City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

Quarterly Update

ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

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IN THIS ISSUE

From the Desk of

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Is This Time Different?

As history shows, not often can one answer this question positively without subsequent regret.

The COVID-19 pandemic has caused significant human costs on many levels across the globe. There are no words we could write to convey the extent of the impact of COVID-19 on our lives. Despite our inability to process all that we are living through, our focus remains on dealing with the uncertainty COVID-19 is causing in our narrow world of investments and economics.

In the context of the response to the COVID-19 pandemic, the U.S. government and Federal Reserve central bank have applied trillions of dollars in spending and monetary stimulus to stem the decline of the economy.

There is significant research and historical evidence that show those actions were both justified and beneficial to lessen the depth and duration of the recession. In fact, it was so beneficial that stock markets rebounded significantly, and the recession was the shortest in U.S. history.

The stock market has rebounded to a new record high, yet millions of people remain unemployed and hundreds of thousands of businesses are experiencing significant financial hardship.

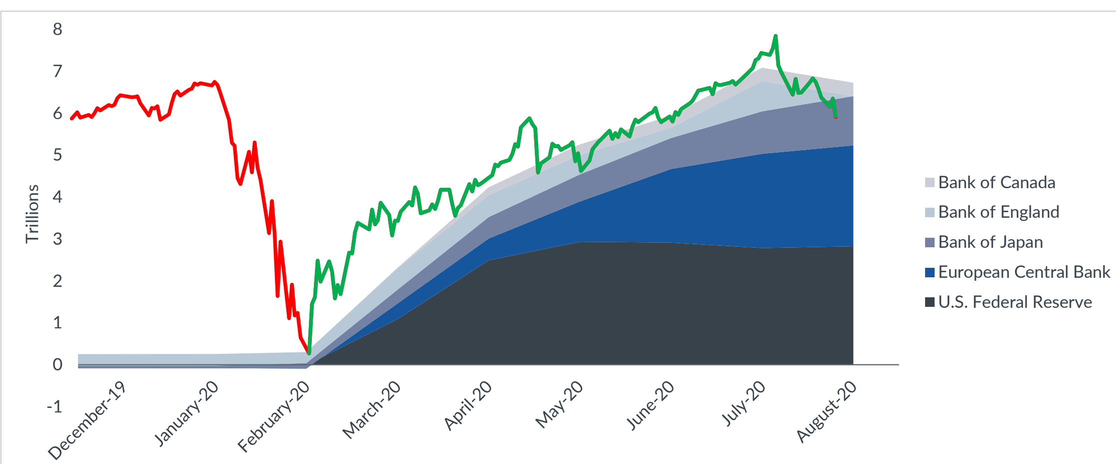
The apparent contradiction between the stock market and the economy is attributable to several factors. COVID-19 is being viewed as an isolated natural disaster, which will substantially end in 2021. Forward-looking investors anticipate strong future profits for the leading stock market companies and have raised the valuation of these companies to high levels. Fiscal and monetary policies are likely to bridge the lost incomes of many unemployed people and businesses until a COVID-19 vaccine starts allowing normalizing of our economy. Finally, the stock market is only a semblance of the U.S. economy. There are hundreds of thousands of nonpublic businesses that are enduring hardship that are not counted in the major stock market indexes.

In time we will learn the outcome from the unprecedented amount of spending the U.S. government has done, but this is not a near-term concern for investors.

The immense global central bank response to the COVID-19 pandemic also fueled trillions of dollars being injected into economies all around the world. The effects of this can be seen in the chart below, which shows the connection between the U.S. stock market, the S&P 500 Index, and the impact from trillions of dollars from global central banks' monetary policies. As long as central banks continue their stimulative programs, we believe stock markets will remain high.

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

Funds Injected into Global Economies vs. S&P 500 Index



Source: Bloomberg.

