City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

OCTOBER 26, 2020

On the Radar

FAQS ON THE MARKETS AND ECONOMY

How will the U.S. election impact my investment strategy?

Though the performance of the stock market is often credited to specific political agendas, the data doesn't support this link, and investors would be wise to think carefully before making decisions based solely on election outcomes.

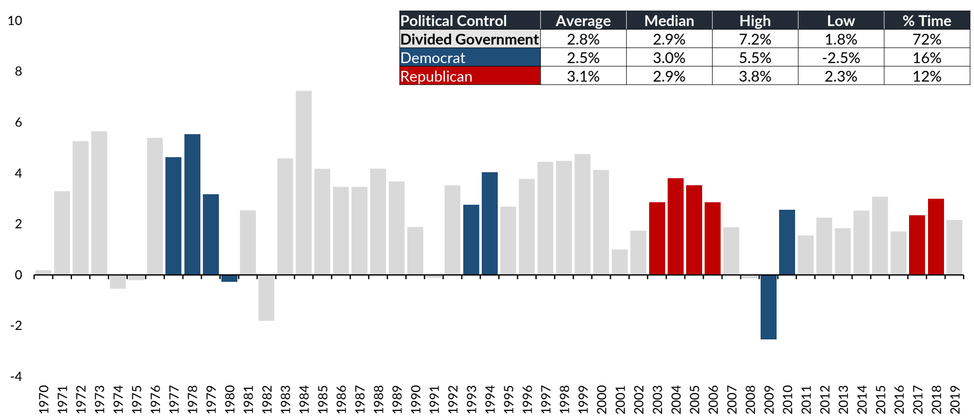
Markets and corporate earnings have done well under all combinations of political control, and we suspect that will continue no matter the outcome in November. History shows that, over time, its trends in economic conditions, profit growth, valuations and interest rates have been the more powerful and lasting determinants for investment returns.

Regardless of the election results, we expect fiscal and monetary policy to remain exceptionally supportive, with the recovery from the pandemic, and the potential for an effective, widespread vaccine, being the main driving force of the economy and financial markets over the coming years.

This doesn't mean that the path to recovery will be identical regardless of election outcomes. The differences between Republican and Democrat legislative priorities are substantial, and new policies could certainly have positive and negative impacts across specific industries and sectors.

This underscores the value of active management, as investors may need to reposition their portfolios accordingly. Our current portfolio positioning is calibrated to do well in all outcomes, and we will make appropriate adjustments once the final result is clear. See our Election Special Bulletin for more insights.

Real GDP (Y/Y %)



Political Control	Average	Median	High	Low	% Time
Divided Government	2.8%	2.9%	7.2%	1.8%	72%
Democrat	2.5%	3.0%	5.5%	-2.5%	16%
Republican	3.1%	2.9%	3.8%	2.3%	12%

Source: Bloomberg.

KEY QUESTIONS

Does City National Rochdale still believe inflation will stay low over the next few years?

How can retail sales be so strong with such a high unemployment rate?

What is the latest news from the Fed's Beige Book?

Is more fiscal stimulus forthcoming?

Does City National Rochdale still believe inflation will stay low over the next few years?

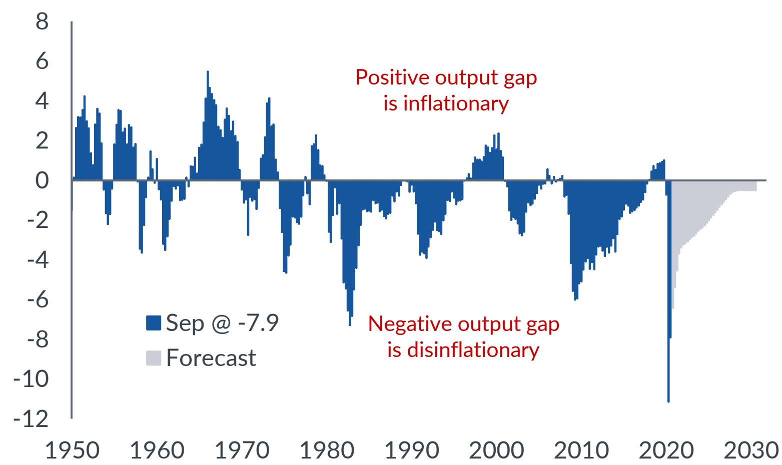
Yes we do. The two driving forces that will keep inflation low are the high level of unemployed people (unemployment insurance is going to 19.6 million people; it was just 1.7 million before the pandemic) and the very large output gap, telling us the economy has plenty of excess capacity.

