



July 15, 2020

CNR Mid-Year Outlook

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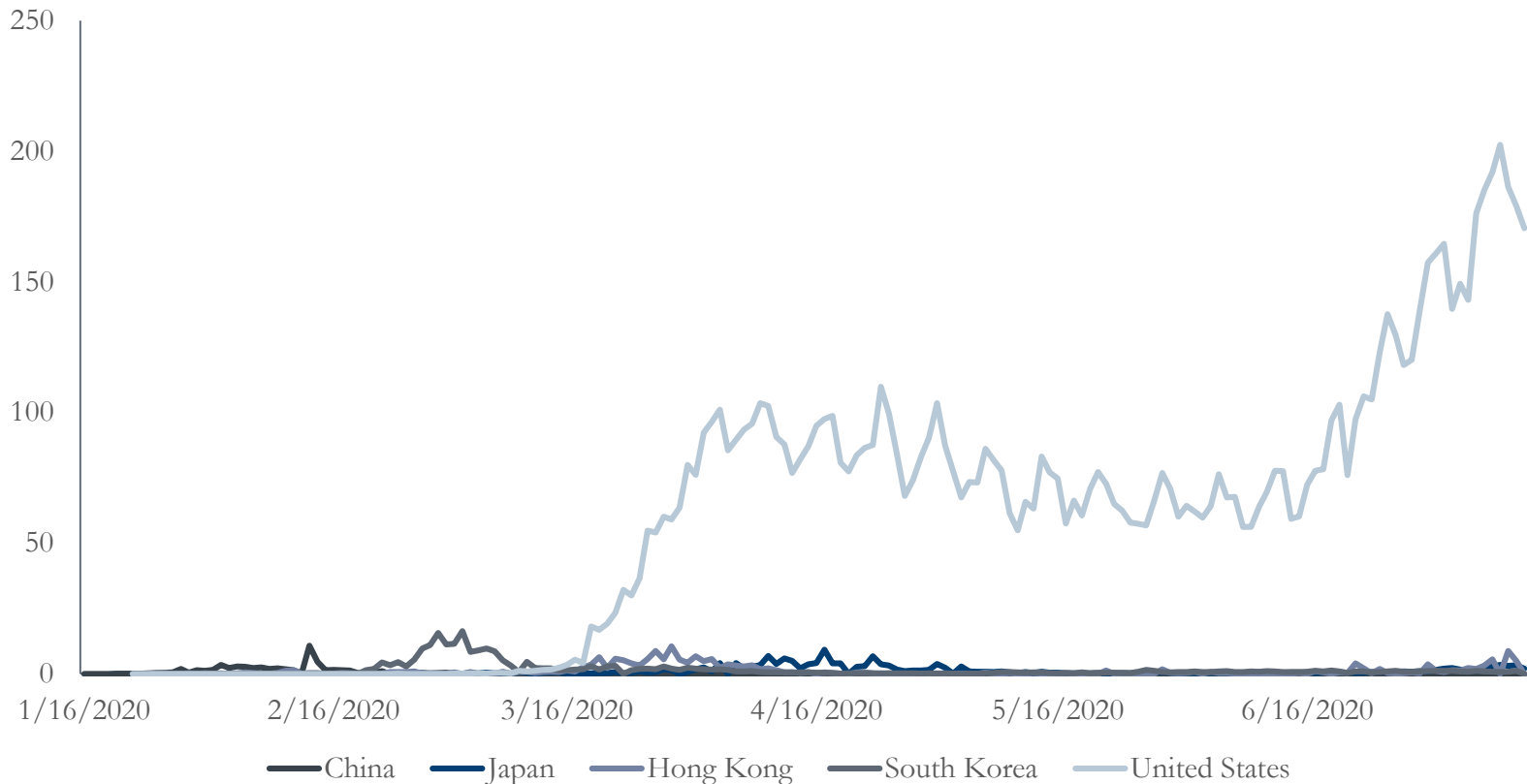
Managing behavioral biases during market volatility

- Behavioral biases impact our decision making, particularly during uncertainty
- Combination of financial and health uncertainties amplifies behavioral tendencies
- Key is to focus on long-term investment goals, think strategically
- Example: instinct to seek safety of bonds (representativeness bias) despite low yields
- Professional investment and planning advice highly valuable

Asia Shows Us How To Manage The Outbreak

- Countries in Asia have learned from experiencing several major outbreaks (SARS, MERS, Avian Flu)
- Implementation of key protocols helped to avoid many of the health and economic costs the U.S. faces

Daily New COVID-19 Cases Per Million Population



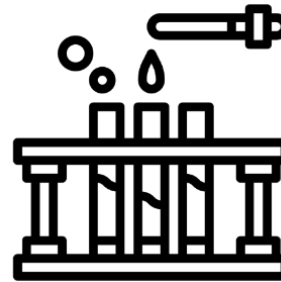
Source: Bloomberg.

Necessary Policies For Reopening Economies

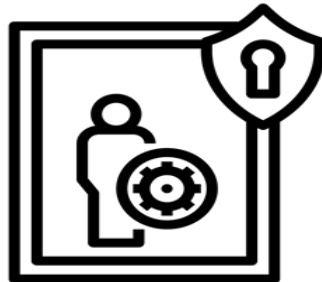
- Evidence from other nations shows we can contain the virus through moderate policies
- Absent a vaccine or herd immunity, these policies must be enforced



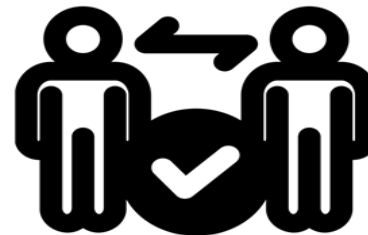
Widespread Mask Use



Testing and
Contact Tracing



Strict Isolation of
Positive Cases

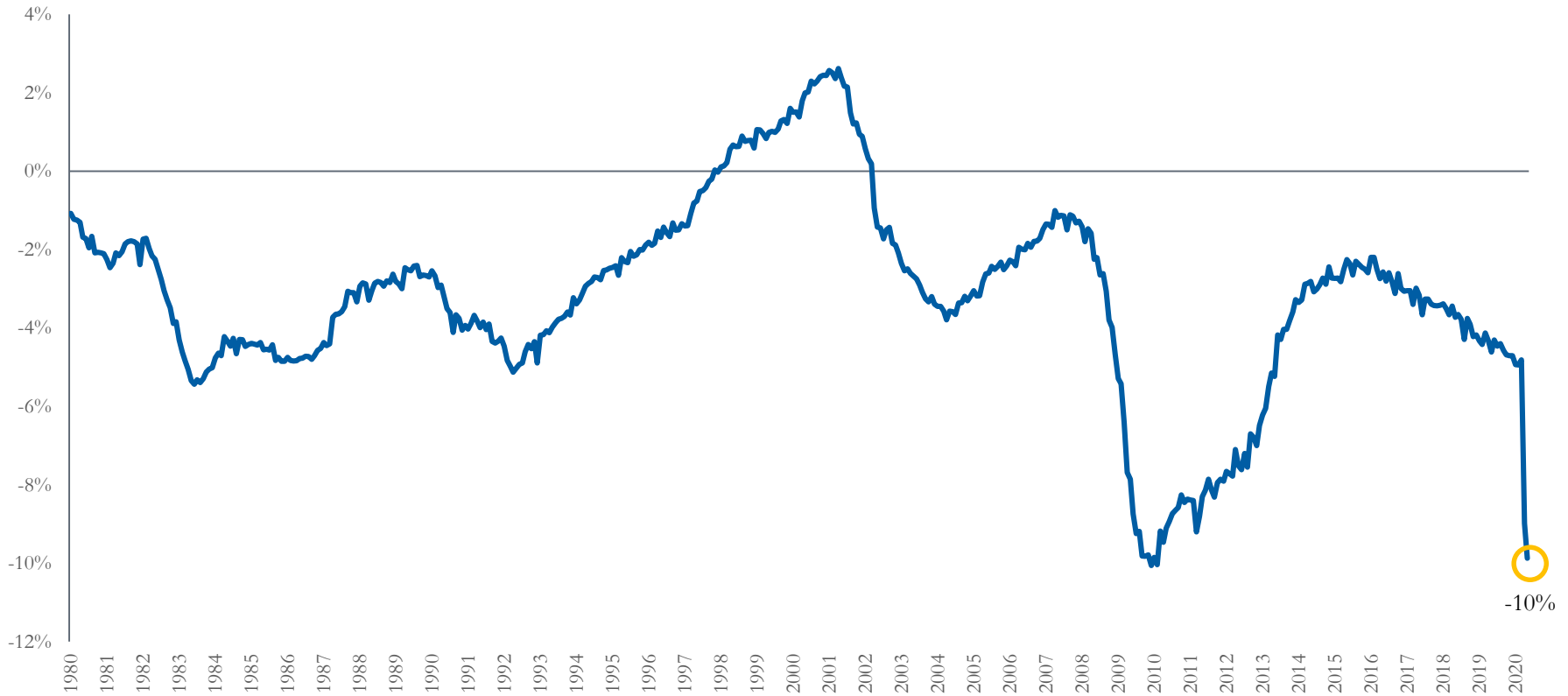


Social Distancing
Protocols

Source: CNR Research.