The Uncertain Road Ahead

Tom Galvin
Chief Investment Officer

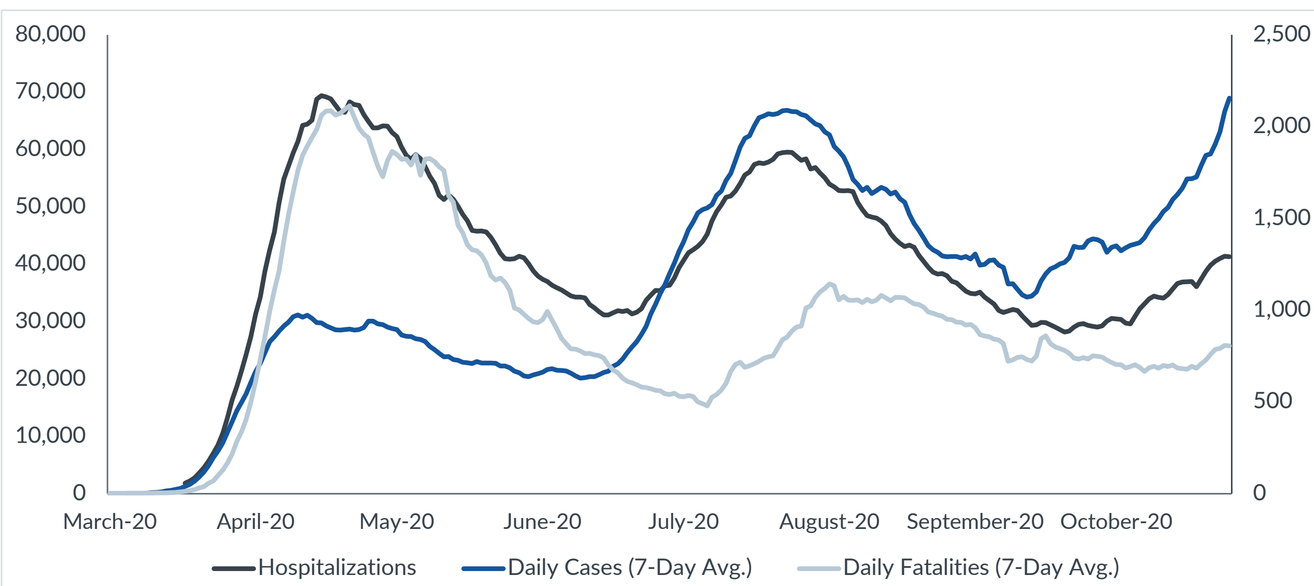
The fourth quarter promises to be eventful, with the outcome of U.S. elections, vaccine progress and hopes for an additional U.S. fiscal stimulus all up in the air. The recovery has gone much better than expected so far, but with momentum now slowing and COVID-19 cases again rising, the economy will remain reliant on policy support until a medical breakthrough provides the foundation for a more self-sustaining expansion. Indeed, the market volatility of recent weeks is a timely reminder that uncertainty is likely to weigh on the market in the near term. For the economy and stock market to resume their recovery from the March lows, several key questions will need to be answered.

#1 Will cold weather lead to another COVID-19 resurgence?
The recent dramatic increase in COVID-19 infections across the nation is concerning. It may be no coincidence that some of the states seeing the sharpest rise in new cases — including Alaska, Montana and the Dakotas — are among the coldest in the country. As temperatures continue to drop, forcing more activity to take place indoors, this could trigger a more widespread resurgence of the virus. Alongside the winter flu season, that would raise the risk of hospitals becoming overwhelmed and renewed restrictions on economic activity. Our current assumptions are there will be targeted areas of lockdowns in problematic locations, but not a return to the nationwide lockdowns that occurred in March.

#2 What is the timeline on a vaccine?
A sustainable return to normalcy in economic activity will likely depend on the development of an effective vaccine. The good news is that the all-out effort by the scientific community is heading in the right direction. Through the end of the year, data from Phase 3 trials will be released by several important vaccine developers. While there is likely to be a blend of good news and bad news, we remain optimistic that there will be evidence of sufficient strength, duration and safety for approval by the FDA of one or more candidates. While manufacturing, distribution and logistic issues must be overcome in coming months, our assumption is that vaccine availability will ramp up through 2021.

