CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

APRIL 2022

ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES

QUARTERLY UPDATE

IN THIS ISSUE

Will Inflation and Rising Interest Rates Cause a Recession?

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

It depends.

We have a good understanding of the forces driving inflation today. We think most of the inflationary forces are likely to abate over the next 12–18 months.

However, there are two inflation components that might not lessen enough before higher rates cause the economy to slow down meaningfully. The ability of the Fed to achieve the right degree of slowing to the economy will require prescient handling.

Several inflationary forces are a result of the pandemic and the lack of supply for various goods and services. We anticipate these forces will naturally abate over the next 12–18 months.

Two inflationary components, oil prices and rising wages, are likely to produce higher interest rates, which will slow demand and weaken inflation forces. The Fed cannot alter the supply of oil nor the supply of workers. The Fed can impact the demand for oil and the demand for workers. How high rates will need to rise to bring down demand for oil and workers will determine whether or not the economy can continue to grow.

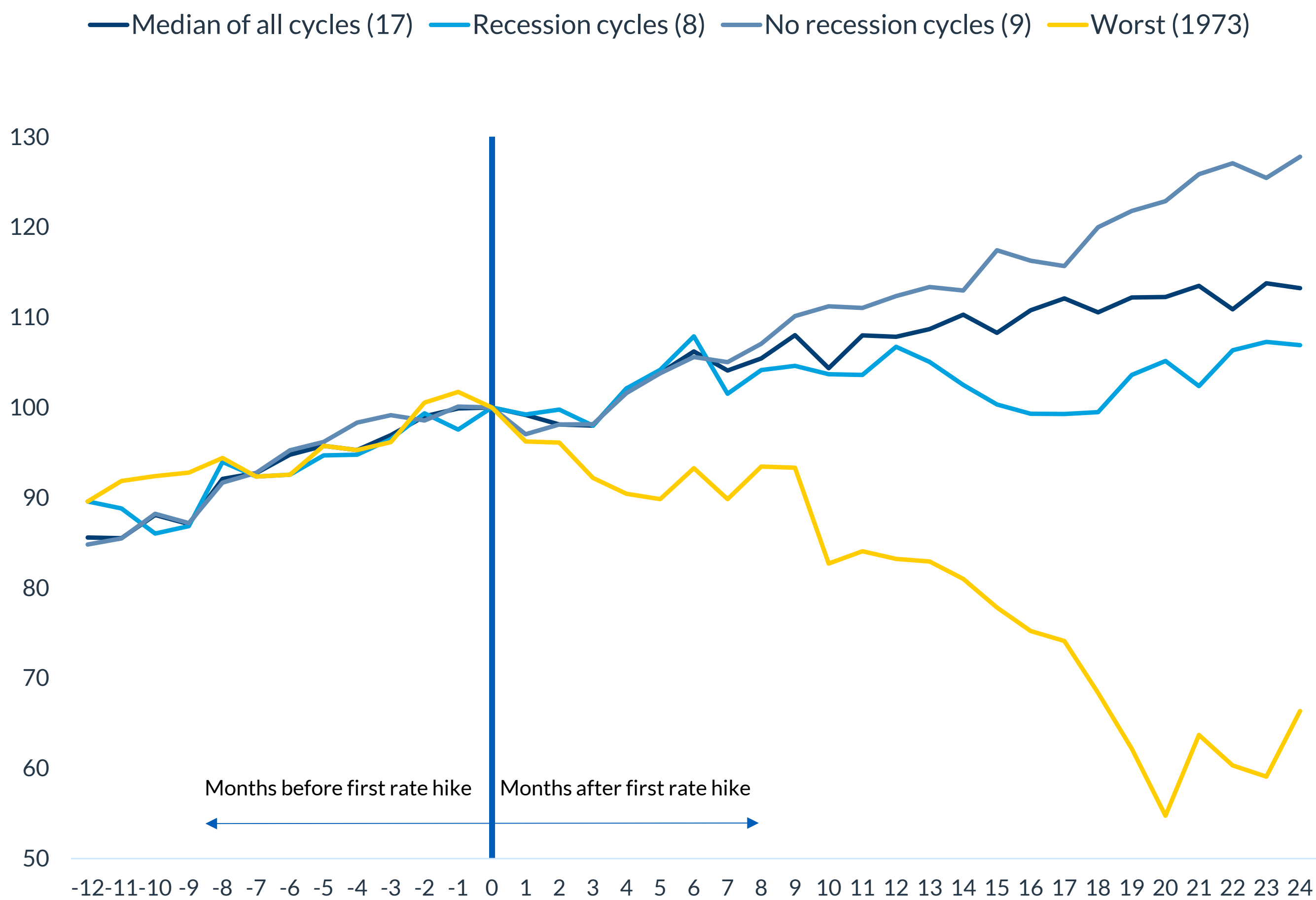
The price for oil/ gas is likely the most uncertain because no one knows what actions Russia will take with regard to their supply of oil. Beyond Russian supply, there is a factor that might cause sustained high oil prices — supply/demand imbalances that will last for at least the next 1–2 years.

