WEBINAR

January 2024 Market Update

A Deep Dive into CNR's Economic and Investment Outlook

January 25, 2024

Market Update Summary

Risks to Economic Outlook More Balanced

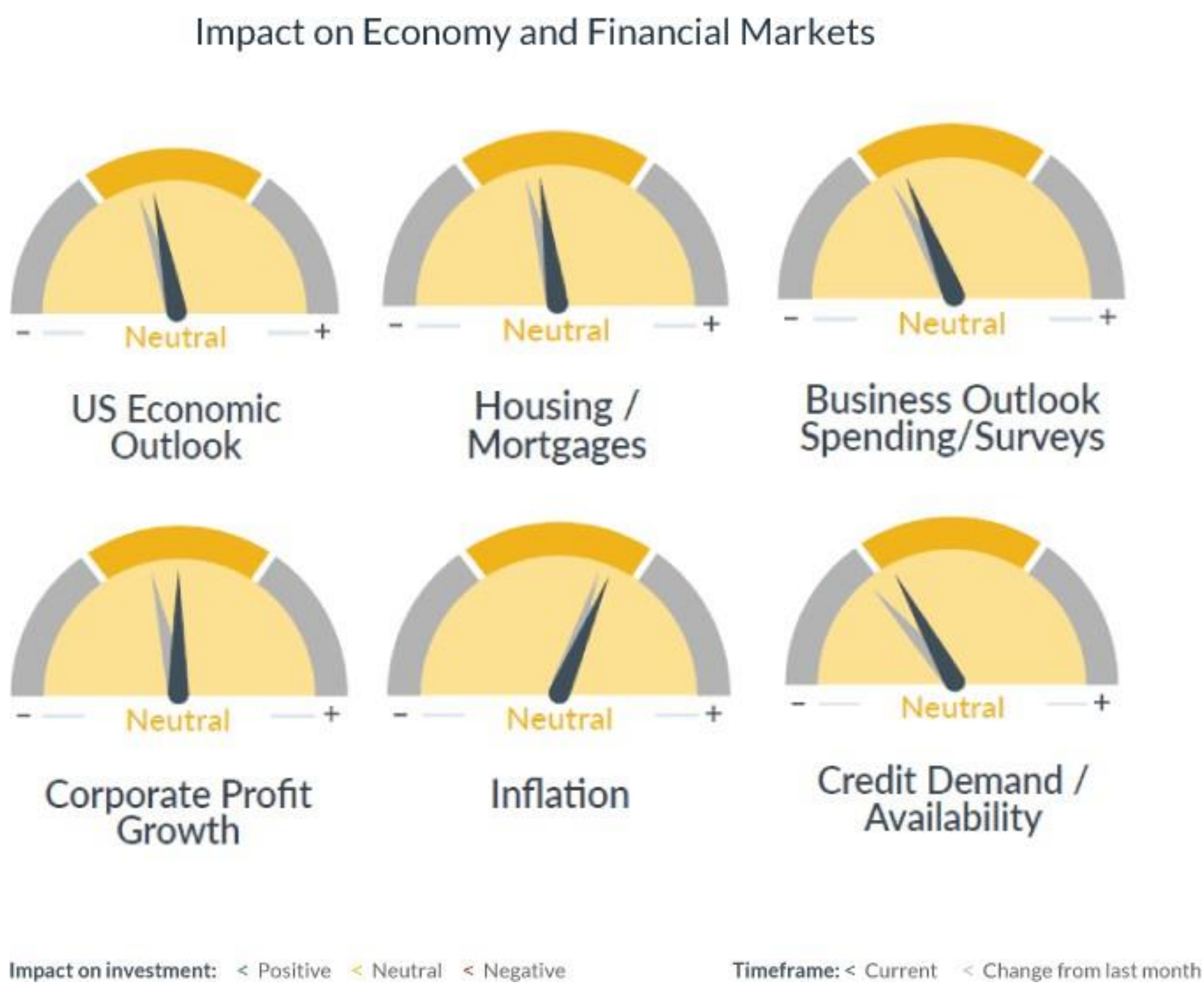
After two years of economic, geopolitical and market volatility, the outlook for 2024 is improved, according to the leadership team at City National Rochdale. With economic growth remaining stronger than expected and inflation moderating, CNR has lowered their risk of a mild recession to 50%. However, they believe financial markets have gotten somewhat ahead of themselves as we start 2024, and are too aggressive in their expectations of Fed rate cuts. CNR anticipates the Fed will lower interest rates in 2024, but a more modest two or three times beginning in the second half of the year.

