City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

Quarterly Update

ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

July 2020

IN THIS ISSUE

Cautious, Realistic, Hopeful

The U.S. and global economies are experiencing the most significant health and economic shock in decades. The consequences of COVID-19 require governments around the world to control the spread of the virus as well as stabilize the economic fallout. Each country has its own distinct history, culture and priorities. Countries like South Korea, Japan and China that have dealt with previous viruses like SARS, MERS and H1N1 have experience that has enabled them to handle this COVID-19 situation rather well. The U.S. and European countries are learning as they go, with activities like reopening too early being adjusted as cases rise.

We believe COVID-19 will be here until there is a vaccine, probably a 2021 outcome. Therefore, governments worldwide will have continuing battles with new cases. We all hope each country develops a set of proven practices that gives people confidence to gradually trend their behaviors toward normal. But normal is quite some time away.

The U.S. is forging its own path on dealing with COVID-19, but some large city comparisons indicate how we are doing relative to Asian countries: Tokyo -- 325 deaths, population 14 million; Seoul, South Korea -- 282 deaths, population 9.8 million; New York City -- 31,137 deaths, population 8.3 million.

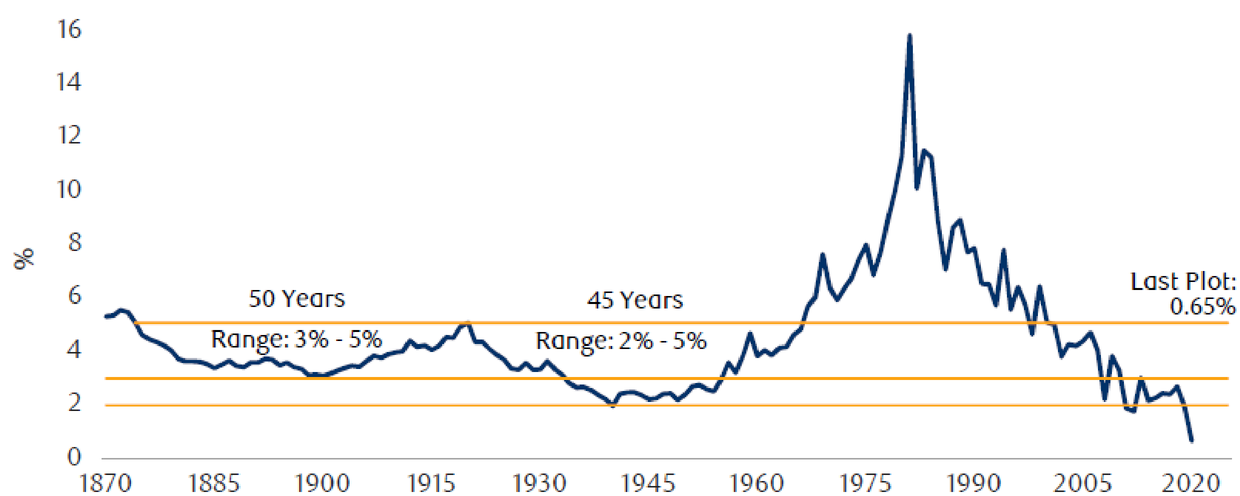
While U.S. culture and norms are fundamentally different from those of Asian countries, how successfully we address COVID-19 going forward will ultimately determine how confident individuals will be in resuming normal activities.

At present, the U.S. government and state governments are in control, in terms of economic support and health policies. There are three primary implications of government controlling substantial parts of U.S. society and the economy:

1. The federal and state governments are trying to determine the optimum practices and protocols for a healthy return to normal.
2. The economy is highly dependent upon continued fiscal and monetary support.
3. Interest rates are being held at historically low levels to alleviate borrower debt payments and make consumption easier.

We believe equity markets are looking past the decline in 2020 earnings and focusing entirely on 2021 results. Based on our best estimate, we anticipate a strong rebound in 2021 earnings, which supports present market price levels. Although valuations are at the upper end of historical ranges, they are justified by very low interest rates and the assumption that in 2021 the economy will achieve 90-95% of 2019 earnings.

