CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

Quarterly Update

ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

October 2021

IN THIS ISSUE

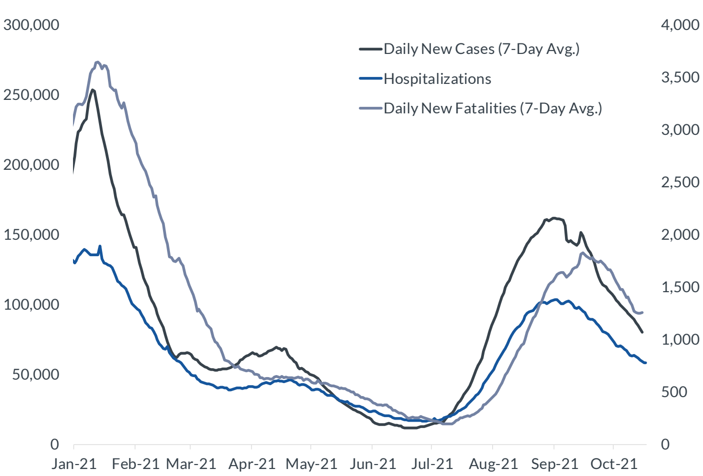
Transition to a Self-Sustaining Recovery

Tom Galvin
Chief Investment Officer

As we head into the final quarter of the year, the robust optimism that characterized the economic recovery and market sentiment in the spring has given way to a more measured outlook. The impacts of the Delta variant, fading fiscal stimulus and continuing global supply shortages have all led to a notable slowdown in economic momentum and a dip in both consumer and businesses confidence. We continue to see a durable multi-year expansion unfolding and view the recent soft patch as largely temporary, with most of the activity suppressed by shortages and virus fears merely delayed rather than lost forever. Economic demand remains strong and people are anxious to return to more normal lives. However, the setback in the recovery is also a reminder of how tethered, for now, the economy remains to the pandemic, and that near-term challenges could be a source of volatility in markets in coming months.

The most encouraging recent development for us has occurred on the virus front. Infections have dropped nearly 60% since early September, while vaccines continue to prove highly effective in reducing rates of serious illness that have stressed the nation's hospital system. Bold pronouncements about the demise of COVID-19 have invariably proved to be false dawns, as the virus has time and again refused to comply with our hopes or expectations. Yet, with vaccinations nearing 70% of the population, booster shots becoming widely available, and a green light from the FDA for vaccination use on children, we nevertheless see real reasons for optimism that the worst of the pandemic is finally behind us and that future resurgences in infections will prove less and less disruptive to economic activity.

U.S. COVID-19 Cases, Hospitalizations and Fatalities



Source: CDC.

Vaccination progress kicks off multi-year expansion

Inflation to remain elevated until second half of 2022

Expect more modest equity gains ahead and higher volatility

Fading pandemic impacts will also go a long way towards addressing the supply challenges that have weighed on both consumption and production. Although substantial stimulus has underwritten a rapid rebound in global economic activity, the robust recovery has also brought growing pains with it. International supply chains are stressed, labor shortages have emerged, and inflation is heating up, with the reopening of the economy creating a flood of demand for the same items and services coming all at once. It will take some time, but we think these issues are all solvable. Businesses are increasing capacity as more restrictions on activity are lifted, and as more production comes online, bottlenecks and price pressures will ease. At the same time, labor participation is expected to increase as pandemic stimulus savings run down, vaccination rates build and virus fears fade.

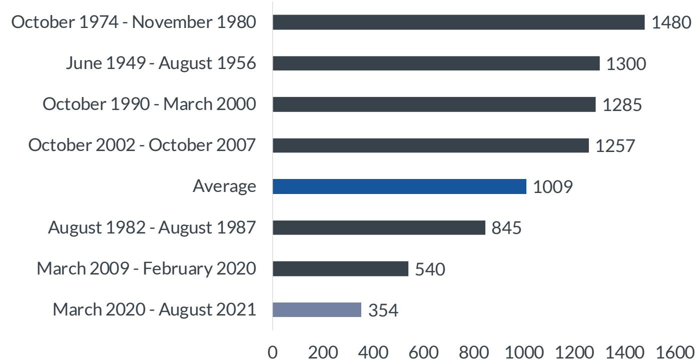
While we acknowledge that near-term price pressures have extended beyond our initial estimates, and will likely remain elevated through the first half of 2022 before supply-demand imbalances are brought back into equilibrium, we continue to believe inflation is not a long-term problem. Many of the past decade's disinflationary forces – globalization, demographics, technology adoption, etc. – are structural in nature, and a sharp recovery from the COVID-19 crisis will not change this. In the meanwhile, we think that consumers can withstand a temporary rise in costs and that the impact on the economy will be manageable. Household finances are in strong shape, with over $2 trillion in excess savings, and wages are rising at the fastest rate in more than a decade.

