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ECONOMIC & INVESTMENT MANAGEMENT PERSPECTIVES
QUARTERLY UPDATE

Darkening Economic Clouds Presage a Mild Recession

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

When one sees clouds on the horizon, you usually can get a sense of how much rain is coming by determining if all directions are dark or if there are only small, isolated clouds, which would hopefully mean no rain.

We have been forecasting a coming storm since the spring of 2022, and recently, when we look across all the economic indicators that we monitor, what we see are clouds forming in almost all directions of the economy.

Among the key indicators we monitor that have strong historical correlations with recessions are:

- Short term interest rates rising, inverted yield curve
- Significant contraction in money supply
- Tightening bank lending constraints
- Declining consumer excess savings
- Declining trucking survey readings
- Reversal in positive consumer net worth to negative trends in net worth
- Declining Federal Reserve balances, negative money supply

- Rise in unemployment claims
- Negative trends in corporate earnings
- Declining business optimism

All of the economic indicators on this long list are now in downtrends that are growing more pronounced, persistent and pervasive, making a recession in the second half of 2023 much more likely.

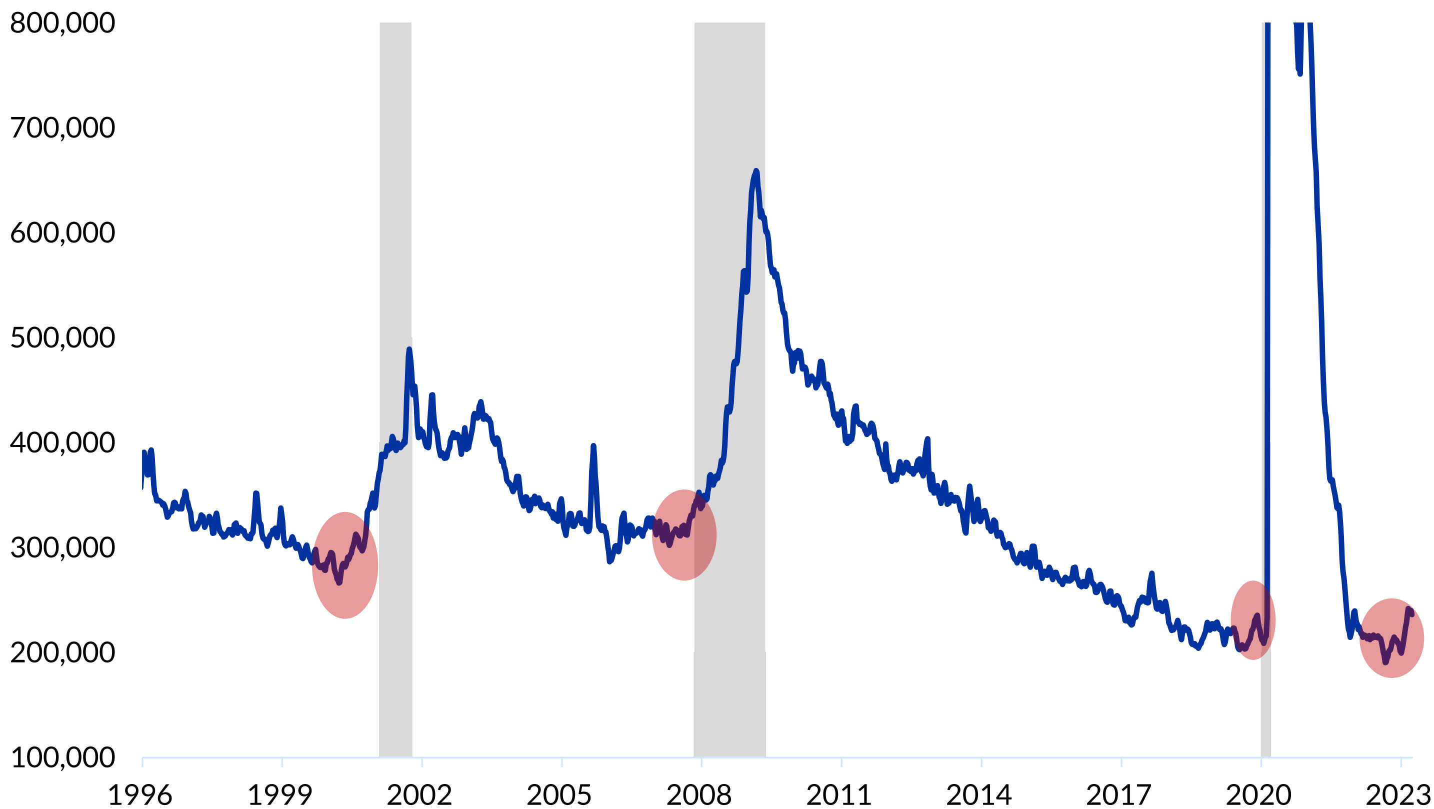
When we think about recessions, we know that their starting point is usually based on the behavior of the consumer. The chart below shows that unemployment claims have recently turned up. Turning points in this trend are a key indicator correlated with recessions.

KEY POINTS

- Indicators pointing to economic slowdown
- Mild recession expected
- Portfolios positioned defensively

Chart 1: Initial Jobless Claims

(4 Week Moving Average)



Source: St. Louis Fed, as of April 2023.

Both businesses and consumers rely on the availability of credit to support their buying and spending decisions. Banks are the primary source of credit, and chart 2 below shows the significant declines in bank deposits, with a negative reading in March, which is a rare occurrence. The amount of bank credit issued has declined recently as well (chart 3). Both are correlated with declining economic activity and, potentially, rising recession risks.