Stimulus Significantly Increases Government Deficit

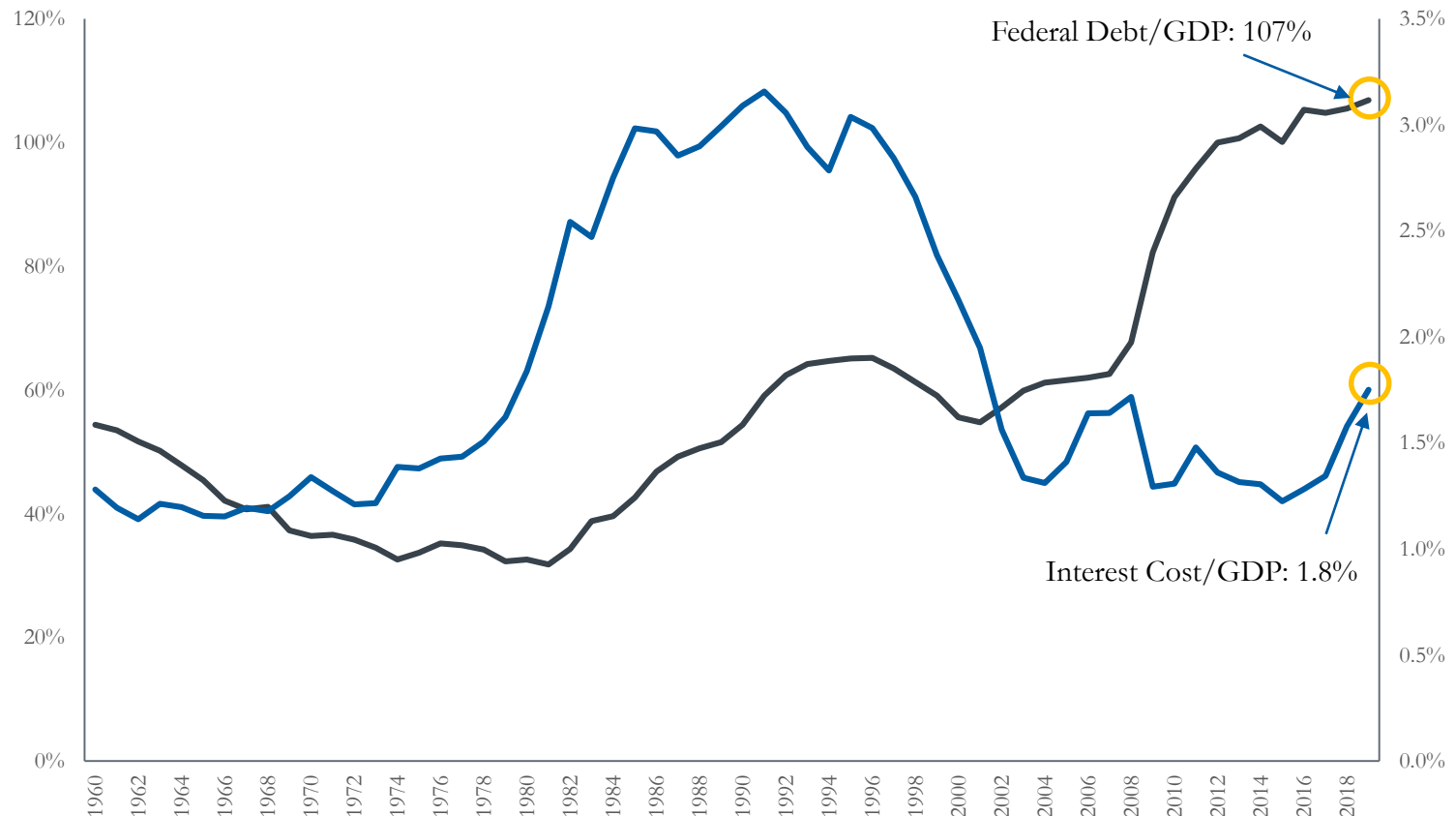
Federal Surplus (Deficit) as % of GDP



Source: Bloomberg.

Increased Government Debt Has Not Driven Inflation...Yet

- While debt has grown significantly, interest expense has not increased relative to GDP
- Interest rates have fallen to record lows, keeping borrowing costs low

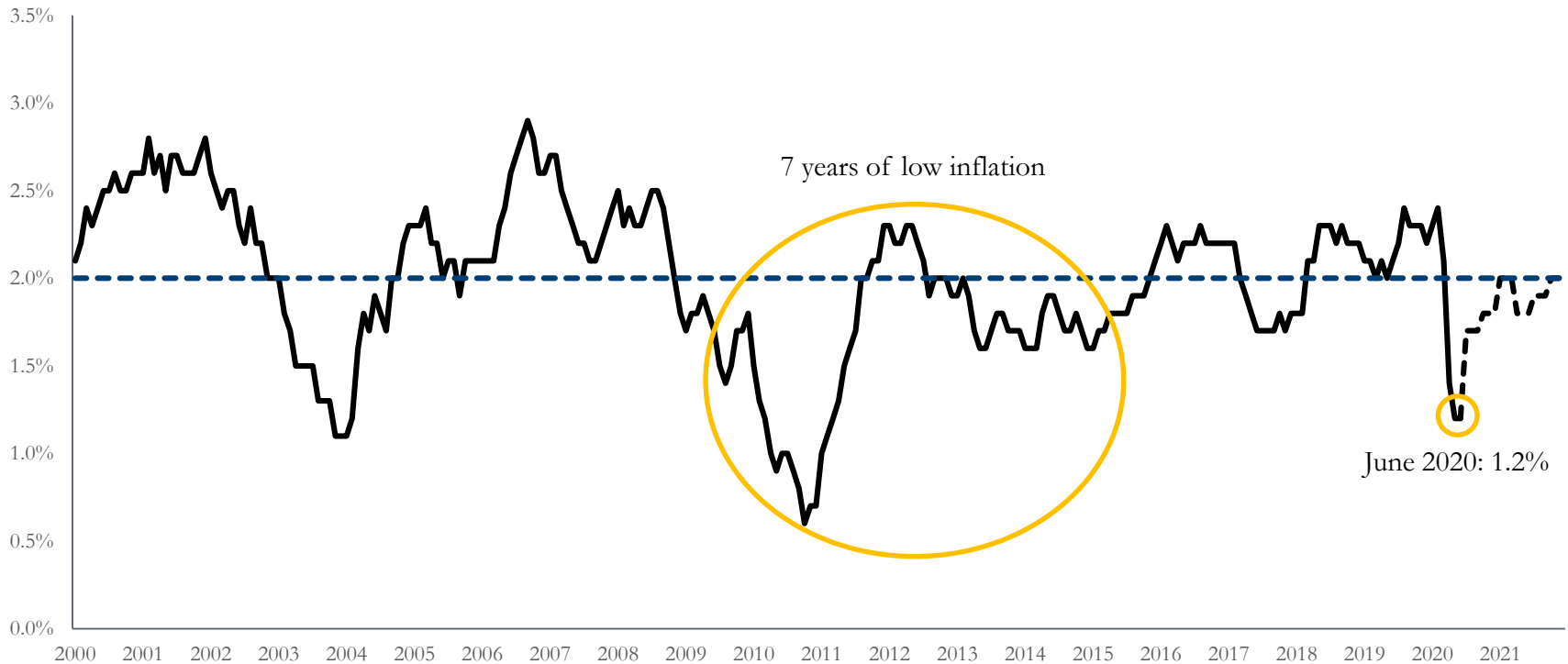


Source: Bloomberg. Data through 2019.

Despite Stimulus, Inflation Remains Low

- Drop in demand has led to a decrease in inflation
- Monetary policy actions help combat deflation risk

Consumer Price Index (YoY % Change ex Food and Energy)



Source: Bloomberg, Blue Chip Financial Forecasts. Dotted black line represents next four quarters of Blue Chip CPI forecasts.

Interest rates near 1% after 40 years of declines

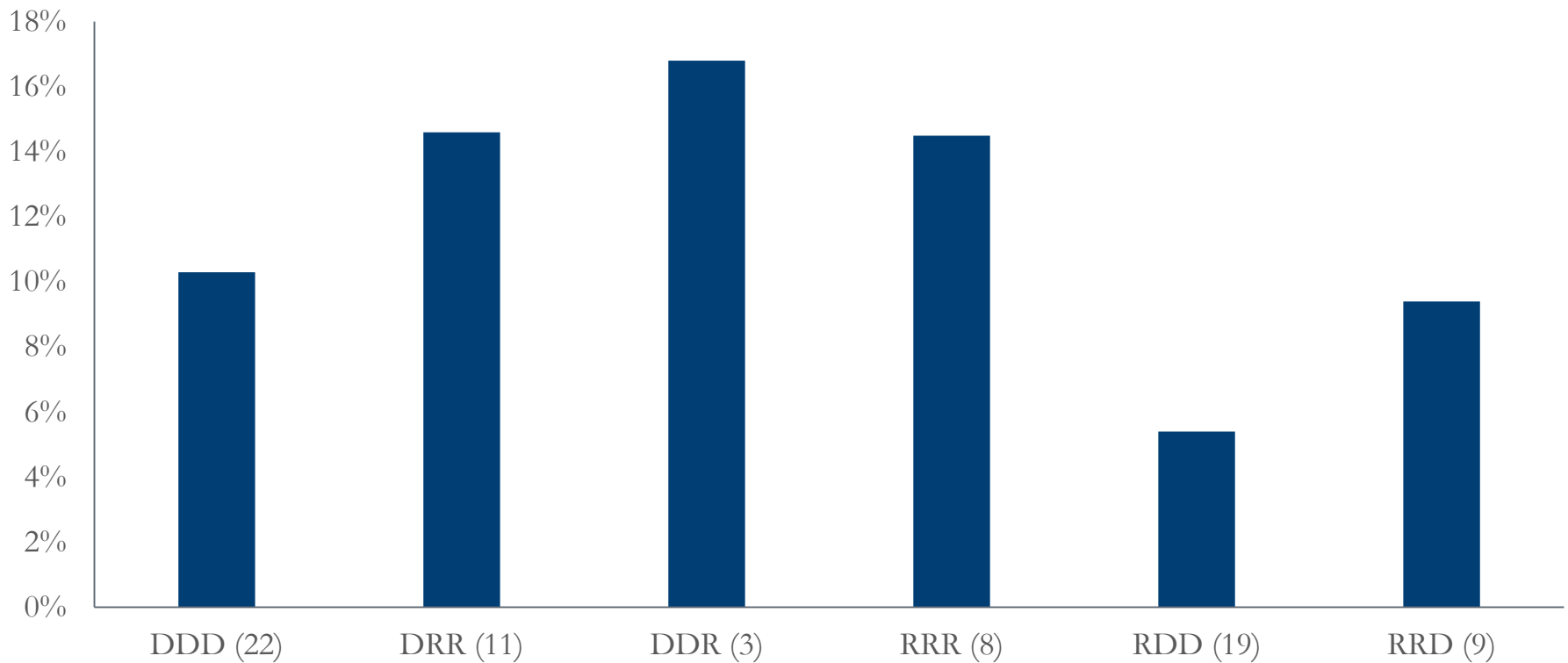
10 Year Treasury Yield



Source: Bloomberg.

