WEBINAR

September 2023 Market Update

A Deep Dive into CNR's Economic and Investment Outlook

September 28, 2023

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Market Update Summary

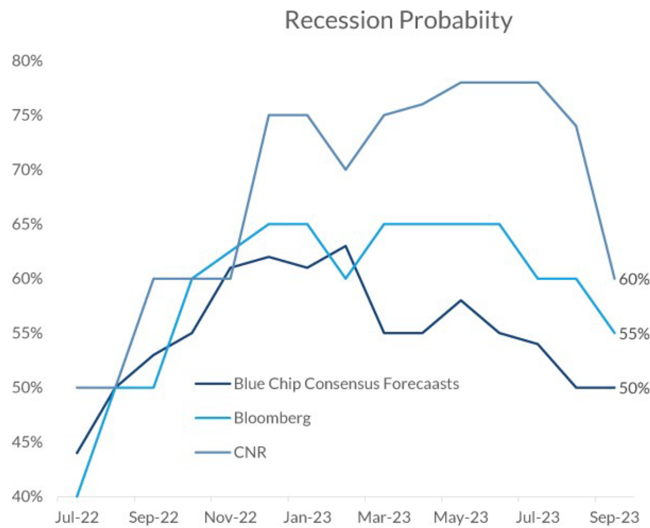
Modest Recession at Most in 2024

The strength of the labor market and the resilience of households led to a better-than-expected forecast for GDP growth in 2023, according to the September 2023 Market Update presented by the leadership team of City National Rochdale, City National Bank's investment advisory organization. While Rochdale was previously optimistic that any recession would be mild, moderating risks to the outlook including an approaching end to the Fed's rating hiking cycle. Instead, GDP estimates were raised to 1.5% to 2.0% for 2023. A modest economic slowdown is likely during the first half of 2024, followed by a recovery during the second half of the year, according to Tom Galvin, chief investment officer for City National Rochdale. GDP growth is estimated to be 0.5% to 1.75% for 2024.

Although interest rates are likely to remain higher for longer, greater confidence that a recession ahead will be mild and short provides a planning opportunity for investors. CNR continues to find fixed-income investments attractive, but over the next several quarters, they see opportunities developing to increase equity exposure in investment portfolios.

Greater Confidence Now in Path Forward

- Key change has been a reduction in risk of a normal recession.
- Mild recession, our base case, due to Fed tightening and constraints on consumer/business lending.
- Consumer retrenchment is expected to be modest, supported by strong household balance sheets and real income.
- Labor shortages and resilient demand should limit increases in unemployment.



Outlook Scenarios	Prior	Current
Soft Landing/ Slow Growth	26%	40%
Mild Recession	66%	60%
Normal Recession	8%	0%

Sources: Sources: Bloomberg, CNR Research, Blue Chip Economic Forecasts as of September 2023.

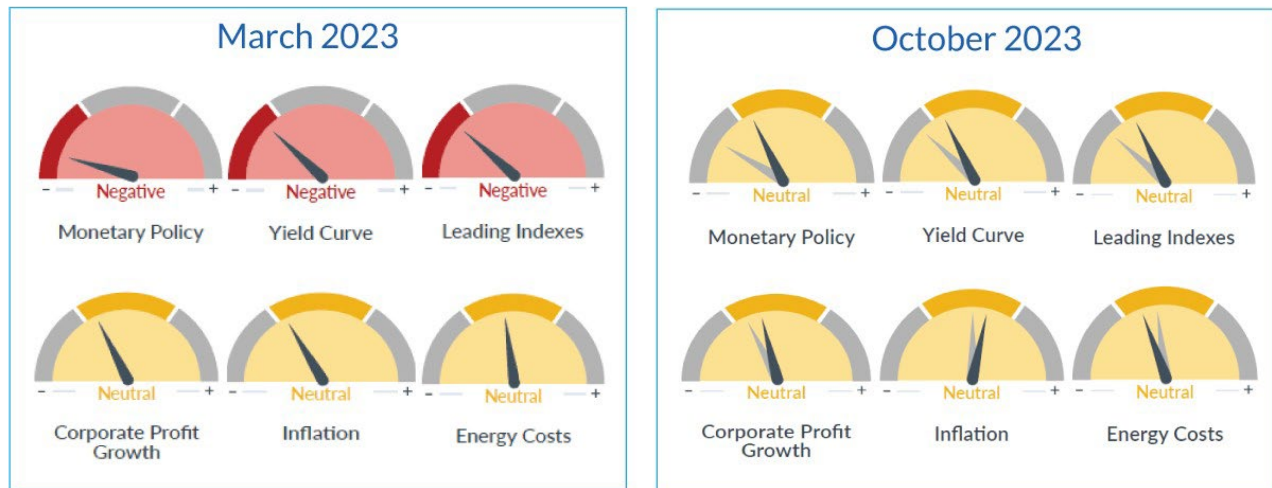
Information is subject to change and is not a guarantee of future results.