U.S. 10-Year Bond Yield



Source: RBC GAM, RBC CM as of May 29, 2020.

For fixed income investors, low rates represent an obstacle to those seeking a reasonable return from bonds. In 2009, and for many ensuing years, when interest rates remained very low, our asset allocation strategy shifted capital away from low yielding bonds into high dividend stocks or higher yielding fixed income investments. We are maintaining that strategic approach, so we have a greater amount of investments allocated to better returning opportunities.

We are sanguine about the U.S. economy, and we believe that our nation's resiliency will overcome the many challenges we are all facing.

Garrett R. D'Alessandro, CFA, CPWA®, CAIA, AIF®
Chief Executive Officer

U.S. COVID-19 practices need improvement to gain control over spread of COVID-19

We have no choice but to rely heavily on fiscal and monetary policies to bridge the economy to normal

Investment conditions require a strategic allocation toward equities and opportunistic income

Where to from Here for Equities?

Tom Galvin
Chief Investment Officer

After the fastest and sharpest contraction in global economic activity since WWII, financial markets have rebounded sharply, driven by massive stimulus efforts, an easing of governmental lockdowns and progress in the fight against the coronavirus. With equity markets near all-time highs, we believe it is important to look at several critical investment variables that could exert significant influence on the economy and markets for the balance of the year. Broadly speaking, these critical investment variables relate to the government, consumer, corporations and COVID-19.

Government

There will be two very important events in coming months. The CARES package will expire at the end of July, and Fed support programs at the end of September. Headlines in the media will be filled in coming weeks covering what is likely to be a very contentious debate in Washington regarding the overall dollar amount of aid and specific programs. While we are assuming a package will be passed, the timeline is tight, and as we saw in late March, negotiations will likely go down to the wire.

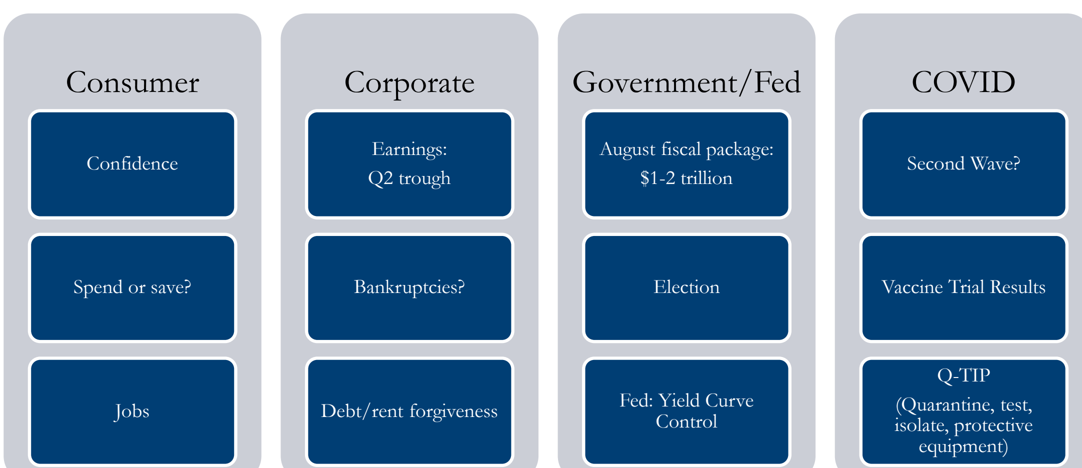
We believe close to $2 trillion more in aid will likely be needed and should include elements to help the consumer, including extending unemployment benefits, though by a lesser amount, and another direct stimulus payment. Many smaller businesses also will need more support to stay open and remain viable for the long term. It's very damaging for many small businesses to close, reopen and then shut down again. State and local governments, too, are facing increasingly large revenue shortfalls and will need funding to minimize layoffs. Finally, the dollar amounts to support the Fed programs also need to be extended. Whether tax cuts or more dollars will be allocated to support a more cohesive health care response remains to be seen.