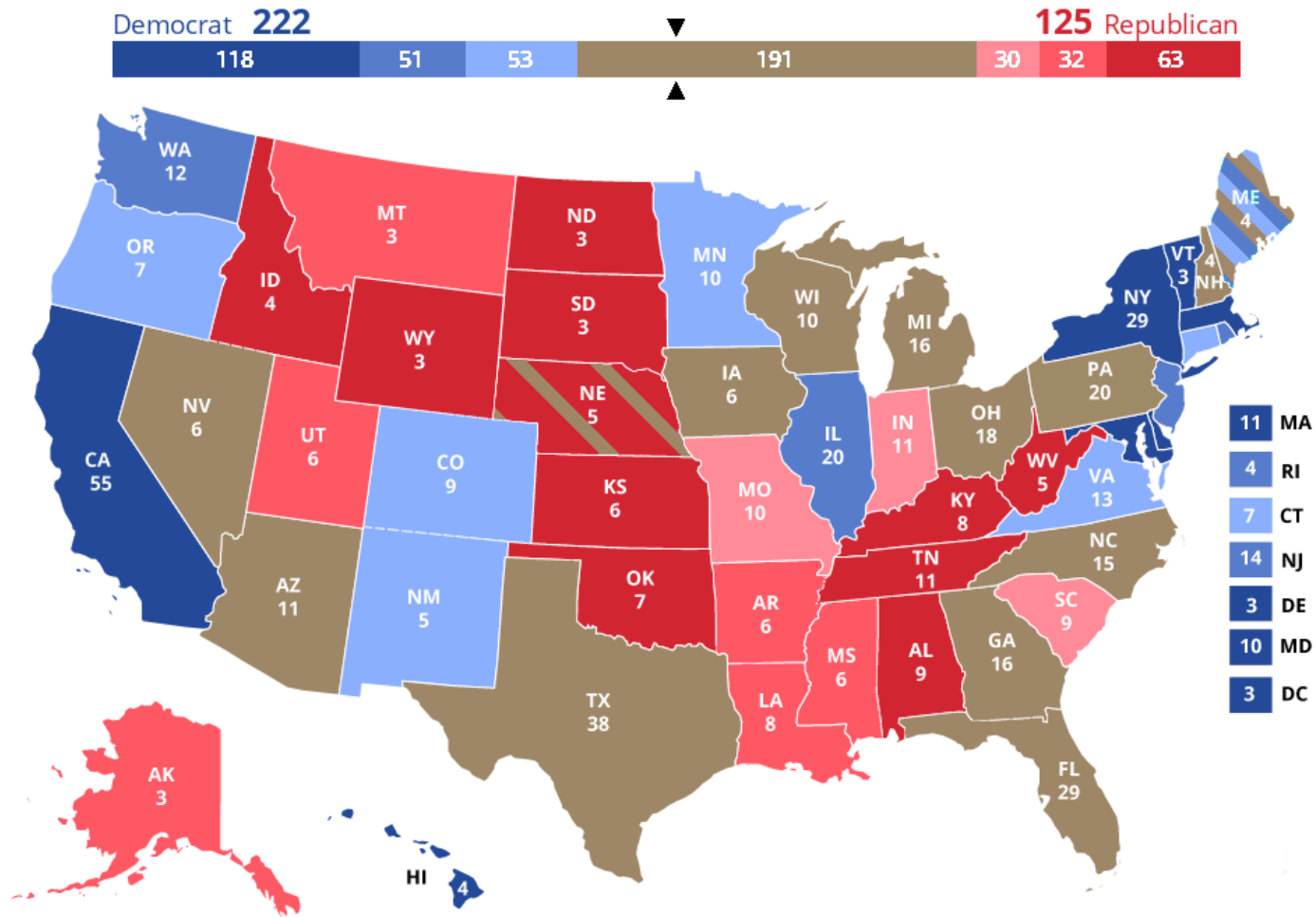
Election 2020: Market reacts to the balance of power

Annual S&P 500 Returns by Political Party Control (1945-2018)
 Political party control listed by President/Senate/House (number of years)



Source: Factset, U.S. House of Representatives, U.S. Senate. As of December 2019. DRD and RDR combinations excluded due to low number of instances.

Presidential Election Polling



Source: RealClearPolitics, 270toWin. Data as of 7/6/2020.

Mid Year Message

- Uncertainty due to COVID, election, deficits, job losses presents complexity.
- Decision-making when facing uncertainty and complexity requires skill and mastery.
- Traditional investing rules of thumb and experiences are insufficient in this environment.
- Equity and bond markets are long term forward pricing past current negatives.
- Long term investment/retirement success is achieved through 4 key principles.
- Market volatility is not the same as principal risk of loss. Understanding the difference is key.
- Diversification based on historical strategies will not achieve good results in the next 3-5 years.
- Spend time with your professional advisor.

Source: CNR Research.

Equities – Key Issues

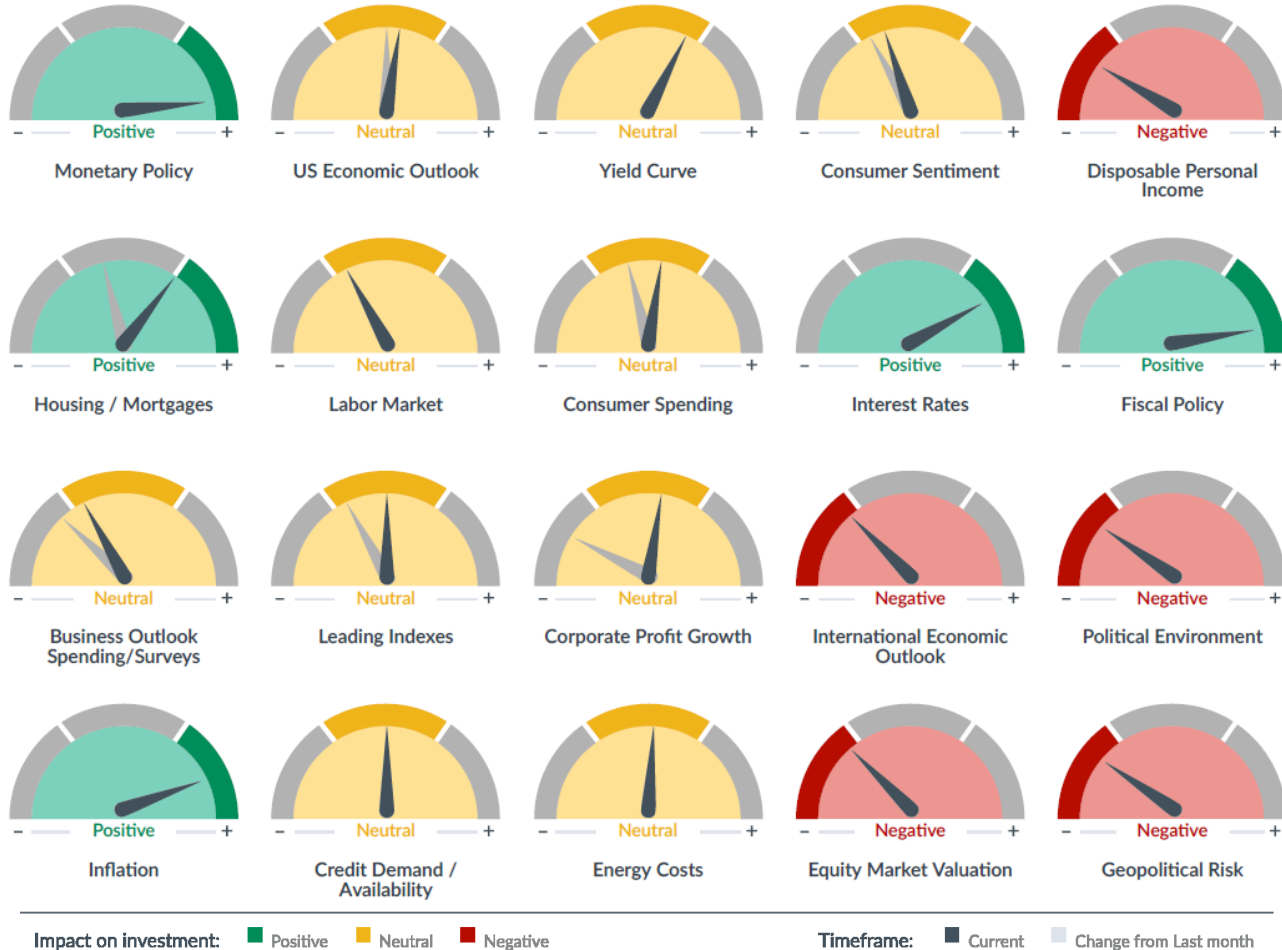
- First half of 2020 a roller coaster ride
- Q1 plunge over economic impact from COVID crisis, Q2 surge driven by policy response
- US best performing region bolstered by technology related stocks
- Large cap and growth stocks outperformed Mid-Small cap, value and dividends

- H2 outlook likely to be volatile
- With valuations high importance of earnings outlook increases
- Uncertainties include fiscal package, economic momentum, election
- Vaccine development a potential game changer

- **Believe we have the right positioning for the market environment**

Economic and Financial Indicators

Indicators Are Forward-Looking Three to Six Months



Source: City National Rochdale. As of July 2020.

