CITY NATIONAL ROCHDALE
AN RBC/CITY NATIONAL COMPANY

APRIL 13, 2023

ON THE RADAR

FAQs on the Markets and Economy

What is the Fed's outlook right now?

The Fed remains singularly focused on bringing down inflation.

Although the recent Federal Deposit Insurance Corp (FDIC) takeover of a couple of banks has added some uncertainty, the Fed is still pushing ahead with trying to slow consumer demand. At their recent meeting on March 21, they raised the federal funds rate by 25 basis points (bps) to the median level of 4.875% — their ninth straight hike. They have plans to increase the overnight rate by another 25 bps this year. They made no hints of rate cuts for later this year.

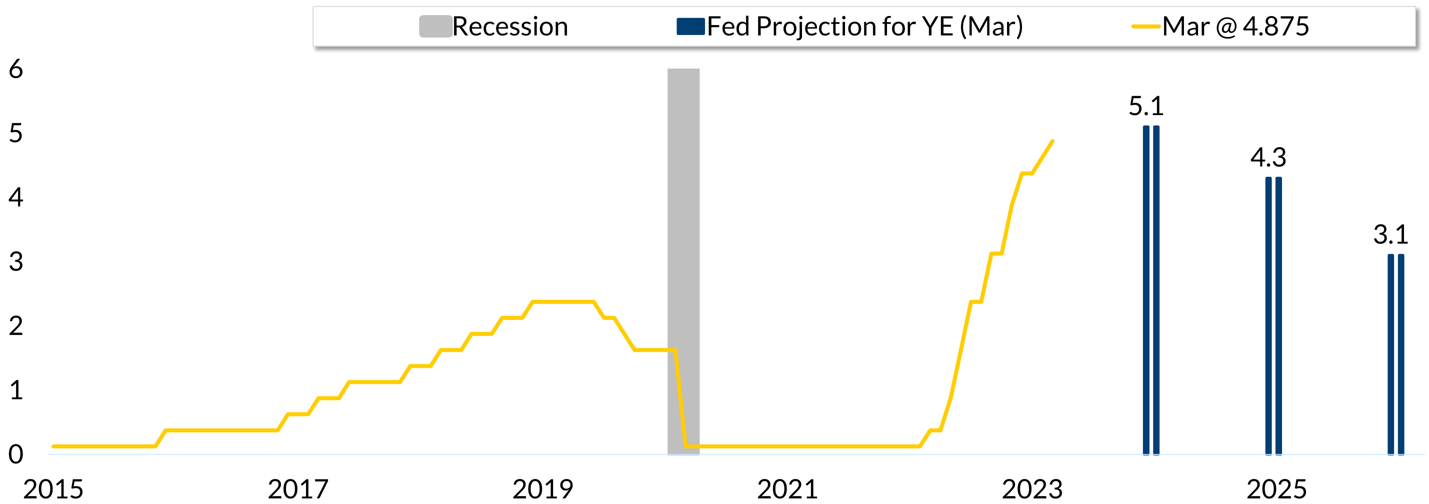
Regarding concerns around the banking system, Fed Chair Powell recently stated that it has stabilized, and the Fed is confident there will not be any more bank runs. This news comes just two weeks after the failure of two banks jarred the view of the nation's financial security. The Fed, the FDIC, and the Treasury moved very quickly and effectively. For the Fed, it did what it does best: it used its balance sheet to provide the needed liquidity to banks. This is called the "Bagehot rule," lending aggressively against good collateral. For the Fed, this is much easier to fix than credit concerns or an exogenous shock (like a pandemic).

KEY QUESTIONS

- **With all the interest rate increases so far, is the demand for workers beginning to slow?**
- **Is the labor market cooling?**
- **What are the trends in U.S. state tax revenue collections?**

Federal Open Market Committee (FOMC) Projections - Federal Funds

%, mid-point



Sources: Federal Reserve, March 2023

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

With all the interest rate increases so far, is the demand for workers beginning to slow?

Yes, after one year of hiking interest rates and nine straight increases, the number of job openings is on a downward trend.

