

MARCH 2, 2021

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Is a market correction possible?

In our minds, the fundamental outlook for equities remains favorable, and we think the market’s high degree of optimism is not misplaced. The economy is poised to gain momentum later this year as vaccine distribution becomes widespread, S&P 500 earnings are expected to reach all-time highs and the combination of central-bank and government stimulus will remain a tailwind.

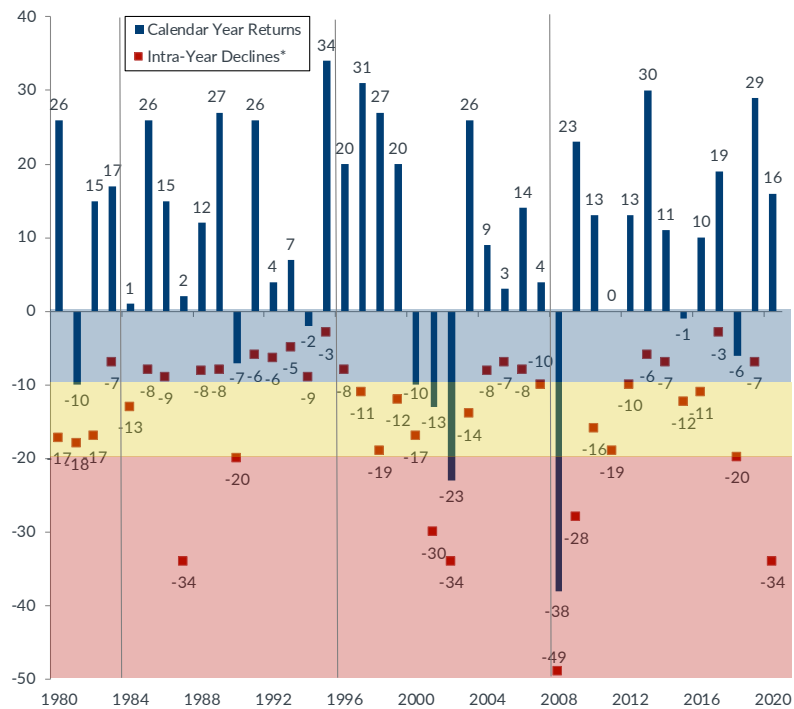
However, equity markets have also been on an unprecedented run since last February’s lows. Valuations have been stretched somewhat, and pockets of euphoria do exist, especially in speculative emerging technology companies.

This means that even small shocks have the potential to undermine markets, at least temporarily. While difficult to time, we think a correction in risk assets is probably overdue, with unexpected developments in fiscal stimulus, rising interest rates and virus-related items as potential triggers.

Still, it is important to recognize that corrections are not uncommon. Since 1980, the S&P 500 has experienced an intra-year decline of 10% or more 23 times, yet the S&P has finished with a positive return in the vast majority of those years.

Indeed, corrections are often healthy events, helping to eliminate excesses that have built up after extended runs of market optimism, and setting a firmer foundation for future gains. Should

S&P 500 Return (%)



Source: FactSet.

if a correction comes over the coming months, we would view it as a buying opportunity.

KEY QUESTIONS

What did Powell say at his Congressional testimony?

Is the housing sector still strong?

When is more fiscal stimulus coming?

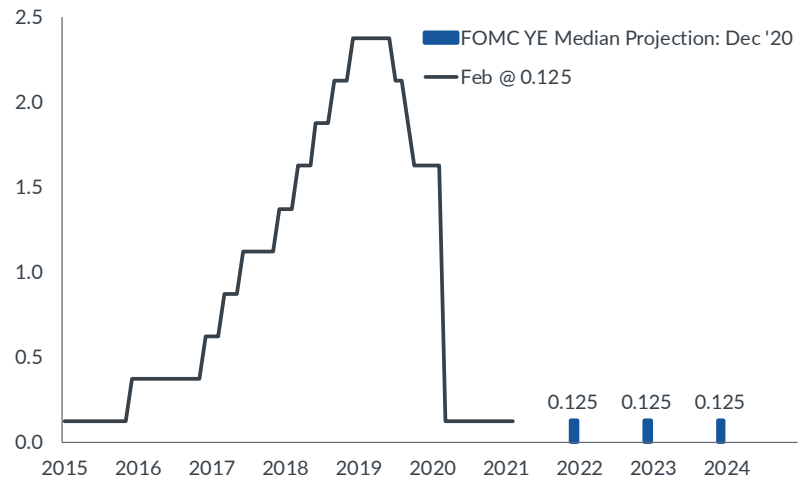
What did Powell say at his Congressional testimony?