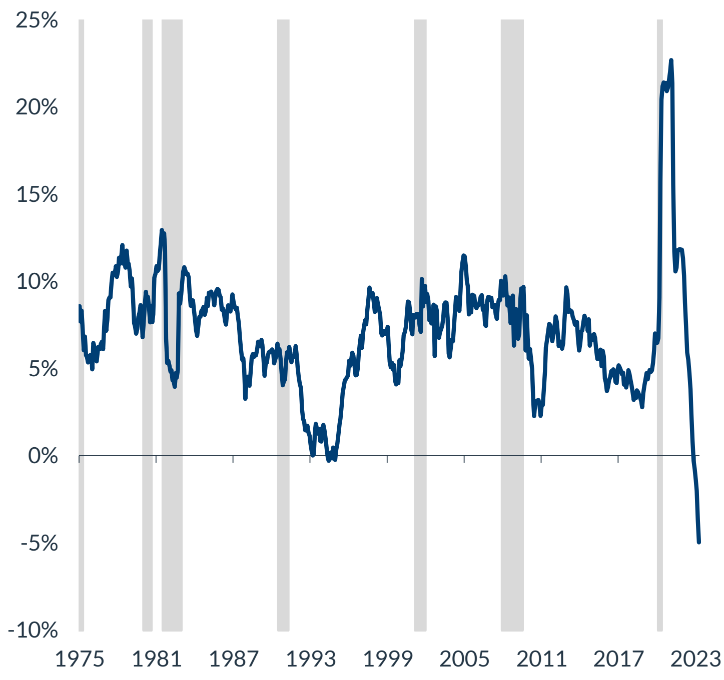
We maintain our view that inflation will persist for longer than the majority anticipates, and that interest rates will remain high for the foreseeable future. This means more restrictive bank lending, which in turn means slowing consumer and business spending.

The good news is that any recession ahead is likely to be mild and shorter by historical standards. Despite growing headwinds, consumer and corporate balance sheets generally remain in good shape, which should mitigate against a more significant retrenchment in economic activity that would occur in a normal recession.

Given this, our investment allocation to stocks for the time being remains modestly below normal levels, and we have increased our allocation to investment grade bonds, which should lower overall volatility in client portfolios and offer a predictable income yield. Please reach out to your financial professional to review your portfolio goals and objectives.

Chart 2: US Bank Deposits

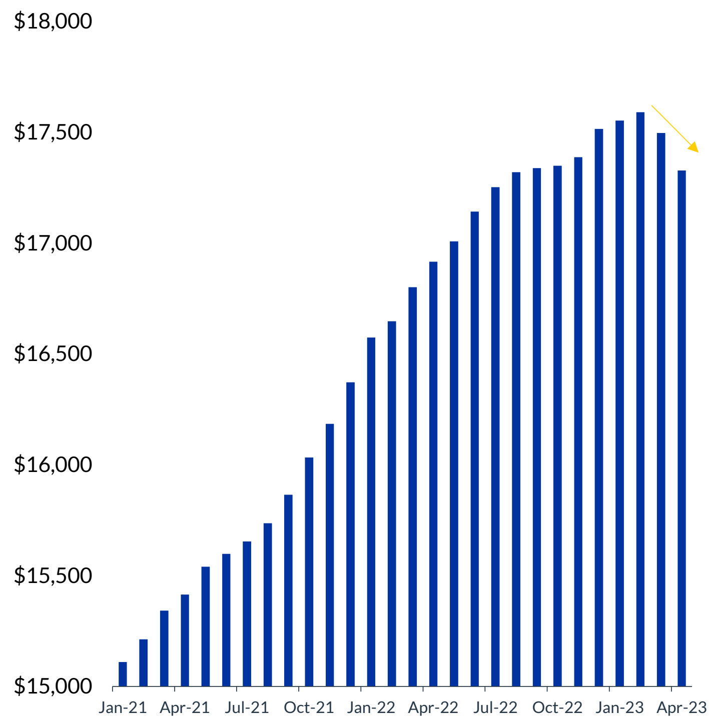
(Y/Y % Change)



Source: St. Louis Fed, as of April 2023.

Chart 3: Total US Bank Credit: ALL Commercial Banks

(Billions $)



Source: St. Louis Fed, as of April 2023.

Market Update:

Caution – Signs of Recession Ahead

Tom Galvin
Chief Investment Officer

After one of the most challenging years in recent memory, the strong start to financial markets in 2023 has certainly been welcome. **Our expectations for a recovery in the traditional 60/40 portfolio were vindicated, with both stocks and bonds posting healthy gains for the second quarter in a row.** Still, for those who paid attention, the ride has been an uncomfortable one, chock full of twists and turns.

Equity markets galloped out of the gate in January, fueled by optimism that a recession would be avoided, only to sharply reverse course in February as stubbornly high inflation readings and a red-hot job market indicated that the Fed's job wasn't done yet and sent interest rates soaring. March was then marked by concerns about a banking crisis, though the quarter ended on a positive note, with measures taken by authorities helping reassure investors that the risk of a systemic contagion was low.

The good news is that **we continue to believe the US banking system is broadly sound, and though other areas of stress may emerge in the months ahead, a financial crisis similar to 2008 is unlikely to be repeated.** Government reaction has been swift, and banks today are generally in fundamentally much stronger positions than they were a decade ago. The bad news is that credit conditions have already tightened meaningfully over the last several quarters and will likely only tighten further as banks look to shore up their balance sheets.

Given this, **we think a mild recession in coming months will be hard to avoid.** The moderating trend in economic growth is already becoming increasingly clearer, with GDP advancing only 1.1% in the first quarter, compared with 2.6% in the fourth quarter of 2022 and 3.2% in the third. We expect growth to slow more sharply over coming quarters, as labor demand cools and the mounting weight of higher interest rates and inflation take a bigger toll on business and consumer activity.

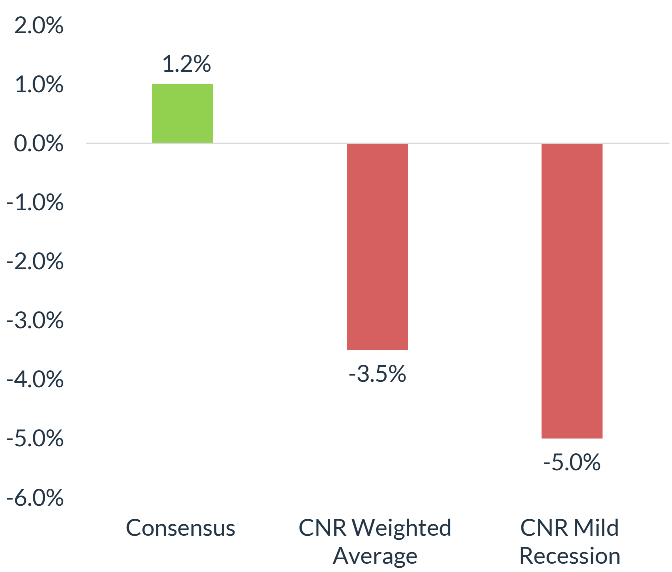
Heading into this year's second quarter**, the resilience of markets so far this year has been notable.** The S&P 500 is up about 7%, while the investment-grade bond market is up a healthy 4.2%. Nevertheless, rising risks around the outlook are signaling us to remain cautious for now and maintain our defensive investment posture. **CNR portfolios continue to be modestly underweight equities and overweight fixed income, with a focus on holding US quality assets across the capital structure.**

