CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

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ON THE RADAR

FAQs on the Markets and Economy

Is the slowing pace of economic growth impacting the labor market?

Not yet. In June, employers added 372,000 new jobs. That is a strong pace; in the past expansion, when jobs increased, they averaged 194,000.

Moreover, the unemployment rate held steady at 3.6% for the fourth straight month and at a near-fifty-year low. Inflation, high-interest rates and a slower economy have yet to affect the labor market.

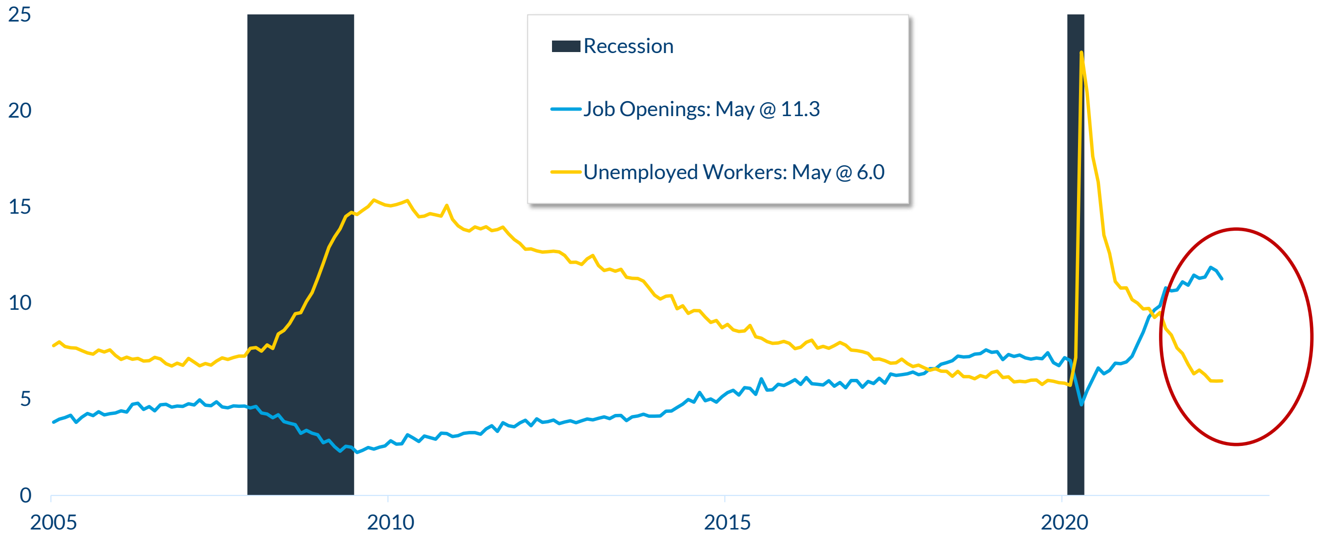
Although the pace of economic growth is slowing, it is still strong. As a result, there is an enormous amount of pent-up demand for workers. A separate report issued by the labor department showed 11.3 million job openings and 6.0 million people looking for a job back in May (see chart). That means there are 1.9 jobs available for every person looking for a job, which is near a record high and about three times as strong as the average of just 0.6 open jobs for each person looking for a job.

The strong June labor report paves the way for the Fed to raise the federal funds rate by 0.75% to the medial level of 2.375 at their meeting later this month.

KEY QUESTIONS

- What can we expect to learn from Q2 earnings?
- How do municipal bonds provide value for investors?
- What did we learn from the Fed's recent meeting?

Job Openings and Unemployed Workers
millions, seasonally adjusted



Source: Bureau of Labor Statistics

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What can we expect to learn from Q2 earnings?

The kickoff of earnings season next week should provide some clarity on how resilient the outlook for corporate profits is.

The second quarter is already shaping up to be the toughest quarter in 18 months, with the S&P 500 on course to report earnings growth of 4.1%, a significant slowdown from the 9% growth rate in the first quarter.