Reflecting their improved outlook, CNR Speedometers, which are six to nine month forward-looking economic and financial indicators, have turned more positive compared to six months ago. Inflation and corporate profits are both expected to improve. Monetary policy, the yield curve and leading indexes all moved from negative territory to neutral.

CNR Speedometers®

Economic & Financial Indicators That Are Forward-Looking Six to Nine Months

Impact on Economy and Financial Markets



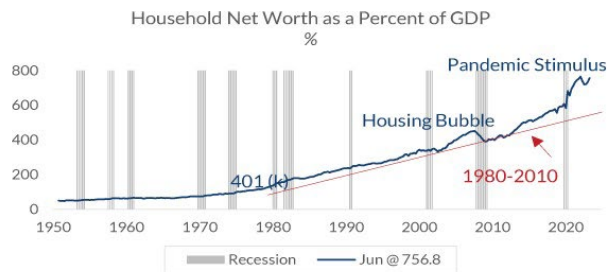
- Fed rate hikes at or near peak, headwinds expected to moderate
- Indicators are supportive of mild recession
- Consumer tailwinds abating, slower spending ahead likely
- Expecting improvements in corporate profits and inflation

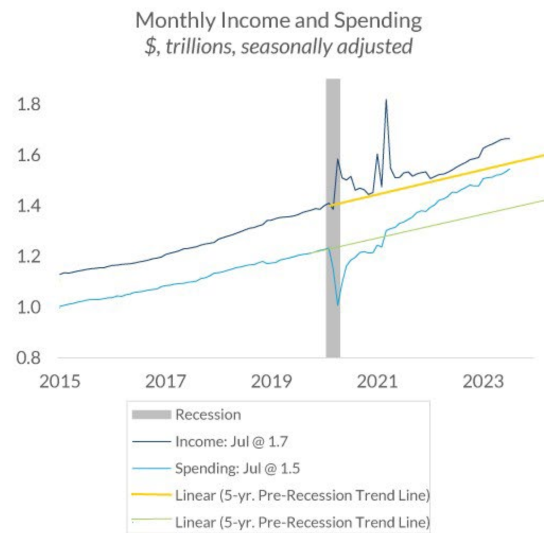
Source: Proprietary opinions based on CNR Research, as of September 2023. Information is subject to change and is not a guarantee of future results.

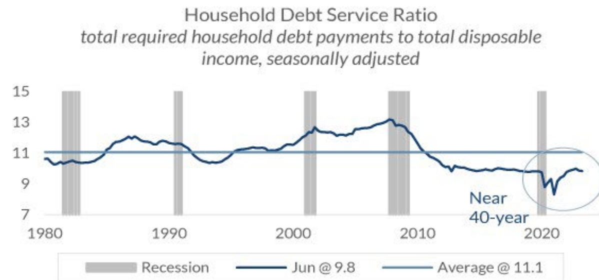
The primary reason CNR thinks a recession will be mild and short is due to the strength of the consumer and labor market. While consumer spending is expected to slow, it is likely to be a modest retrenchment, Paul Single said. Slowing wage growth, the elimination of stimulus funds and the higher cost of borrowing will challenge consumers in coming quarters, but consumers have a strong financial base coming out of the pandemic when they increased household net worth through savings, asset appreciation, and deleveraged debt. At the same time, ongoing labor shortages should prevent a significant rise in unemployment despite slower consumer demand, he said.

The Consumer

- Households have a very strong financial base.
- Asset values are generally up, household leverage is generally down, and the labor market is robust.
- But, slowing wage gains, lower savings, and reduced credit availability will test consumer resilience.