As for wage inflation, there is uncertainty as to the supply of labor meeting the demand. Given structural changes in the working population, we do not see a resolution to the lack of workers. As wages increase, the costs of goods and services increase. If businesses can offset rising wages through enhanced productivity, then rising wages might not cause too much inflation. Until we see the next few quarters of labor market dynamics, we are uncertain as to how high interest rates will need to go to weaken demand for labor and slow wage inflation.

What matters for equity investors is whether or not the economy can continue to grow. Achieving just the right amount of interest rate increases depends on the Fed reaction function not causing a recession. History shows this is not easy to achieve. Equity returns have historically been positive during rising rate periods if there is no recession. If recession risks increase, then equity returns have downside risks.

(See chart below, which separates no recession cycles from recession cycles.)

Median S&P 500 Level Before and After First Rate Hike
(1954-2018, normalized, with level at first hike =100)



Source: RBC Global Asset Management, RBC Wealth Management, Bloomberg;
data range: 1954-2018, normalized, with level at first hike =100

Market Update: Risks Rising to Virtuous Cycle between Corporations and Consumers

Tom Galvin
Chief Investment Officer

For some time we have felt that the secular strength in the US economy would offset high levels of inflation during the first half of the year and drive growth into 2023. Rising corporate profits have led businesses to increase investment and hiring, which is supporting spending by consumers and, in turn, further profit growth. While this remains our base case, **we now see risks rising to a continuation of the virtuous cycle between corporations and consumers, especially from a more hawkish Fed and slowing economic growth on a global basis.**

So what are the primary areas we are keeping our eyes on that could cause us to shift our economic outlook and portfolio positioning?

High on our list are further disruptions to global commodity supplies from the Russian-Ukraine conflict that could exacerbate already high inflation here at home (see CRB Commodities Index chart). **In addition to uncertainty on oil prices, upward pressure on food prices is increasing in probability** as a result of likely interruptions to the spring planting season in Ukraine and rising prices of fertilizer due to the high price of oil. Unlike oil, agricultural products do not have a high level of potential extra reserves to fall back on. While Europe has significantly more commodity exposure to the Ukraine crisis, the US is not completely immune given the global nature of the commodities market and that spending on food in the US is a higher percentage of GDP than energy.

Another risk to our inflation forecast comes from China's latest bout with COVID-19, which is not only hurting domestic economic activity in that country, but will negatively impact the global supply chain at a time when things were just starting to improve. Should these risks materialize and inflation not trend lower, it would increase the challenge for Fed officials trying to get inflation under control. Relatedly, **we are watching closely to see whether cyclical pressure from Ukraine and China become secular trends.** Will national security responses to both the Ukraine crisis and China's COVID-19 outbreak lead to more de-globalization, with investment in domestic markets further increasing demand for labor?

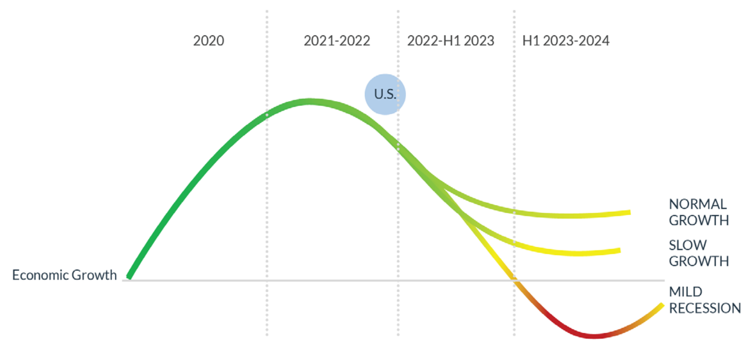
The relative advantages the US economy enjoys versus other regions of the world remain foundational to our asset

KEY POINTS

- Risks Rise from Tightening Fed, Slowing Global Growth
- Advantages of US Economy Drive Asset Allocation
- Uncertain Times Require Vigilance, Adaptability

allocation. In equities, this view supports our emphasis on US high-quality companies selling at reasonable prices that can both continue to grow earnings and dividends at an above average pace, and that also have durable franchises and strong management teams to weather a recession should one occur. The strength in the US economy should also minimize credit risks in both the corporate and municipal fixed income markets across the yield spectrum. However, **because the outlook beyond the first half of 2023 is increasingly clouded, we have broadened our range of potential outcomes from normal growth, to slower and a milder recession.** As stewards of capital we remain vigilant during these uncertain times and are prepared to adjust course should the risks to the outlook described above materialize, or should another exogenous shock occur that would negatively impact the virtuous cycle that exists with corporations and consumers.

Where Are We Heading?



For illustrative purposes only, not a specific forecast.
Source: CNR Research

CRB Commodity Index

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

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.

Equity Markets Correct in First Quarter

Tom Galvin
Chief Investment Officer

After a very strong 2021 for the S&P 500 and for our US Core Equity strategy, we were expecting a corrective process for the markets and a period of relative underperformance to occur.