GDP Forecasts: Uncertainty Remains High

US GDP: Forecast Range

Potential Range of GDP Growth	GDP Q2	GDP Q3	GDP Q4	2020 Full Year	2021 Full Year
		-27%	+13%	+10%	-4.2%
	to	to	to	to	to
	-36%	+21%	+17%	-6.5%	5.5%

Percent Change From Preceding Period, Seasonally adjusted at annual rates

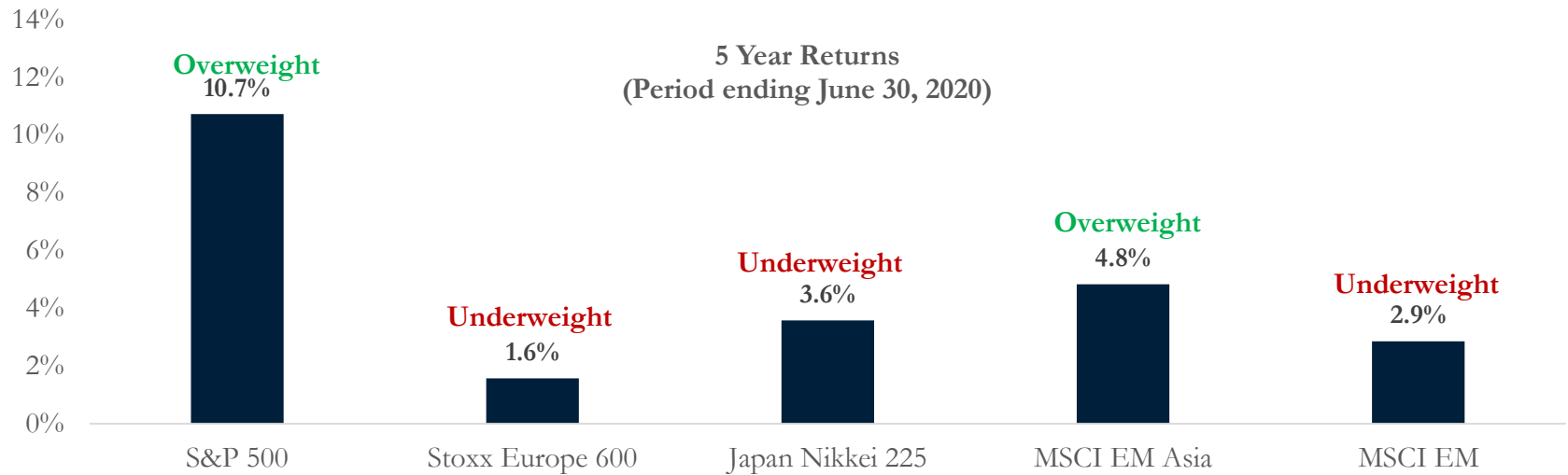
Source: CNR Research.

Given Uncertainty Remain Selective in Equity Allocation



Source: CNR Research.

Focused Regional Allocations Can Enhance Returns



Source: CNR Research.

CNR S&P 500 EPS Forecast

Considerable Uncertainty Remains

CNR S&P 500 EPS Forecasts			
Year	Worst Case	Base Case	Best Case
2020	-46%	-30%	-20%
2021	20%	30%	40%

Source: CNR Research. EPS estimates are based on CNR forecasts earnings for the S&P 500 taking into consideration economic and profitability measures. Estimates are subject to revisions.

Near Term Equity Outlook

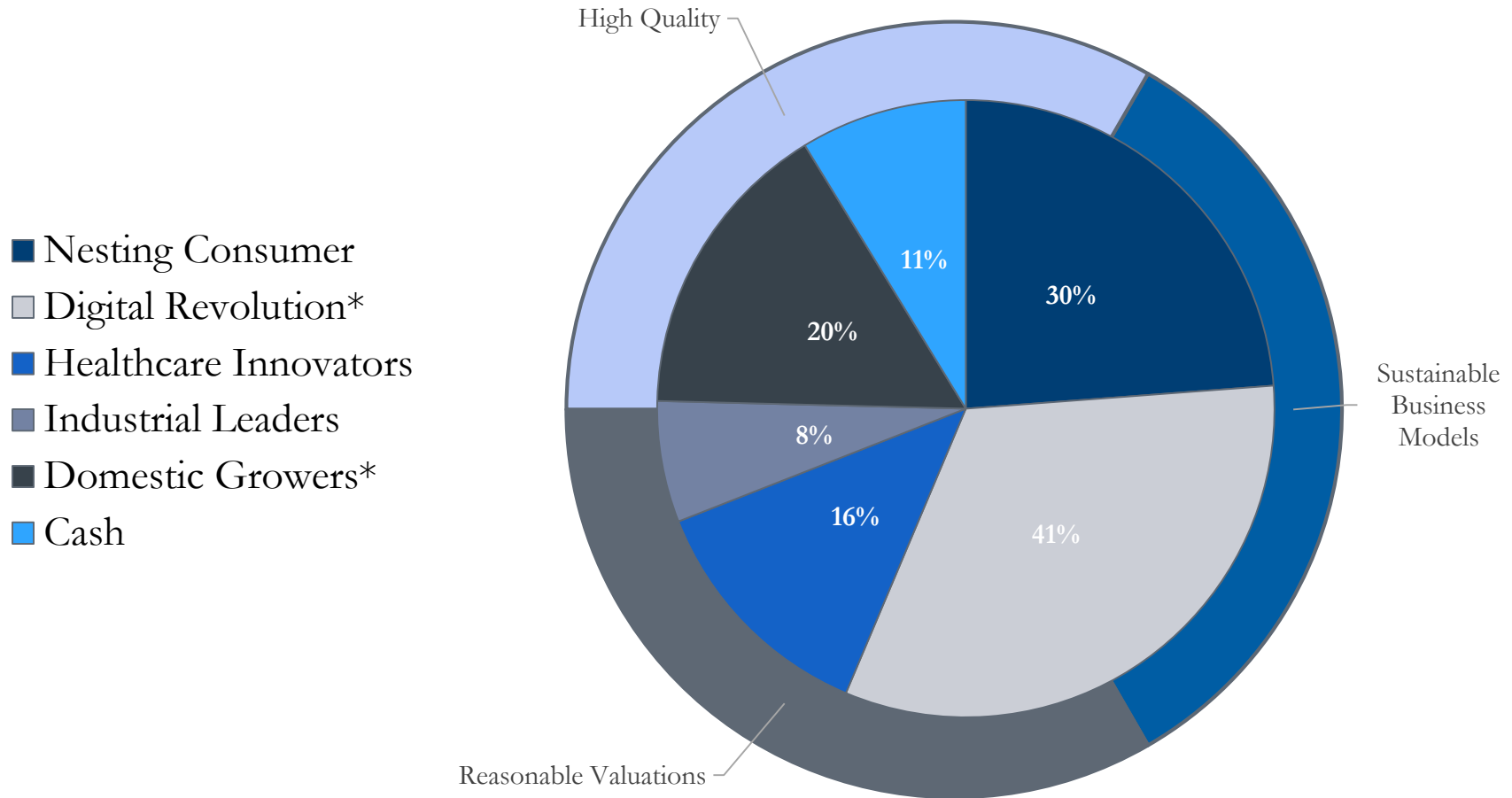
Market Appears Fully Valued, Expect More Modest Gains

2021 S&P 500 EPS										
CNR Estimate	Y/Y Change	18.0	18.5	19.0	19.5	20.0	20.5	21.0	21.5	22.0
\$145	22%	-16%	-13%	-11%	-9%	-7%	-4%	-2%	0%	3%
\$155	30%	-10%	-8%	-5%	-3%	0%	2%	5%	7%	10%
\$165	39%	-4%	-2%	1%	4%	6%	9%	11%	14%	17%
2021 S&P 500 EPS										
CNR Estimate	Y/Y Change	18.0	18.5	19.0	19.5	20.0	20.5	21.0	21.5	22.0
\$145	22%	2,610	2,683	2,755	2,828	2,900	2,973	3,045	3,118	3,190
\$155	30%	2,790	2,868	2,945	3,023	3,100	3,178	3,255	3,333	3,410
\$165	39%	2,970	3,053	3,135	3,218	3,300	3,383	3,465	3,548	3,630

25%	Downside Risk
50%	Base Case
25%	Upside Potential

Source: City National Rochdale estimates. As of July 2020
Near-term indicates a 3 to 6-month view.

Active Management: Quality Stocks in Key Themes



*Some stocks are included in more than one theme.
Source: CNR Research.