CNR expects modest returns across asset classes in 2024 and remains focused on investing in high-quality stocks and bonds. Corporate profit expectations, inflation and Fed policy will likely remain key drivers of financial markets, and while the backdrop for all three should improve over the course of the year, uncertainty around the extent and timing is likely to create volatility as well as better buying opportunities in the coming months.

CNR Speedometers® - January 2024

Economic & Financial Indicators That Are Forward-Looking Six to Nine Months

- Indicators improving, risks to outlook growing more balanced.
- Fed likely done with rate hikes, headwinds expected to moderate.
- Consumer remains resilient, but slower spending ahead likely.
- Expecting improvements in corporate profits, inflation and credit conditions.
- Geopolitical events remain key risk to outlook.



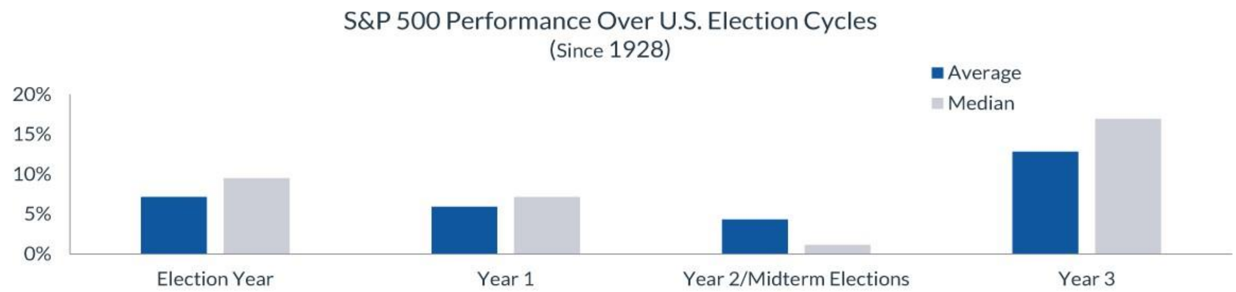
Source: Proprietary opinions based on CNR Research, as of January 2024.
Information is subject to change and is not a guarantee of future results.

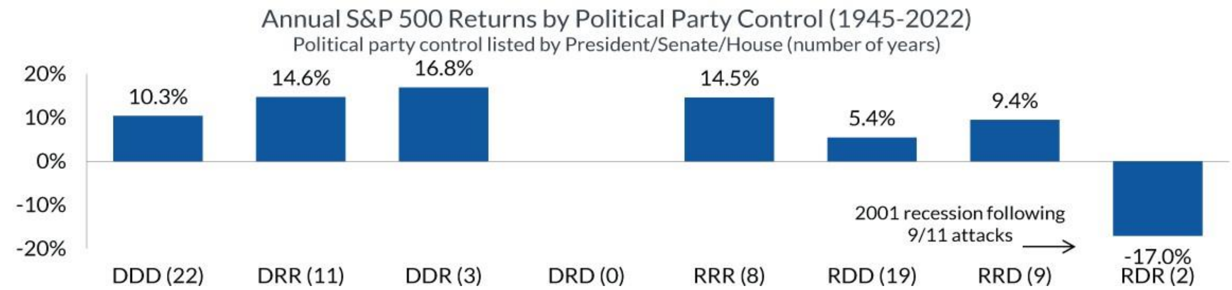
Several of CNR's speedometers, which are six- to nine-month forward-looking economic and financial market indicators, improved over the past month. Dials for the U.S. economic outlook, housing and mortgages, business outlook and spending, corporate profits, inflation, and credit demand and availability all moved in a positive direction.

While CNR continues to monitor geopolitical risk, absent some exogenous shock, they don't expect global tensions to have a material impact U.S. economic activity. Elections in the U.S. and around the globe are expected to be contentious, but are not anticipated to significantly affect U.S. economic activity or market performance.