The combination of rising interest rates, a more aggressive Fed and geopolitical uncertainties combined to produce negative returns in Q1 for equities on a global basis. During Q1 the US Core Equity strategy declined 8.9%, underperforming the S&P 500 by 3.9%.

There were three reasons for this. The first was our style tilt. Foundational to our success over many years has been our emphasis on quality companies. **After outperforming strongly in 2021, quality stocks underperformed as the market shifted to lesser quality and more cyclical stocks.** The MSCI Quality Index was down 9% in Q1, matching our strategy. The second was stock selection. Some of our biggest 2021 winners experienced corrections that were driven by valuation compression. Fundamentals remained solid. Sherwin Williams (SHW), Home Depot (HD), Charles River Laboratories International (CRL), Zoetis (ZTS) and Trane Technologies (TT) were up 49% on average in 2021. In Q1, these stocks declined 20% on average and accounted for 63% of the underperformance. The rest of the underperformance was driven by a meaningful underweight in energy, which we have since reduced.

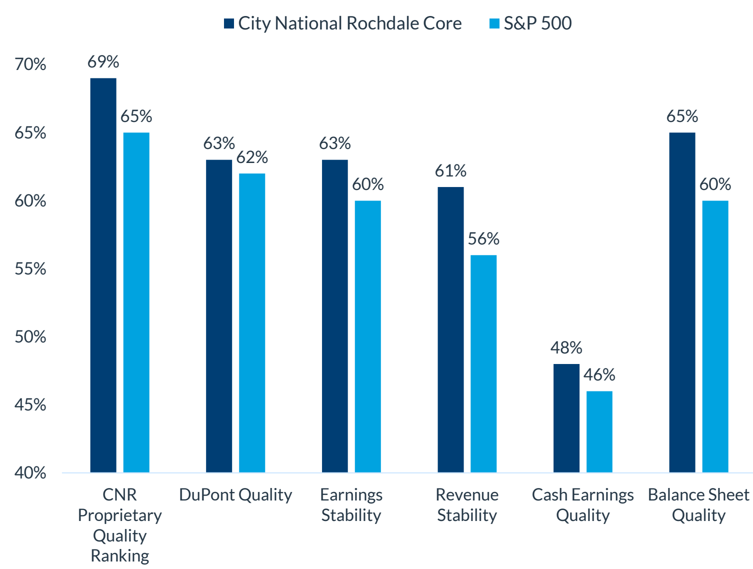
Indices are unmanaged, and one cannot invest directly in an index. Index returns do not include fees for trading costs (i.e., commissions) or any fees charged by your financial advisor, custodian, City National Rochdale or other third-party managers, and if they were included would reduce the returns.

With the underperformance in Q1, **valuations of our holdings have become more attractive.** Our price earnings growth level compared to the S&P 500 at the end of December was 1.26x and now stands at 1.17x, a level that is more in line with our higher quality rank. As illustrated, **Core Equity maintains a solid premium to the S&P on key quality metrics such as revenue and earnings stability and cash flow conversion.** This enhanced valuation, along with steps taken to reduce our exposure to Europe, enhances the outlook for the strategy. **For the long term, we believe our focus on quality companies will continue to drive outperformance.**

KEY POINTS

- Valuations more attractive for Core Equity holdings
- Rising rates, aggressive Fed, geopolitical uncertainties hit markets
- Fundamentals remain solid for companies in our strategy

CNR Proprietary Quality Rankings



Source: Factset, CNR Research.

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.

Equity Income: Checking in on Dividend Stocks after a Volatile 1Q

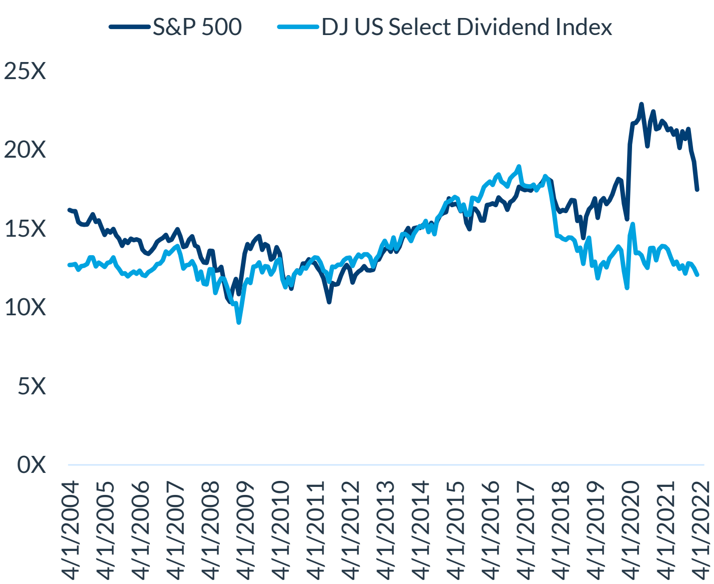
David Shapiro
Senior Portfolio Manager

Tony Hu, CFA, FRM
Senior Portfolio Manager

Amidst a volatile market, here's an early assessment of dividend stock performance so far this year relative to our outlook.