Active Management: Core Equity Positioning for CV Crisis

Overweight

Telecom Services

Software & Services

E-commerce

HC Equipment &
Pharma Biotech

Underweight

Energy

Hotels Resorts &
Cruise Lines

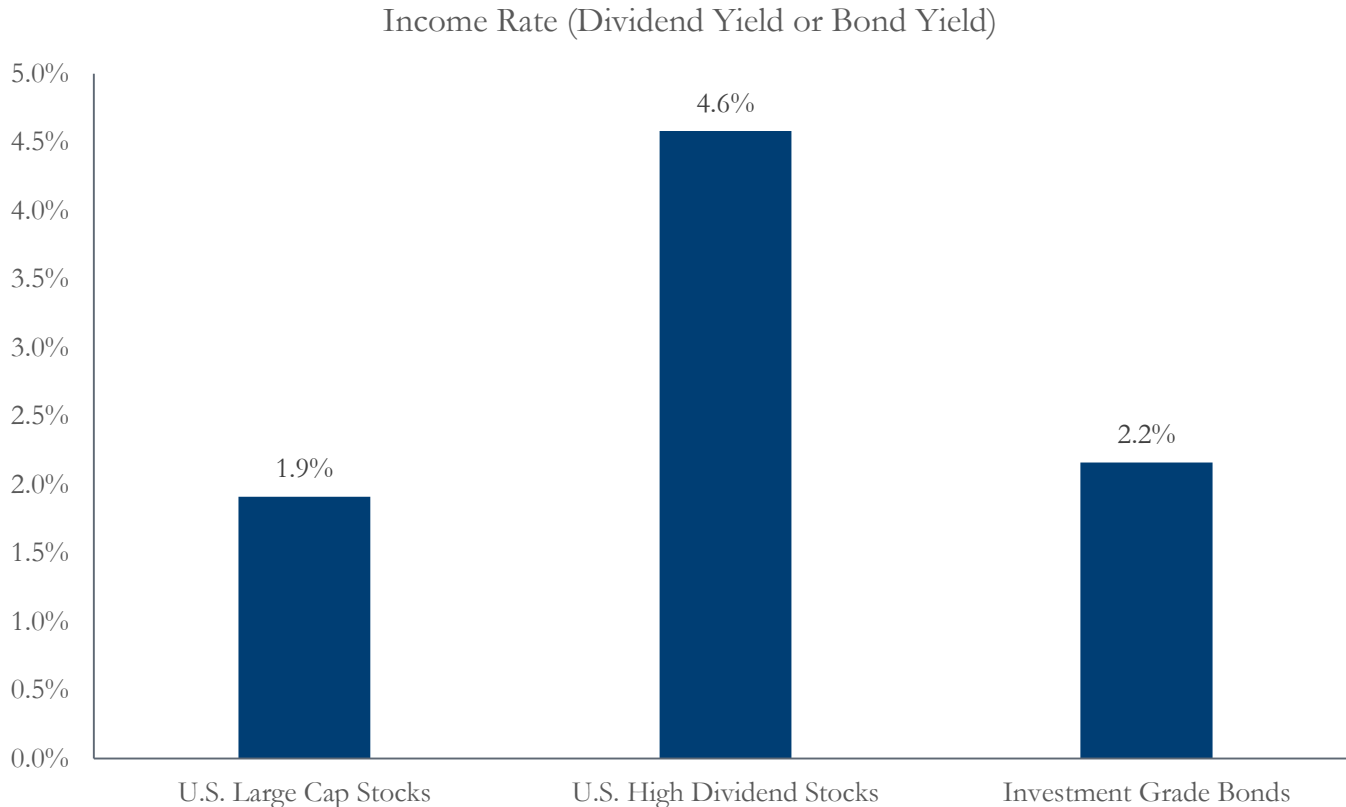
Airlines

Restaurants

Source: CNR Research.

High Dividend Stocks Provide Relatively Attractive Income

With bond yields at historic low, high dividend stocks can help meet income needs.



Source: Bloomberg. U.S. Large Cap Stocks: S&P 500 Index. U.S. High Dividend Stocks: Dow Jones U.S. Select Dividend Index. Investment Grade Bonds: Bloomberg Barclays U.S. Aggregate Corporate Bond Index. Data as of 6/19/2020.

Benefits of Dividend Stocks



Attractive Income Levels



Future Growth of Income



Favorable Tax Rate



Capital Appreciation

Maintain the Dividend – Key Factor in Uncertain Times

Strong
Balance Sheet

Solid Cash
Flow

Track Record
of Paying
Dividends

Reasonable
Dividend
Payout Ratio

Management
Commitment
to Dividend

Increase The Dividend – Can Also Support Stability

Bottom Up
Financial
Analysis

Solid Business
Franchise

Opportunity
for Growth

Profitable
Sector

Track Record
of Growth

Performance Varies Within Sectors During Pandemic

Consumer Staples

- Stable dividends with moderate growth
- Defensive business model during downturns and during COVID-19 slowdown
- Winners and losers within sector, so important to distinguish with in-depth research

Utilities, Telecom, Healthcare

- Some COVID-19 slowdown impact to cash flows; but dividend secure for the most part
- Stocks off from start of the year so valuations attractive
- Focus on cash flow through trough and into recovery

Real Estate, Financials, Energy

- REITs have some recession-resistant cash flows, but not the case in COVID-19 slowdown. Some names are good values
- Financials challenged; could recover as economy improves
- Energy weak with low oil price; caution required in sector

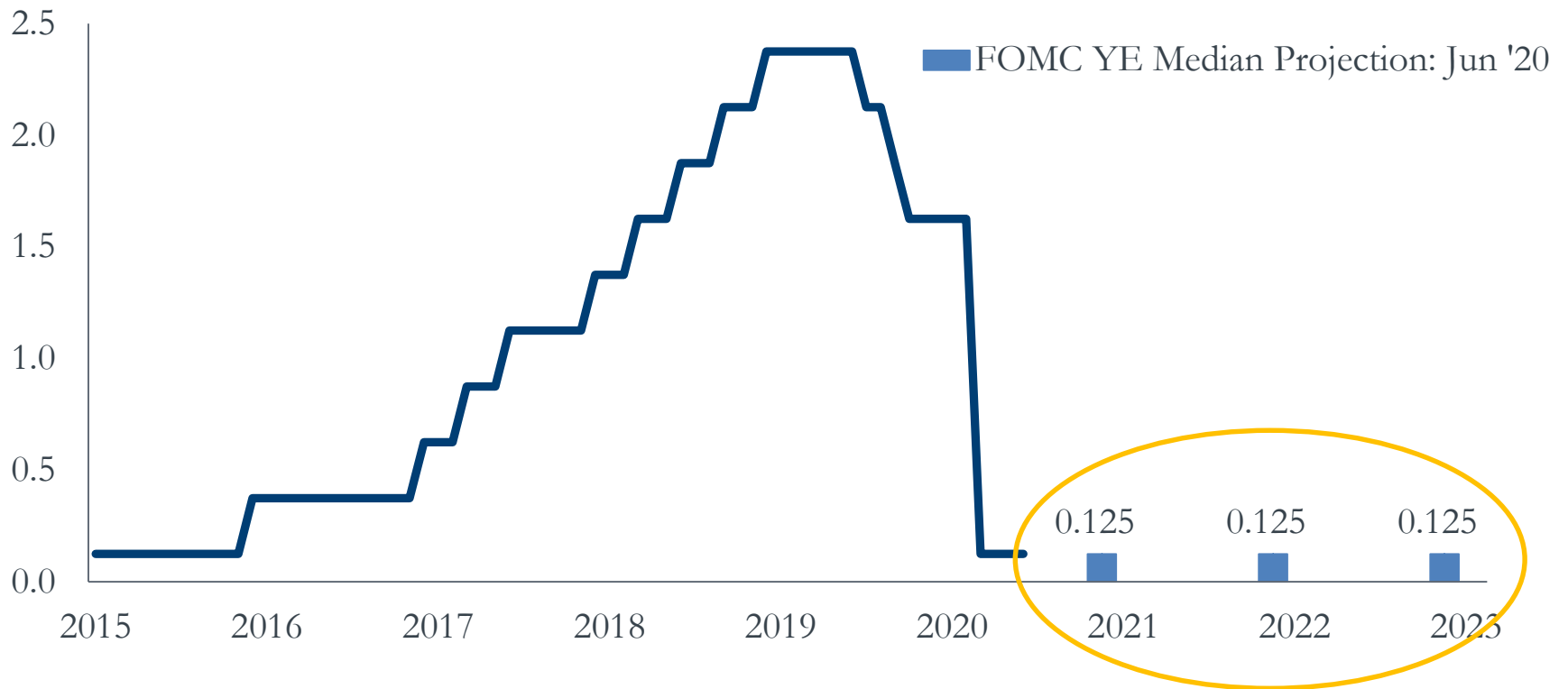
Source: CNR Research.

2020 Fixed Income Story Lines

- A swift and powerful response from the Federal Reserve
- Investment Grade corporate and municipal bonds have recovered from a flight-to-liquidity induced sell-off in March
- Low yields on Investment Grade bonds may persist for some time; Opportunistic Fixed Income offers attractive yields
- Monopoly power of municipalities
- Intermediate-Long Tax-Exempt: A strategy worth considering in a “lower for longer” world

Interest Rates – Federal Funds

Federal Funds Rate & FOMC Projections (%)

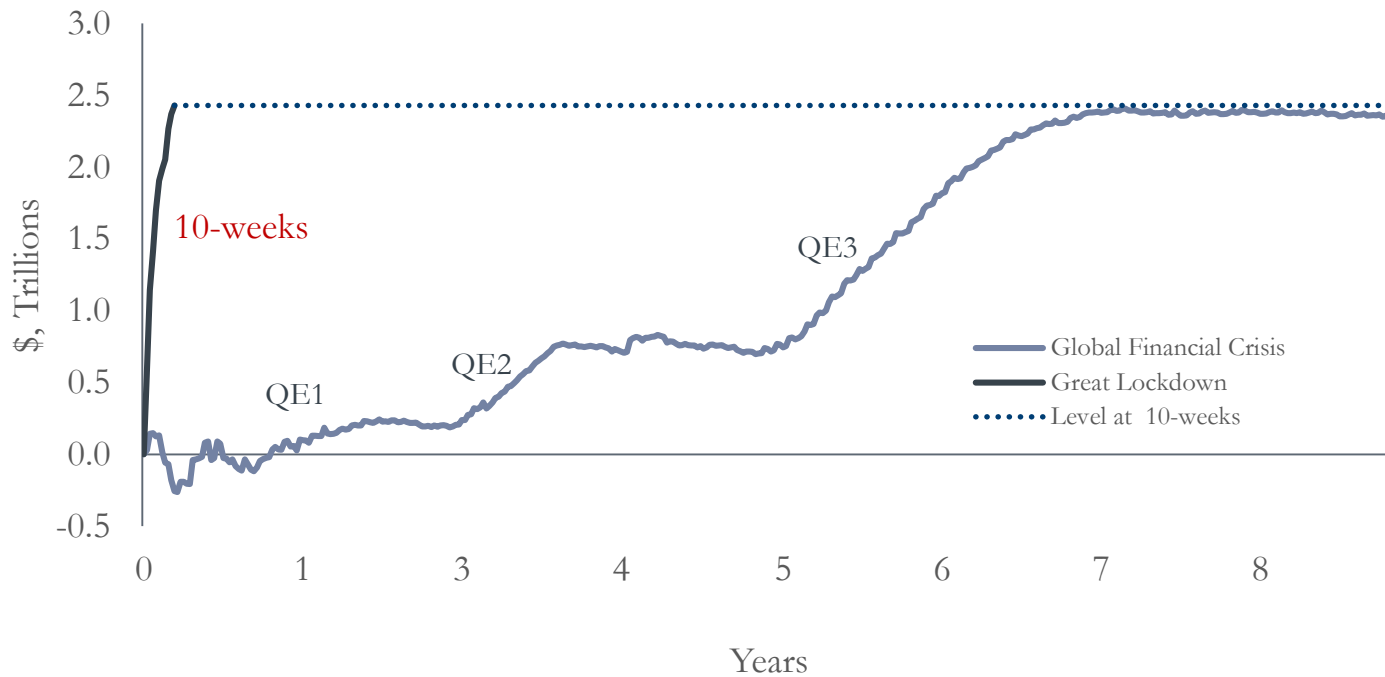


Source: The Federal Reserve Bank.