Data current as of September 28, 2023

Source: Federal Reserve, Bureau of Economic Research, Bureau of Labor Statistics

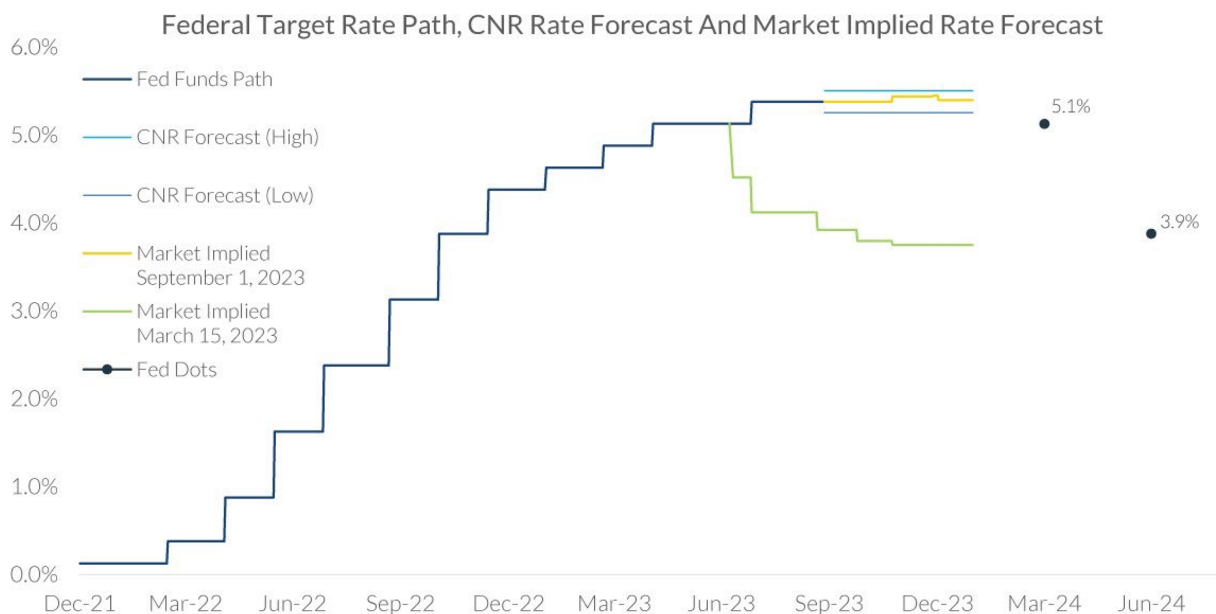
Information is subject to change and is not a guarantee of future results.

The Fed is likely to continue to keep the Federal funds rate high because of the ongoing stickiness of inflation and wages, according to Charles Luke, managing director, co-director, fixed income for City National Rochdale.

The Fed sees the target rate no lower than 5.1% at the end of 2024.

The Federal Reserve Will Keep Policy Rates High

- The stickiness of inflation and wages will continue to keep policy rates high.
- The Fed sees the target rate no lower than 5.1% at the end of 2024.
- We expect Fed funds to remain above the neutral rate if inflation is above target.



Source: Bloomberg, CNR Research. As of 9/1/2023.