Presidential Election Years Are Typically Good Ones

- Over the long run, equities have historically performed well regardless of political party control of government.
- Factors like corporate profits, interest rates, and the direction of Fed policy tend to be much more important.





Source: Source: Factset, as of January 2024.

Presidential election years typically see strong performance in the S&P 500, and over the long run, equities have historically performed well regardless of which political party is in control of government. Markets tend to be much more influenced by factors such as interest rates, Fed policy direction and corporate profit growth.

Geopolitical Risks Taking on Increased Importance

- Expect geopolitical considerations will play a greater role than they have for a generation.
- Will increasingly influence corporate investment decisions and nations' economic and industrial policy.

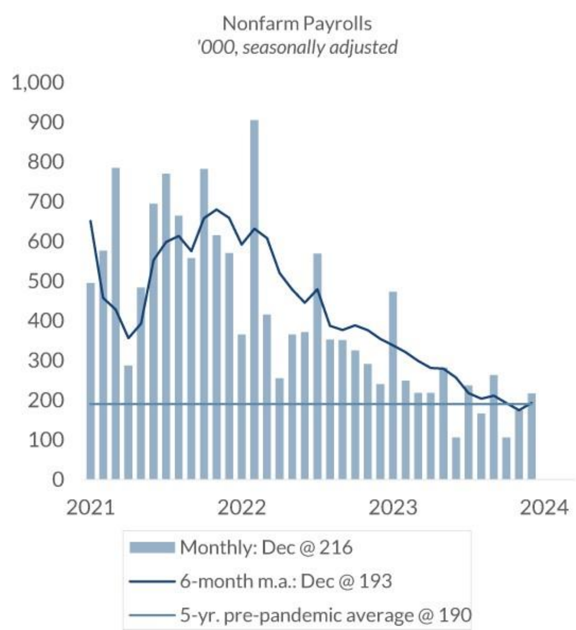
Region	Perspectives
Mideast	• Risks rising, global entanglement unlikely, watchful for impact on oil and shipping costs
Russia/ Ukraine	• No end in sight, likely to drag on for years; watchful for escalation of sanctions and impact on oil
China/ Taiwan/ US	• Chip wars remain, military tensions in South China Sea worsening, Taiwan election adds to tensions, while diplomatic efforts remain could impact supply chain

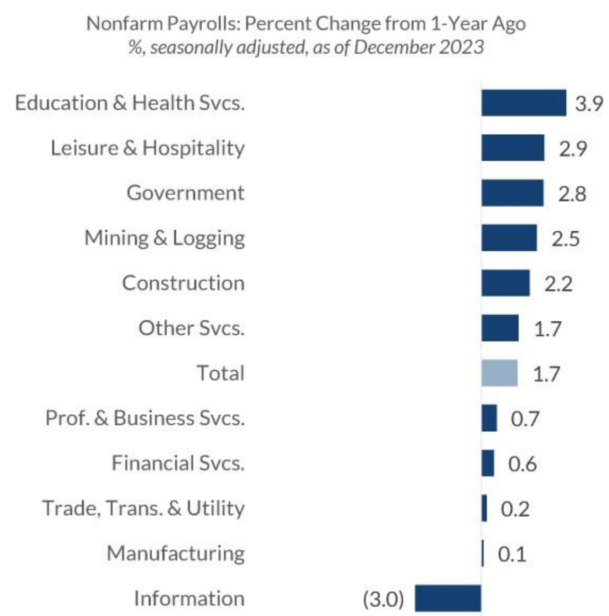
Source: CNR Research, as of January 2024.

Rather than domestic politics, CNR is more concerned about the impact that geopolitical risks pose on economic activity. Geopolitical risks are leading to increased economic policy uncertainty. They are closely watching the Mideast for a potential impact on oil prices and shipping, along with China because of ongoing chip wars and tensions with Taiwan.

The Economic Outlook

- Fortunately for the Fed, the blistering labor growth of the past few years has retreated to a manageable pace.
- There are signs of weaker growth ahead, shorter workweek, and less demand for temporary workers, etc.
- Also, more robust labor growth is happening in the less cyclical sectors of the economy.