For equities, earnings expectations remain our biggest source of concern. Although consensus estimates have come down significantly over the past several months: they are still relatively optimistic given the elevated recession risk. Indeed, current analyst forecasts continue to imply a small expansion in profits this year. That's hard to square with what increasingly looks like an upcoming contraction in broader economic activity. Over the past four recessions, expectations for earnings – and equity prices – never reached a trough before the recession actually began.

While we do see opportunities forming to add equity exposure to portfolios in the months ahead, we recommend being patient and instead taking advantage of what the market is now offering. Bonds in particular continue to look attractive in the near term, providing some of the best return prospects in well over a decade. Although recent inflation measures have signaled easing price pressures, given the stickiness of core readings and continued tightness in the labor market, **we don't see the Fed coming to the economy's rescue anytime soon and believe market expectations for rate cuts in the second half of the year are misplaced.**

In this new regime, where interest rates stay high for longer, income is back as an important portfolio driver. The share of fixed income indexes yielding over 4% is at its highest level since 2008. Depending on your risk tolerance, income and tax needs, different strategies may be appropriate. For investors whose goals require a higher level of income and who can tolerate higher volatility, corporate or municipal high yield bonds are a good solution. For investors with lower income or short-term cash needs, high quality bonds or liquidity management strategies are offering attractive yields without having to reach into riskier parts of fixed income.

Chart 1: 2023 S&P 500 Earnings Growth Estimates



Sources: FactSet, CNR Research, as of March 2023.

Indices are unmanaged, and one cannot invest directly in an index. Information is subject to change and is not a guarantee of future results.

Chart 2: Fixed Income Performance Has Been Consistent

FI Asset Category	Income Needs	Index Yield	Volatility Tolerance
Corporate High Yield	High	8.55%	Higher
Municipal High Yield	Tax Sheltered	4.86% (7.88%-TE*)	Higher
Corporate Investment Grade	Lower	5.20%	Lower
Municipal Investment Grade	Tax Sheltered	3.37% (5.57%-TE*)	Lower

Source: FactSet, as of April 2023.

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

Past performance is no guarantee of future results. TE=Tax Equivalent Yield, assumes 39.6% federal tax rate.

Indices used: Bloomberg US Aggregate Bond Index, Bloomberg US Investment Grade Corporate Bond Index, Bloomberg US Corporate High Yield Index, Bloomberg Municipal Bond Index and Bloomberg Municipal High Yield Bond Index. See Index Definitions for more information.

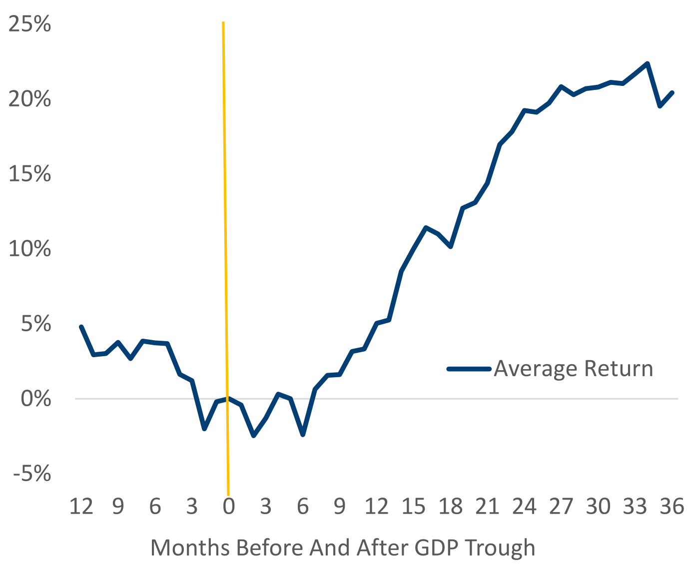
In sum, we remain happy with the de-risking steps we've taken in client portfolios. We continue to expect more positive returns for 60/40 portfolios in 2023. However, after a nice start to the year, markets are now facing the impact of the Fed's rapid rate-hiking cycle, including slowing economic growth and banking sector stress. Add in debt ceiling drama in Washington and we would expect market volatility to continue in the months ahead, especially if we are right and the economy heads into an economic downturn or the banking system requires more intervention. Despite last year's weakness, having a balanced allocation has historically been a smart way to stay fully invested in times of uncertainty, and our focus on holding high quality and income producing US stocks and bonds can help provide client portfolios with relative stability until market turbulence subsides.

KEY POINTS

- Defensive portfolio positioning remains the best strategy
- Consensus earnings estimates may be too optimistic
- Income is again an important driver of portfolio performance

Chart 3: 60/40 Portfolio Performance

Before & After GDP Troughs[1]



Sources: Ibbotson Associates Index Data via Morningstar Direct. FactSet *60/40 split between Equities and Fixed Income. Equities index: S&P 500. Fixed Income index: Bloomberg US Aggregate Bond Index. Hypothetical value of assets held in untaxed portfolios invested in US stocks and bonds.

[1]Stocks and bond investments are represented by total returns of the S&P 500 and 50% IA SBBI US LT Government/50% IA SBBI US LT Corporate 1/1926-1/1976, Bloomberg US Aggregate 1/1976-present. Past performance is no guarantee of future results. Information is not representative of any CNR product or service. Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

Core Equity – Staying the Course

Tom Galvin
Chief Investment Officer

Our portfolio positioning remains defensive, aligned with CNR's higher-for-longer investment thesis and expectations for a mild recession in 2023.

Three additional observations support our defensive positioning:

•First, while the strong start to the year for the S&P 500 is encouraging, digging beneath the surface reveals that the market's advance was very narrow. Excluding strong gains for the technology and communication services industries, the overall index was essentially flat in the first quarter. The Russell 2000 was down 2%, further illustrating the lack of breadth.