The Fed Balance Sheet

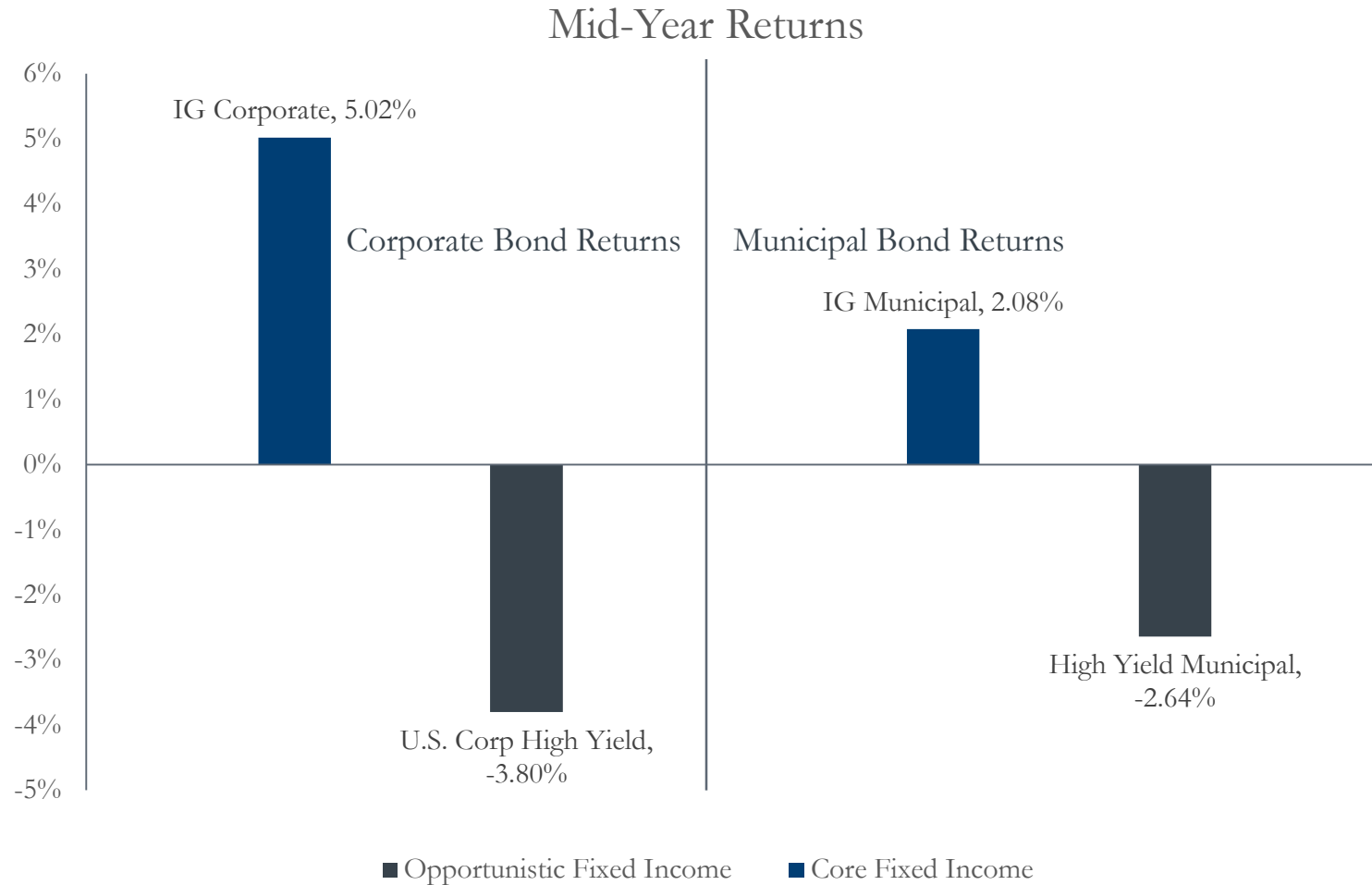
The balance sheet has grown at a blistering pace

Change in Value of the Fed's Balance Sheet
Once Quantitative Easing was Initiated



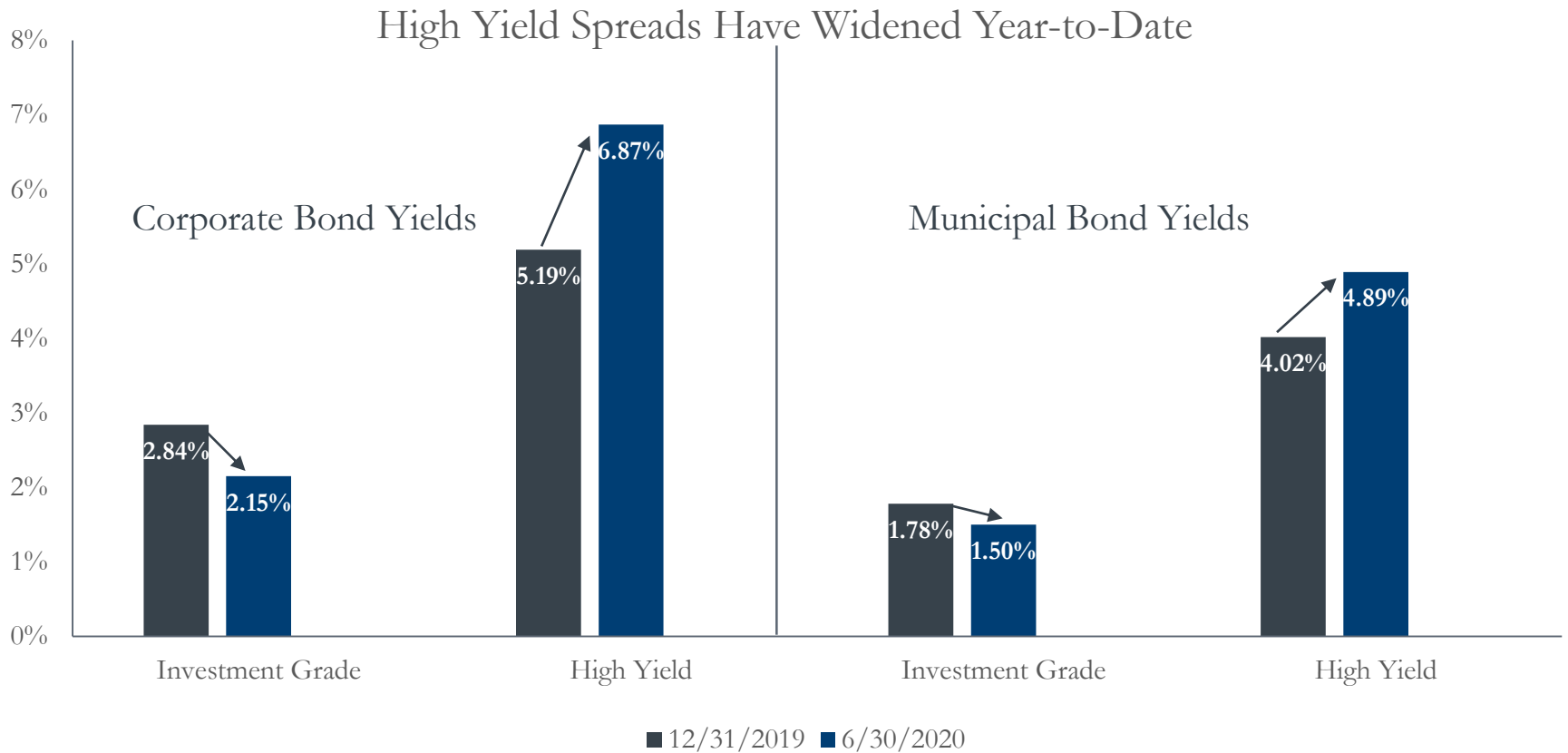
Source: Federal Reserve Bank.

2020 Mid-Year Returns: Investment Grade vs. High Yield



Source: Bloomberg as of 6/30/2020. IG Corporate: Bloomberg Barclays US Agg Corporate Index, IG Municipal: Bloomberg Barclays Municipal Index. Bloomberg as of 6/30/2020. US Corporate High Yield Bonds: Bloomberg Barclays US Corporate High Yield Index High Yield Municipal: Bloomberg Barclays Municipal High Yield.