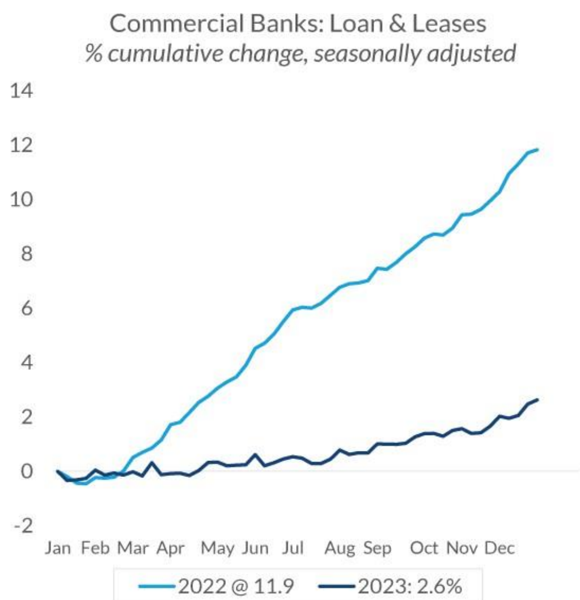


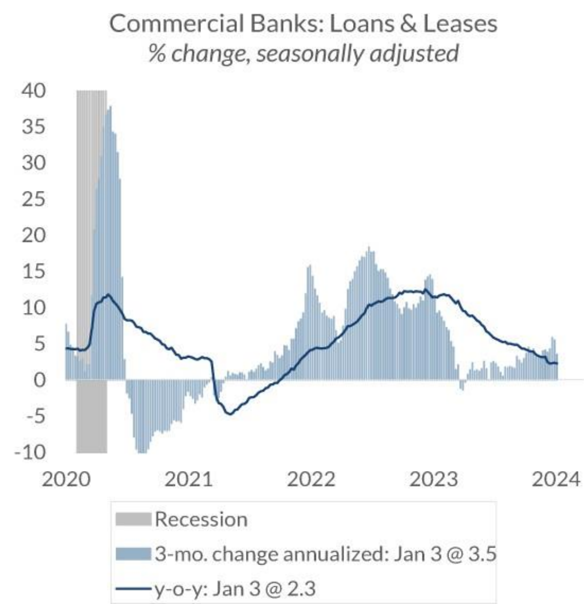
Data current as of January 24, 2024 Source: Bureau of Labor Statistics Information is subject to change and is not a guarantee of future results.

A slower period of job growth is likely in the months ahead, but overall employment is expected to be supported by gains in the education, healthcare and government sectors that are still playing catch-up from the pandemic. A normalization in the labor market should also lead to a slowdown in income increases after years of strong wage growth, helping to further reduce inflationary pressures.

Bank Lending and Economic Growth

- Reduced bank lending in 2023 was one reason many economists thought the economy would enter a recession.
- The pace of lending began to pick up in the second half of 2023.
- The pace of future growth will help dictate the trajectory of economic growth.