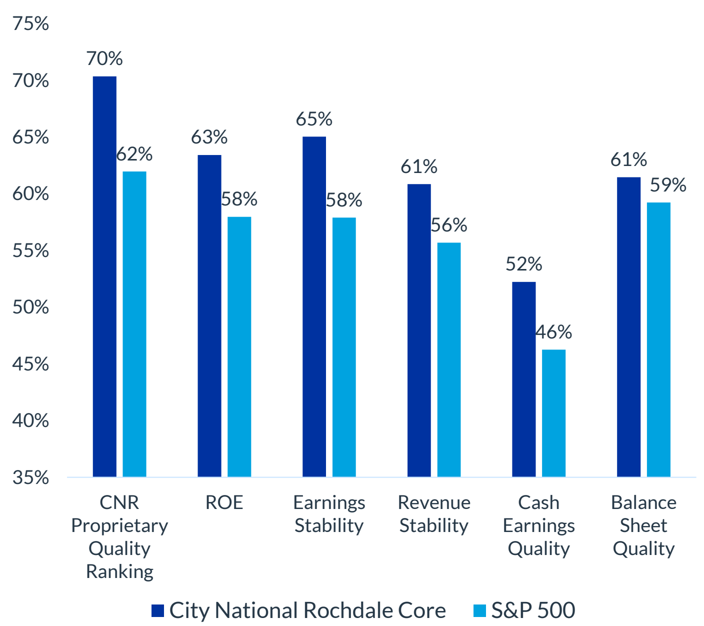
•Second, while it is also encouraging that consensus 2023 EPS growth forecasts for the S&P 500 have now declined from 11% to 1%, we still think that is too high compared to our probability weighted expectations of -3.5%.

•Finally, combining the increase in the S&P 500 price level over the first quarter with a decrease in consensus earnings expectations means that valuations have increased.

Given these factors, **we continue to believe it is prudent to maintain a defensive tilt in our portfolio, while staying focused on high quality companies selling at reasonable prices that have the right blend of defense and offense.** Specifically, we like companies that have strong management teams, unique market franchises and market share, and strong fundamentals. We believe these attributes can help companies successfully navigate through the mild recession we are expecting, while also positioning them to emerge on the other side with growth prospects that are better than their peers.

Using our proprietary definition of what constitutes a quality company, Chart 1 illustrates that our core strategy has an above average quality rank.

Chart 1: Quality Rank



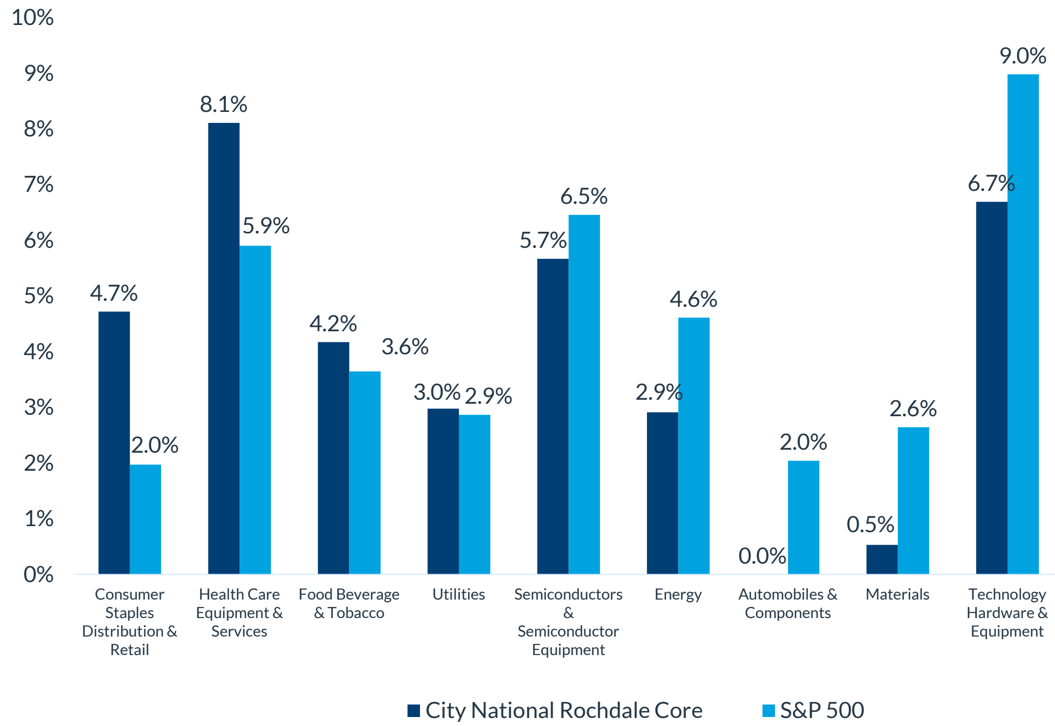
Source: FactSet, as of March 31, 2023

Our defensive tilt is illustrated in Chart 2 by the below average exposures we have at the industry group level compared to the S&P 500. Specifically, **we have less exposure to cyclical industries as these areas will likely have greater negative earnings revisions if the mild recession unfolds.** Conversely, we have greater exposure to companies and industries that have more stability in revenue and earnings.