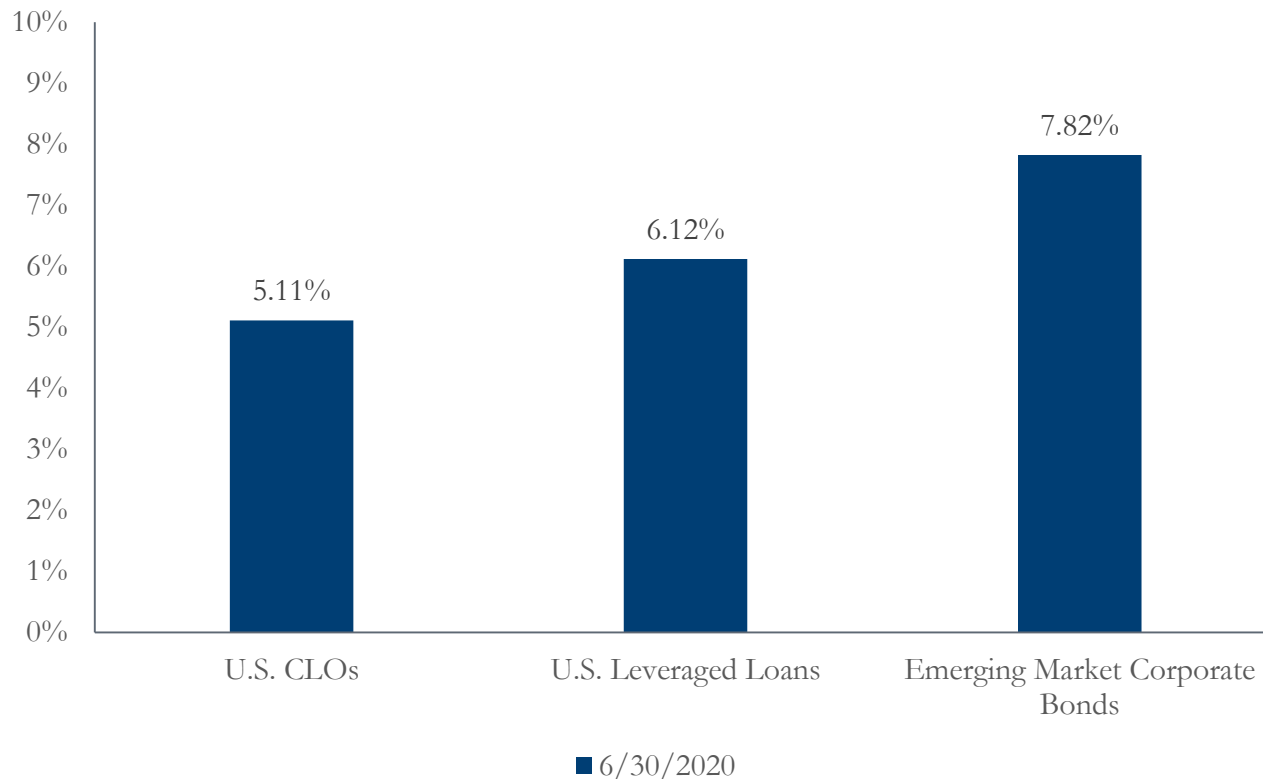
Yield: Investment Grade vs. High Yield



Source: Bloomberg as of 6/30/2020. Investment Grade Corporate: Bloomberg Barclays US Agg Corporate Index, High Yield Corporate: Bloomberg Barclays US Corporate High Yield Index, Investment Grade Municipal: Bloomberg Barclays Municipal Index, High Yield Municipal: Bloomberg Barclays Municipal High Yield.

Yields on Other Varieties Of Opportunistic Fixed Income

- Leveraged Loans, Emerging Market Corporate Bonds, and CLOs offer attractive yield
- Potential opportunities for added income and return in non-investment grade

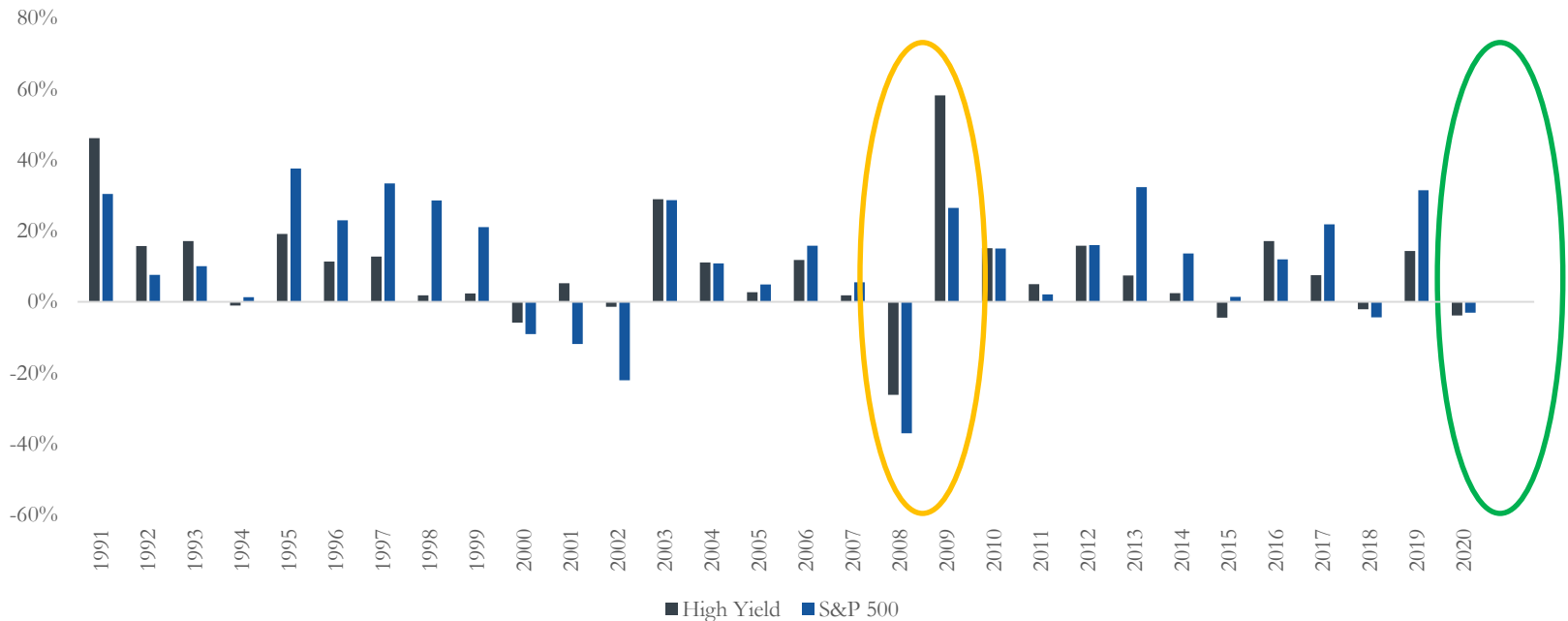


Source: Bloomberg. Emerging Market Corporate Bonds: ICE BofA Emerging Market High Yield Corporate Bond Plus Index, US Senior Secured Loans: S&P/LSTA Leveraged Loan 100 Index. US CLOs: Palmer Square CLO Debt Index.

High Yield Bonds Appear Well-Positioned

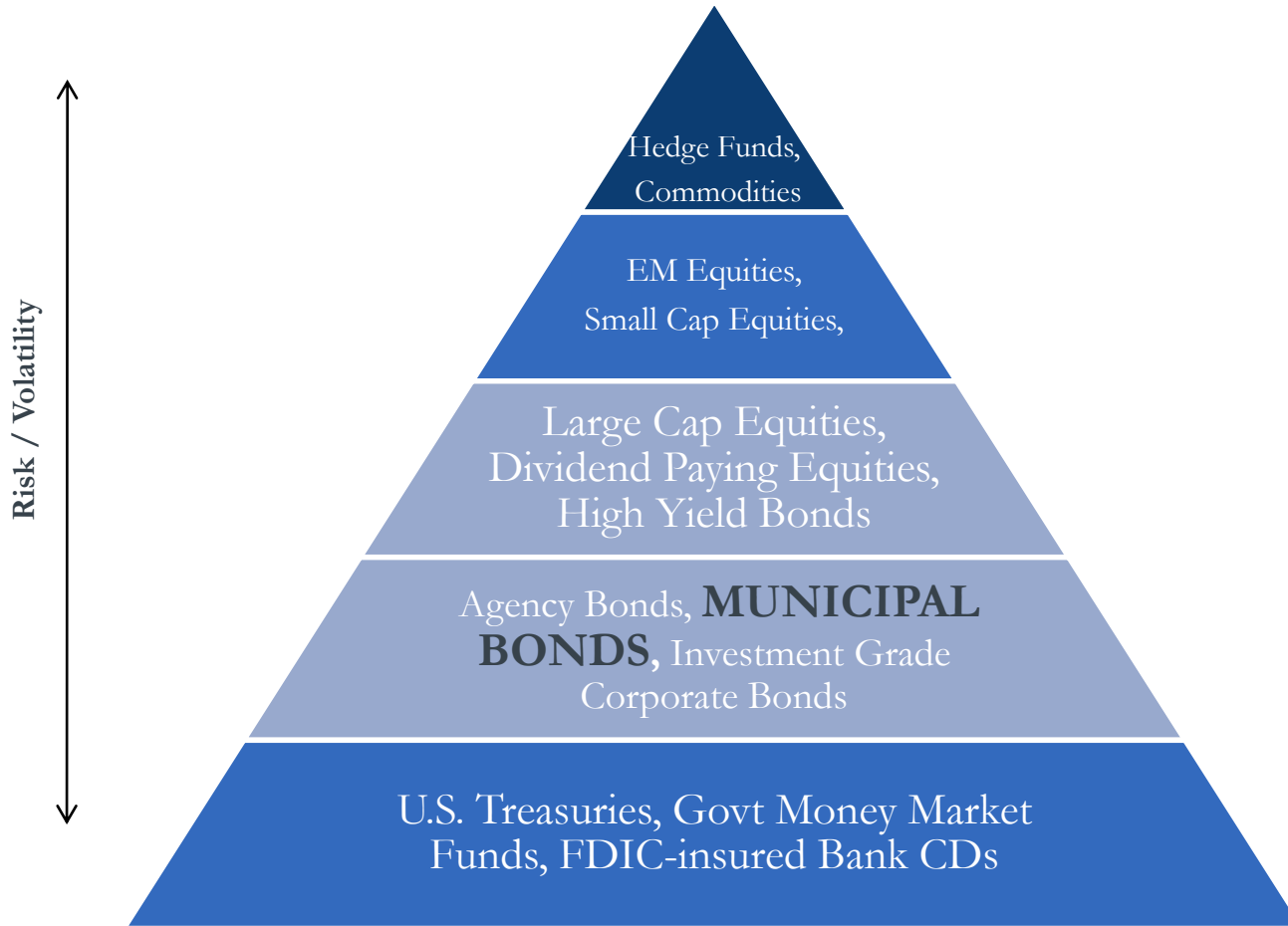
- High yield bonds have not experienced 2 consecutive years of negative returns in last 3 decades
- We believe high yield bonds are well-positioned coming out of the crisis

Calendar Year Returns: Stocks vs. High Yield Bonds



Source: Bloomberg. Data as of 6/30/2020. High yield bonds: Bloomberg Barclays US Corporate High Yield Bond Index. Stocks: S&P 500 Index.