Over the next year, the current policy-induced recovery should give way to more organic and self-sustained growth. In Washington, another significant round of higher spending is in the pipeline, but unlike the direct stimulus of earlier pandemic relief bills, this package will be stretched out over 10 years and paid for with higher taxes. Likewise, the Fed has started down the long road towards policy normalization. Policy should remain highly accommodative for some time and rate hikes are still off in the distance, but officials appear set to begin removing some stimulus by reducing asset purchases later this year. From an investment perspective, this still broadly positive fundamental outlook remains constructive for risk assets and we continue to view stocks and high-yield credit as attractive over low-yielding investment grade bonds and Treasuries.

However, investors have enjoyed a tremendous ride since the pandemic lows of March 2020, with the value of the S&P 500 doubling in record time, and, as the economic cycle transitions to expansion, we expect the pace of gains to slow and market sentiment to be more vulnerable to potential headwinds. Indeed, concerns over Fed tapering and rising bond yields, the U.S. debt ceiling, potential higher taxes, inflation pressures, slowing economic and earnings growth projections, and Chinese property markets have all played a role in driving recent volatility and the market's first 5% pullback in nearly a year. The list is long, but we don't think these concerns pose a significant threat to the long-term outlook, and that the steadiness and strength of the rally over the first half of the year has probably prompted more headlines and worries than are necessarily warranted.

Still, for now investors have more questions than answers, and a more balanced landscape of risks does raise the prospect of further volatility in coming months, as well as a potential market correction. Corrections, though, are often healthy events,

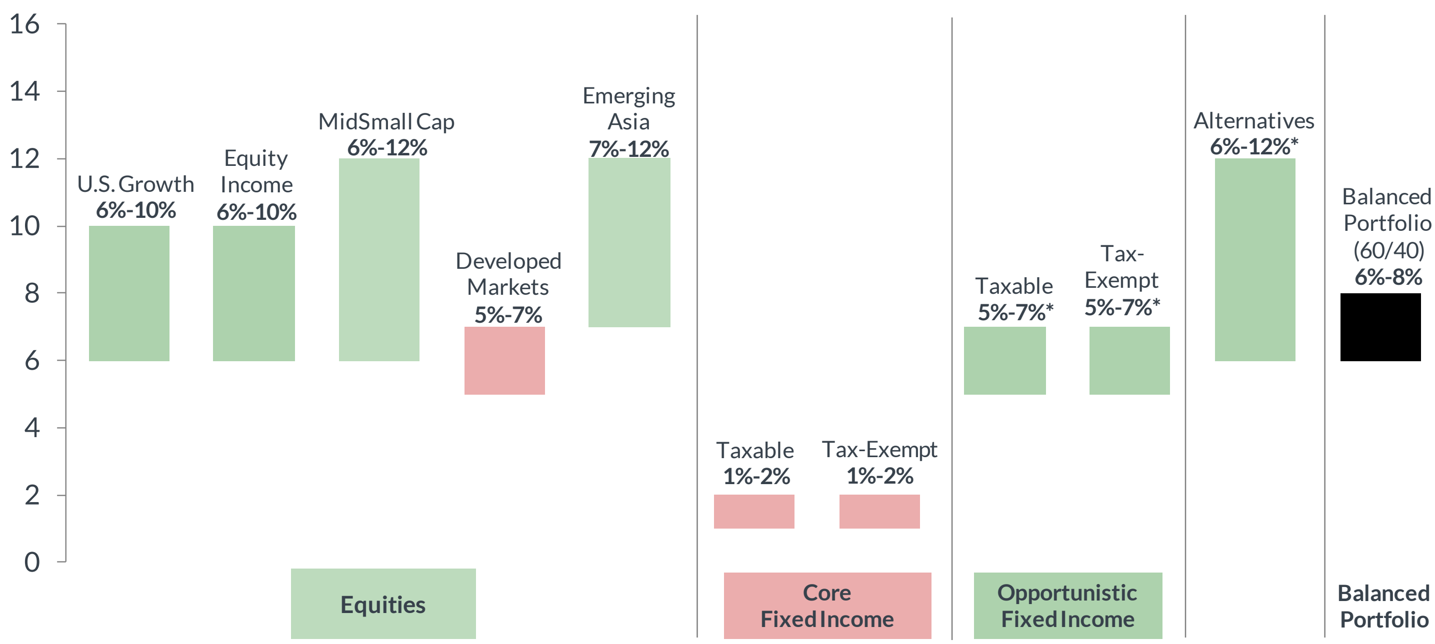
Number of Trading Days for New S&P 500 Bull Market to Double