As for the election, we continue to believe it is too early to call the final outcome. Democrats have the momentum currently and history shows that incumbents get voted out of office when the economy is not healthy. The proposals by the presumptive Democratic nominee, former Vice President Joe Biden, regarding tax increases do not seem like a wise move to us, given the current state of the economy, and would not be market-friendly. However, at this point, we suspect they may be more election rhetoric than policy reality.

Consumer

In the near term, consumer confidence and spending will be greatly influenced by the level of support in the next fiscal package. Benefits from the CARES package have undoubtedly bolstered consumer spending recently. One-time stimulus checks and the extra $600 in weekly unemployment benefits have effectively cushioned incomes amid widespread layoffs. In the month of April, it appears most of the benefits went into savings while spending fell. But, as the economy began to reopen in May, spending recovered and the savings cushion was lowered. It's likely this trend continued in June.

What will drive markets in the second half of 2020?



Source: CNR Research.

At this point, most direct cash assistance to households from earlier aid packages has dried up and extended unemployment benefits are set to expire soon, so Congress will need to provide additional support to households. For the consumer, the greater the dollar amount, the greater the benefit. What the consumer will do with the extra money is important. The back-to-school spending season is upon us, and while plans for reopening schools vary widely, the amount of spending is likely to be lower than normal, which should boost savings. If so, this would potentially set the stage for increased spending in the year-end holiday season.

Corporations

For businesses, the right fiscal programs for job retention and creation, as well as debt and rent forgiveness, could reduce the need for more layoffs. It is encouraging that the reduction in 2020 S&P 500 consensus earnings estimates has bottomed and gone sideways for a few months. Earnings season so far has not been as bad as anticipated, with the majority of companies modestly beating reduced expectations. It is early, and there will likely be some ugly results from industries most exposed to the crisis, but the second quarter will likely mark the trough for earnings.

Looking forward, we are expecting improvements in earnings over the second half of the year and into 2021. While the trajectory still has a wide range of outcomes that will be greatly influenced by the pace of economic activity, a solid fiscal package would be a good thing for confidence in the outlook. Currently, our estimate range for 2021 EPS growth remains quite large, at 20-40%, with a base case of 30%.

COVID-19

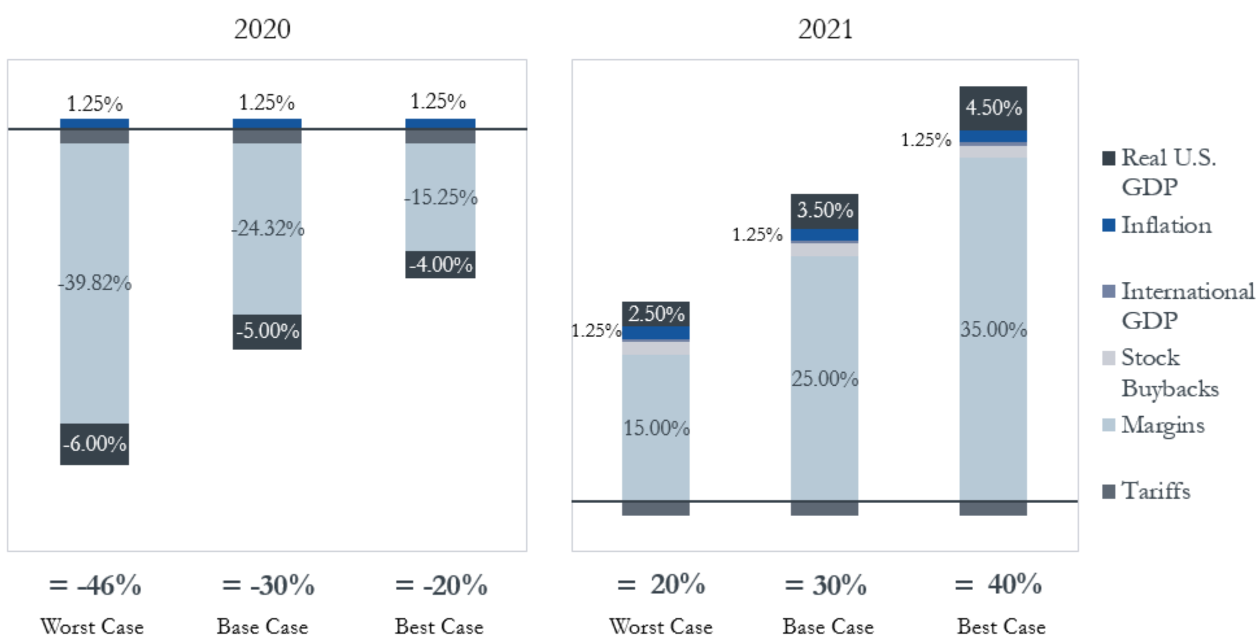
The battle to contain the virus, and the tension between public health and the health of the economy, will shape the trajectory of the recovery over the second half of the year. If true behavioral changes regarding wearing masks are occurring, this would make for a stronger and more effective response to the virus, should a second wave hit in the fall.