#3 Which party will control power in Washington?
History has shown that economic and profit growth are strongly influenced by factors other than who controls power in Washington. We believe that the outcomes of either Democrat control or split government control will not meaningfully alter the pace of the growth in the near term. Should President Trump hold onto the White House, his administration's policies of lower taxes and less regulation would help growth. At the same time, despite concerns that a Biden administration will raise corporate tax rates, markets are finding encouragement in the potential for increased federal spending to boost near-term economic

U.S. New Cases, Hospitalizations, and New Fatalities



Source: Hospitalization and fatality data source from the COVID Tracking Project and supplemented by estimated hospitalization data from IHME where no hospitalization data was officially reported.

growth. We too are agnostic from a financial perspective on the election, seeing positive opportunities for investors regardless of the outcome (see our Election Special Bulletin). Elections bring uncertainty, especially in the short term if there is a sea change in who controls power. However, as that uncertainty fades, stocks tend to reconnect to fundamentals that are influenced — but not determined — by Washington policies.

#4 What are the prospects for further fiscal stimulus?
Perhaps even more than the election, what investors want clarity on is the next package of fiscal stimulus. Much of the economic and market strength we have seen over the past few months can be directly attributed to the unprecedented aid coming out of Washington. Trillions of dollars have been spent to keep families and small businesses afloat during the pandemic — and it has largely worked. However, many of these emergency programs have now expired or been exhausted. Although there is general agreement among lawmakers that more aid is needed, negotiations between Republicans and Democrats have seemingly reached an impasse. We still think another round of substantial aid is in the pipeline, but the size, shape and timing of more policy support, especially around forbearance and corporate liability issues, will likely be determined by the makeup of political control post-election.

Markets for the most part are expecting these issues to be resolved favorably, and we tend to agree. However, short-term investment outcomes are nearly always harder to predict than long-term returns. Ultimately, we expect that political clarity, medical advancements and continued economic reopening will pave the way for a stronger and more durable economic expansion, but the timing remains elusive. Flare-ups in volatility over the next few months seem inevitable as investors absorb news on the pandemic, the economy and politics. We still expect to see plenty of investment opportunities ahead as some uncertainties fade or market reactions create attractive entry points and highlight the value of active management. Until then, though, we believe we have the right portfolio positioning, focused on high-quality durable assets that can withstand uncertainty and minimize risk to client portfolios.

More Stimulus Will Likely Have to Wait Until After Election

Program	Trump Administration	Latest Democrat Proposal
Stimulus Check	$1200	$1200
Enhanced Unemployment Benefits	$400/weekly	$600/weekly
State/Local Aid	$300bn	$436bn
Education	$150bn	$225bn
Testing/Tracing	$75bn	$436bn
Total Aid	**$1.8 Trillion**	**$2.2 Trillion**

Source: City National Rochdale Research.

Equity Outlook: Expecting Volatility to Create Opportunities

Tom Galvin
Chief Investment Officer

The road ahead for U.S. equities is likely to be increasingly volatile in the coming weeks and months, creating opportunities for investors with a long-term time horizon. Given uncertainty regarding containment of COVID-19, fiscal stimulus measures to bolster the economy and outcomes from the election, we believe we have the appropriate positioning within the U.S. Core Equity strategy with our thematic focus, stock selection and modest cash buffer. **We remain focused on owning high-quality companies with sustainable competitive advantages, strong management and solid financial metrics selling at reasonable valuations compared to the overall market and peers.**

We have a balanced approach in the construction of our portfolio as it relates to the road ahead and various scenarios that may unfold. Regarding COVID-19, should containment of the virus continue to dampen economic activity, we have strong exposure to companies that we believe will benefit, such as e-commerce focused companies as well as companies that enable working and nesting at home and transforming businesses digitally. Conversely, should positive outcomes regarding COVID-19 come sooner than expected and lead to increased confidence in economic growth, we have strengthened our exposure to companies that are likely to benefit from a return to normalcy and have strong, durable franchises with robust digital offerings in the consumer, financial and industrial industries.