Sources: FactSet, Bloomberg.

helping to eliminate excesses that have built up after extended periods of market optimism and setting a firmer foundation for future gains. Even the best markets need a breather now and then. We think this bull market still has a lot of room to run, and that the combination of sustained economic growth, robust earnings and ongoing policy support will remain a tailwind for stock prices. We're still a lot closer to the beginning of this expansion than we are to the end, and investors may want to use any weakness ahead as an opportunity to add to core positions.

Near-Term Forecasted Expected Returns
%



Source: City National Rochdale. As of September 2021. Forecasted expected returns represent City National Rochdale's opinion for these asset classes, are for illustrative purposes only, and do not represent client returns. The expected returns presented for these asset classes do not reflect any deductions for City National Rochdale fees or expenses. Actual client portfolio and investment returns will vary.
*Forecasted expected returns for HY Municipal and Municipal FI represent the taxable equivalent return at a 43.4% tax rate.

A Taper Without a Tantrum

Paul Single
Managing Director, Senior Economist, Senior Portfolio Manager

The Fed is reducing stimulus, not tightening

The Fed has prepared the markets for this tapering move

The Fed will remain accommodative until their maximum employment goal is reached

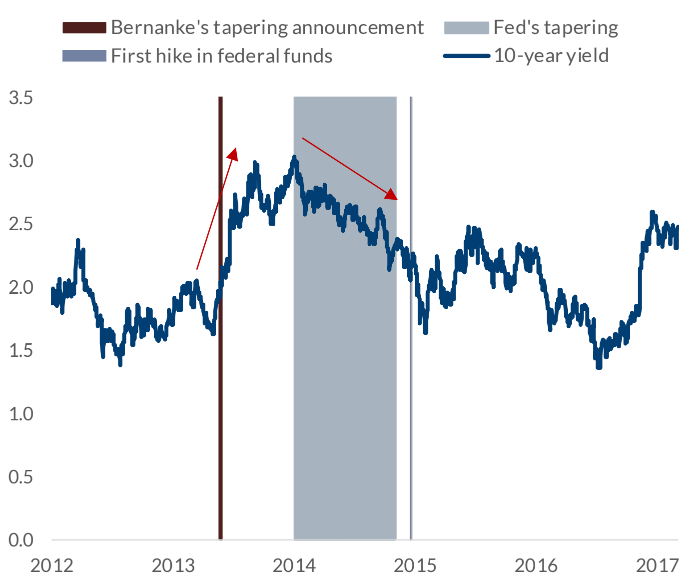
In early November, the Fed is expected to announce the planned reduction of future bond purchases. This move simply reduces the amount of stimulus the Fed provides the economy; **it is not a tightening of monetary policy**. Since May of 2020, the Fed has been buying $120 billion in bonds each month to help drive down intermediate- and longer-term interest rates and provide liquidity to the markets.

The Fed has taken baby steps in preparing the market for the eventual end of these asset purchases. Since December of last year, the Fed has been talking about the conditions needed for the taper. This past April, the Fed indicated that the FOMC would begin discussions about tapering, and they spoke about it during their summer meetings. In September, they announced plans to make a formal announcement at their Nov. 2-3 meeting and commence shortly afterward. The bond-buying is expected to end by mid-2022.