Positive trial results have raised hopes that a vaccine may soon be available, perhaps even by year-end. It is encouraging that COVID-19 is 80% similar to the SARS virus, and that its DNA has been decoded. The massive amount of money, science and brain power being devoted to developing a vaccine is also good reason to be optimistic. Still, it is premature to project that progress being made in Phase 1 and 2 trials will produce a vaccine that not only triggers a strong immune response, but is also long-lasting. While efforts are being fast-tracked, ultimate acceptance by society will hinge on how robust the process has been, and how safe people feel about getting the vaccine.

Cautious Optimism

Our conclusion is that economic activity in the second half of the year will continue to recover, but will be greatly influenced by these critical investment variables. Equity returns are likely to be moderate, with increased volatility as these variables unfold. We believe we have the right portfolio positioning, focused on high-quality durable assets that withstand uncertainty and minimize risk while also allowing for participation in future gains.

CNR S&P 500 EPS Forecast



Source: CNR Research. EPS estimates are based on CNR forecasts earnings for the S&P 500 taking into consideration economic and profitability measures. Estimates are subject to revisions.

Prices Recover Sharply in Opportunistic Credit

Charles Luke
Managing Director, Senior Portfolio Manager

The price drop in opportunistic credit, sharp and widespread during the first quarter, was followed by a 12.2% rise in the second quarter.[1] Federal Reserve support and heavy demand for new issuance debt, even for risky issuers in travel and energy sectors, are driving returns. Expectations for Congressional support are also helping to boost confidence.

The recovery in prices came in waves, originating in core, U.S. based assets and later spreading to structured and emerging market bonds. Quality tiers experienced a similar trend. In the U.S., BB bonds climbed first and the most, to 11.5%, followed by B and CCC bonds later in the quarter, rising 8.6% and 9.1%, respectively.[2]

Despite the recovery, defaults are rising. During the first five months of the year, 41 companies defaulted, totaling $70.8 billion in bonds and leveraged loans. The U.S. high yield default rate has risen over 5.0% from a low of 2.5% at the beginning of 2020. **Despite the aggregate rise in defaults, most sectors are not faltering.** Energy, Cable and Satellite, Retail and Telecommunications make up 75.4% of the total defaults, with a failure rate of 13.8%. All other sectors have a combined default rate of 3.2%.[3]

Fed support, new issue demand drive returns

Defaults remain relatively low in most sectors

High returns accompany rising default expectations

Company failures generate negative headlines, but as default expectations rise, high returns follow. Historically, well above average returns occur before defaults peak. **Given the dispersion of stress, we continue to recommend positions within U.S. opportunistic credit, although yields are lower today than they were at the end of the first quarter.** We believe return profiles remain elevated and the high level of demand for income, as well as the lack of alternatives, will continue to support durable positions in well-managed companies.