We are not seeing the downward pressure on inflation now. The economy is still dealing with the imbalances brought on by the pandemic. For the goods in high demand (paper products, cleaning products, sporting equipment, food at home, etc.), prices have been moving up. For the products of low demand (airline tickets, hotels, gasoline, work clothing, etc.), prices have been falling. It will take several months for the imbalances to work their way out.

Speaking of inflation, the September CPI report was released. From this, the Social Security Administration calculates the cost of living adjustment (COLA) for the next calendar year. It uses a sub component, and that rate is 1.3%, slightly different from the headline CPI at 1.4%. There are 68 million people who receive a Social Security check. The average retiree who receives a monthly check of $1,523 will get about an extra $20 added to it.

Output Gap

as a percent of GDP



Source: Bureau of Labor Statistics as of September 2020.

How can retail sales be so strong with such a high unemployment rate?

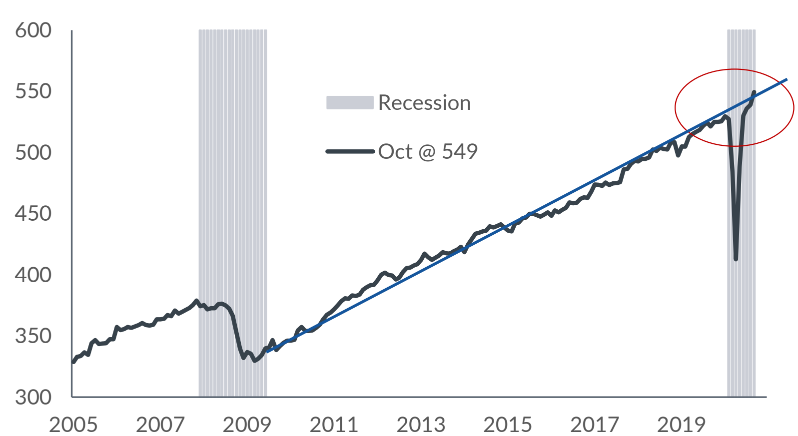
Retails sales stands 3.7% above the Q1 peak (see chart). There has been solid spending across almost all subcategories.

Retail sales measures spending on goods, not spending on services, which accounts for about two-thirds of household spending. Consumers are making additional goods purchases because they have extra money due to the shortfall of spending services.

There are a couple of theories behind the increased growth rate in retail sales. First, based on the unemployment rate, 92.1% of the workforce is still working and collecting income. Financing costs have fallen, providing an incentive to borrow money and shop. Second, there are more than 25 million people receiving unemployment benefits. Although the $600 per week enhanced unemployed insurance payment expired on July 31, the president signed a law authorizing most beneficiaries to receive an extra $400 per week. Third, consumers are drawing on more than $1 trillion in excess savings built up over the past few months.

Retail Sales

monthly value, seasonally adjusted, $, billions



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

What is the latest news from the Fed's Beige Book?

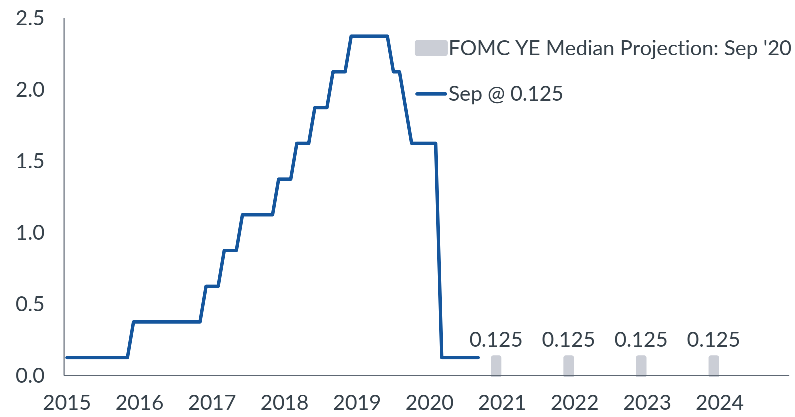
The pace of the economic recovery is moderating. Also, there is a disjointed employment situation; many companies continue to lay off some workers, while other companies are struggling to recruit workers.