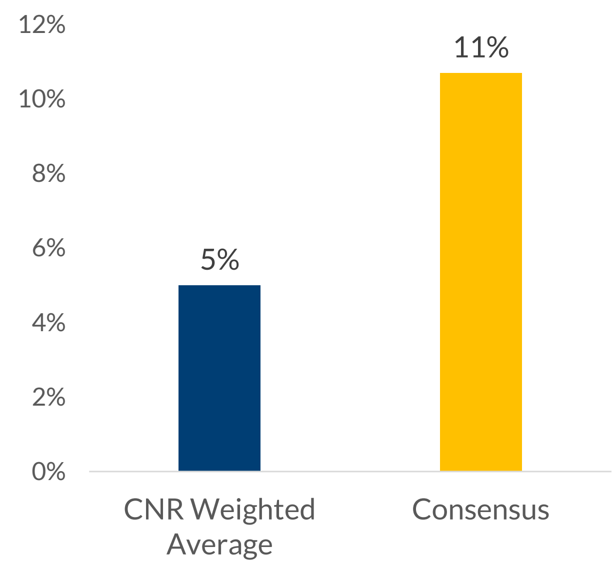
For most of 2022, equity analysts have continued to paint a very positive picture of prospects for corporate profits. The decline in stocks so far has been driven entirely by a decline in valuations, with earnings growth acting as a partial offset. The S&P 500 price-to-earnings ratio has fallen about 25% since the beginning of the year, while forward earnings expectations have risen by 6%. For perspective, valuations declined 20% on average over the past five Fed-tightening cycles.

Although analysts have recently begun to lower estimates for this year and next, we believe they remain far too optimistic given elevated uncertainty around the outlook and rising recession risk. Companies have been citing a growing number of headwinds, including rising wages, higher commodity and input costs, a stronger dollar, and softer demand that could lead to earnings disappointments in the coming weeks. Margins, in particular, have plenty of room to fall from near record-high levels.

For investors, this means that further downside volatility in the coming weeks is possible. While valuations have adjusted, we think that the market is unlikely to find a bottom until earnings expectations are revised lower as well.

2023 S&P 500 Earnings Per Share (EPS) Growth Forecast

Economic Outcome	Normal Growth	Slow Growth	Mild Recession	Normal Recession
Probability	20%	30%	40%	10%
Real Gross Domestic Product (GDP)	2.25%	1.25%	-0.50%	-1.50%
Inflation	4%	4%	3%	3%
Margins	6%	4%	-3%	-12%
Buybacks	2%	2%	0%	0%
Total EPS Growth	**14%**	**11%**	**-1%**	**-11%**



Source: CNR Research

How do municipal bonds provide value for investors?

