City National Bank’s investment team expects the U.S. economy to emerge from recession by the third quarter and experience a healthy recovery throughout the second half of this year as businesses reopen following the coronavirus shutdown.

Pent-up consumer demand, the gradual rehiring of millions of workers, and further federal support for the economy should fuel the recovery, the bank’s investment leaders said during their weekly market update Wednesday.

“This could be the shortest, deepest, most severe recession in our lifetimes but we believe it could be over by the third quarter,” said Garrett D’Alessandro, CEO of City National Rochdale, the bank’s investment advisory organization.

While recent headlines cite rising coronavirus cases in various places as states have reopened, data from leading universities indicate no states are at risk for an exponential crisis or running out of hospital capacity, he said, citing statistics from the COVID Tracking Project and the Institute for Health Metrics and Evaluation.

The increase “is completely within our expectations,” with absolute numbers of new cases less dire than the percentage increases suggest, D’Alessandro said.

Despite “second wave” rhetoric, hospitalizations manageable

- Several states have seen increased rates of hospitalization in recent weeks
- No sign of “exponential” spread
- Hospitalization well below capacity – below 20% in 49 of 50 states

Source: The COVID Tracking Project, IHME. Hospital capacity reflects projected number of beds available for COVID-19 patients adjusted for average historical bed use.
City National Rochdale Chief Investment Officer Tom Galvin said the bank’s economic and financial indicators signal “a solid economic recovery in the second half of the year, especially the third quarter.”

Among other factors, he cited improvements in housing demand, consumer spending and the labor market, as well as strong monetary and fiscal support from the Federal Reserve and U.S. policymakers. Galvin predicted the country will see another $1 trillion or more in fiscal stimulus by fall.

The bank’s investment leaders cited several encouraging trends, including as D’Alessandro noted, signs that people are returning to some normalcy. He presented data from Apple, for instance, showing that six weeks after a steep April decline in mobility — people getting out and about — movement recently was off only 8 percent from pre-crisis levels.

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A combination of pent-up consumer demand, reopening businesses and government economic support programs drove an 18 percent increase in retail spending in May after a 15 percent slide in April, according to Bloomberg data. In addition, travelers are slowly returning to airports, D’Alessandro said, citing Bloomberg data on TSA checkpoints.

While restaurant bookings remain weak, down 65 percent from early March, they show notable improvement from the virtually flat crisis levels when most eating establishments had closed their doors, he said, citing Bloomberg and OpenTable data.
At the same time, more than half the hourly workers who lost their jobs at the height of the coronavirus outbreak have gone back to work, with businesses rehiring faster than most experts had anticipated, according to data from Homebase.

Team members reiterated their view that the pandemic remains at manageable levels in the United States now, despite spikes in some places several weeks after states started lifting restrictions. All 50 states have reopened to varying degrees, with many allowing the majority of their businesses to operate, D’Alessandro noted.

He presented data from covid19-projections.com showing the infection rate growing moderately in 23 states and decreasing in 28 others. Hospitalizations are flat or declining in most states, and the few experiencing increases — led by Arizona, Texas and North Carolina — have adequate hospital capacity, he said, citing COVID Tracking Project statistics.

“In most parts of the United States we’re seeing declines to flat hospitalizations, which is very encouraging considering all those states are opening to some degree,” said Ben Goetsch, City National Rochdale senior analyst, investment solutions.

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The stock market and other asset classes have surged faster than expected since late March, with the recent equities rally driven by federal policy response, hedge fund short covering and a significant increase in retail investors armed with stimulus checks who turned to day trading when they couldn't bet on sports.

"The markets quickly went from panic to euphoria, there was a lot of exuberance behind that that may not be sustainable," Galvin warned.

As for the broader environment, City National Rochdale portfolio managers believe the United States will likely continue to operate under a politically divided government after the November elections, which would limit meaningful legislative shifts, Galvin said. He cited recent polling data from RealClearPolitics and 270towin showing a tight presidential race, with Democratic momentum and Senate races and control too early to call.

CIO Galvin said the team expects a potential surge of coronavirus cases anticipated for the fall to be manageable.