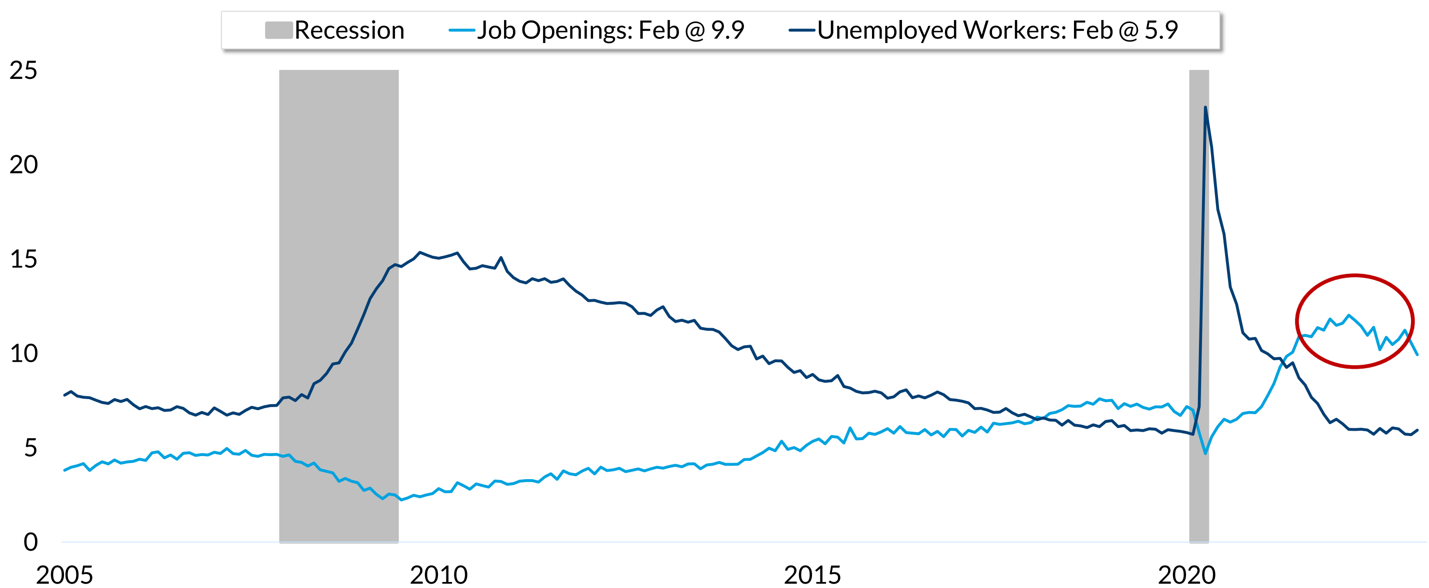
The labor report's JOLTS report (Job Openings and Labor Turnover Survey) showed 9.9 million job openings, the first time below 10 million in nearly two years. Last March, job openings hit a record 12 million.

5.9 million people are looking for a job. That works out to be 1.7 jobs available for each person looking for a job. That is a significant imbalance, well above the long-term average of 0.6 jobs/job seeker and above the pre-pandemic level of 1.2 jobs available/job seeker.

Fed Chair Powell has pointed to the imbalance between job openings and available workers as a critical driver of inflation. The strong labor demand can drive up wages.

Job Openings and Unemployed Workers

millions, seasonally adjusted



Source: Bureau of Labor Statistics, February 2023

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

Is the labor market cooling?

Hiring remained strong in March, with the 236k gain in nonfarm payrolls surpassing expectations for the 12th consecutive month. However, there has been a marked downshift from the start of the year, with the breadth of gains narrowing considerably to just 60.2% of private sector industries adding jobs.