Balanced portfolio approach reflects various future scenarios

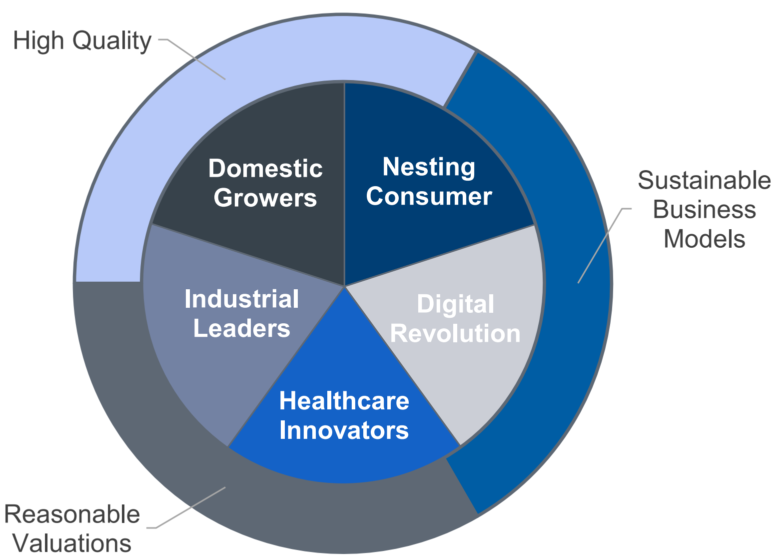
Focus remains on owning high-quality companies

Increased volatility should present long-term opportunities

Regarding the election, **we have not made any changes to the portfolio as of this writing, as we believe an election outcome resulting in either Democratic control or a split government will not meaningfully change the trajectory of economic and/or profit growth.** We are watchful for potential policy changes that could alter the fundamental outlook for our favorite secular themes through higher taxes and increased regulatory oversight — especially in our Digital Revolution and Industrial Leaders themes. Relatedly, **we are keeping our eyes wide open for potential new secular growth opportunities that could result from increased spending by the federal government.**

Lastly, we are comfortable maintaining a modest cash buffer given high overall valuations and the uncertainty that exists on the road ahead.

Focusing on High-Quality Stocks in Line With Five Key Themes



Source: City National Rochdale Research.

Fed's Historic Policy Shift Provides Tailwind to Risk Assets

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

The Federal Reserve, led by Jerome Powell, did a commendable job at the outbreak of COVID-19, backstopping the financial markets and the economy with rate cuts, asset purchases and nine emergency lending programs. As the pandemic drags on, however, the Fed's focus has rightly shifted from stabilization to economic stimulus. During the past quarter, the Fed formally adopted a "flexible average inflation targeting program." **This is a significant and welcome departure from the Fed's prior practice of making policy decisions based on its inflation forecast (versus observed inflation).** Prior policy often led to rate hikes in anticipation of hitting the elusive target, inadvertently slowing the economy (see chart).

The Fed has also tied this new policy to the other half of its dual mandate by conditioning rate hikes on "full employment" (think 4% unemployment). By setting these two coincident conditions as necessary for rate hikes, the bar is now significantly higher for tighter monetary policy. This and other tools (e.g., QE) indicates that **the Fed has now thrown its full weight behind doing whatever it takes to support the recovery.**

An extended period of low rates does not in itself cause inflation, as many fear. The real economy is a necessary participant in rising inflation, hence the repeated urging by Fed members for Congress to pass another fiscal stimulus package. The market has reacted accordingly, with five-year forward inflation expectations rising from the pandemic-induced low of 1.1% to 1.7%, still well below the 2% target as the recovery slows (see chart).

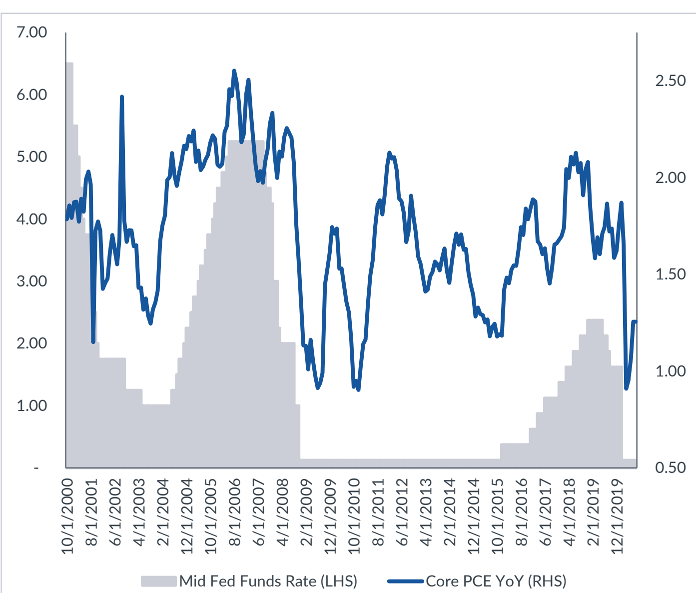
Fed has committed to supporting economy as long as necessary

