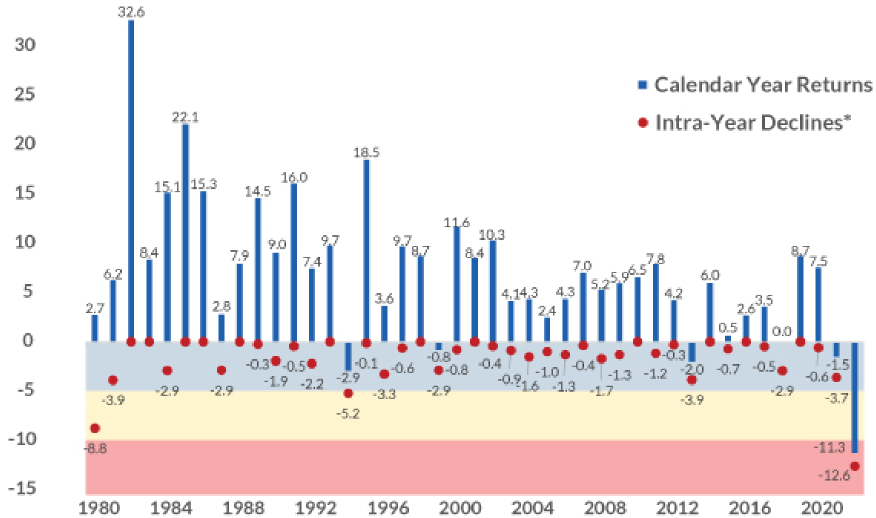
Source: CNR Research as of July 2022.

While the consensus is that corporate earnings in 2023 will be 11%, Rochdale believes that is too high, given the uncertainty in the economy. Galvin said Rochdale forecasts earnings of 5% in 2023, which could cause market declines. Rochdale's approach is to consider all potential scenarios when making investment decisions. Investors should anticipate more modest equity returns in 2023.

Investors looking for long-term capital appreciation who don't mind some short-term volatility should stick with high quality U.S. stocks, Galvin said.

Investors with an equity income strategy will also want to focus on high quality U.S. stocks but with companies that have less downside risk, and with stable earnings, cash flow and dividends, said Galvin. Those stocks should provide a 4% yield and withstand a recession, he said.

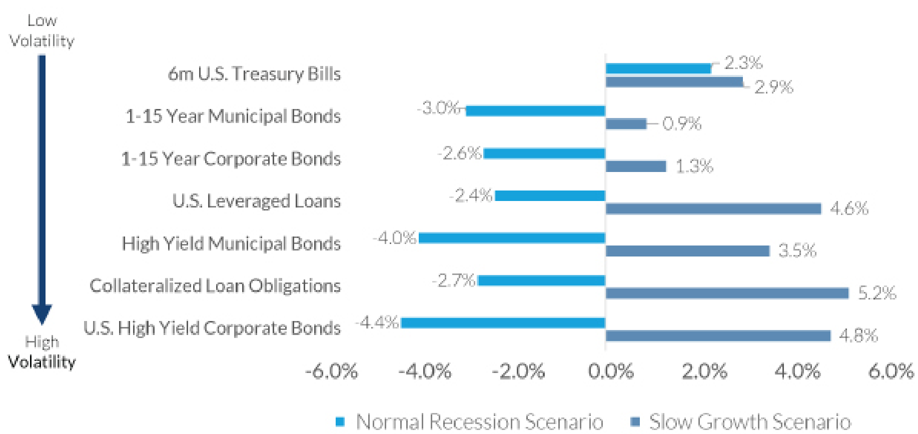
Bloomberg US Aggregate Bond Index Return (%)



Source: Bloomberg, as of May 2022. *Intra-year declines are the largest declines within the calendar year.
Please Note: Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses. Past performance is no guarantee of future results.

An unusual scenario in recent months has been the volatility in the bond market, said Galvin. The calendar year 2022 to date has seen the largest pullback on record in fixed-income investments since 1980. Galvin anticipates this volatility to continue because of the pressure of inflation and high interest rate sensitivity. The Fed's more aggressive actions created a shock for the fixed-income markets that led to this unprecedented volatility.

Fixed Income Sector Annualized Total Return Potential



Source: Bloomberg.
Please Note: Leveraged Loans – S&P LSTA Leveraged Loan Index, 6m T-Bills – ICE BofA 6-Month Treasury Bill Index, U.S. High Yield Corporate: 1-3 Years – ICE BofA U.S. High Yield 1-3 Year Index, Intermediate Municipal – Bloomberg 1-15 Yr Municipal Index, U.S. High Yield Corporate – Bloomberg U.S. High Yield Corporate Index, Intermediate IG Corporate – Bloomberg Intermediate Corporate Index, High Yield Municipal – Bloomberg 60% Tax-Exempt HY/40% LB Municipal Index

Normal Recession Scenario: Average of past 4 drawdowns plus 18 months of current annualized market yield, annualized between today and YE 2023

Slow Growth Scenario: Average sector duration multiplied by 0.65 plus 18 months of current annualized market yield, annualized between today and YE 2023.