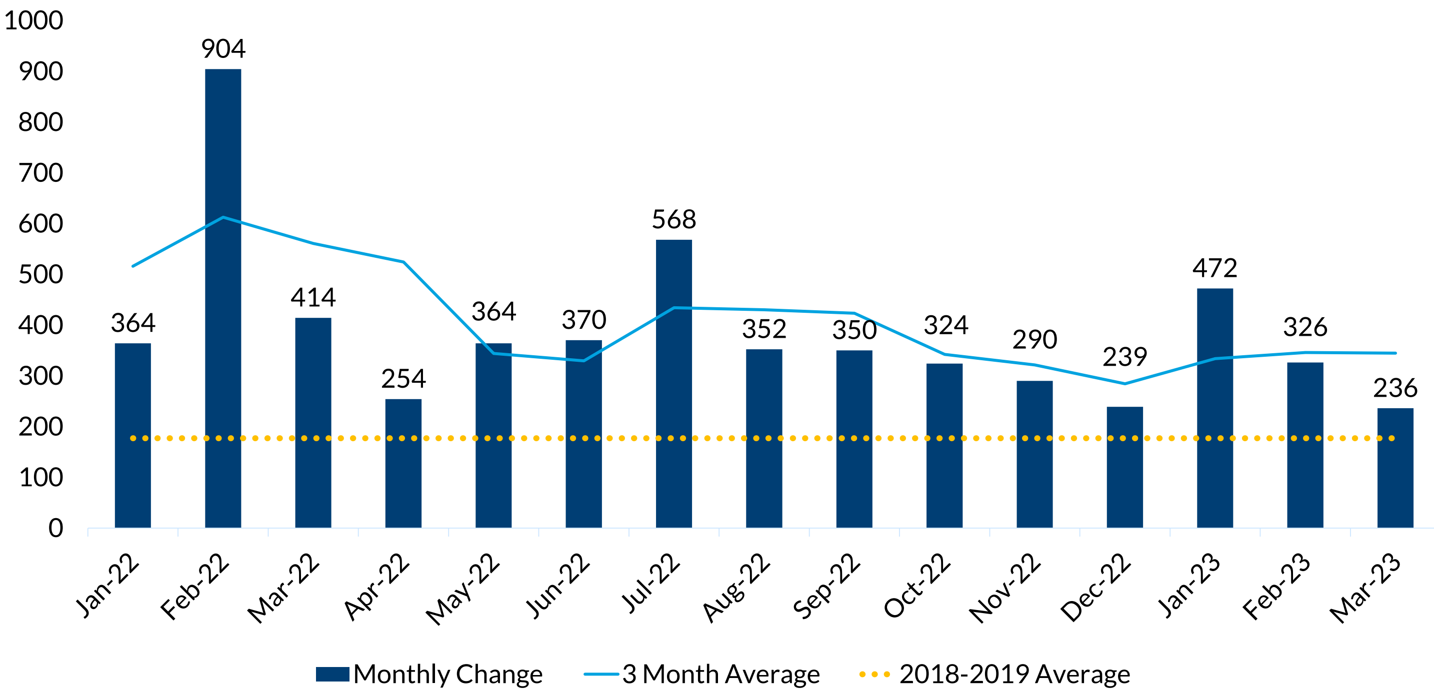
This is usually one of the early signals that a hiring slowdown is forming. Alongside the recent sharp fall in job openings and the upward trend in the jobless claims, the labor market appears to be moving into a healthier balance of supply and demand.

For now, labor conditions remain unusually strong, and part of March's slowdown was likely attributable to a reversal of a temporary boost in hiring over prior months due to unseasonably mild weather. Indeed, the 3-month average of payroll gains stands at 345k (well above the 177k pre-pandemic trend) and the unemployment rate fell to 3.5% from 3.6%, which is all the more impressive as the labor force participation rate rose to 62.6%, the highest since March 2020.

The recent easing in wage pressures is the result of both improving labor supply and some pullback in job openings, but perspective matters. Job vacancies remain roughly 3 million above pre-pandemic levels. With the labor force only expected to expand by roughly a fifth of that through the remainder of this year, wage growth is unlikely to push much lower until there's a more significant reduction in labor demand.

The takeaway is employment and wage trends are heading down a more encouraging path, but they're still running at a relatively strong pace and conditions remain tight. Inflation won't ease meaningfully until the labor market cools, and we expect the latest data to leave Fed officials still inclined to raise interest rates by 25 bps at the upcoming May Federal Open Market Committee (FOMC) meeting.

Job Openings and Unemployed Workers (Thousands)



Source: Federal Reserve, March 2023

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

What are the trends in U.S. state tax revenue collections?