Policy shift is welcome, a significant departure from past practices

Higher threshold for rate hikes provides tailwind to risk assets

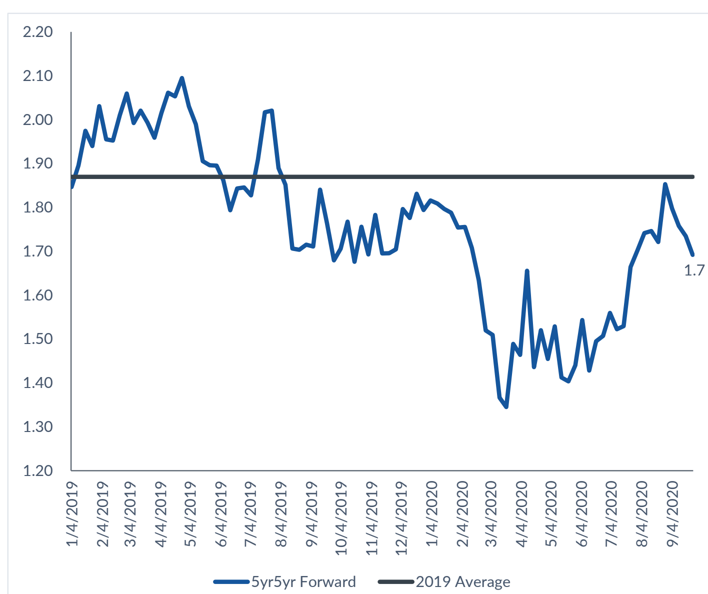
What does this mean for investors? **The Fed has demonstrated the willingness, flexibility and firepower to support the recovery and is clearly committed to seeing it through.** Risk assets (e.g., high yield corporate and municipal bonds) will continue to benefit from this support, hence our continued emphasis on opportunistic fixed income sectors at the expense of other fully valued or lower-yielding investments.

Inflation Has Declined After Preemptive Fed Rate Hikes



Source: Bloomberg as of August 31, 2020.

5yr/5yr Forward Inflation Expectations



Source: Bloomberg as of September 25, 2020.

High Yield Municipal Bonds Recover From Lows

William D. Black, CFA
Managing Director, Senior Portfolio Manager

> High yield municipal market technical underpinnings are normalizing
>
> The relative value of high yield municipal bonds offers opportunities
>
> Rigorous credit research analysis will reward active managers

The high yield municipal bond (HYM) market has experienced an extraordinary ride in 2020. What began as a promising year for performance and investor sentiment abruptly shifted as the pandemic's unprecedented nature and economic dislocation unraveled markets during March. Fund flows turned decisively negative, while investors' inability to quantify the impact on fundamentals led to deterioration in liquidity and price discovery. **The collective response of the Fed and Congress supporting economic recovery and financial market stability lured investors back, albeit slowly.**

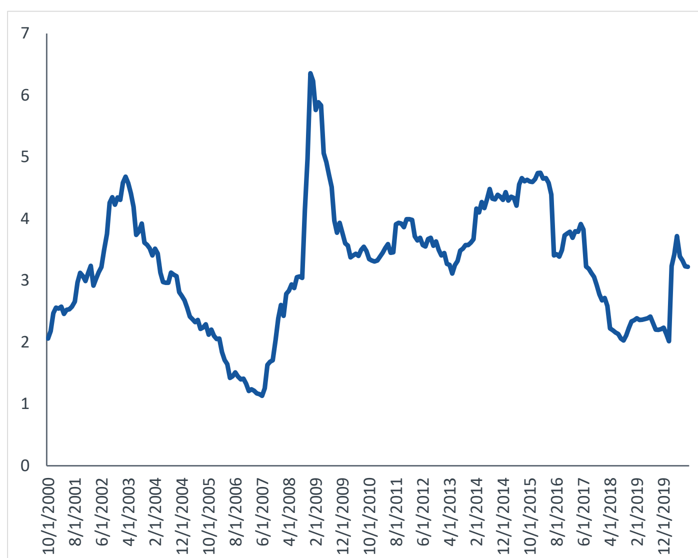
HYM performance recovered nicely from its March lows, with the Bloomberg Barclays High Yield Muni Index earning 4.55% and 3.09% on a linked quarter basis during 2Q20 and 3Q20, helping tip year-to-date return into positive territory. Credit spreads tightened considerably, with additional room for improvement should investor demand for income remain healthy. **Metrics suggest HYM represents fair value versus investment grade municipals and is slightly cheap, on a tax-adjusted basis, against high yield corporates.** A relatively well-balanced supply-demand dynamic offers the opportunity to price issues more on their intrinsic value. However, while gauges of volatility are currently at pre-pandemic levels, seasonal municipal market weakness and geopolitical factors, such as the presidential election and its potential impact on policy decision-making, could cause price fluctuations over the near term, likely creating attractive entry points.

The current credit backdrop places a high value on prudent underwriting standards, with a discerning eye on careful security selection. The economy has rebounded more quickly than previous estimates suggested, with the CARES Act and the gradual resumption of activity across states and regions lifting prospects for recovery. The negative impact on revenue sources securing HYM bonds is diminishing, and more resilient sectors, like select toll operators and suburban residential developments, should endure. Some parts of the market, such as senior living, are experiencing an uptick in default and impairment activity. While stress is likely to continue, it is unlikely to pose a systemic threat to the broader market. Disciplined credit research and opportunistic risk-taking should lead to favorable outcomes in the current environment for actively managed portfolios.

Tax-Adjusted High Yield Municipal to High Yield Corporate Ratio (%)

Source: Bloomberg Barclays Indices.

High Yield - Investment Grade Municipals Yield Differential



Source: Municipal Market Data.

Stability of Opportunistic Credit Assets Is Remarkable

Charles Luke, CFA
Managing Director, Senior Portfolio Manager

Opportunistic credit moved higher during the third quarter despite a rocky September for many risk markets. With election uncertainty, slimmer chances of additional federal stimulus and growing virus concerns, the stability of this asset class — driven by the demand for income in a low-rate environment — is nothing short of remarkable.

Global opportunistic credit rose 4.0% in Q3 2020 after surging 6.2% over the quarter through August.[1] More than $4.2 billion in outflows from high yield bond funds in September led the market down 2.2% from its high, but in the context of over $60 billion in inflows since March, this is hardly a trend.[2] **We believe any weakness in the market is an opportunity based upon the lack of income alternatives.** The yield differential between high yield and high quality exceeds the 2019 average by 1.1%.[3] When combined with income demand, we believe this differential is a signal of positive return momentum through Q4 2020.

Regardless of the positive return outlook, default levels remain the key to market stability, yet we expect the number of failing companies to grow. In the worst-case scenario, Moody's estimates that an additional 7.7% of the global high yield market will default over the next 12 months, peaking at 16.4% over the virus-induced credit cycle.[4] However, these expectations suggest that the market is rising despite pessimistic forecasts, signaling tailwinds to positive returns due to high investor sentiment.

Market comfortable with growing level of defaults

Bonds advance despite pessimistic outlook for failures

Positive investor sentiment provides tailwind to credit assets

Despite rising failures, **the advance of low-quality bonds over the quarter indicates the market is increasingly comfortable with default risk.** In the U.S., CCC-rated debt climbed 7.4%, followed by B and BB bonds rising 4.5% and 4.0%, respectively.[5] Energy and retail sectors account for nearly half of trailing 12-month defaults, creating opportunities in sectors with greater stability and protection from virus impacts.[6] **We believe that the concentration of failures in virus-related companies insulates the market from broad distress**, and we continue to view rising defaults as a lagging indicator of forward returns.