Fixed-income investment recommendations are based on long-term yield opportunities, with 6-month Treasury bills anticipated to perform better than other options in either a normal recession or a slow-growth economy.

Actions Taken	
Equities	• Underweight overall exposures
	• Sold EM Asia to zero
	• Reduced exposures to Europe and to cyclical industries
	• Focusing on quality, defensive blue chips
Fixed Income	• Increased Investment Grade Exposure
	• Increased HY Muni exposure
	• Changes in duration, sector exposures and security selection

Potential Actions	
Equities	• Sell MidSmall Cap to zero
	• Further lower exposure to cyclical industries
Fixed Income	• Increase Investment Grade
	• Reduce High Yield

Source: CNR Research.

AN ECONOMIC REBOUND IS NOT IMPOSSIBLE

Despite the uncertainties in the markets and the economy, there's room for optimism that the possibility of a rebound exists, said Galvin. However, it's difficult to have sustainable confidence in a rebound because of numerous global and domestic pressures on the economy.

Over the course of the last several months, Rochdale took multiple actions to proactively raise the defensive profiles of their client's portfolios.

“We at CNR believe capital preservation is as important as capital appreciation," Galvin said. “When meaningful risks arise, we take appropriate action."

Review Your Portfolio with Your Wealth Planners Today

City National encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to get help with your wealth planning needs.

Adjusting Investment Strategies During Uncertainty

Webinar | July 27, 2022

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The 4P analysis is a proprietary framework for global equity allocation. Country rankings are derived from a subjective metrics system that combines the economic data for such countries with other factors including fiscal policies, demographics, innovative growth and corporate growth. These rankings are subjective and may be derived from data that contain inherent limitations.

City National Rochdale Proprietary Quality Ranking is the weighted average sum of securities held in the strategy versus the S&P 500 at the sector level using the below footnoted formula.

City National Rochdale Proprietary Quality Ranking formula: 40% Dupont Quality (return on equity adjusted by debt levels), 15% Earnings Stability (volatility of earnings), 15% Revenue Stability (volatility of revenue), 15% Cash Earnings Quality (cash flow vs. net income of company) 15% Balance Sheet Quality (fundamental strength of balance sheet). *Source: City National Rochdale proprietary ranking system utilizing MSCI and FactSet data. **Rank is a percentile ranking approach whereby 100 is the highest possible score and 1 is the lowest. The City National Rochdale Core compares the weighted average holdings of the strategy to the companies in the S&P 500 on a sector basis. As of June, 2022.

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S&P 500 Index: The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market cap because there are other criteria that the index includes.

Muni Bond: A municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools. These bonds can be thought of as loans that investors make to local governments.

Bloomberg Barclays U.S. Corporate High Yield Bond Index: measures the USD denominated, high-yield, fixed-rate corporate bond market.

Dow Jones Select Dividend Index: The Dow Jones U.S. Select Dividend Index looks to target 100 dividend-paying stocks screened for factors that include the dividend growth rate, the dividend payout ratio and the trading volume. The components are then weighted by the dividend yield.

The Intercontinental Exchange (ICE): The Intercontinental Exchange (ICE) is an American company that owns and operates financial and commodity marketplaces and exchanges.

The Bloomberg Aggregate Bond Index: "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange- traded funds (ETFs) as a benchmark to measure their relative performance.

U.S. Treasury Yield Curve: refers to a line chart that depicts the yields of short-term Treasury bills compared to the yields of long-term Treasury notes and bonds.

Consumer Price Index (CPI): is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Bloomberg Barclays US Aggregate Bond Index: The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

MSCI Emerging Asia PE: The MSCI Emerging Markets Index is a selection of stocks that is designed to track the financial performance of key companies in fast- growing nations. It is one of a number of indexes created by MSCI Inc., formerly Morgan Stanley Capital International.

Global Equity Markets: a global market in which shares of companies are issued and traded, either through exchanges or over-the-counter markets.

The Commodity Research Bureau (CRB) Index acts as a representative indicator of today's global commodity markets. It measures the aggregated price direction of various commodity sectors. This commodity index comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals, and 13% to industrial metals. The CRB is designed to isolate and reveal the directional movement of prices in overall commodity trades.

An investment grade is a rating that signifies that a municipal or corporate bond presents a relatively low risk of default.

The Bloomberg Barclays Municipal High Yield (HY) Index is a flagship measure of US municipal tax -exempt high yield bond market.

Michigan Consumer Confidence Index: The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy.

Conference Board Measure: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates. Data are available by age, income, 9 regions, and top 8 states.