City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

FEBRUARY 1, 2021

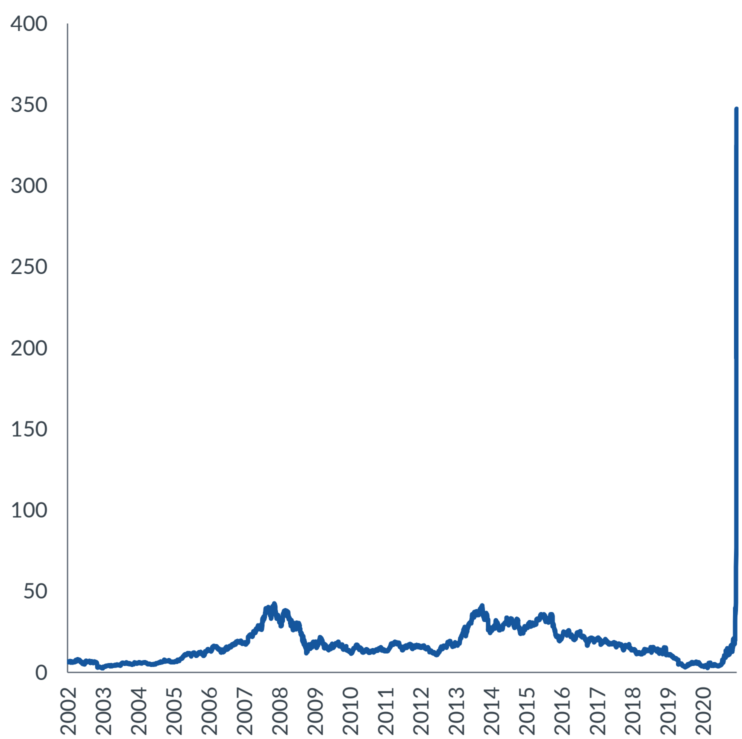
On the Radar

FAQS ON THE MARKETS AND ECONOMY

Should recent market volatility be a concern for investors?

The past few weeks have witnessed some incredible market action, much of it driven by a new crop of retail investors attempting to push back on the institutional investment community by piling into a number of highly shorted stocks. This, in turn, has forced investors who had shorted these names to cover their positions, lifting prices in many cases to hard-to-justify levels. GameStop Corp., for example, is still primarily a declining brick-and-mortar retailer in an electronic world (see chart).

GameStop Corp. (GME)



Source: FactSet as of January 29, 2021.

We do not believe recent developments are a sign of an overall unhealthy market or a broader bubble. History is filled with examples of investors causing surges or collapses in the prices of small groups of stocks or bonds, which have signified little about the state of markets generally.

Indeed, fundamental conditions in the aggregate have not changed much at all, in our view. The economy is still poised to gain momentum later this year as vaccine distribution becomes widespread, S&P 500 earnings are still expected to reach all-time highs and the combination of central-bank and government stimulus will remain a tailwind.

That said, equity markets have been on an unprecedented run since last February's lows; valuations have been stretched somewhat; and pockets of euphoria do exist, especially in speculative emerging technology companies.

While difficult to time, we think a correction in risk assets is therefore probably overdue, with unexpected developments in fiscal stimulus or virus-related items as potential triggers. Given our outlook, though, we would view such a correction as a buying opportunity.

KEY QUESTIONS

What is the outlook for the global economy?

What did we learn from the recent Fed meeting?

How did the economy perform in the fourth quarter?

How is California's budget performance?

What is the outlook for the global economy?

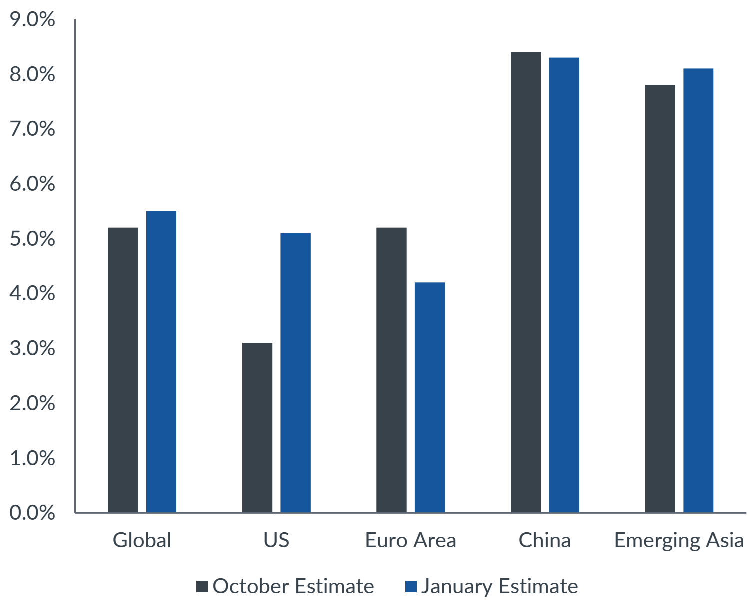
So far, the global recovery has been faster than initially expected, given how grim things looked in mid-2020. While the immediate outlook continues to be marred by renewed waves of infections, we think that the pace of growth will pick up later this year as accelerating vaccines rollouts allow most countries to begin removing restrictions on economic activity. Recent PMIs are consistent with our view that the fallout from the latest virus resurgence will be much smaller than it was in Q2 of last year.