KEY POINTS

- Portfolios have the right blend of defense and offense
- Valuations have risen on lower forecasts for earnings
- Focus remains on high quality companies at fair prices

Chart 2: Industry Weights



Source: FactSet, as of March 31, 2023

Checking in on Dividend Payouts

David Shapiro
Senior Portfolio Manager, Equity Income

Tony Hu, CFA, FRM
Senior Portfolio Manager, Equity Income

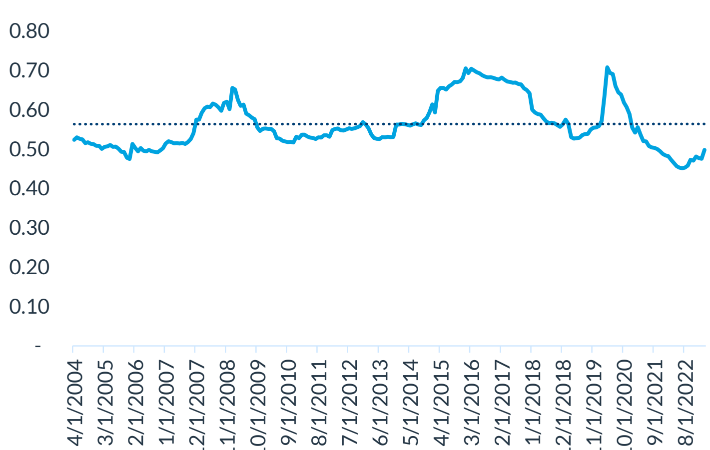
KEY POINTS

- Relatively low dividend payouts suggest certain companies are better prepared ahead of a potential recession
- Attractive dividend payers tend to operate more resilient businesses
- Dividend sustainability remains a key focus for client portfolios

Last quarter, we examined the historical evidence of the resilience of dividend stock income through recessionary periods. Simply put, **historically, we've seen much less volatility in dividend payments compared to earnings.** Are there any metrics we can use to get a read on the likely outcome for dividends should we enter into a recession in the relatively near term?

Directionally, perhaps, but not with any specificity. Recessions tend to have different direct causes and impact different areas of the economy with different degrees of severity. Also, the life cycles of businesses in aggregate (that may put them into the ranks of attractive dividend payers) don't necessarily correspond to the economic cycle, so the mix of sectors within the dividend stock universe also evolves over time.

Chart 1: DVY Dividend Payout Ratio



Source: Factset, as of March 2023. DVY is the iShares Select Dividend ETF.

However, going back to the basics of dividend health can help. **A key measure of how likely a dividend is to continue to be paid (or grow) is the payout ratio,** which is the measure of what percentage of available earnings, or cash flow, is paid out to shareholders. The lower, the better. Earnings and cash flow can be impacted by recessions, and a business typically has other important uses for its cash flow, such as investing in current operations, or growth, or managing leverage.

Attractive dividend payers tend to be more stable businesses, with more resilient earnings and cash flows, and therefore can sustain higher payouts. However, that doesn't take away from the fundamental fact that lower payout is safer, all else being equal. Lower payout ratios may result in lower volatility when worsening macroeconomic conditions impact earnings and cash flows, and also provide an opportunity for faster growth when those conditions are improving.

As the chart shows, the **aggregate payout of our dividend universe has started this period of earnings deceleration with the lowest payout ratio** in the almost two decades for which we have data. That should reflect a bigger cushion approaching the unfolding macroenvironment, which suggests dividends and dividend stocks are relatively well positioned ahead of this potential downturn. Further, for client portfolios, **we spend a large portion of time focused on the dividend health of each and every holding** in order to drive improved relative outcomes compared to the dividend universe as a whole.

Bonds Record Another Strong Quarter

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

Taxable fixed income markets recorded a second straight quarter of positive performance, driven by a fall in Treasury rates, after the 10-year US Treasury bond set a high of 4.33%[1] on October 21, 2022. **Additional Federal Reserve rate increases and higher long-term interest rates drove the reversal in performance, as well as a healthy credit environment in which default rates remained historically low.**

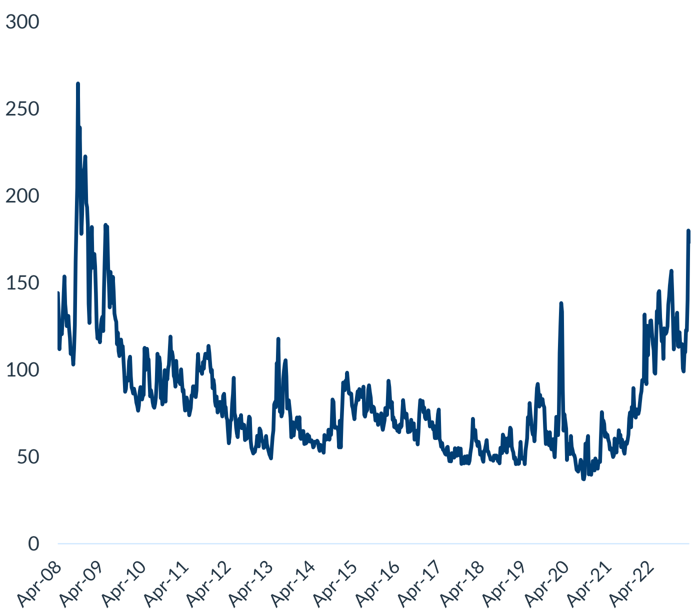
KEY POINTS

- Despite potential headwinds from deposit withdrawals at many regional banks, Investment Grade bonds achieved positive performance in March
- The MOVE index, a well-recognized benchmark for US Treasury market volatility, surged over the quarter
- We are cautious on leveraged loans given the nature of their use for private equity transactions and floating rate characteristics

Over the quarter, the broad US Investment Grade market returned 2.96%, and US corporate bonds returned 3.50%[2]. Despite potential headwinds from deposit withdrawals at many regional banks, Investment Grade bonds also achieved positive performance in March, as the broad index climbed 2.54%[3]. **Notably, financial sector performance was also positive throughout the turmoil, rising 1.42%[4].**

Chart 1: ICE Bank of America MOVE Index Levels

Common Measure of Treasury Bond Volatility



Source: Bloomberg, as of March 31, 2023

While the moves were positive, the market continued to experience high levels of volatility. The MOVE index, a well-recognized benchmark for US Treasury market volatility, surged over the quarter, exceeding its 2020 COVID high while falling just short of the maximum point reached in 2008[5]. While high, volatility measures the absolute movement in rates, not the direction. As a result of the decline in yields to start the year and the flight to quality during March[6], **the bond market has largely benefitted from rate volatility — a stark contrast from 2022.**