The Fed is trying to avoid the "taper tantrum" that occurred the last time they announced a reduction in their bond-buying program. Many at the Fed believe poor communication caused the famed 2013 taper tantrum, and they did not want it repeated. Back then, a reactionary panic forced 10-year yields to increase about 100 bps, and caused financial conditions worldwide to tighten. That triggered a significant economic decline in the U.S., a second European debt crisis and credit problems in the emerging markets. At the end of that tantrum, it was realized that the panic was unjustified and the Treasury market recovered, with 10-year yields dropping 70 bps during the 10 months of tapering.

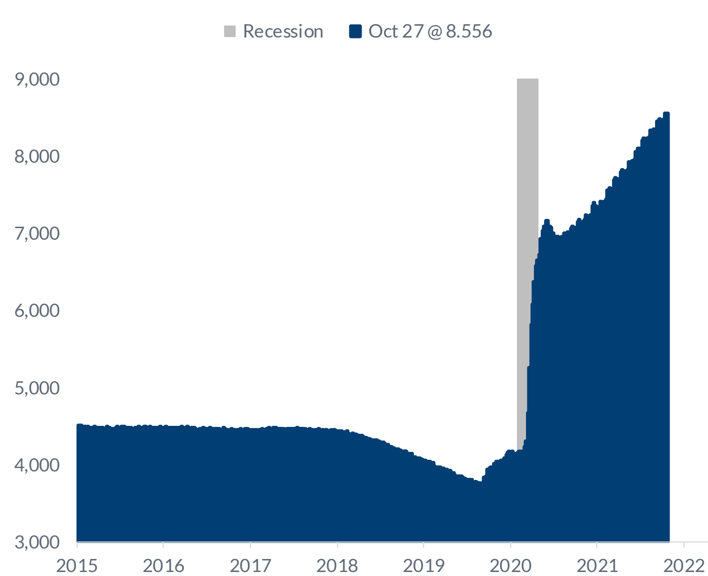
With the combination of the large balance sheet and the low level of federal funds, **the Fed still provides a very high level of stimulus to the economy**. Moreover, they have made it abundantly clear to the markets their plans to stay accommodative until they reach their dual goals of inflation above 2.0% for a sustained period (they have probably reached this goal) and maximum employment (they have not reached this goal).

10-year Treasury Yield
%, yield to maturity



Source: Federal Reserve.

Fed Balance Sheet
$, billions, not seasonally adjusted



Source: Federal Reserve.

Equity Income: Relative Outlook Remains Bright

Tom Galvin
Chief Investment Officer

David Shapiro
Senior Equity Analyst

Tony Hu
Senior Equity Analyst

Dividend stocks have outperformed this year, with the Dow Jones U.S. Select Dividend Index (DJDVP) up +22.7% compared to the broader market, up +15.9%. This was not a complete surprise to us, as our favorite indicator of historical relative valuations – the spread of dividend stock yield to that of rates available from the broader market, Treasuries and corporate bonds – remained at highs materially above the long-term average at the beginning of 2021. Mean reversion has since fueled a good portion of the relative outperformance. And with spreads remaining above average compared to equities and fixed income, we see room for spreads to continue to mean revert.

Attractive income is difficult to find in today's low interest rate environment. We believe that offering a portfolio yield of 3.5%-4.0% in today's market fills the gap between what is otherwise available from the broader equity market and the various risk levels of fixed income. We also believe that a portfolio yield in this range allows us to take advantage of the benefits of dividend equities to total returns. Specifically, **we can target the superior long-term, risk-adjusted returns possible from dividend equities without taking the risk of unsustainable dividends** that might be present at the highest equity yields. Over the long term, we also expect attractive income growth from the portfolio.