The economy is proceeding on separate tracks. There is steady growth in some areas (manufacturing, residential housing and banking). This is in contrast to some other areas, which remain weak (travel, entertainment, hospitality, food service — almost anything that has to be done within 6 feet of another person).

Companies are generally optimistic or positive about the future. But they noted that there was still a lot of uncertainty in their outlook, particularly in regard to November's election.

Here is more evidence that we are experiencing a K-shaped recovery, which is something between a V-shaped recovery and the dreaded L-shaped recovery. Some areas of the economy are on an upswing, while others are on a downswing.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve Bank as of September 2020.

The Fed's Beige Book is composed of anecdotal information on the current state of the economy. It is published eight times a year, right before the Fed's FOMC meetings.

Is more fiscal stimulus forthcoming?

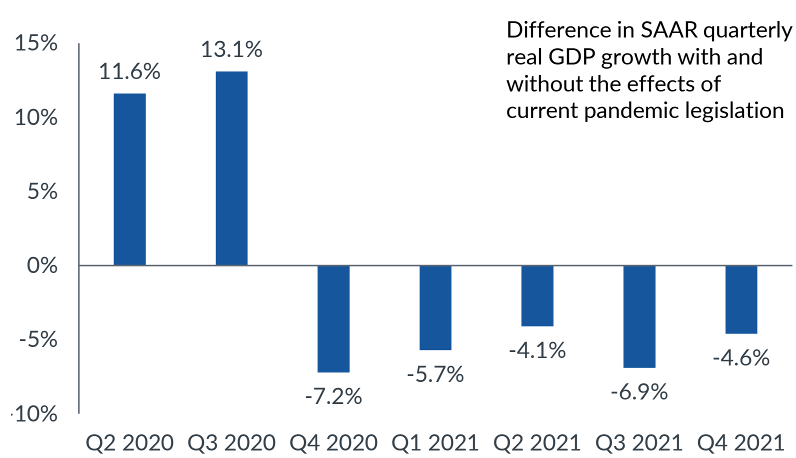
Despite continuing talks between lawmakers and a slight narrowing of differences, the odds of pre-election fiscal stimulus continue to look very low. While we still think another round of substantial support is in the pipeline, the size, shape and timing of more policy support will likely be determined by the makeup of political control post-election.

Although there is general agreement in Congress that more aid is needed, the sticking point continues to be reconciling the priorities between Democrats and Republicans. Many issues are on the table, including an extension of boosted unemployment payments, another round of direct cash payments, increased assistance to state and local governments, funding for schools and students, hazard pay and liability immunity.

Much of the economic and market strength we have seen over the past few months can be directly attributed to the unprecedented aid coming out of Washington. Trillions of dollars have already been spent to keep families and small businesses afloat during the pandemic — and it has largely worked.

However, many of these emergency programs have now expired or have been exhausted. Failure to enact additional support risks deepening the demand-side shock from the COVID-19 outbreak and restrictions on economic activity, which until recently was largely contained by businesses and household income supports.

US Fiscal Support/Drag



Source: Congressional Budget Office.

This would not just lower the near-term growth trajectory, but also result in more long-term scarring to the job market and permanent business closures. The CBO has estimated that absent another round of relief, fiscal policy will start acting as a drag on growth of 700 basis points (bps) as soon as this quarter and will continue ranging between -400 bps to 700 bps throughout 2021.

Unfortunately, all this is coming at a time when the recovery seems to be losing some momentum and COVID-19 cases are again showing signs of increasing across the country.

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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.

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Returns include the reinvestment of interest and dividends.

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Past performance is no guarantee of future performance.

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Index Definitions

The Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.