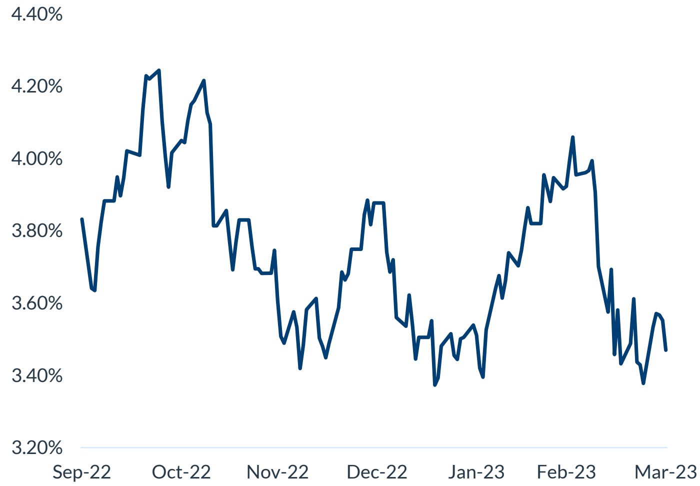
High yield markets have also achieved positive performance in 2023. US high yield bonds, leveraged loans and emerging market high yield bonds were up 3.57%, 3.25% and 1.58%, respectively[7]. We continue to expect yields above 8%[8] to drive positive total returns. **We also believe default rates will approach long-term averages but not move meaningfully above levels typical of a normal credit cycle.**

Ultimately, this should be around 5-6%[9]. However, we are cautious on leveraged loans given the nature of their use for private equity transactions and floating rate characteristics. High yield bonds have a major advantage over loans, given average fixed coupons of just 5.9% with an average maturity of 5.3 years[10]. This is in stark contrast to loans with average yields of 9.4%[11], which is likely to put cash flow pressure on leveraged businesses.

Looking forward, the strong performance over Q1 2023, supportive credit environment and stable economic fundamentals point toward positive total returns, especially after the adjustment in yields last year.

Chart 2: US 10-Year Treasury Yields

A Substantial Drop Driving Positive Bond Performance



Source: Bloomberg, as of March 31, 2023

[1]US 10-Year Treasury Yield, Bloomberg: GT10 Govt

[2] Broad US Investment Grade Market: Bloomberg US Aggregate Bond Index, Bloomberg: LBUSTRUU Index; US Corporate Bonds: Bloomberg US Corporate Bond Index, Bloomberg: LUACTRUU Index

[3] Investment Grade Bonds: Bloomberg US Aggregate Bond Index, Bloomberg: LBUSTRUU Index

[4] Financial Sector: Bloomberg US Financial Institutions Capped Index, Bloomberg: I27906 Index

[5] Ice BofA MOVE Index, Bloomberg: MOVE Index

[6] US 10-Year Treasury Yields dropped peak-to-trough by 73 bps in March, Bloomberg: GT10 Govt

[7] US High Yield Bonds: Bloomberg US High Yield Index, Bloomberg: LF98TRUU Index

Leveraged Loans: Morningstar LSTA Leveraged Loan Index, Bloomberg: SPBDAL Index

Emerging Market High Yield Bonds: Ice BofA High Yield USD Emerging Markets Liquid Corporate Plus Index, Bloomberg: EMHY Index

[8] US High Yield Corporate bonds have an average yield above 8% as of 3/31, Bloomberg: LF98YW Index

[9] Moody's Bond Only Moderate Pessimistic Forecast for Default Rates, Moody's February 2023 default report

[10] Bloomberg, LF98TRUU Index (Field: CPN and Field: WEIGHTED_AVERAGE_MATURITY_YEARS)

[11] Morningstar LSTA Leveraged Loan 100 Weighted Average Yield, SPBDLLY Index

as of March 31, 2023.

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Munis Seesaw but Forge Ahead

Michael Taila
Managing Director, Co-Director, Fixed Income

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

KEY POINTS

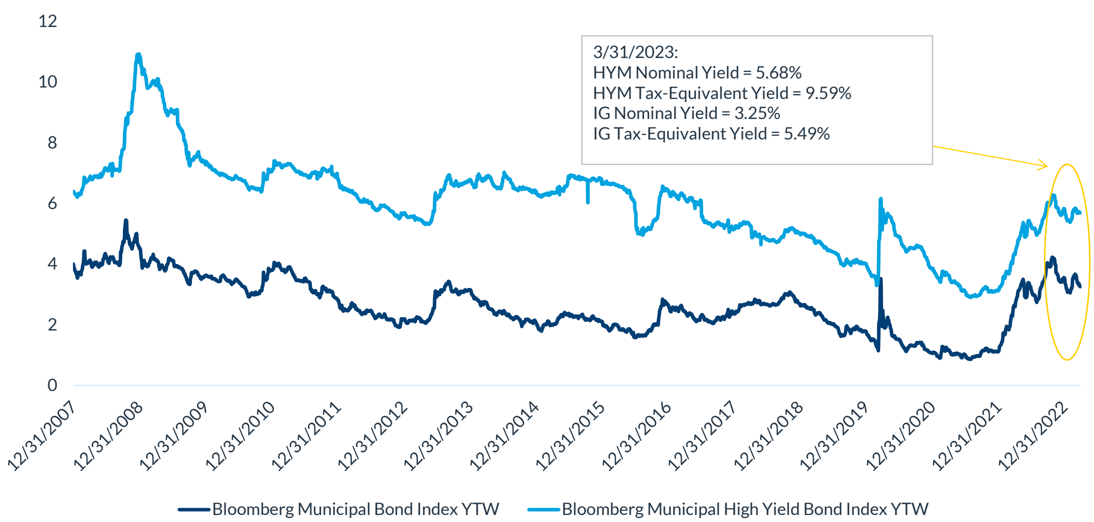
- Nominal yields continue earning investors healthy tax-exempt income
- Mixed valuations underscore the importance of active management
- Credit research is critical amid an aging credit cycle

The first quarter "muni pivot" was not without its headwinds, as investors successfully navigated swings in volatility from inflation, monetary policy, and economic dynamics, leading to solid total returns of 2.78% and 2.73%, respectively, for the Bloomberg Municipal Bond (IG) and Bloomberg Municipal High Yield (HYM) Indexes, notwithstanding months of extreme strength and weakness.

A resurgence in investor demand for attractive levels of tax-exempt income, with starting yields reaching (and remaining) at their highest levels in several years, and stabilization in some key technical indicators, like municipal bond mutual fund flows, helped drive positive performance by the end of the quarter. Despite a notable decline in nominal yields across the municipal curve of about 30 bps-50 bps during the quarter, longer-term investors should remain engaged as tax-efficient cash flow opportunities may contribute to asset class diversification and capital preservation within portfolios.