Powell reaffirmed the Fed's commitment to maintaining easy-money policies. They will keep the federal funds rate near zero, and continue their asset purchase program (\$120 billion per month).

The Fed believes it will be years before they will meet their goal of full employment and inflation near the 2.0% level. They are committed to achieving a full recovery.

He noted that economic news has been picking up. That can be seen in retail sales, industrial production, and the service sector. It is also seen in private economists with very high expectations of economic growth this year (the Bloomberg average of economists is 5.9%). That said, Powell noted that there are 10 million fewer payroll jobs than there were last February.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve Bank as of February 2021.

Is the housing sector still strong?

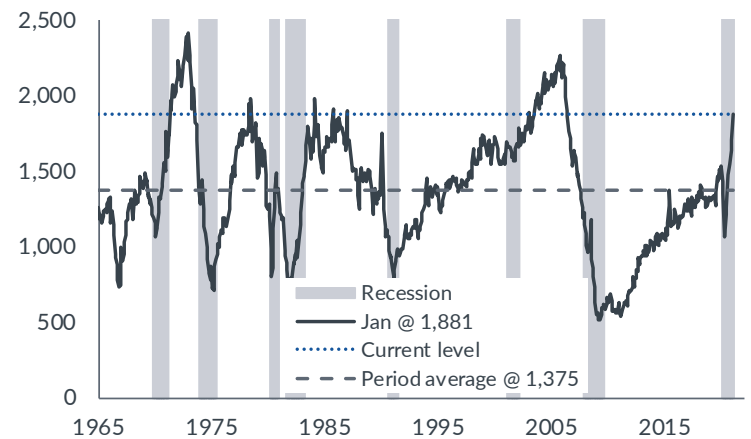
The housing market has been on a tear since the summer months, and the winter does not seem to have caused a slowdown. Building permits, a useful indicator of future growth, have reached new cycle highs. They stand at 1.9 million, which is 29.1% higher than they were before the recession started.

The increase in demand is due to record-low mortgage rates, strong credit ratings of potential buyers, desire to live in a larger space (due to the pandemic), and rallying home prices, which have gone up 10% in the past year.

COVID has caused a migration from high-cost urban areas to less-expensive metropolitan areas and lower-cost suburbs. This demand has caused the supply of existing homes to fall, so the market for new homes meets the need.

Building Permits

thousands, units, seasonally adjusted annual rate



Source: U.S. Census Bureau as of January 2021.

When is more fiscal stimulus coming?

Congressional Democrats are racing ahead on the next round of COVID-19 fiscal relief, called the American Rescue Plan (ARP), through a budget process called reconciliation. Republicans have balked over the \$1.9 trillion size of the bill, and reconciliation provides a way for Democrats to pass the bill without GOP support.

At the current pace, there is a good chance that President Biden will sign the ARP into law before March 13, when expanded unemployment benefits are set to expire, though political disagreements could still cause delays.

The House version of the bill passed this weekend includes \$1,400 in direct checks for Americans making under \$75,000, a \$400

per week supplemental unemployment bonus, money for vaccine distribution, funding for schools, and state and local aid.

Next step is the Senate, where some resistance is likely to be met over a number of measures, including the size of state and local aid, and the inclusion of an increase in the federal minimum wage. How extensive these changes are will depend on how seriously Democratic leaders take the risk that at least one centrist Democratic senator could vote against the package.

Still, the overall size of the bill is expected to be massive, second only historically to last year's \$2.2 trillion CARES Act, and will likely boost economic growth prospects for 2021.

2021 American Rescue Plan (House Bill)	
Funding	Amount
Extended Unemployment Programs, Additional \$400/week	\$246bn
Stimulus Payments, Child Tax Credit	\$572bn
Business Assistance	\$69bn
Education/School Reopening	\$170bn
Rental/Homeowner Assistance	\$40bn
State/Local Aid	\$350bn
COVID-19 Related Programs (Testing, Tracing, Vaccine Distribution)	\$180bn
Transportation	\$40bn
Other	\$230bn
Total	\$1.9tn

Source: CBO, House Budget Office.

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.

Index Definitions

S&P 500 Index (S&P500) is a stock market index that tracks the 500 most widely held stocks on the New York Stock Exchange or NASDAQ. It seeks to represent the entire stock market by reflecting the risk and return of all large-cap companies.