How did we envision the year playing out and where do we stand three months in? Our 2022 outlook discussed expectations for higher volatility, and we've certainly seen that.

Valuation Comparison: Fwd P/E



Source: Factset
P/E: price-to-earnings ratio

DJ US Select Dividend Index: Dow Jones US Select Dividend Index

We expected robust economic growth to continue, but moderate. It remains above trend, which we see continuing but with further moderation. A contributing factor is **inflation, which looks to be elevated for longer**, partially driven by the Russia-Ukraine conflict. Interest rates have risen, with the start of Fed increases making that true across the yield curve.

We have seen our portfolio companies continuing to execute well amidst the challenging environment. Dividend growth has exceeded expectations, moving toward the upper end of our long-term range of mid-single digits.

Dividend stocks have held up well. Our benchmark, the Dow Jones U.S. Select Dividend Index, ended 1Q22 up 5.4%, materially outperforming the broader market. Why? A few factors.

First, yield spreads relative to the broader market remained very elevated as 2022 began, and we have seen some mean reversion*. Second, **rising rates have impacted valuations for long-duration equities**, where future earnings and returns are a more substantial portion of overall value. These are growth companies. Dividend stocks pay out from free cash flow in the nearer-term, and are less impacted. **S&P Value, with characteristics similar to dividend stocks,**

Mean Reversion or reversion to the mean, is a theory used in finance that suggests that asset price volatility and historical returns eventually will revert to the long-run mean or average level of the entire dataset.

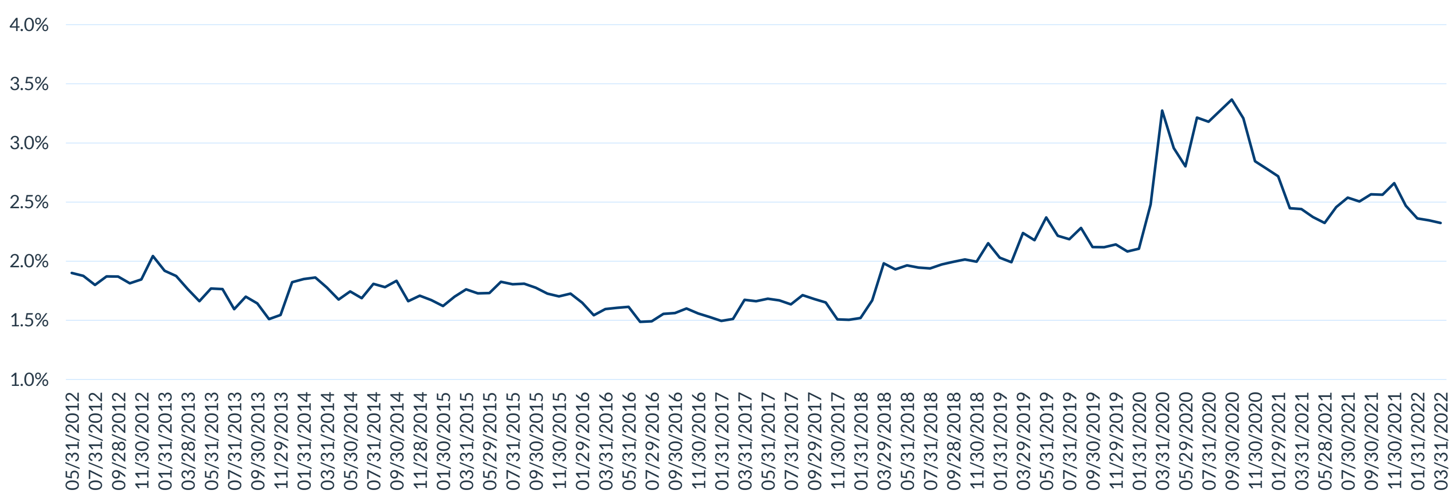
has outperformed growth by 8% year to date (YTD). We have seen some **further mean reversion of high-multiple stock valuations**, closing a little of the gap highlighted in the nearby chart. Third, **the three sectors most materially overweight in the dividend index are utilities, financials and energy**. Inflation and rising interest rates benefit the latter two, while volatility and geopolitical turmoil have benefited the first. These sectors are among the top performers year to date.

With the forward outlook similar to where it began the year and despite some mean reversion, valuation gaps and yield spreads for dividend stocks remain elevated, and we continue to like the outlook for generating income from companies with resilient, growing free cash flow.

KEY POINTS

- Despite some mean reversion, valuation gaps and yield spreads remain ongoing tailwinds relative to the broader market
- Generate income from companies with resilient, growing free cash flow
- Remain positioned for economic growth, inflation and interest rates, all elevated but moderating

Dividend Stock Dividend Yield Spread vs. S&P 500



Source: Factset

Opportunities in the Midst of a Painful Sell-Off

Charles Luke, CFA
Managing Director, Co-Director, Fixed Income

The global bond market has resumed its longest and deepest pullback in 40 years. Since August 7, 2020, the 10-year US Treasury Yield[1] has increased 1.9%, a staggering jump at a time when bond price sensitivity was at all-time highs.