Generate growing income from companies with resilient-free cash flow

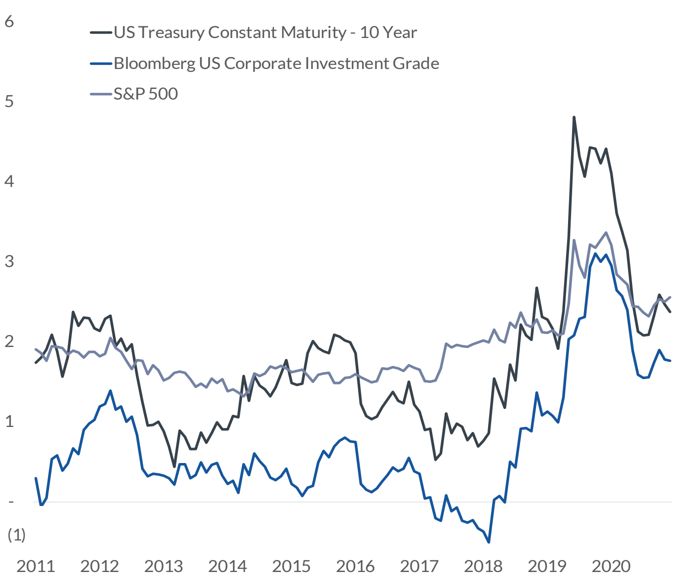
Above-average yields and compounded growth can drive longer-run returns, increasing potential equity appreciation

Dividend yield spreads suggest further room for mean reversion

We get there by incorporating CNR's proprietary quantitative methodologies into our process to ensure we are constructing a portfolio made up of those companies best poised to deliver sustainable and growing free cash flow and earnings in current and potential economic and market environments. This helps to protect against unexpected surprises in either the market or the economy and aids our focus on sustainable, growing dividends.

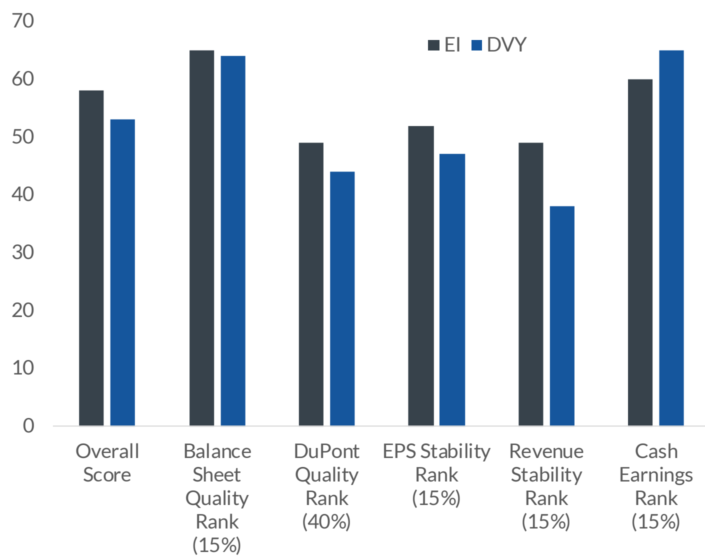
Currently, our outlook is for modestly rising interest rates and ongoing economic expansion. **To better position the portfolio to benefit from economic growth, we have reduced our defensive tilt.** We have deployed our rising rate playbook, which calls for an emphasis on adding dividend growers to the portfolio when all else is equal in terms of our thorough assessment of quality and valuation.

Dividend Stock Yield Spread
%



Source: FactSet as of September 30, 2021.

Emphasis on Quality
Higher score equals higher quality



Sources: FactSet, Bloomberg as of September 30, 2021.

Yield Rise and Opportunistic Income Continues to Climb

Charles Luke, CFA
Co-Director, Fixed Income

10-Year Treasury rates ended the quarter at 1.53%, 0.07% higher than June 30. Inflation and its influence on rates dominated the headlines, and concerns over global energy supply sparked a swift increase in the price of crude oil, which has a strong short-term correlation to 10- and 30-Year Treasury yields. Continued jitters around inflation and supply chain impacts from the Delta variant have helped create a high level of sensitivity within high-grade fixed income to price-related measures.

We continue to believe that post-virus prices will be stable and that inflationary forces will not become persistent. However, increases in the Fed's preferred measures of inflation, notably PCE Core inflation, up 3.6%, and the 5-Year Forward, up to 2.28%, have been stickier than expected.

In the near term, this will negatively affect investment grade fixed income. The cumulative Q3 2021 return within investment grade fixed income peaked at 1.37% by early August, but then fell 1.32% to finish the quarter up just 0.05%. **We continue to recommend global opportunistic credit, as it has a strong history of rallying in a rising rate environment**.