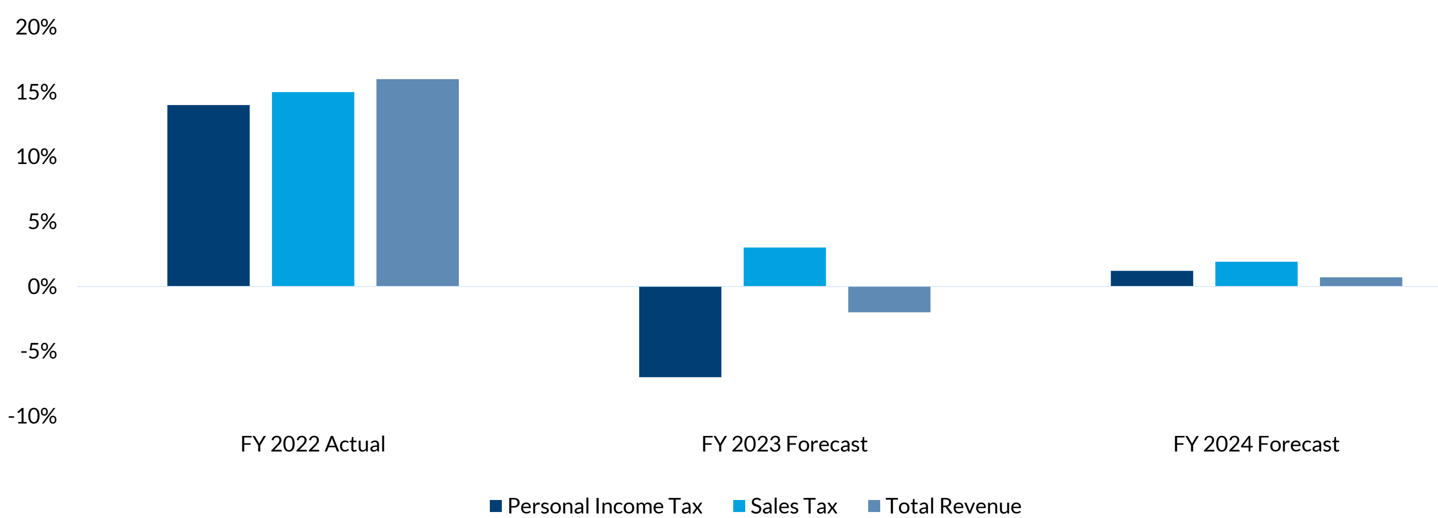
State tax collection trends since fiscal year (FY) 2021 have primarily reflected strong growth in key revenue streams, such as personal income and sales taxes.

The unprecedented federal stimulus and other state policy actions led to significant budget surpluses for the sector, which positioned most states with record reserves and rainy day fund balances. For example, the National Association of State Budget Officers reported median state reserves of 12% of spending for FYE 2022, more than double the level held before the 2008-2009 recession. However, state revenue gains are projected to slow considerably, albeit unevenly, as individual state experience will vary depending on regional factors, such as economics or tax and revenue structure.

The Urban Institute recently released nominal state tax collection data through the first seven months of FY 2023 (July 2022-January 2023) showing that revenue declined 0.2% year-over-year (YoY), led by a more than 9% decrease in personal income taxes but somewhat offset by sales and business tax performance. While some states, like Texas, continue to post stronger-than-anticipated revenue collections, others, like California and New York, are recording YoY declines. With recent forecast revisions, state revenue is expected to decline by about 2% in FY 2023. Still, non-withholding income over the next two months (April and May) could lead to further downward adjustments as poor financial market performance in 2022 will likely lead to weaker collections.

The outlook for state revenue in FY 2024 is less certain as a combination of inflation, Fed policy, consumer confidence, economic momentum, and state fiscal policy decisions, such as tax relief, could underwhelm collection projections. The Urban Institute noted FY 2024 total state revenue is projected to increase by less than 1% YoY, with personal income and sales taxes growing about 1.2% and 1.9%, respectively. Despite the slowdown, states are managing their budgets from a position of strength, given the healthy buildup of their balance sheets over the past few years.

State Revenue Growth Trends and Forecasts



Source: Urban Institute, April 2023

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

IMPORTANT INFORMATION

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.

Readers are cautioned that such forward-looking statements are not a guarantee of future results and involve risks and uncertainties, and actual results may differ materially from those statements.

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.

Investing involves risk, including the loss of principal.

This material is available to advisory and subadvised clients, as well as financial professionals working with City National Rochdale, a registered investment adviser and a wholly-owned subsidiary of City National Bank. City National Bank provides investment management services through its subadvisory relationship with City National Rochdale.

Any opinions, analysis and expectations mentioned herein are as of April 13, 2023, unless otherwise noted or sourced.