KEY POINTS

- **Since August 7, 2020, the 10-year US Treasury Yield has increased 1.9%, a staggering jump while bond price sensitivity was at all-time highs.**
- **We recommend holding positions in short-term government debt like US Treasury Bills, whose rates are highly correlated to the Fed Funds rate.**
- **The difference between US high-yield corporate rates and comparable Treasury benchmarks is 1.92% below its 10-year average, signaling that the market is comfortable with credit risk.**

Over this time frame, the Bloomberg US Aggregate Bond Index[2] was down 8.7% peak-to-trough before rallying modestly by 1.0% to end the quarter. The next largest pullback occurred in 1994 when the Federal Reserve surprised markets with unexpected rate hikes, not dissimilar to the abrupt, hawkish shift of the current Federal Open Market Committee.

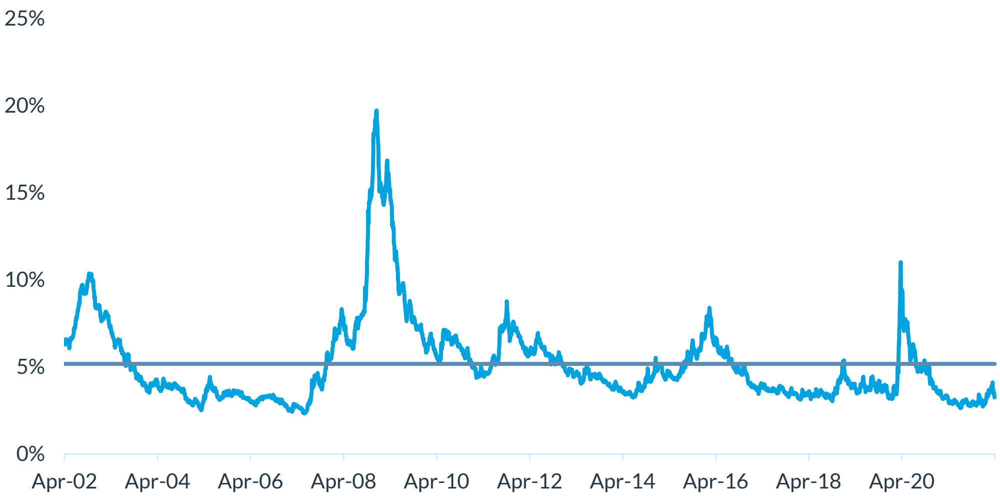
Despite the damage done by rising rates, strong sell-offs are typically followed by strong recoveries, and yields on high-grade bonds are the highest in nearly four years. On average, after bottoming, bonds[3] rally 14.7% over the next 12 months and recover losses in just over 100 days.

Outperformance should continue in leveraged loans[4] and collateralized loan obligations (CLOs)[5], which benefit from very low interest rate exposure. These markets were defensive over Q1, falling just 0.10% and 0.20%, respectively. The biggest losses came from emerging market debt[6], which fell between 9.0%-10.0% as the flight-to-quality resulting from the war in Ukraine caused an exodus from sovereign and corporate credit.

We continue to recommend asset classes with low interest rate sensitivity, primarily leveraged loans, CLOs and short-term US high yield corporate bonds. We also recommend holding positions in short-term government debt like US Treasury Bills, which have rates that are highly correlated to the Federal Funds rate. During Federal Reserve tightening cycles, these investments offer attractive yields with minimal market risk.

Our recommendation to tilt toward high-yield assets is underpinned by a strong credit environment. Dollar-weighted default rates[7] have fallen to 0.21% in the US and remain low in Europe at 0.53%, a sign that contagion from geopolitical events remains contained. Further, the difference between US high-yield corporate rates[8] and comparable Treasury benchmarks is 1.92% below its 20-year average, signaling that the market is comfortable with credit risk.

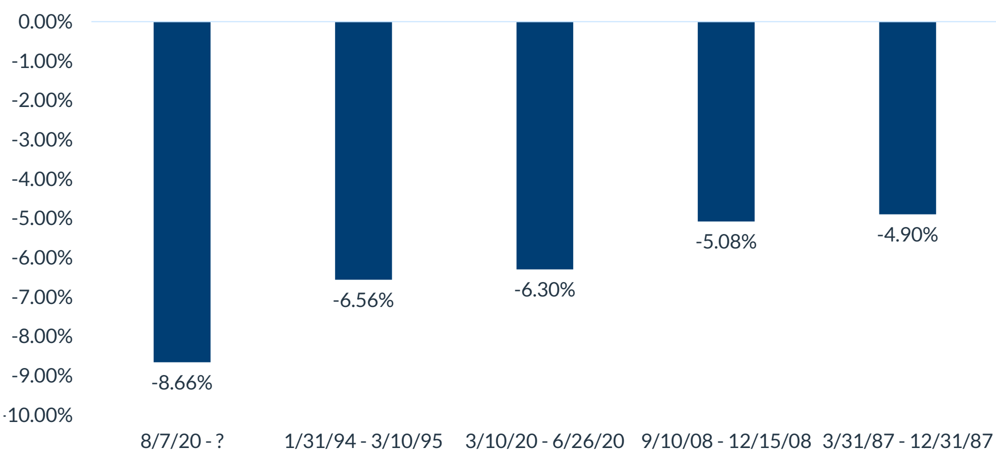
US High-Yield Spreads Remain Below 20-Year Averages