2020 Election: Divided Gov’t Most Likely Scenario

- Current polls show presidential race is tight – early polls have limited predictive value
- Split government currently appears likely, potentially limiting new legislation

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Asset classes recovered faster than anticipated

- Strong monetary and fiscal policy response accelerated the rebound
- Other drivers, such as retail day traders, suggest high exuberance

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Downturn Performance (February 19 – March 23)</th>
<th>CNR Estimate of New-term Upside Potential (End March 2020)</th>
<th>Recovery Performance (March 23 – June 12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Core Stocks</td>
<td>-34%</td>
<td>20-25%</td>
<td>37%</td>
</tr>
<tr>
<td>High Dividend Stocks</td>
<td>-41%</td>
<td>20-25%</td>
<td>34%</td>
</tr>
<tr>
<td>Emerging Market Stocks</td>
<td>-31%</td>
<td>10-15%</td>
<td>31%</td>
</tr>
<tr>
<td>Investment Grade Bonds</td>
<td>-12%</td>
<td>5-10%</td>
<td>15%</td>
</tr>
<tr>
<td>High Yield Bonds</td>
<td>-21%</td>
<td>15-20%</td>
<td>21%</td>
</tr>
<tr>
<td>Emerging Markets High Yield Bonds</td>
<td>-21%</td>
<td>5-10%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Sticking with the right asset class selection generally drives the majority of portfolio returns, more so than picking individual stocks, Galvin added. City National Rochdale remains comfortable with its current strategy, which has focused lately on high-yield bonds, high-dividend stocks, core large-cap U.S. stocks, alternative investments and a modest cash buffer.

U.S. stocks remain better positioned for growth than Europe, and Asia presents the most promising emerging-markets region, Galvin said, citing Bloomberg data.

Among stocks, City National Rochdale is focusing on high-quality companies with sustainable business models and reasonable valuations aligned with five well-positioned themes: the nesting consumer, the digital revolution, healthcare innovation, industrial leaders and domestic high growers.

“We think this position has served us well and will continue to do well, which gives us confidence longer term,” Galvin said.
In terms of alternative strategies, the team is seeking high income and diversification through unique investments such as rail car leasing, collateralized loan obligations, reinsurance and healthcare royalties, Galvin said.

**Examples of Attractive Alternative Investments**

Where suitable, CNR seeks out unique strategies that can help clients achieve goals

<table>
<thead>
<tr>
<th></th>
<th>Potential Income</th>
<th>Diversification Benefits</th>
<th>Tax Efficiency</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail Car Leasing</td>
<td>7%-10%</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>CLO Equity</td>
<td>8%-12%</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>5%-7%</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Healthcare Royalties</td>
<td>10%-15%</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

Source: CNR Research. Alternative investment potential income reflects estimated performance across a sample of alternative investment strategies and is intended for illustrative purposes only.

The expected returns are not of any City National Rochdale management fees; however, other fees may apply. The expected returns do not include fees for trading costs (e.g., commissions) or any fees charged by your financial advisor. Please speak to your financial advisor for a complete understanding of all fees.

In these turbulent times, City National encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to ask questions and receive help with your wealth planning needs.

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The Dow Jones US Select Dividend Index includes a selection of stocks based almost entirely on dividend yield and dividend history. Stocks are also required to have an annual average daily dollar trading volume of more than $1.5 million. These criteria help to ensure that the index represents the most widely traded of the markets highest-yielding stocks.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg Barclays U.S. Corporate High Yield Index covers the U.S.-dollar denominated, non-investment grade, fixed-rate, taxable corporate bond market and includes securities with ratings by Moody’s, Fitch and S&P of Ba1/BB+/BB+ or below.

The MSCI Europe Index is a free-float weighted equity index measuring the performance of Europe Developed Markets. It was developed with a base value of 100 as of December 31, 1998.

The MSCI Emerging Markets Asia Index is a free-float weighted equity index measuring the performance of Asia Emerging Markets. It was developed with a base value of 100 as of December 31, 1987.

The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

ICE BofAML High Yield US Emerging Markets Corporate Plus Index tracks the performance of US dollar denominated below investment grade emerging markets corporate debt publicly issued in the US domestic or eurobond market.

The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.

The ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

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