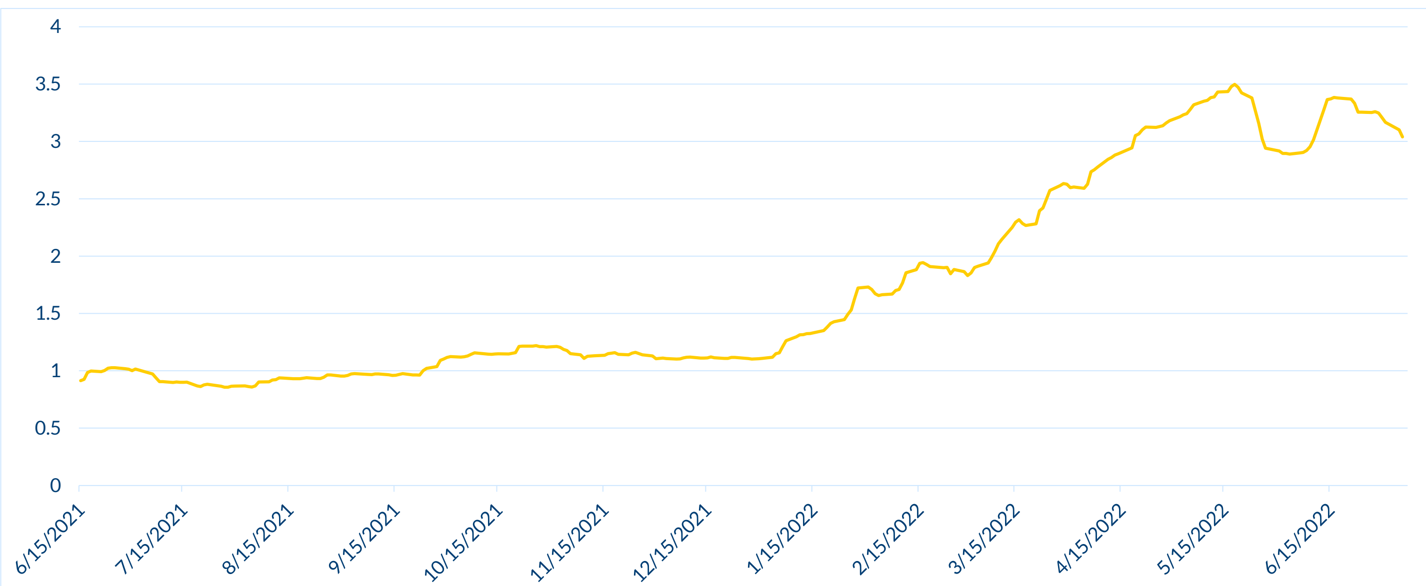
Amid financial market volatility, a reminder of the value and benefits of municipal bond investing can temper concern and reinforce its importance within a broader asset allocation strategy.

The implications of inflation and Fed policy on interest rates have caused municipal bond prices to decline YTD and benchmark yields to adjust higher across the curve by about 150 bps, per Bloomberg. Despite market fluctuations, these conditions unlock opportunities to obtain more attractive tax-efficient attributes, a primary objective of municipal investors.

Another critical tenet to municipal investing is capital preservation. The above-average credit quality of municipal bonds provides greater assurances of principal return. Since FY 2021, most state and local governments have earned budget surpluses due to better-than-expected revenue collections, while various federal stimuli further bolsters balance sheet flexibility. Rating trends are tilted positively while other important stress indicators remain relatively benign. Thus, municipalities are well-positioned ahead of the next budget cycle. According to Municipal Market Analytics, the overall market default rate (excluding Puerto Rico) is very low at less than 0.5% as of the second quarter of 2022, with historical data further underscoring the durability and resiliency of the asset class.

In an environment seemingly of wide-ranging disruption across financial markets, municipal bonds provide defensive characteristics over the long term for portfolios and offer diversification and relatively uncorrelated risk to other fixed income asset classes and equities. Thus, the advantage of diversification could smooth portfolio returns over time, particularly during periods of Fed tightening. In previous periods of rate hikes, municipal bonds have outperformed as valuations (i.e., the ratio of municipal to Treasury yields) declined, and yield curve moves benefitted the tax-exempt market. The allure of municipal bonds remains intact despite performance challenges YTD. Investors seeking tax optimization, quality, and stable cash flows should continue viewing municipal bonds as a critical component of overall asset allocation.

Municipal Investment Grade Index Yield to Worst



Source: Bloomberg

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What did we learn from the Fed's recent meeting?