Source: Bloomberg U.S. High Yield Corporate OAS – LF98OAS Index

[1] Bloomberg Ticker "GT10 Govt"
[2] Bloomberg U.S. Aggregate Bond Index "LBUSTRUU Index", For -8.7% drop, Aug. 7 2020 – Mar. 31, 2022, For 1.0% gain, Mar. 25, 2022 – Mar. 21, 2022
[3] Bloomberg U.S. Aggregate Bond Index "LBUSTRUU Index", Average of the next five largest drawdowns over 40 years
[4] S&P LSTA Leveraged Loan Index "SPBDAL Index"
[5] Palmer Square BB CLO Index "PCLOBBTR Index"
[6] ICE BofA High Yield US Emerging Markets Corporate Plus Index "EMUH Index" ICE BofA US Emerging Markets External Sovereign Index "DGOV Index"
Measured YTD
[7] Moody's Analytics, Monthly Default Report
[8] Bloomberg U.S. High Yield Index OAS "LF98OAS Index"

Largest Drawdowns Over Past 40 Years
Bloomberg US Aggregate Bond Index



Source: Bloomberg US Aggregate Bond Index

Past performance or performance based upon assumptions 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.
Index returns do not include fees for trading costs (i.e., commissions) or any fees charged by your financial advisor, custodian, City National Rochdale or other third-party managers, and if they were included would reduce the returns.

First Quarter Challenges to Municipals May Fade Away

Michael Taila
Co-Director, Fixed Income

Market volatility left no stone unturned as broad asset class weakness led to lower prices and challenging performance during the first quarter. The Fed began its highly anticipated rate-tightening campaign to rein in accelerating inflation while rising global risks contributed to the noticeable backup of yields across fixed-income markets.

As investors reassess the market trajectory, treasuries and municipals will likely ebb and flow in response to monetary and fiscal policy changes and expectations for the sustainability of the current economic expansion. **Despite a difficult start to 2022, we see potential catalysts on the horizon for long-term investors to engage the municipal market as nominal yields and bond valuations of investment-grade (IG) and high-yield municipals (HYM) advance to levels not seen since at least 2020.**

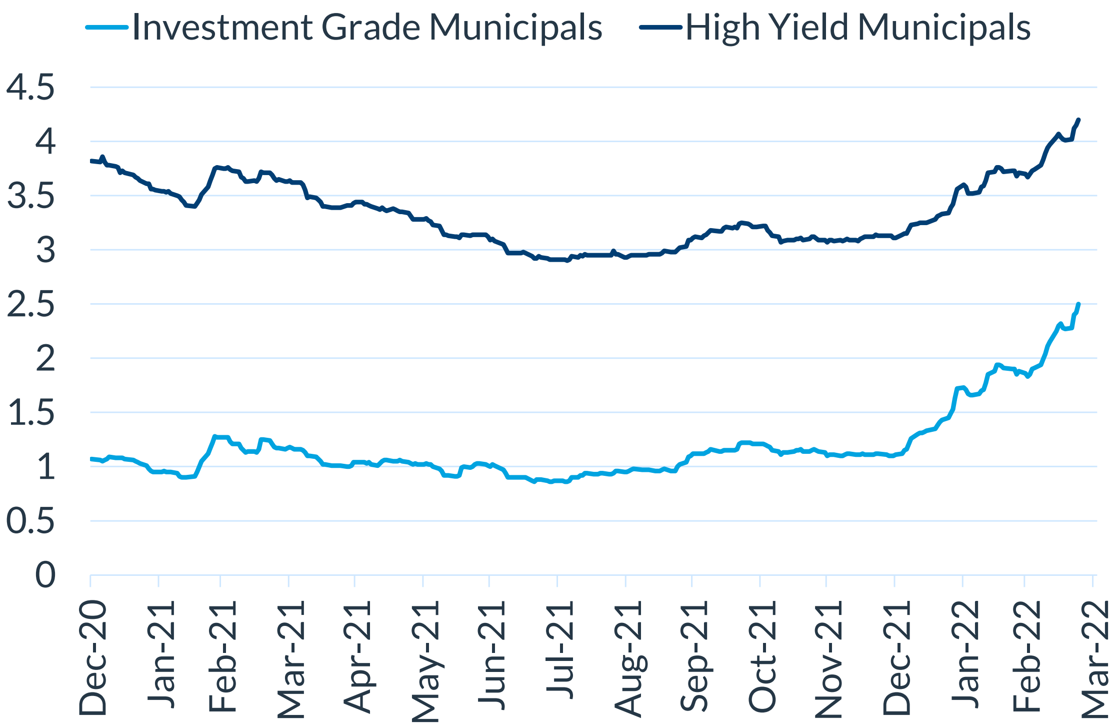
IG and HYM bond yields increased more than 100 bps across the curve throughout 1Q2022, with credit spreads widening moderately amid the most significant cumulative market outflow activity since 2020. With added selling pressure from seasonal tax payments (i.e., tax-loss swaps), the market is confronting a price discovery period, offering investors an opportunity to upgrade credit quality and structure (e.g., coupon) while booking more attractive yields. Going forward, market volatility and liquidity challenges may very well create investment headwinds. **However, if municipal pricing breaks away from the Treasury market as a more attractive technical environment takes hold, we could see an improved tone with perhaps extended outperformance.** Additional downside risks could develop over the near term as the market digests Fed lift-off and geopolitical implications, particularly the Eastern Europe crisis.

Against this backdrop, the credit quality of IG and HYM bonds is benefiting from continued economic growth and more robust revenue performance vis-à-vis budgetary surpluses. **State and local governments and municipal enterprises are further enjoying the availability of federal resources from the American Rescue Plan Act of 2021, among other stimulus programs.** Rating activity skews positively while stress indicators remain low across most market sectors. We continue to monitor the impact of inflation on revenue risk and costs for issuers but expect financial positions to absorb the near-term effects.

KEY POINTS

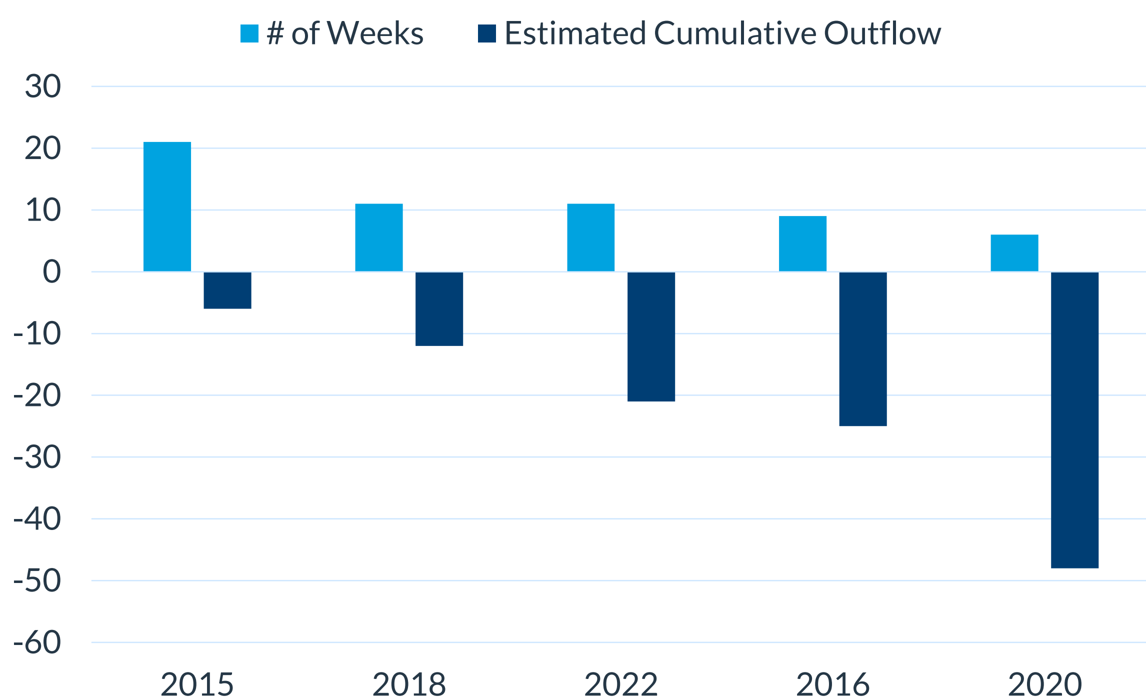
- **Monetary policy and geopolitical developments driving sentiment**
- **Market dislocation creates value opportunities for investors**
- **Issuer credit quality remains durable**

Municipal Indices Yield to Worst on the Rise



Source: Bloomberg Barclays Indices as of March 25, 2022

Historical Periods of Market Outflows



Source: Lipper

Past performance or performance based upon assumptions 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.