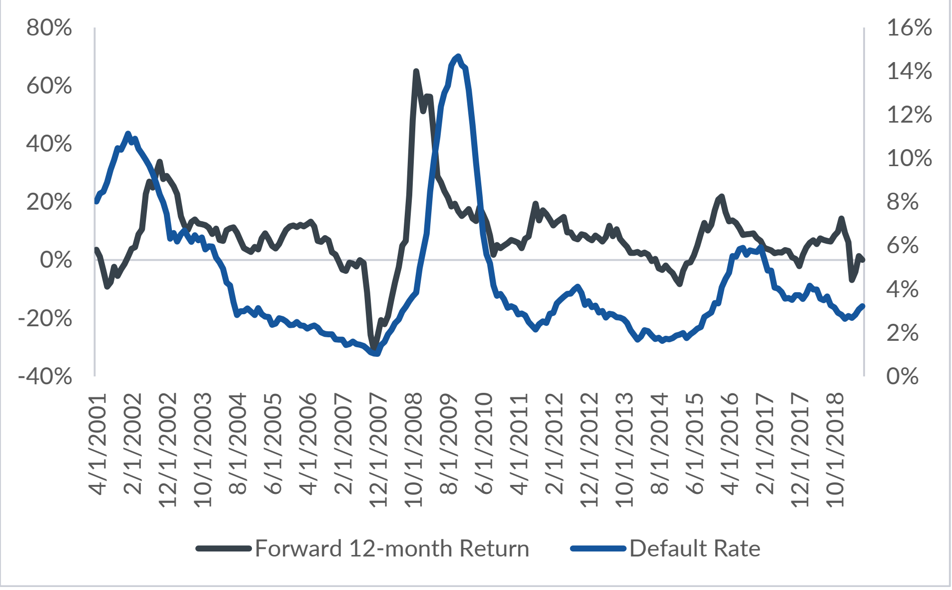
Footnotes:

[1]Bloomberg Barclays High Yield Global Credit, LG30TRUU, 2Q return

[2]Bloomberg Barclays US High Yield BB, BCBATRUU; Bloomberg Barclays US High Yield B, BCBHTRUU; Bloomberg Barclays US High Yield CCC, BCAUTRUU

[3]All default data from JP Morgan

High Yield Default Rates vs. Forward 12-Month Return



Source: Bloomberg, Moodys as of June 2020.

Income Based Non-Traditional Investment Strategies

Thomas H. Ehrlein
Director, Portfolio and Alternative Analytics Group

At City National Rochdale, investment choices for our clients are based only on solutions we believe will help them achieve their goals and fit within their comfort zones. The majority of our Non-Traditional or Alternative Investment strategies were more insulated from the market volatility in Q1 2020.

Particular areas of focus over the past few years have been Global Transportation, Reinsurance and Intellectual Property/ Royalties. While every industry has been impacted by the novel Coronavirus:

- **Trains are still moving essential goods**
- **People continue to need protection against hurricanes, earthquakes and fires**
- **Medicine is still being produced**

Essential underlying services have been key to these investment choices. **These services have benefited investors' portfolios through exposure to real underlying cash flows and stable income profiles.** The world has changed a great deal with the ongoing COVID-19 pandemic, and these areas are impacted, but their structural characteristics have been true beneficiaries thus far.

While public markets like stocks provide an array of amazing investment choices, performance is subject to many forward-looking caveats that may not occur. We feel these solutions complement public markets very nicely, since there are fewer layers of information to digest. From an investor standpoint, our expectations are that income earned minus operating costs will be the result in all of these strategies.