In its January outlook update, the International Monetary Fund raised its forecast for global economic growth in 2021 and expects last year's COVID-19 triggered downturn — the biggest peacetime contraction since the Great Depression — will be nearly a full percentage point less severe than expected. Still, the recovery ahead is likely to be uneven, with certain regions and economies outperforming others.

Within developed economies, the IMF raised its forecast for 2021 U.S. GDP by 2 percentage points, to 5.1%, given prospects for additional stimulus and strong late-2020 momentum. In contrast, Euro area GDP was revised down 1%, to 4.2%, amid lingering structural challenges and greater difficulty containing the outbreak.

A number of EM economies are also expected to lag behind, particularly in Latin America and Africa, but China as well as broader EM Asia should be a strong performer this year.

IMF 2021 GDP Forecasts



Source: IMF.

CNR's portfolio exposure continues to reflect these divergent outlooks, with overweights to U.S. and EM Asia equities, and significant underweights to Euro and other developed markets.

What did we learn from the recent Fed meeting?

The FOMC will remain accommodative for the foreseeable future.

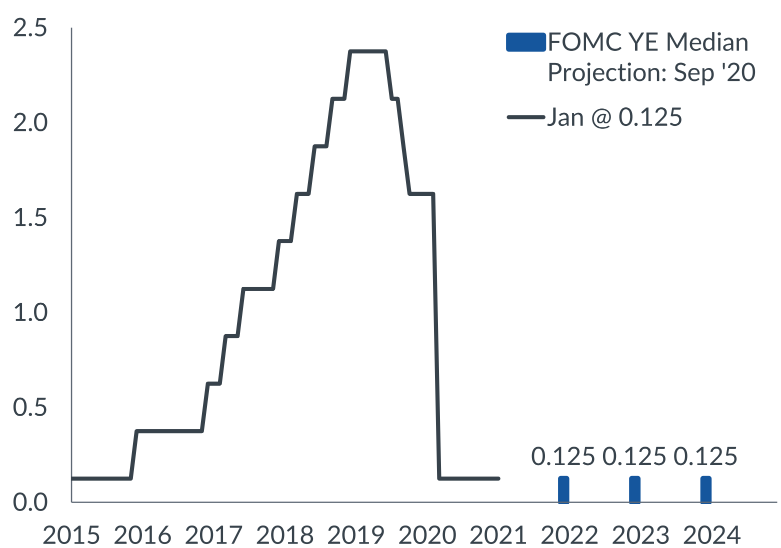
The committee announced its plan to keep short-term interest rates near zero and continue their bond purchase program of $120 billion per month, both as expected.

The Fed acknowledged a softening in specific sectors of the economy in the past few weeks due to the virus's spread and resulting restrictions put in place. This can be seen in the recent decline in payrolls and retail sales and an increase in claims for unemployment insurance. The Fed believes the setback is temporary.

The Fed's current view is that the path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The Fed will continue to keep a dovish view on monetary policy.

CNR continues to believe the outlook for the Fed is to provide too much monetary accommodation rather than too little.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve Bank as of January 2021.

How did the economy perform in the fourth quarter?