Information is subject to change and is not a guarantee of future results

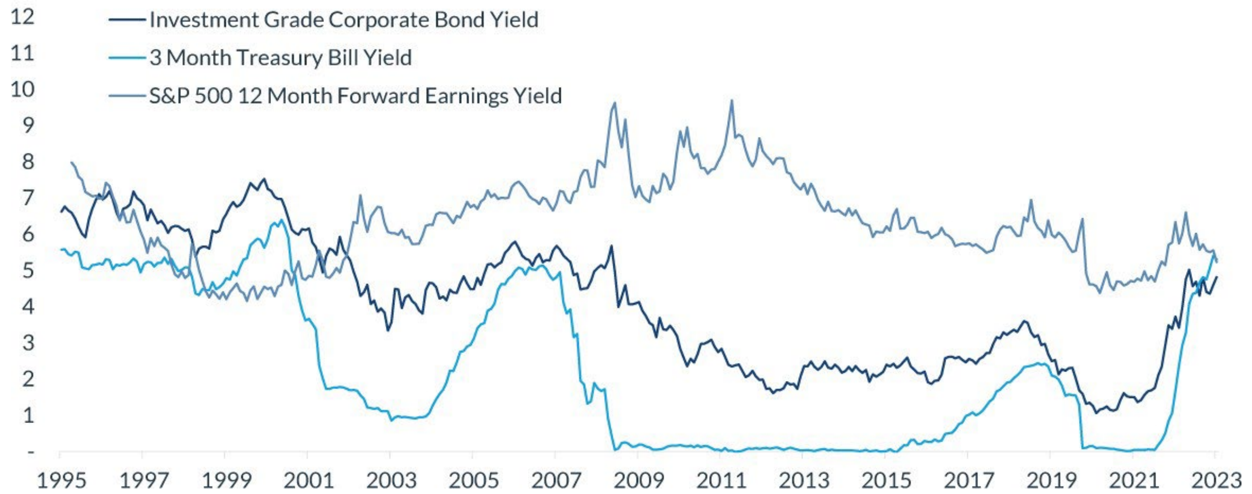
Given this, CNR continues to prefer shorter term bonds which offer liquidity, stability and higher yields than we have seen in 20 years. For some fixed income investors, depending on their individual circumstances, medium term bonds with three-to-10-year maturities may be something to look at in the coming months. However, longer maturity bonds are expected to remain volatile, and it is too soon to add exposure to them, Luke said.

"Diversification in portfolios is more powerful than at any point in the past few years," Luke said. "Rates have broken out above the long-term trends and we're getting excellent levels of returns from that nonstock portion of portfolios. Using fixed income alongside alternative investments can help diversify market risk. Bonds can now be looked at as a contributor and driver of returns instead of just a lower risk option."

You Can Now Take Less Risk, To Get Attractive Returns

- Today's higher bond yields offer the most attractive opportunities for investors in over a decade.
- Interest rates across the bond market remain elevated despite declining inflation.
- May provide greater competition to stocks, generally more predictable returns.

Yield Comparison



Sources: FactSet, as of July 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.

For equity investments, CNR is weighing a number of critical issues impacting both earnings and valuations. Positives include expectations of a recovery in earnings growth over 2024 and that a likely recession ahead will be short and mild. On the negative side, valuations remain expensive and the consensus forecast for corporate profits over the near term continues to be too optimistic.

Critical Issues Impacting Earnings and Valuations

	Earnings Growth	Valuations
Positives	• Revision trends bottoming	• Cash on sidelines
	• Resumption of EPS growth	• Mild recession likely
	• US economy stronger than global peers	• Fed at/near peak rates
	• Mild recession likely	• US outlook strongest
Negatives	• Earnings expectations for H1 2024 too high	• High P/E multiples, narrow market strength
	• Slowing foreign earnings for US companies	• Competition from fixed income
	• Diminished pricing power	• Individual stock volatility elevated
	• Trade tensions	• Elevated geopolitical risk

Data current, as of September 2023.

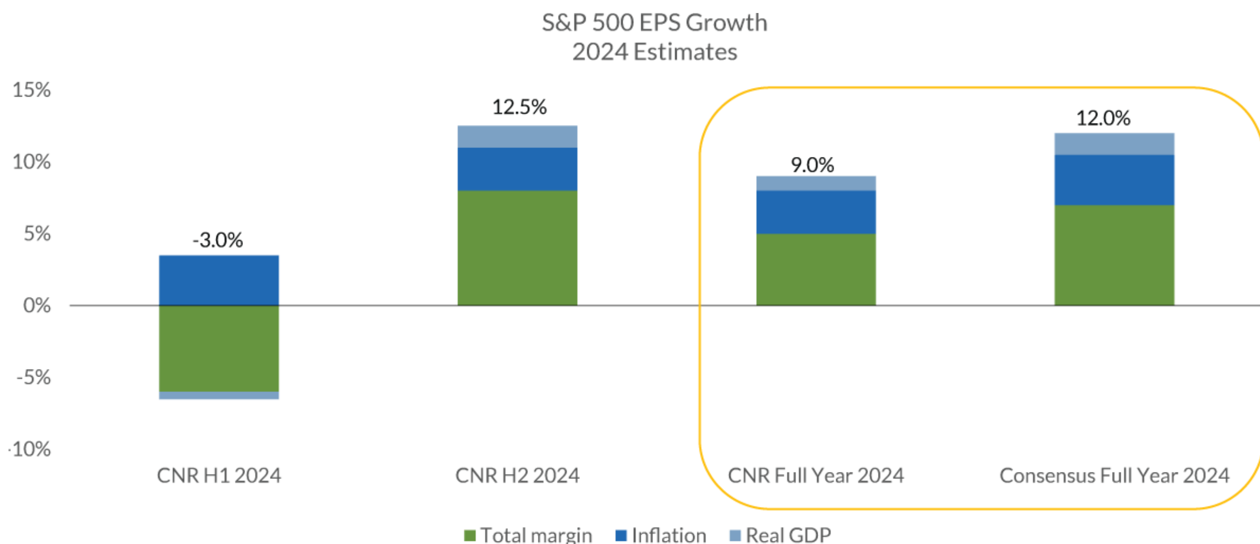
Source: City National Rochdale Research.

Information is subject to change and is not a guarantee of future results.
While the combination of the downward glidepath of inflation, a peak of Fed rate hikes and the removal of the normal recession risk gives us the confidence to look past a period of economic weakness ahead, Galvin said, the timing will depend on three key conditions: earnings, valuations and volatility.

Earnings growth is likely to track economic growth in 2024, Galvin said, so we are likely to see slower than expected corporate profits during the first half of the year before a recovery in the second half of 2024. Margins in particular are likely to come under pressure early in 2024, which is the main reason CNR's 9% forecast for 2024 S&P 500 earnings growth is below the consensus of 12%.

Key Conditions to Increasing Equity Exposure
#1 Earnings

- Earnings growth will likely track economic growth; consensus not pricing in a H1 2024 slowdown.
- We expect margins in particular to come under pressure before improving in H2 2024.
- Greater confidence in an earnings recovery is needed before increasing equity exposure.



Source: FactSet as of September 2023.

Information is subject to change and is not a guarantee of future results.

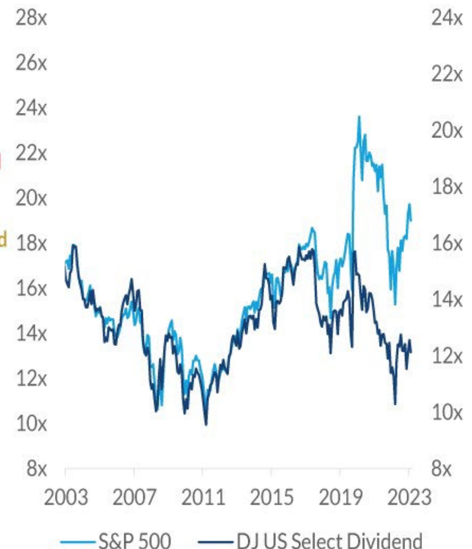
CNR also wants to stick to a disciplined approach to equity investments and is looking for more attractive entry points with less downside risk to add equity exposure, Galvin said. Despite the recent market pullback, equity valuations remain expensive, particularly in the S&P 500. Dividend stocks on the other hand are currently more fairly valued.

Key Conditions to Increasing Equity Exposure
#2 Valuations

• Equity valuations remain expensive despite the recent market pullback.

• We continue to see more attractive entry points from a risk reward perspective at lower index levels.

• Dividend stocks appear more fairly valued currently.



Source: FactSet, as of September 2023

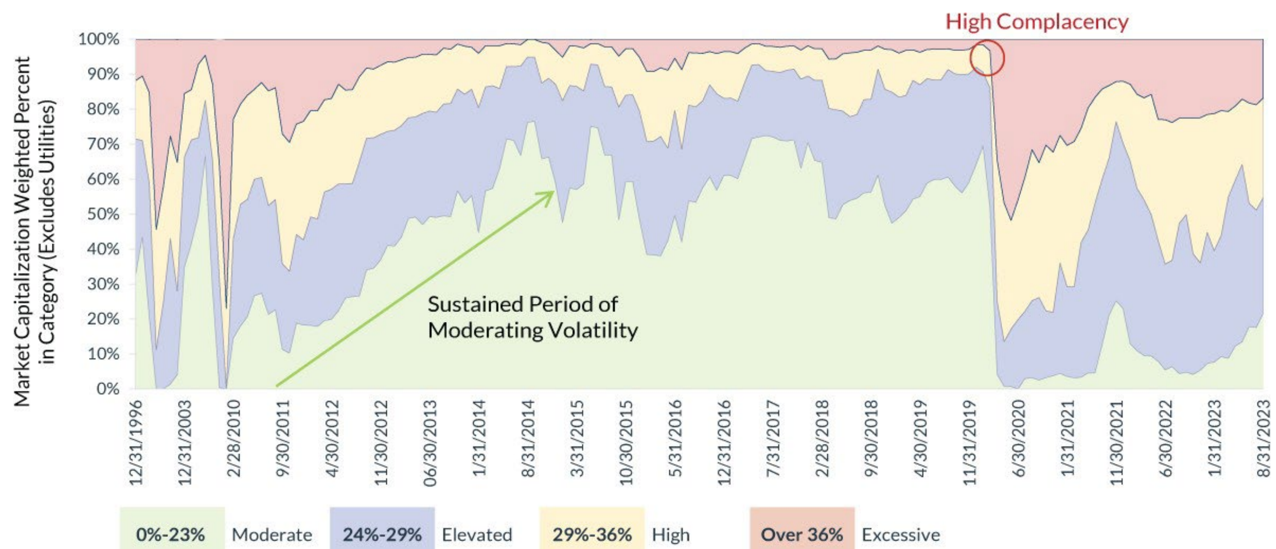
Information is subject to change and is not a guarantee of future results.

The third key component that CNR is watching to determine the timing of increased equity exposure is volatility. Currently, volatility in the equity market is still quite high. For durable market returns, we need to see less volatility over a longer period, Galvin said.

Key Conditions to Increasing Equity Exposure
#3 Volatility

- Volatility remains higher than comfortable.

- Durable market returns are associated with sustained periods of lower volatility.



For Illustrative Purposes Only. As of August 31, 2023. City National Rochdale uses Bloomberg PORT data as a measure of volatility. Bloomberg PORT is a third-party equity risk management software package used to help assess risk/return trade offs. Information is subject to change and is not a guarantee of future results.

CNR has a game plan to increase equity exposure as these conditions improve from a risk and reward perspective. The first step, when the time is right, will be to move their modest equity underweight in client portfolios to a neutral position by adding more exposure to high quality US stocks. Once greater confidence in a sightline to a trough in economic activity is gained, they would move to increase exposure to overall equity exposure to an overweight by adding cyclical or more economically sensitive stocks to portfolios.

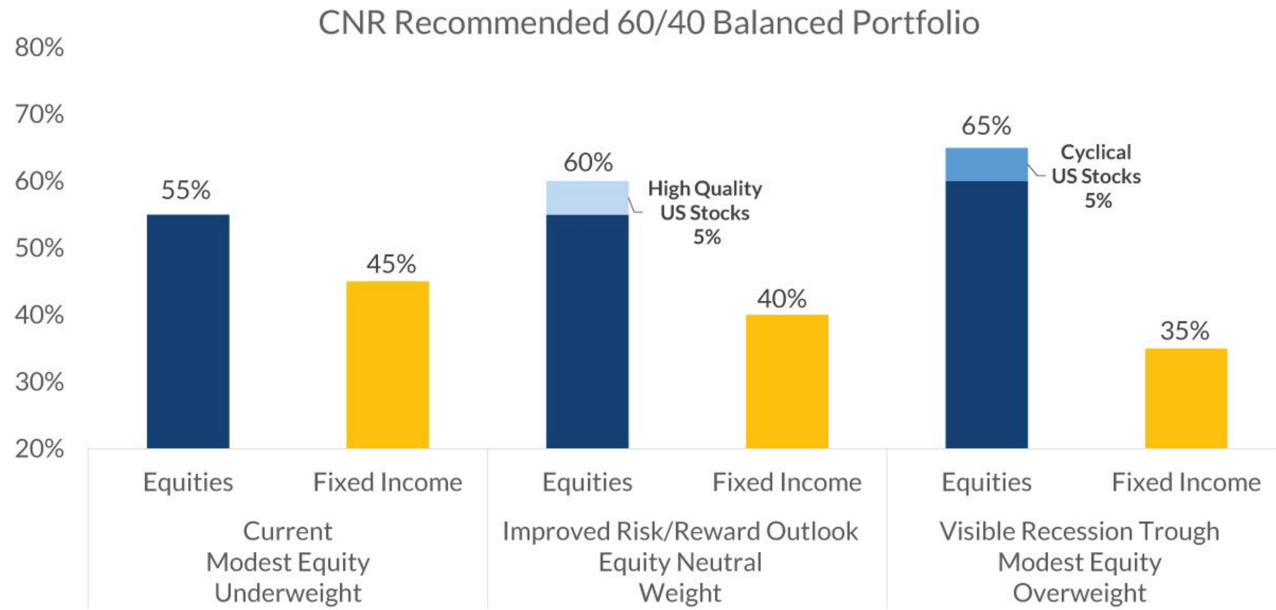
“As always, we personalize every strategy based on individual portfolio goals,” Galvin said.

Likely Next Steps for CNR Portfolios

- Given the combination of Fed policy at or near peak, downward glidepath in inflation and most importantly, removal of normal recession risks, we are preparing to look over the modest recession valley ahead.

- Timing will depend on 3 key equity conditions.

• Actual client outcomes will reflect intelligent personalization and individual portfolio goals.



Data current as of September 2023

Source: CNR Research as of September 2023. For illustrative purposes only. Reflects investment guidance from CNR Investment Strategy Committee.

Information is subject to change and is not a guarantee of future results.

Review Your Porfolio with Your Wealth Planners Today

City National encourages you to review your investment portfolio with your advisor. Additionally, keep in mind that each client is unique and based on individual circumstances any specific tactics mentioned may not apply. Your CNR team is here to address any questions you may have.

Important Information

Equity investing strategies & products. 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.

Fixed Income investing strategies & products. There are inherent risks with fixed income investing. These risks include, but are not limited to, interest rate, call, credit, market, inflation, government policy, liquidity or junk bond risks. 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.

Investing in international markets. There are inherent risks with international investing. These risks include, but are not limited to, 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. In addition, emerging markets can have greater custodial and operational risks and less developed legal and accounting systems than developed markets. Investments in emerging markets bonds may be substantially more volatile, and substantially less liquid, than the bonds of governments, government agencies, and government-owned corporations located in moredeveloped foreign markets.

High yield securities. Investments in below-investment-grade debt securities, which are usually called “high yield” or “junk bonds,” are typically in weaker financial health. 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.

Real estate sector or REITs. Concentrating assets in the real estate sector or REITs may disproportionately subject a portfolio to the risks of that industry, including the loss of value because of adverse developments affecting the real estate industry and real property values. Investments in REITs may be subject to increased price volatility and liquidity risk; concentration risk is high.

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Investments in the municipal securities of a particular state or territory may be subject to the risk that changes in the economic conditions of that state or territory will negatively impact performance. These events may include severe financial difficulties and continued budget deficits, economic or political policy changes, tax base erosion, state constitutional limits on tax increases and changes in the credit ratings.

All investment strategies have the potential for profit or loss; changes in investment strategies, contributions or withdrawals may materially alter the performance and results of a portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be suitable or profitable for a client's investment portfolio.

Returns include the reinvestment of interest and dividends.

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

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CNR Speedometers®are indicators that reflect forecasts of a 6 to 9 month time horizon. The colors of each indicator, as well as the direction of the arrows represent our positive/negative/neutral view for each indicator. Thus, arrows directed towards the (+) sign represents a positive view which in turn makes it green. Arrows directed towards the (-) sign represents a negative view which in turn makes it red. Arrows that land in the middle of the indicator, in line with the (0), represents a neutral view which in turn makes it yellow. All of these indicators combined affect City National Rochdale'soverall outlook of the economy.

Index Definitions

S&P 500 Index. The Standard & Poor's 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

MSCI EAFE Index. The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization weighted index that is designed to measure developed equity market results, excluding the US and Canada.

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.

Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD: The Bloomberg US Corporate Bond 1-5 Year Index measures the investment grade, fixed-rate, taxable corporate bond market with 1-5 year maturities.

Bloomberg US Investment Grade Corporate Bond Index: The Bloomberg 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.

Indexes are unmanaged and do not reflect a deduction for fees or expenses. Investors cannot invest directly in an index.

Definitions

Commercial and Industrial (C&I) Loan A commercial and industrial (C&I) loan is a loan made to a business or corporation.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

The Consumer Price Index (CPI) measures the monthly change in prices paid by US consumers.

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.

Non-deposit investment Products are: • not FDIC insured • not Bank guaranteed • may lose value