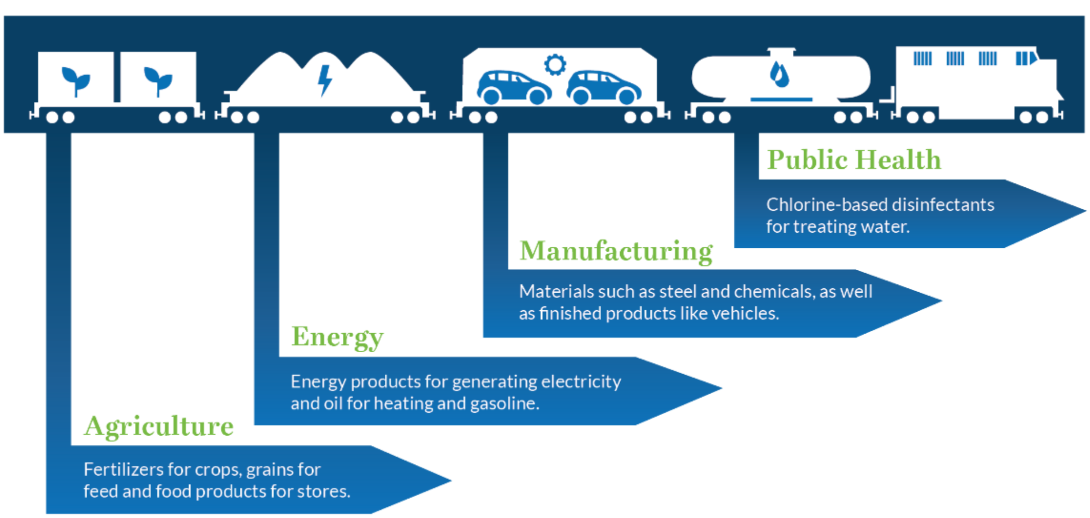
Income based alternative strategies complement stocks and bonds

Alternative strategies less subject to market volatility

Selecting essential underlying services is key

City National Rochdale Alternative Investment Goals:

- Stable Return Profile: Assets with both long-lived economic and residual value, historically low default rates.
- Inflation Hedge: Potentially positive correlation to inflation trends. When investments mature, we look for markets that reset the value accordingly.
- Tax Benefits: When possible, tax advantage of long-term capital gain rates on appreciation, or tax advantaged returns with the use of depreciation for real assets.
- Portfolio Diversification: Unique sources of return that complement traditional stock and bond investments, providing valuable total portfolio correlation benefits. Risks include economic cyclicality more than stock market trends.



See Important Disclosure about the Risks of Alternative Investments.

Fixed Income Markets Currently Recover After Fed Intervention

Gregory S. Kaplan, CFA
Director of Fixed Income, Managing Director

> Rapid healing of credit markets drove strong second quarter returns
>
> Despite inflation fears, the steep yield curve offers opportunities
>
> Strong credit analysis and security selection will remain a differentiating factor in performance

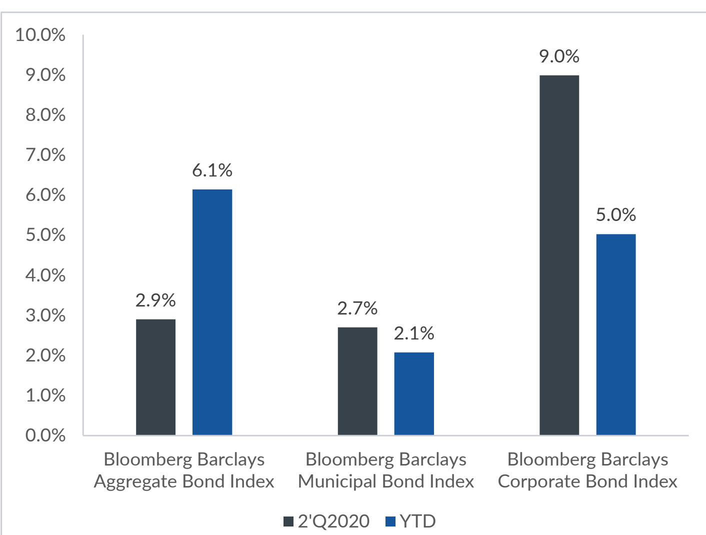
Fixed income markets healed in dramatic fashion during the second quarter following the most aggressive response from the Federal Reserve in history. The Bloomberg Barclays US Aggregate index added 2.9% in the second quarter and is now up 6.1% YTD. Investment grade (IG) corporate credit spreads retraced over 80% of the 274bps widening experienced during the March liquidity freeze. Corporate bond issuance broke records by surpassing $1 trillion in new deals by May. Municipals reversed negative first quarter performance with the Bloomberg Barclays Municipal Bond Index returning 2.7% in the second quarter (up 2.1% YTD) following increased demand as the Fed's Municipal Liquidity Facility went into effect.