Fed Turns More Hawkish

Paul Single
Managing Director, Senior Economist, Senior Portfolio Manager

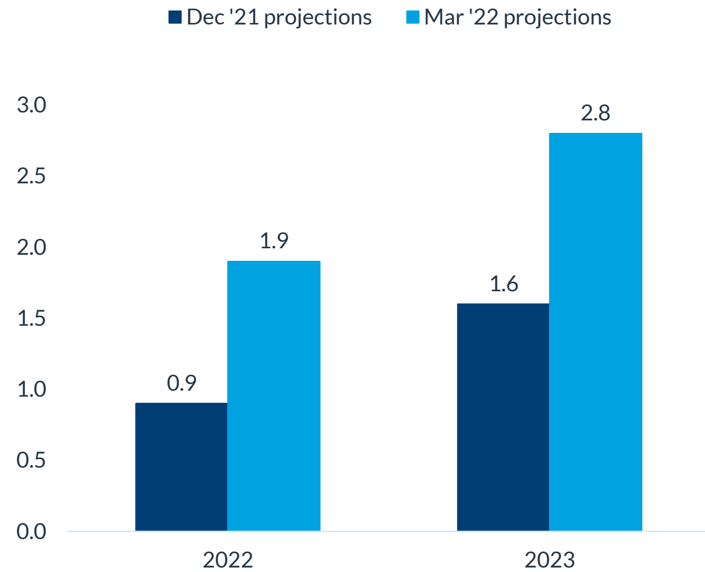
Over the past month, **there has been a massive shift in expectations of how fast the Fed will raise interest rates this year.**

Each quarter the Fed updates its forecast of what the federal funds rate will be at the end of each calendar year. Back in December, the Fed expected the funds rate to end 2022 at 0.9%, implying three hikes of 25 basis points each over this year. But at its March meeting, **the Fed ramped up its forecast by projecting that the funds rate will be 1.9% by the end of the year**, which implies seven hikes of 25 basis points. It's also possible that the Fed will raise the funds rate in 50-basis-point increments.

In addition to this, **the Fed is making plans to reduce the size of its bond portfolio.** During the pandemic, the Fed purchased Treasury and mortgage bonds to help push down intermediate- and longer-term interest rates. That plan worked well, as homeowners had the opportunity to refinance some of their debt or acquire more debt at a lower interest rate. But that is no longer needed. So the Fed stopped buying bonds in March, and at its next meeting in May is expected to announce plans for allowing some of those bonds to mature without reinvesting the proceeds. This should put some upward pressure on bond yields for the following year or so.

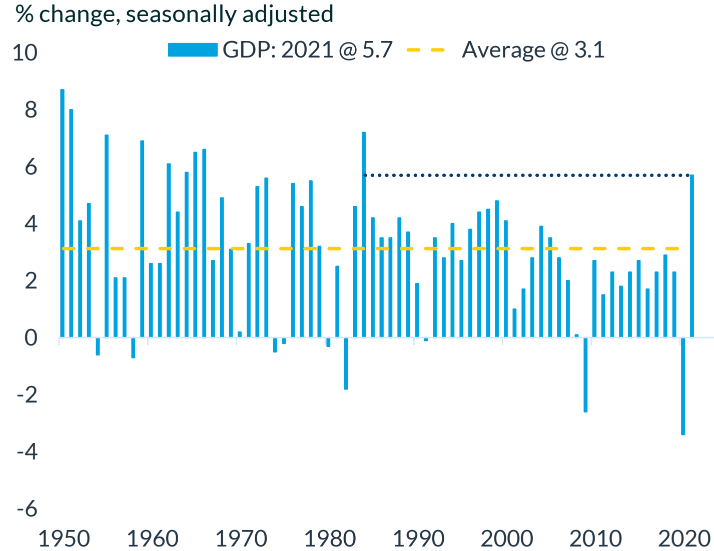
All of this is part of the Fed's plan to slow down the pace of economic growth. The economy is expanding at a fast clip. **Last year, GDP was up 5.7%, the most rapid yearly pace in almost 40 years** (see GDP chart). By slowing down the economic growth rate, inflationary pressure should also subside, helping to bring inflation back toward the Fed's goal of 2.0%. However, it will take time to accomplish those objectives. The Fed does not think it will get the inflation rate near its goal of 2.0% until late 2023.

Federal Open Market Committee (FOMC) — Federal Funds Projections



Source: Federal Reserve as of March 2022.

GDP - Calendar Year Change
% change, seasonally adjusted



Source: Bureau of Labor Statistics as of March 2022

KEY POINTS

- The Fed is trying to slow the pace of economic growth
- Fed ramps up interest rate hikes
- The Fed is expected to reduce the size of its bond portfolio

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.

This material is available to advisory and sub-advised clients, as well as financial professionals working with City National Rochdale, a registered investment advisor and a wholly-owned subsidiary of City National Bank. City National Bank provides investment management services through its sub-advisory relationship with City National Rochdale.

Index Definitions

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.

Bloomberg Barclays US Aggregate Bond Index (LBUSTRUU): 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.

GT2 Govt, GT3 Govt, GT5 Govt, GT10 Govt, GT30 Govt: US Government Treasury Yields

DXY Index: The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

Dow Jones U.S. Select Dividend Index (DJDVP): 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.

P/E Ratio: The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

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.

The MSCI indexes are market cap-weighted indexes, which means stocks are weighted according to their market capitalization — calculated as stock price multiplied by the total number of shares outstanding.