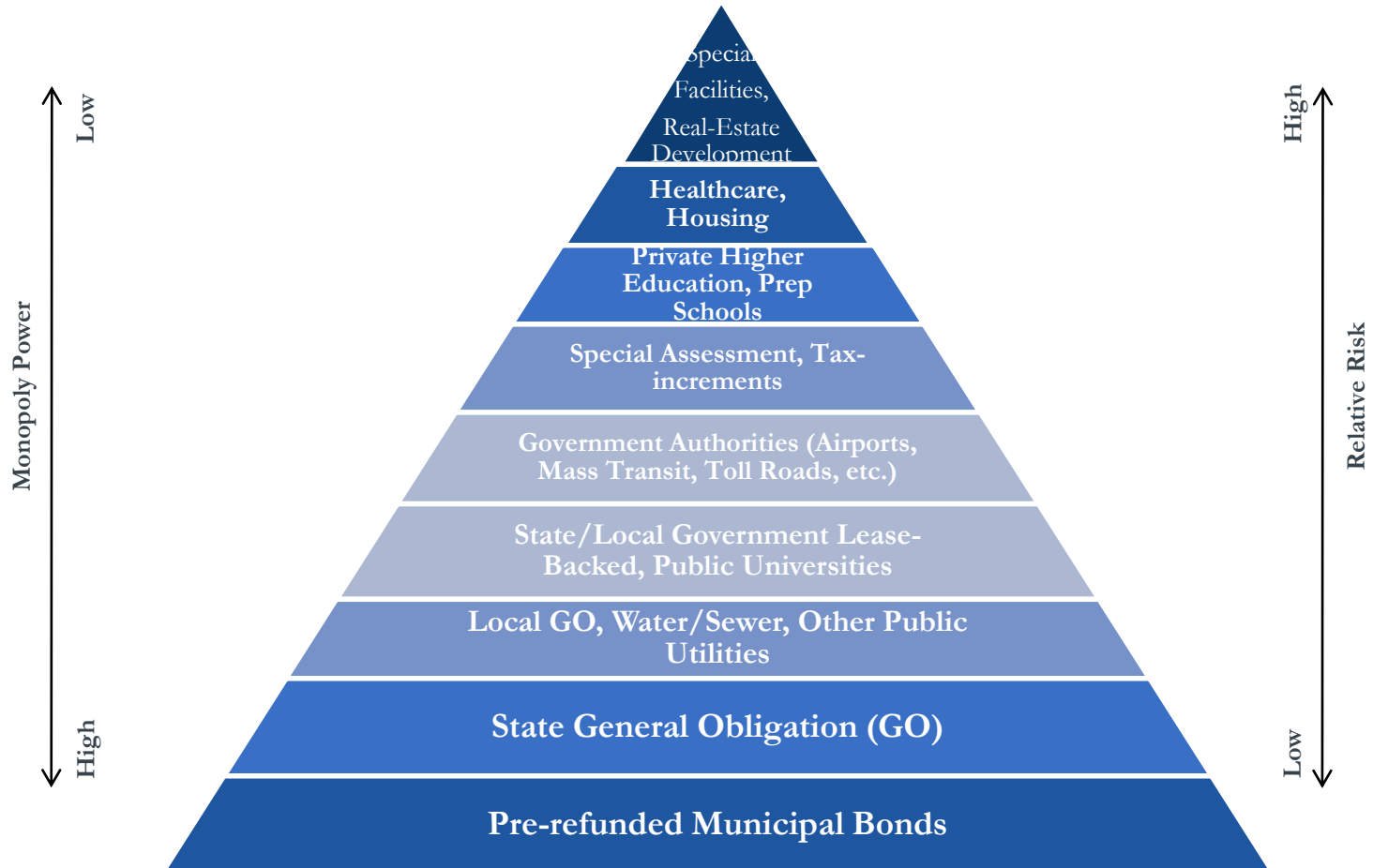
Municipal Bonds and the Risk Pyramid



Source: CNR Research

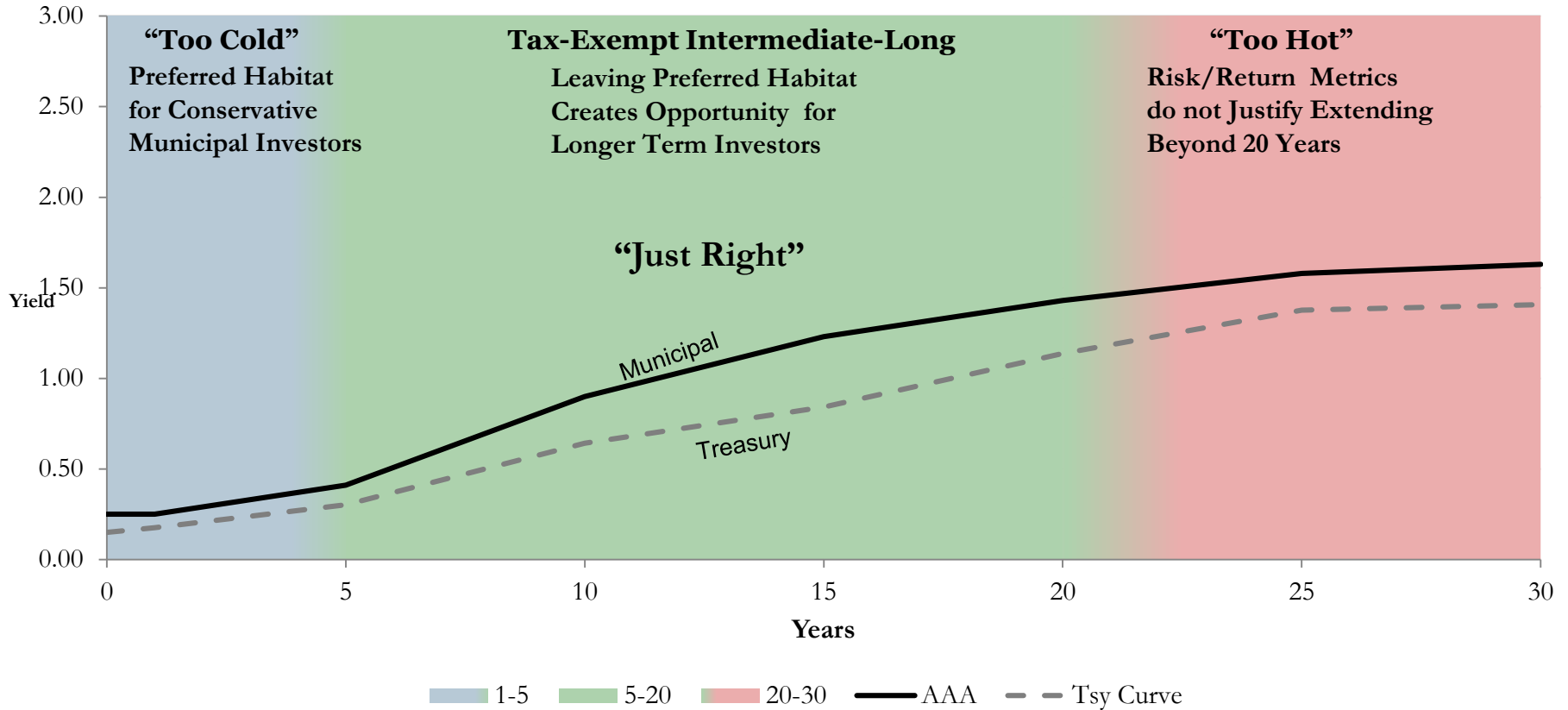
Monopoly Power of Municipalities

Avoid Painting the Municipal Market with a Broad Brush : Risk Varies Widely Across Sectors & Issuers



Source: CNR Research.

Intermediate-Long Tax-Exempt: “A Goldilocks Approach”



Source: Municipal Market Data Curve and Bloomberg Treasury Curve 6/30/2020.

Questions?

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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.

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Index Definitions

Consumer Price Index For All Urban Consumers Index (CPI-U) is a measure that examines the changes in the price of a basket of goods and services purchased by urban consumers.

The Standard and Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

MSCI AC World Index ND is a market capitalization weighted index that includes companies in developed and emerging markets throughout the world. The index is computed using the net return, which withholds applicable taxes for non-resident investors.

MSCI Japan Index ND is a market capitalization weighted index designed to reflect the large and mid cap segments of the Japanese equity market. The index is computed using the net return, which withholds applicable taxes for non-resident investors.

MSCI AC World Index ex US ND is a market capitalization weighted index that includes companies in developed and emerging markets throughout the world excluding the United States. The index is computed using the net return, which withholds applicable taxes for non-resident investors.

MSCI EAFE NR Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% free float-adjusted market capitalization in each 21 countries. Net returns in USD.

MSCI Emerging Markets Asia Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Asian emerging markets.

Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

S&P/LSTA U.S. Leveraged Loan 100 Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The index consists of 100 loan facilities drawn from a larger benchmark – the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

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Index Definitions

Dividend & Income Blended Index is a custom blended benchmark composed of 50% Dow Jones US Select Dividend Index / 10% Alerian MLP Index / 15% MSCI US REIT Index GR / 25% BofA ML Core Fixed Rate Preferred Securities Index.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region.

The Nikkei 225 stock average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets countries.

The Dow Jones US Select Dividend Index seeks to represent the top 100 U.S. stocks by dividend yield. The index is derived from the Dow Jones U.S. Index and generally consists of 100 dividend-paying stocks that have five-year non-negative Dividend Growth, five-year Dividend Payout Ratio of 60% or less, and three-month averaged daily trading volume of at least 200,000 shares.

Bloomberg Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market. The bonds included in this index must have a minimum credit rating of at least Baa.

Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged index that is comprised of issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues), and at least 1 year to maturity.

Bloomberg Barclays High Yield Municipal Bond Index (barhiym) is an unmanaged index considered representative of non-investment-grade bonds.

ICE BofAML High Yield US Emerging Markets Corporate Plus Index tracks the performance of US dollar denominated below investment grade emerging markets corporate debt publicly issued in the US domestic or eurobond market.

The Palmer Square CLO Debt Index is designed to reflect the investable universe of US CLO mezzanine original rated A, BBB and BB debt issued after Jan 1, 2011.

The Federal Open Market Committee, a committee within the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations. This Federal Reserve committee makes key decisions about interest rates and the growth of the United States money supply.

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