Unprecedented expansion of the Fed's balance sheet from $4 trillion to over $7 trillion has increased concern about inflation, and thus long-term rates, which we believe is misguided. While the pandemic was initially a supply shock to the global economy, it has transformed into a demand shock that will likely persist well into 2021. Wage pressure has declined sharply, along with labor market conditions, and many of the stimulus dollars will likely remain on bank balance sheets, unable to reach the consumer, similar to what happened during the years after the Great Recession.

Global central bank action and demographics will continue to put downward pressure on interest rates, exacerbating the negative yielding debt problem in Europe and Japan and driving additional capital flows into positive yielding, dollar-based assets. The Fed is thus forecasting that core PCE will reach only 1.7% by 2022, well below their 2% long-term target. **In short, we view higher relative longer-term rates in credit and municipal debt as an opportunity for income-oriented investors, and we are extending portfolio duration targets where appropriate.**

Deep credit analysis and pre-emptive action remain a strong theme as pandemic-related uncertainty continues. It is in the careful sector and issuer selection that we continue to demonstrate our unwavering commitment to preservation of client wealth and work toward achieving long-term return objectives.

Index Performance



Source: Bloomberg as of June 2020.

5 Year Inflation Expectations 5 Years From Now

Source: Bloomberg as of July 1, 2020.

Index Definitions

The Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

Bloomberg Barclays Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg Barclays Municipal Bond Index is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least 1 year from their maturity date.

Bloomberg Barclays 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.

Indices are unmanaged and one cannot invest directly in an index.

Important Information

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

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.

Concentrating assets in a particular industry, sector of the economy, or markets may increase volatility because the investment will be more susceptible to the impact of market, economic, regulatory, and other factors affecting that industry or sector compared with a more broadly diversified asset allocation.

Private investments often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important tax information.

Alternative investments are speculative, entail substantial risks, offer limited or no liquidity, and are not suitable for all investors. These investments have limited transparency to the funds' investments and may involve leverage which magnifies both losses and gains, including the risk of loss of the entire investment. Alternative investments have varying and lengthy lockup provisions. Please see the Offering Memorandum for more complete information regarding the Fund's investment objectives, risks, fees, and other expenses.

There are inherent risks with equity investing. These risks include, but are not limited to, stock market, manager, or investment style. 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. Emerging markets involve heightened risks related to the same factors, as well as increased volatility, lower trading volume, and less liquidity. Emerging markets can have greater custodial and operational risks and less developed legal and accounting systems than developed markets.

There are inherent risks with fixed-income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond. 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. The yields and market values of municipal securities may be more affected by changes in tax rates and policies than similar income-bearing taxable securities. Certain investors' incomes may be subject to the Federal Alternative Minimum Tax (AMT), and taxable gains are also possible. Investments in below-investment-grade debt securities, which are usually called "high yield" or "junk bonds," are typically in weaker financial health and such securities can be harder to value and sell, and their prices can be more volatile than more highly rated securities. While these securities generally have higher rates of interest, they also involve greater risk of default than do securities of a higher-quality rating.

All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met and investors may lose money. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future performance.

Indices are unmanaged and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

Alternative investments are speculative, entail substantial risks, offer limited or no liquidity and are not suitable for all investors. These investments have limited transparency to the funds' investments and may involve leverage which magnifies both losses and gains, including the risk of loss of the entire investment. Alternative investments have varying, and lengthy lockup provisions.