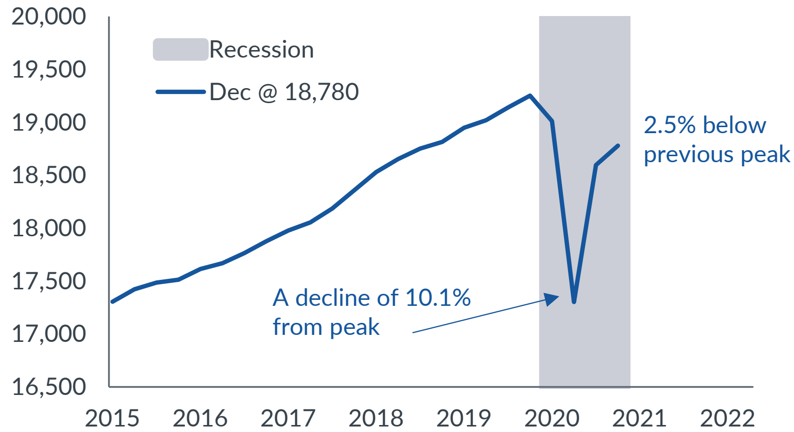
Q4 GDP grew 4.0%, down from Q3's record growth rate of 33.4%. The third quarter growth was not sustainable since it represents the reopening of the economy following the lockdown. The deceleration in Q4 primarily reflects a sudden moderation in consumer spending. The yearly change in GDP was a decline of 2.5%, the first annual decline since the global financial crisis of over a decade ago.

Q4 started on solid ground. But the resurgence of the virus quickly led to the reimposing of restrictions on business and activity in some areas of the country. This forced layoffs, especially in the hospitality sector. Also, CARES funding dried up, causing a drag on disposable income.

We believe the current slowdown will be short-lived. Economic activity should start to pick up in February and accelerate in Q2 and beyond.

GDP

$, billions, seasonally adjusted annual rate



Source: Bureau of Economic Analysis as of December 2020.

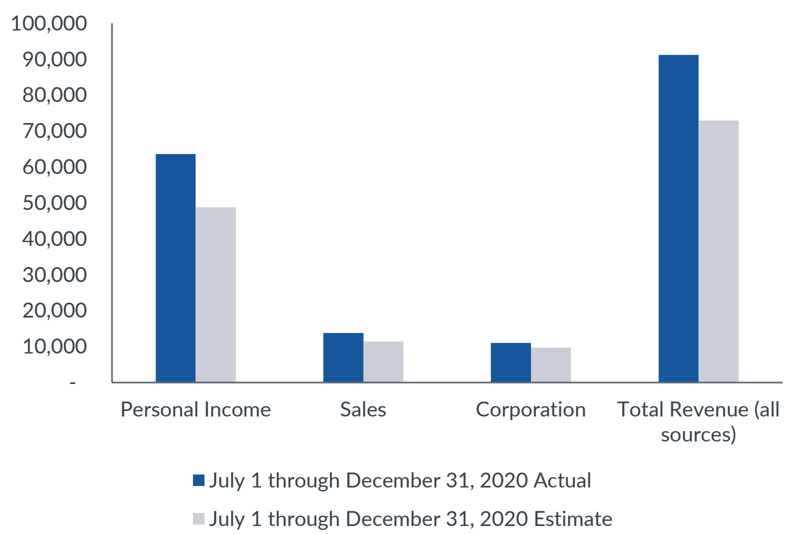
How is California's budget performance?

The adopted fiscal year (FY) 2021 budget initially projected a $54 billion cumulative deficit between FY 2020 and FY 2021 because of anticipated declines in revenue and growth in pandemic-induced expenditures. However, through the first six months of the fiscal year (July-December 2020), California's revenue collections exceed estimates by about 25%, according to the State Controller's Office. The governor's FY 2022 executive budget, which includes revisions to current year forecasts, expects to close out FY 2021 with approximately a $15 billion operating surplus.

A disproportionate share of employment losses in California affects low-paying industries, like service, leisure, and hospitality. At the same time, higher-wage sectors, such as finance and technology, remain somewhat more insulated. The state has a large pool of high-income earners that contribute significant personal income tax (PIT) revenues to its general fund (about 70%). While sensitive to the business cycle, its progressive income tax system helps overall revenue generation in the current environment. Moreover, estimated payments from capital gains continue to perform well because of the recovery in financial markets, while withholding data suggests year-end bonuses were better-than-expected.

General Fund Revenue Performance FY 2021 Through 12/31/2020

000's, millions



Source: California State Controller as of December 31, 2020.
Footnote: General Fund Cash Receipts and Disbursements.

The FY 2022 executive budget proposes funding many priorities, such as education, business relief, and stimulus credits to low-income earners and families. Stronger tax collections will alleviate some of the near-term budget stress, allowing the state to avoid material reserve fund withdrawals. Based on budget estimates, FY 2021 reserves will end the year approximately double the amount projected in the adopted plan and close FY 2022 with about $19 billion, or roughly 13% of its general fund revenues. Budget projections are likely to change as data becomes available and economic conditions evolve. Still, California's improved fiscal capacity should better enable the state to manage its challenges over the medium term.

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.

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.

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.

This material is available to advisory and sub-advised clients of City National Rochdale, LLC, a Registered Investment Advisor and a wholly-owned subsidiary of City National Bank.