During the last Federal Reserve tightening cycle, from December 2015 to December 2018, opportunistic credit returns significantly outperformed investment grade markets. High Yield Corporates, Leveraged Loans, High Yield Structured Credit and Emerging Market High Yield rose 7.2%, 4.8%, 11.0% and 6.53% annualized, while the aggregate high-grade bond market was up only 2.11% annualized. During the start of the post-COVID-19 economic recovery, this relative trend has returned, with the same asset classes outperforming high-grade fixed income by 16.39%, on average.

Opportunistic credit outperformed during last Fed tightening

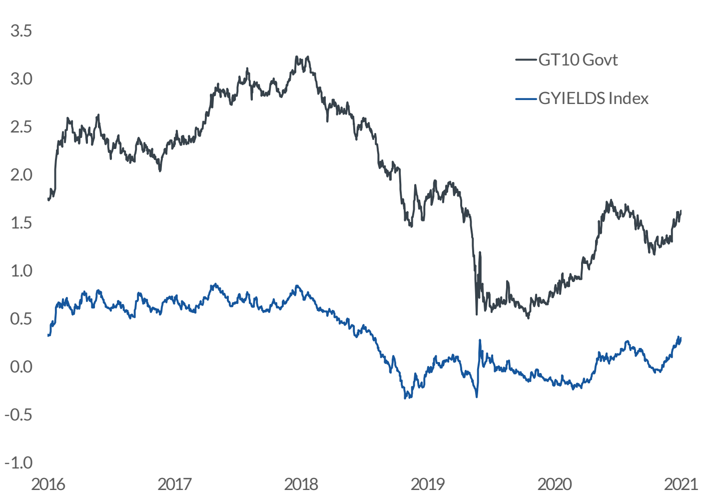
High-grade fixed income sensitive to COVID-19, supply chain concerns

Credit somewhat less sensitive to equity market volatility

Not only has credit experienced a surge, but its sensitivity to the equity market has also been absent, a departure from previous periods. During the equity volatility in Q3 2021, high yield bonds were remarkably resilient, and while concerns over Chinese issuers have caused a slight negative impact, year-to-date returns are still outperforming investment grade by a wide margin.

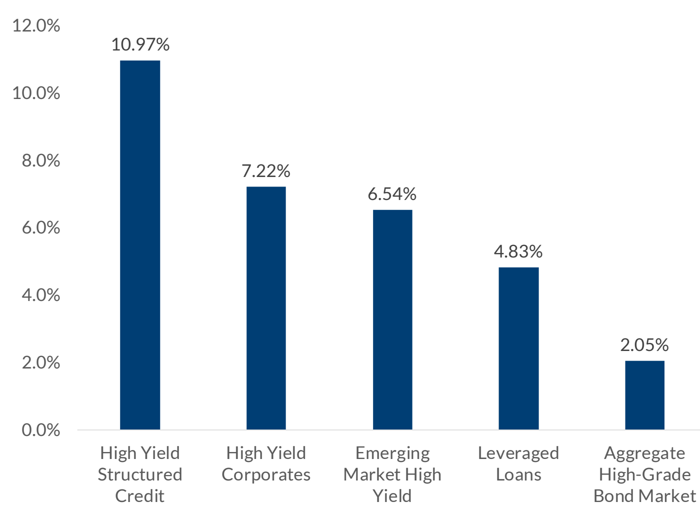
Overall, **taxable fixed income markets are poised to benefit from the continued expansion, especially within opportunistic credit sectors**.

US 10-Year Treasury Yield vs. Global Developed Market Yields



Source: Bloomberg.

Opportunistic Credit Annualized Returns
December 31, 2015 — December 31, 2018



Source: Bloomberg.