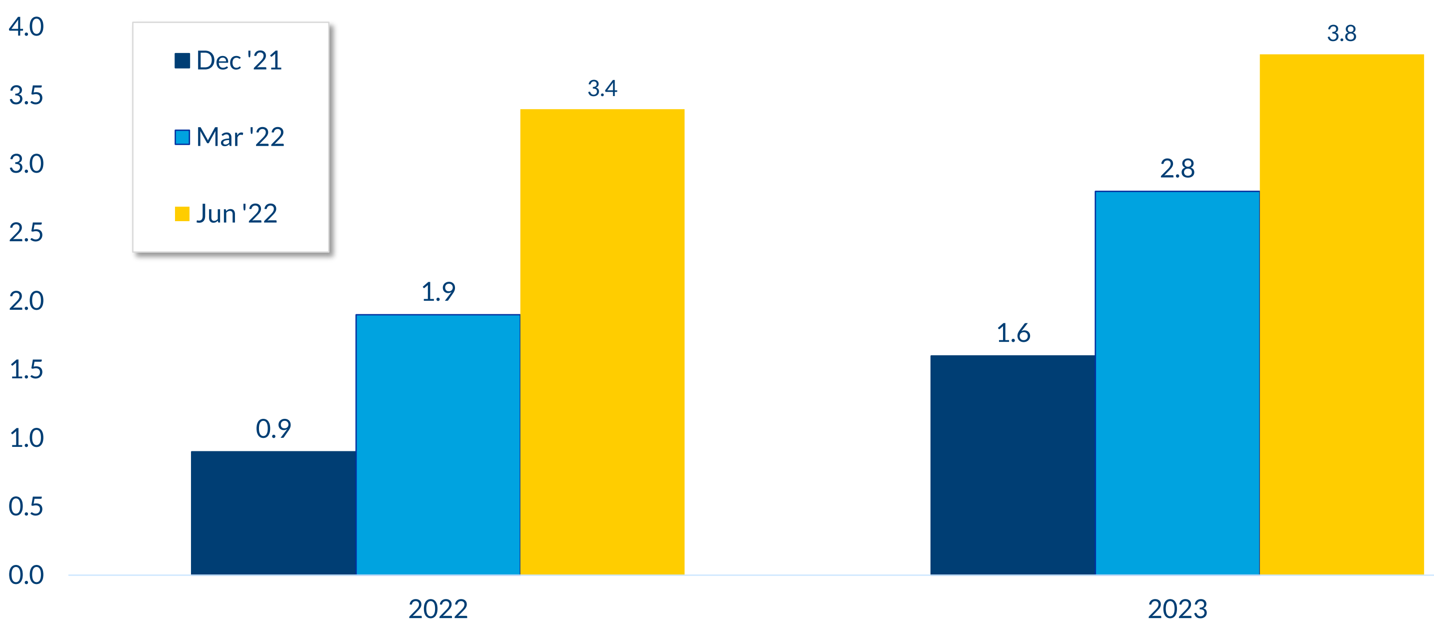
Minutes from the June meeting, where the Fed raised the federal funds rate by 75 basis points to 1.625%, detailed the aggressive approach the Fed is now taking in combating inflation.

The Fed was late to the inflation-fighting campaign. In December, they projected the federal funds rate at 2022YE would be 0.9%, a simulative level. In March they increased it to 1.9%, still slightly simulative. At the June meeting, they moved it up to 3.4%, a restrictive level above the neutral rate, which the Fed estimated to be 2.5%.

The question remains, how aggressively does the Fed need to be in combating inflation? A critical sentence in the minutes state: "Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist." Accordingly, the Fed is expected to raise the funds rate by another 50 to 75 basis points at their meeting later this month.

On the economic front, the minutes did not mention a recession, and the Fed staff expects the economy to pick up in the second quarter.

FOMC - Federal Funds Projections
% year-end rate



Source: Federal Reserve
Please note: Past performance is no guarantee of future results.

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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 U.S. Corporate High Yield Bond Index measures the USD denominated, high yield, fixed-rate corporate bond market.

CalPERS: The California Public Employees' Retirement System, also known as CalPERS, is an organization that provides numerous benefits to its 2 million members, of which 38% are school members, 31% are public agency members and 31% are state members.

CPI: A consumer price index (CPI) is a price index, i.e., the price of a weighted average market basket of consumer goods and services purchased by households. Changes in measured CPI track changes in prices over time.

4Ps: 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.

MOVE Index: Bloomberg Ticker "MOVE" – Statistic is computed by ICE BofA

FOMC: The Federal Open Market Committee (FOMC) consists of twelve members— the seven members of the board of governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis.