City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

JUNE 24, 2020

On the Radar

FAQS ON THE MARKETS AND ECONOMY

How is the global economy faring?

After the worst recession outside of wartime in 100 years, high-frequency global indicators are signaling that the world economy is moving past the worst of COVID-19 contraction.

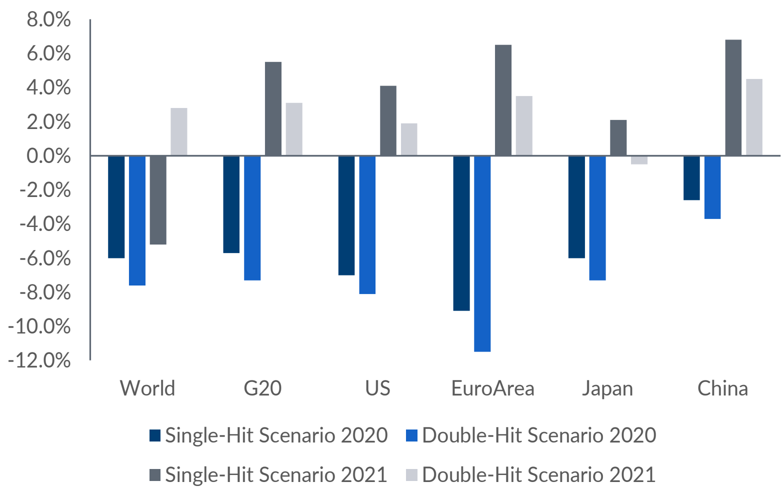
Even so, global activity remains far below pre-virus levels, and beyond an initial bounce back in activity as some businesses reopen, recoveries across economies will likely be slow-going and uneven.

Providing no second wave of virus occurs, recent Organisation for Economic Co-operation and Development (OCED) analysis indicates the world economy will still contract by 6% in 2020 and it will take until the end of 2021 at the earliest before activity returns to precise levels.

Some countries are faring better than others during the pandemic. While China and some Asian economies expect modest declines, other economies look set to record dramatic and enduring plunges in activity.

With a greater trade and tourism shock, and less fiscal stimulus, Europe has been hit particularly hard. Along with greater demographic constraints and more slower-growing industries, an inadequate level of regional support for the most COVID-19 impacted Eurozone countries is likely to result in a weaker regional recovery for several years to come.

OECD GDP Growth Forecasts (Y/Y)



Source: OECD as of June 2020.

KEY QUESTIONS

How has the pandemic impacted the budgets of state and local governments?

What is the Fed's view on the economy and interest rates?

Will a second COVID-19 wave derail the economic recovery?

What did the retail sales report tell us about the recovery?

Is the market rally supported by economic fundamentals?

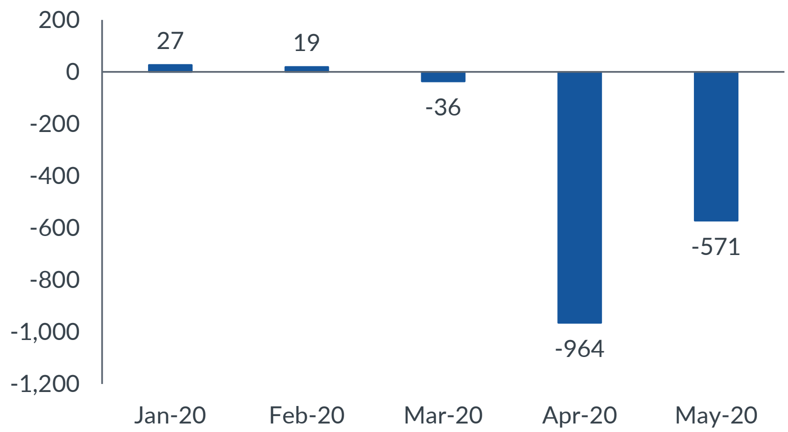
How has the pandemic impacted the budgets of state and local governments?

The cessation in economic activity has caused tax revenue to decline sharply. Consequently, state and local governments have begun to implement budget austerity to counter the current and projected deficits. Unlike the federal government, most state and local governments, by law, cannot operate with a budget imbalance, so they are preparing for severe spending cuts, reserve drawdowns and other measures.

The public sector is an important contributor to the economy: state and local governments account for about 11% of GDP and almost 13% of nationwide workers. The public workforce employ in critical areas like education, infrastructure, and health and safety.

According to the BLS, approximately 1.6 million public workers lost their jobs during April and May (see chart). While some of these payroll cuts are temporary, the magnitude of the economic disruption will likely lead to permanently smaller public workforces, especially if additional federal aid is not received.

State and Local Government Payrolls
monthly change, '000



Source: Bureau of Labor Statistics as of May 2020.

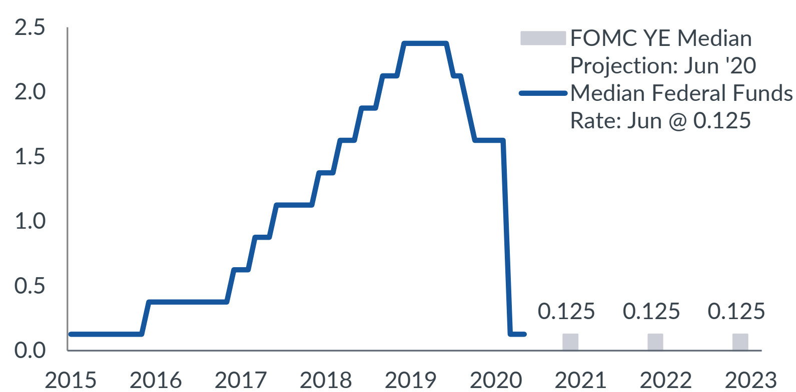
What is the Fed's view on the economy and interest rates?

At the recent Fed meeting, Jay Powell set a decidedly dovish tone by stating that the Fed isn't "even thinking about, thinking about raising interest rates." The Fed made it very clear: they are committed to keeping the federal funds rate near zero for the next few years (chart).

The economy has finished the first phase of this cycle, the contraction. We are now in the second phase, the transition. Due to the reopening of the economy, the economic data in the next few weeks and months will show record increases. That is easy; they are coming off very low lows. But not all parts of the economy will get back to their pre-pandemic levels, so it is unwise to extrapolate those reports out too far in the future.

The third phase, the recovery, will probably begin this autumn. This will be uneven due to the trend of the virus, the amount and timing of more fiscal aid and monetary stimulus and the realization of which businesses have bounced back and which businesses have not yet.

Federal Funds Rate and FOMC Projections (%)



Source: Federal Reserve Bank as of June 2020.

Will a second COVID-19 wave derail the economic recovery?

Although a significant second wave of new infections is not our base case, it is the leading downside risk to the economic outlook and warrants close monitoring.

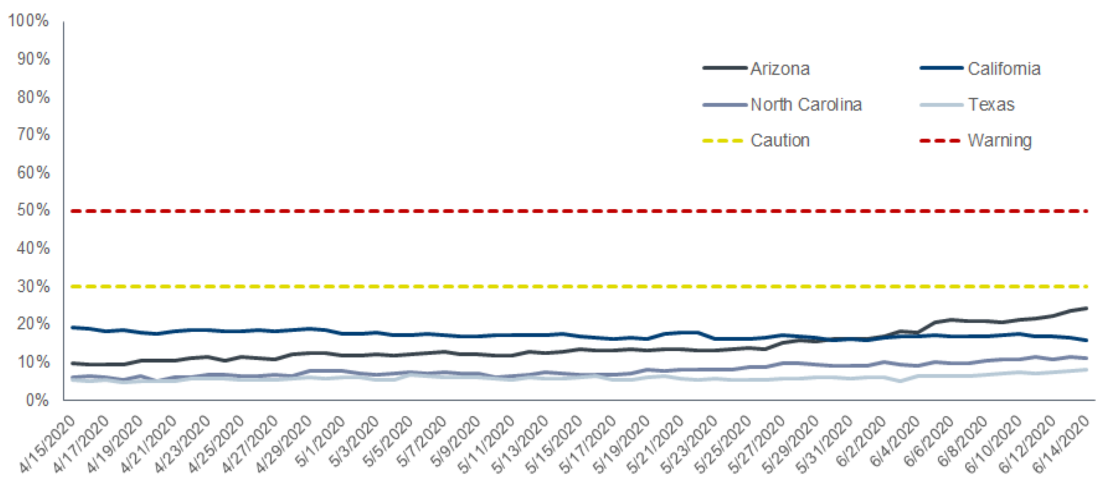
The increase in COVID-19 cases in a number of U.S. states across the South and West demonstrates that ongoing infection fears and the continued requirement for physical distancing will likely prevent a full economic recovery anytime soon.

Still, it's important not to lose sight of the overall picture. While localized outbreaks mean the number of new confirmed infections at the national level is again rising, the growing case counts are nothing like the national surge we saw in late March and early April that triggered widespread lockdowns.

The reality is that infections and deaths have remained stable or trended lower in most states, despite a gradual return to normalcy, as well as mass protests in recent weeks.

The country is also better prepared now for a second wave than it was before the initial outbreak. Testing is more widely available, people have better access to protective gear such as masks, and awareness of proper social distancing practices is greater. At the same time, an increase in hospital capacity has reduced concerns that healthcare systems will be overwhelmed, which motivated lockdowns in the first place.

Hospitalizations as % of Hospital Capacity



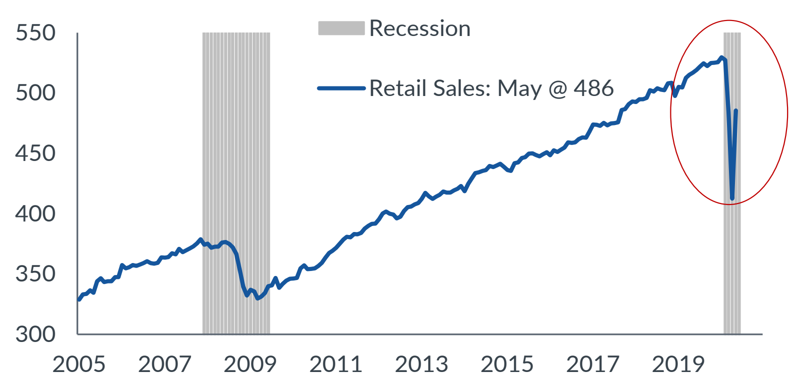
Source: The COVID Tracking Project, IHME. Hospital capacity reflects projected number of beds available for COVID-19 patients adjusted for average historical bed use.

What did the retail sales report tell us about the recovery?

Retail sales surged 17.7% in May, marking the biggest monthly gain in the history of the data. The gain was almost 2.5 times bigger than the previous monthly record increase, which happened in the month following the 9/11 attacks. Spending was broad-based, with nine of the 13 categories setting monthly sales records. The four that didn't were the categories that remained open through the shutdown (warehouses, grocery stores, online, health).

The jump in spending was driven by pent-up demand. Following weeks of self-containment and armed with stimulus checks and high levels of savings (due to canceled vacations, delay in tax payments, etc.), Americans stormed out and "shopped till they dropped." The income substitution from the federal government (Payroll Protection Plan and enhanced unemployment insurance) has done an effective job in providing income to the household so that they can continue to spend. This is important because, as the adage goes, "one person's spending is another person's income."

Retail Sales



Source: U.S. Census Bureau as of May 2020.

Yet, it is crucial to keep some context. This move follows three consecutive monthly declines. The dollar volume of retail spending still stands at more than 8.0% below January's peak (see chart).

Is the market rally supported by economic fundamentals?

The recovery in U.S. stock prices from March lows has been impressive, but the durability of the current rally will likely depend on the path to recovery from the COVID-triggered economic shutdown.

The good news is that many of the timelier indicators we monitor are signaling the worst of the damage is behind us, including a range of business and consumer surveys, jobs data and other high-frequency measures.

Still, the overall message is that the wider economic recovery is likely to be slow going. While activity in some sectors appears to be picking up fairly rapidly as lockdowns are lifted, more COVID-impacted industries such as restaurants, lodging, airlines/travel and entertainment remain deeply depressed.

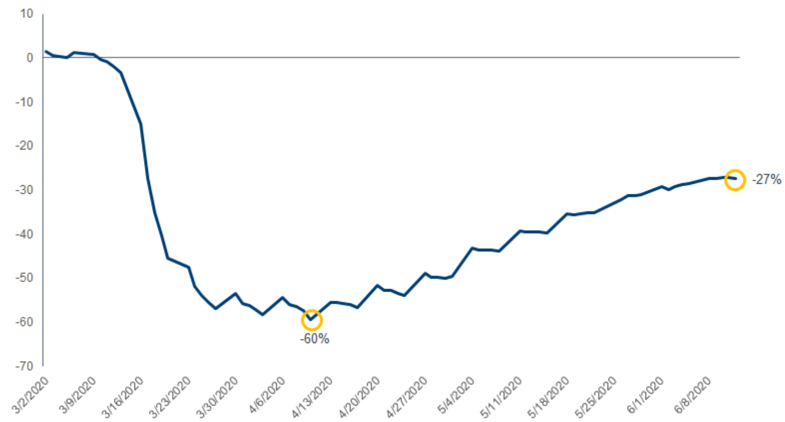
Overall, we expect sizeable gains in GDP over the next two quarters, but a return to full normalization and prior GDP levels will take some time as social distance measures linger and consumer confidence gradually rebuilds.

There will also be more long-lasting implications (i.e., bankruptcies, permanent job losses and reduced business investment) from the virus outbreak and economic shutdown, which will limit the economy's return to potential.

Investors have justifiably looked past the near-term economic damage and focused on recovery. However, the danger is that the stock prices now are not accurately reflecting these second-order and longer-term impacts, which could leave the market primed for some disappointment in the months ahead should fundamentals and corporate earnings not catch up to expectations as fast as anticipated.

Against this conflicting backdrop, we are maintaining our preference for quality companies, but are increasingly comfortable taking a bit more equity exposure opportunistically where we still see pockets of value.

Hourly Workers Working



Source: Homebase as of June 2020.

Important Disclosures

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.

Any opinions, projections, forecasts, and forward-looking statements presented herein are valid as of the date of this document and are subject to change.

There are inherent risks with equity investing. These include, but are not limited to, stock market, manager, or investment style risks. 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 may 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.

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.

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 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.

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 more developed foreign markets.

Returns include the reinvestment of interest and dividends.

Investing involves risk, including the loss of principal.

As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money.

Past performance is no guarantee of future performance.