Footnotes:

[1]Bloomberg Barclays Global High Yield Total Return (LG30TRUU)

[2]JP Morgan

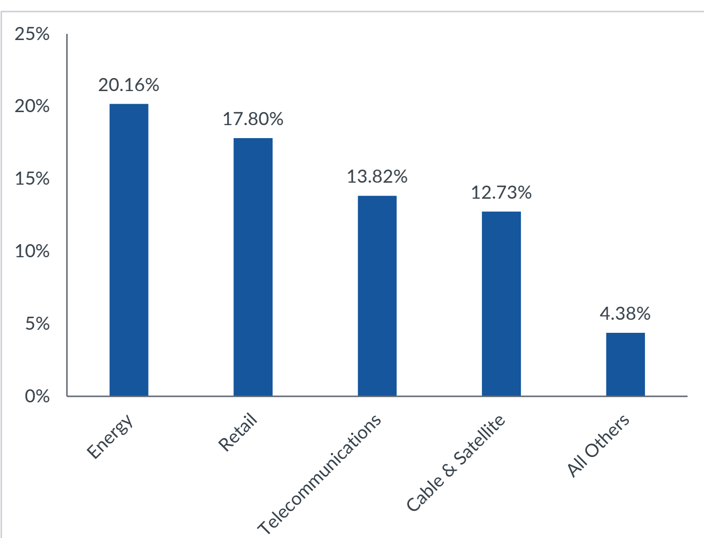
[3]Bloomberg Barclays Global High Yield OAS (LG30OAS)

[4]Moodys

[5]Bloomberg Barclays Ba US High Yield Total Return (BCBATRUU), Bloomberg Barclays B US High Yield Total Return (BCBHTRUU), Bloomberg Barclays CCC US High Yield Total Return (BCAUTRUU)

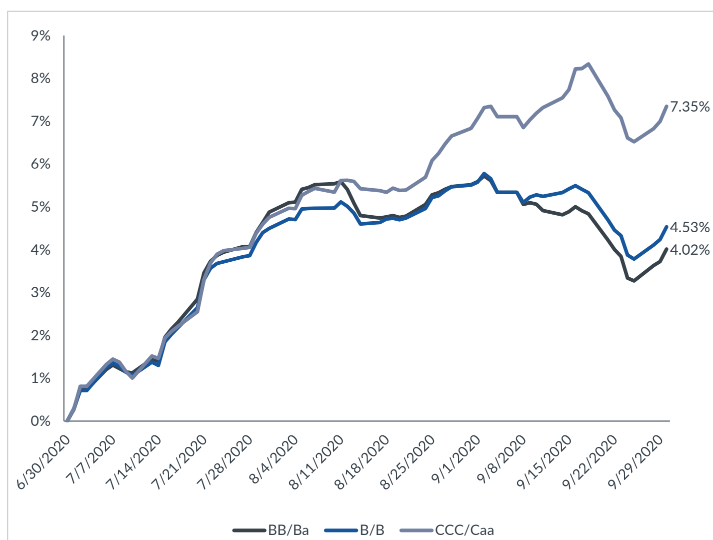
[6]JP Morgan default report

Combined Default Rate



Source: JPM Default Monitor as of September 2020.

Returns by Rating Class



Source: Bloomberg.

Dividend Stocks: Historically Attractive Valuations

David J. Abella, CFA
Managing Director, Senior Portfolio Manager

As we look back at the first three quarters of 2020, we see a strong market recovery off the lows of March and April. However, many sectors of the market have still not recovered to their pre-coronavirus levels. A couple of notable such sectors include dividend stocks and value stocks, both hit hard by the black swan coronavirus event.

From an economic and company operational standpoint, the downturn seems to have bottomed in the second quarter. As the dust settled, the City National Rochdale dividend research team was focused on owning stocks that could maintain their dividends through the downturn. This included being in steady cash flow businesses that have much of their revenue tied to essential services. In addition, **strong balance sheets with reasonable payout levels were (and are) important.**

Given the improvement in the business environment, we are looking to drive returns going forward in the 6%-9% range, driven mostly by the aggregate dividend yield and helped by both dividend growth and some equity appreciation (see chart). As a backdrop, we are encouraged by the low interest rate environment, which is forecast to last well into 2022.