A theme we continue monitoring is the imbalance between supply and demand, where first quarter primary market issuance declined by approximately 25% year-over-year (YoY). With yields higher to begin the year and episodic volatility from events such as the Fed rate hike in February and the banking sector concerns in March, many issuers remained sidelined. However, as municipal bonds look toward the start

Chart 1:
Nominal Yields Remain the Most Attractive in Several Years



Source: Bloomberg, as of March 31, 2023
Tax-Equivalent Yield based on 37% top tax bracket + Medicare surcharge of 3.8%

of a traditionally quiet summer period, there is the potential for more deal flow to materialize over the near term, as yields at the end of the quarter were lower than three months ago. **The impact of diminished supply coupled with a benchmark yield curve producing mixed valuations underscore the need for investors to carefully approach security selection, as municipal yields tend to lag and react more slowly to the behavior in the Treasury market.** A more expensive (i.e., lower municipal-Treasury yield ratios) municipal market, particularly within short-to-intermediate-term maturities, could limit outperformance in the short run, necessitating the exploration of potential cross-asset class opportunities that generate investor portfolio value. **In HYM, typically longer duration and lower quality, those market areas produced excess return YTD and may still offer compelling value for income buyers despite vulnerability to market flows.**

Municipal credit quality remains sufficiently intact for IG and HYM bonds. Still, as the economy decelerates and policy decisions weigh on fundamentals, careful due diligence is warranted to mitigate issuer risk and spread implications for specific bonds. Stress indicators for the HYM market remain quite low, while IG rating upgrade/downgrade actions trend favorably YTD, albeit more unevenly across some market sectors, like health care. Given the stage of the credit cycle, we continue to monitor municipal issuers' fiscal and operational performance, with a bias toward higher quality.

Chart 2: Bloomberg Investment Grade Index Historical Monthly Performance

	January (%)	February (%)	March (%)
2023	2.87	-2.26	2.22
2022	-2.74	-0.36	-3.24
2021	0.64	-1.59	0.62
2020	1.8	1.29	-3.63
2019	0.76	0.54	1.58
2018	-1.18	-0.3	0.37
2017	0.66	0.69	0.22
2016	1.19	0.16	0.32
2015	1.77	-1.03	0.29
2014	1.95	1.17	0.17
2013	0.42	0.3	-0.43
2012	2.31	0.1	-0.65
2011	-0.74	1.59	-0.33
2010	0.52	0.97	-0.24
2009	3.66	0.52	0.02
2008	1.26	-4.58	2.86

Source: Bloomberg, as of March 31, 2023

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The Fed Has a Tough Job as the Economy Is in Transition

Paul Single

Managing Director, Senior Economist,
Senior Portfolio Manager

It already has been a tumultuous year for the Fed, and it is only about one-third over. As 2023 came out of the starting gate, economic releases showed the economy had weakened in December, brought on by the Fed's restrictive monetary policy and bad weather.

KEY POINTS

- We believe the Fed will keep the fed funds rate at the 5.125% level well into 2024
- This roller coaster ride of data is a classic case of an economy in transition
- Throughout this, the Fed has remained singularly focused on bringing down inflation

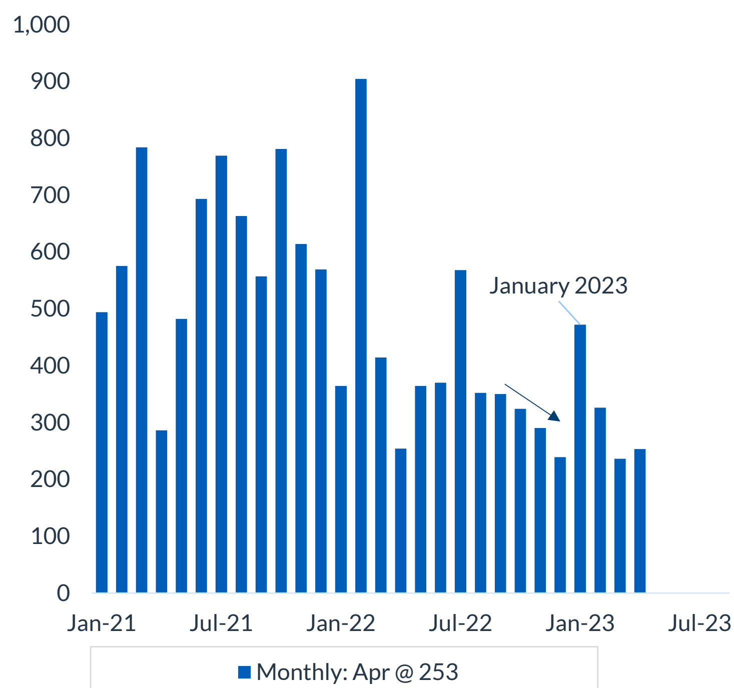
The data implied the Fed would not have to aggressively raise interest rates this year. Then, in February, as the January economic data was being released, it showed some sectors were roaring back.

First, the labor report had a blockbuster gain, with nonfarm payrolls increasing by 517,000 (it has since been revised to 472,000), reversing a long-standing downward trend (chart 1). The unemployment rate was 3.4%, a 54-year low. Then retail sales jumped 3.0% for the month, much stronger than the 2022 average monthly gain of just 0.5%. This showed that the consumer remained resilient despite higher interest rates. Finally, the inflation report showed that the deflationary trend was stagnating. As a result, the financial markets believed the Fed needed to increase interest rates more than was expected just a month earlier.