Municipals Carefully Charting the Course

Michael Taila
Co-Director, Fixed Income

Rates and policy are likely drivers of performance through year-end

Shifts in market sentiment should lead to opportunities

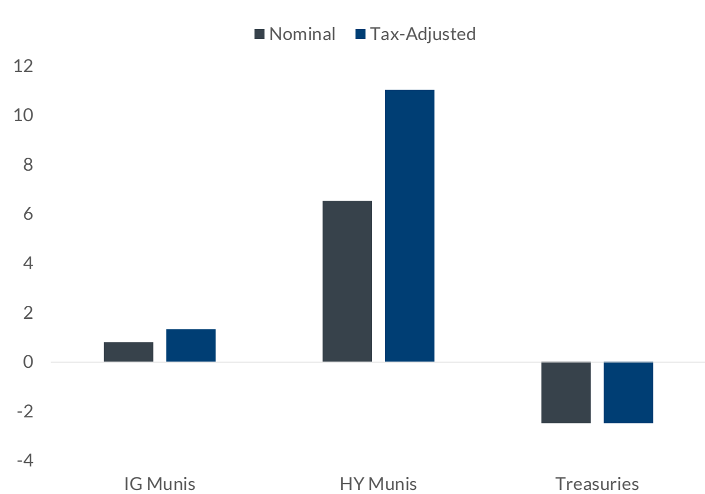
Credit quality is fundamentally stable

Municipal bond performance retreated during the third quarter after months of gains. Market volatility was on full display as rising prices in July gave way to back-to-back losses during August and September that seemingly pointed to a downbeat narrative. Nevertheless, nominal and tax-adjusted returns remain positive on the year for investment grade (IG) and high yield municipal (HYM) bonds, with strong relative performance versus other fixed income asset classes demonstrating value within investor portfolios. Some downside risks could affect municipal performance in the final quarter, with longer-term resolution of the federal debt ceiling, inflation levels, Delta variant and potential Fed tapering all likely leading to continued rate volatility. **We expect active markets to conclude the year with municipal bonds delivering stable income and diversification to investors**.

Market participants have endured nearly eight months of positive fund flows and insufficient bond supply, causing absolute yields to fall and spreads to tighten. However, a September selloff in Treasuries led municipal benchmark yields to climb higher, resulting in municipal-Treasury ratios reaching their most attractive levels since March. **With considerable cash on the sidelines and likely rate fluctuations persisting into the fourth quarter, we view market dislocation as an opportunity for investors to exploit cheapening municipal valuations as they occur**. Despite rate and market flow risk, which could impact investor sentiment, we expect the technical underpinnings of municipal bonds to absorb volatility and remain resilient over the near term.

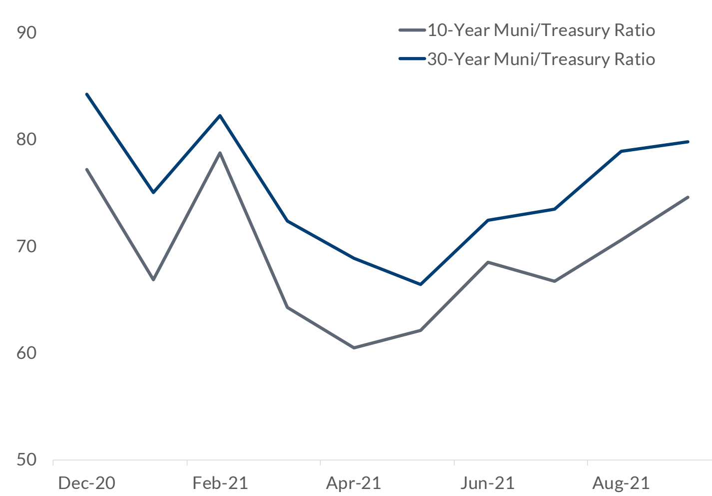
Municipal bond credit quality is currently healthy, with fundamentals well-positioned from an open economy and better-than-expected budget performance due, in part, to federal stimulus. According to data provided by Municipal Market Analytics, year-to-date defaults and impairments are running below their 2020 levels, while rating agency assessment and outlook revisions are shifting towards stabilization and positive actions. Against this more constructive backdrop, any weakness in rates or waning and negative fund flows within the municipal market could cause spreads to widen, potentially diminishing price performance. However, in our view, amid a stable credit environment, any added risk compensation is an opportunity for investors.

YTD 3Q2021 Tax-Adjusted Muni Performance a Bright Spot
%



Source: Bloomberg Barclays.

Muni/Treasury Ratios Recovering to More Attractive Levels
%



Source: MMD.

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.

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.

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.