Focus on income from companies with steady cash flows

Remain somewhat defensive and look for new opportunities

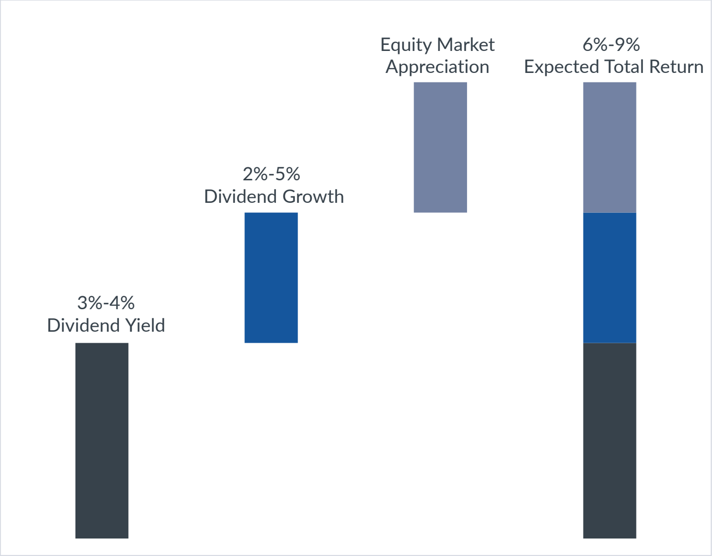
Let solid yields and compounded growth drive longer-term returns

The gap in value between dividend stocks and growth stocks is the highest since the recession of 2002. We believe this attractive valuation can support and drive solid total returns as the economy slowly recovers.

The valuations chart highlights this valuation gap (see chart). An interesting part of the gap is that it has widened as the economy stabilized in the second quarter. Going forward, dividend stocks, especially with low rates, look well poised to recover some of this gap with improvements in the economy.

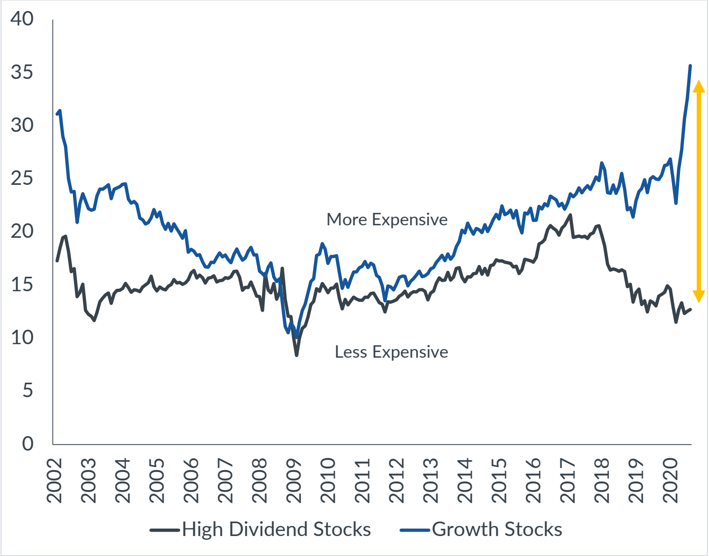
Our view is that **these attractive yields, coupled with historically low relative valuations, can help drive solid returns over time, especially as the economy continues to improve.**

Breakdown of Total Return Components



Source: City National Rochdale Research.

Valuations: High Dividend Stocks vs. Growth Stocks



Source: Bloomberg. High Dividend Stocks: Dow Jones US High Dividend Yield Index. Growth Stocks: S&P 500 Growth Index.

Index Definitions

The S&P 500 Growth Index measure growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum.

The Dow Jones U.S. High Dividend Yield Index serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.

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.

The Bloomberg Barclays Global High Yield Index is a multi-currency flagship measure of the global high yield debt market.

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

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

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