Then came March. The economic releases showed a more moderate rate of growth. This roller coaster ride of data is a classic case of an economy in transition. Although the pace of economic growth was on a downward trajectory, some areas were still affected by positive influences from the ripple effects of the

Chart 1: Nonfarm Payrolls

'000, seasonally adjusted



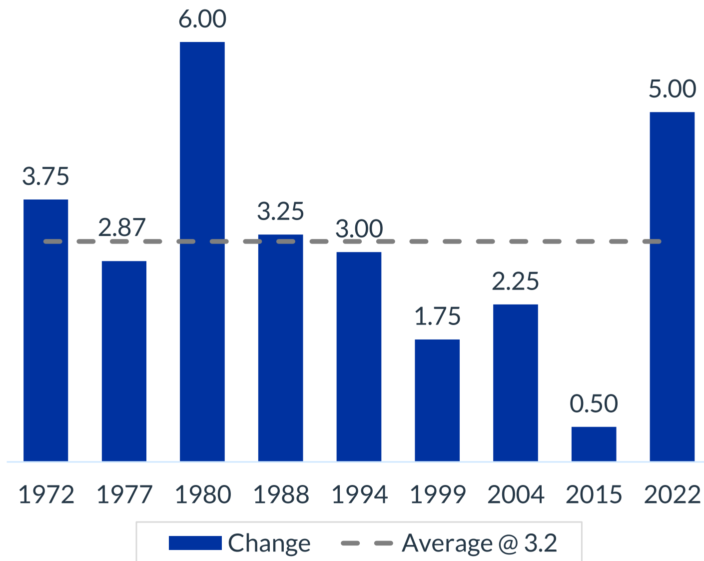
Source: Bureau of Labor Statistics, April 2023 pandemic and the government's policy response.

The crosscurrents are extreme. On the weaker side, some critical sectors of the economy have responded to higher interest rates and the change in demand as consumers return to their pre-pandemic habits. Manufacturing and housing are showing moderate growth or declines.

Throughout this, the Fed has remained singularly focused on bringing down inflation. It has raised the federal funds rate at one of the fastest paces in recent history (chart 2). **The median level now stands at 5.125%, a full five percentage points higher than it was when the Fed undertook its interest rate increases just over a year ago**. The monetary policy changes since last March are beginning to impact the economy. The lags can be long, variable and highly uncertain. The Fed appears to be taking a pause in interest rate increases. It needs time to observe the impact of the cumulative increase in interest rates on the economy. We believe the Fed will keep the federal funds rate at 5.125% throughout the year.

Chart 2: Federal Funds Rate

Change in rate 14 months after initial hike, percentage points



Source: Federal Reserve, March 2023

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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 US It is not an exact list of the top 500 US 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 US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners.

Bloomberg US Investment Grade Corporate Bond Index:The Bloomberg US Investment Grade Corporate Bond Index measures the performance of investment grade, corporate, fixed-rate bonds with maturities of one year or more.

Bloomberg US Corporate High Yield Index:The Bloomberg US Corporate High Yield Index measures the performance of non-investment grade, US dollar-denominated, fixed-rate, taxable corporate bonds.

Bloomberg Municipal Bond Index: The Bloomberg US Municipal Bond Index measures the performance of investment grade, US dollar-denominated, long-term tax-exempt bonds.

Bloomberg Municipal High Yield Bond Index: The Bloomberg Municipal High Yield Bond Index measures the performance of non-investment grade, US dollar-denominated, and non-rated, tax-exempt bonds.

S&P Leveraged Loan Indexes (S&P LL indexes) are capitalization-weighted syndicated loan indexes based upon market weightings, spreads and interest payments. The S&P/LSTA Leveraged Loan 100 Index (LL100) dates back to 2002 and is a daily tradable index for the US market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria. Its ticker on Bloomberg is SPBDLLB.

IA SBBI US LT Government: The index measures the performance of US dollar-denominated bonds issued in the US investment-grade bond market including US and non-US corporate securities that have at least ten years to maturity and a credit rating of AAA/AA.

IA SBBI US LT Corporate: IA SBBI US Long Term Corporate Bond Index: The index measures the performance of US dollar denominated bonds issued in the US investment grade bond market including US and non US corporate securities that have at least ten years to maturity and a credit rating of AAA/AA.

ICE Bank of America MOVE Index: The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a gauge of interest rate volatility in the U.S. Treasury market. It is calculated from options prices, which reflect the collective expectations of market participants about future volatility. The index measures the implied volatility of U.S. Treasury options across various maturities.

Bloomberg US Corporate Bond Index: The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg US Financial Institutions Capped Index: The index measures the performance of U.S. dollar-denominated publicly-issued investment-grade corporate bonds in the financial sector. The index is market-capitalization weighted with a 5% cap on any one issuer and a pro rata distribution of any excess weight across the remaining issuers in the Underlying Index.

Bloomberg US High Yield Index: The Bloomberg US Corporate High Yield Index measures the performance of non-investment grade, US dollar-denominated, fixed-rate, taxable corporate bonds.

Ice BofA High Yield USD Emerging Markets Liquid Corporate Plus Index: the ICE BofA High Yield US Emerging Markets Liquid Corporate Plus Index is a subset of the ICE BofA Emerging Markets Liquid Corporate Plus Index, which includes only securities rated BB1 or lower.

Bloomberg: LF98YW Index: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

“YW” is the ticker to pull the yield-to-worst on the index.

Bloomberg: LF98TRUU Index: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. This is the total return index level.

Morningstar SPBDLLY Index: Yield to maturity time series of the Morningstar LSTA US Leveraged Loan 100 Index. The Morningstar LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the US leveraged loan market.

Bloomberg Investment Grade Index: The Bloomberg US Investment Grade Corporate Bond Index measures the performance of investment grade, corporate, fixed-rate bonds with maturities of one year or more.

Definitions

Yield to Worst (YTW) is the lower of the yield to maturity or the yield to call. It is essentially the lowest potential rate of return for a bond, excluding delinquency or default.

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).

Quality Ranking: City National Rochdale Proprietary Quality Ranking is the weighted average sum of securities held in the strategy versus the S&P 500 at the sector level using the below formula.

City National Rochdale Proprietary Quality Ranking formula: 40% Dupont Quality (return on equity adjusted by debt levels), 15% Earnings Stability (volatility of earnings), 15% Revenue Stability (volatility of revenue), 15% Cash Earnings Quality (cash flow vs. net income of company) 15% Balance Sheet Quality (fundamental strength of balance sheet).
*Source: City National Rochdale proprietary ranking system utilizing MSCI and FactSet data. **Rank is a percentile ranking approach whereby 100 is the highest possible score and 1 is the lowest. The City National Rochdale Core compares the weighted average holdings of the strategy to the companies in the S&P 500 on a sector basis. As of September 30, 2022. City National Rochdale proprietary ranking system utilizing MSCI and FactSet data.