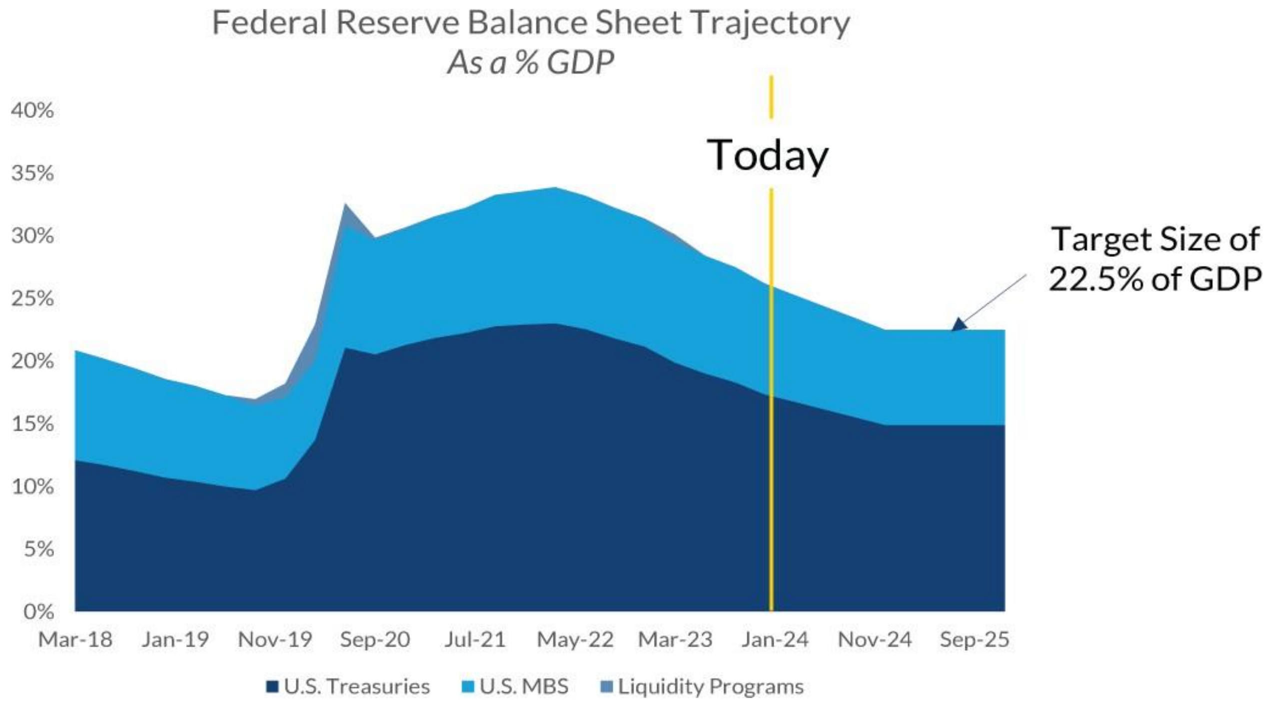


Data current as of January 24, 2024 Source: Federal Reserve Information is subject to change and is not a guarantee of future results.

A slowdown in bank lending contributed to predictions that the U.S. might be heading into a recession, but bank lending began to pick up in the middle of 2023 and is an important signal of potential future growth.

Federal Reserve Balance Sheet Tapering

- Recent comments from the FOMC suggest the Fed is considering an end to balance sheet reduction.
- Reserves are above levels considered adequate, but recent volatility in some rate markets has brought the balance sheet into focus and the probability of a stoppage in QT has increased.



Source: Bloomberg, Federal Reserve, CNR. As of January 2024. Represents Federal Reserve Assets as a percentage of GDP on a quarterly basis. Projections calculated based on a target balance sheet size of 22.5%, in-line with the previous reduction over 2019 and assuming pro-rata reductions of U.S. Treasuries, Mortgage-Backed Securities and Liquidity Programs.

Recent volatility in some fixed income markets has increased the focus on the Fed's balance sheet reduction process. CNR anticipates tapering of the Fed's balance sheet will moderate and stop entirely by the end of 2024.

Commercial Real Estate

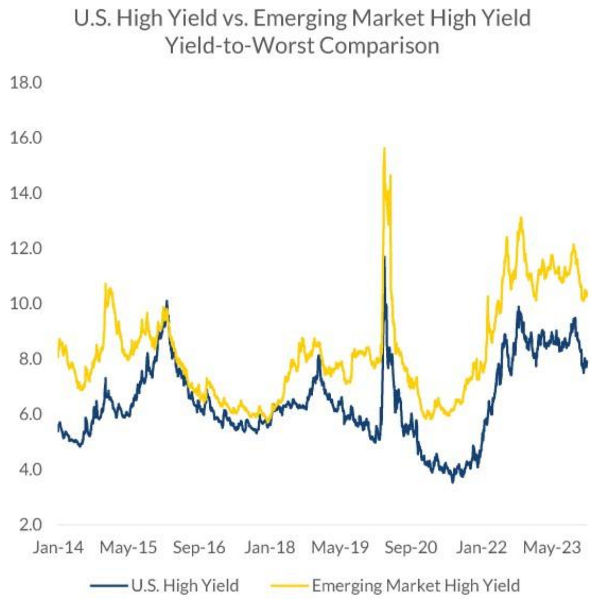
- Despite the potential impact to bank balance sheets, commercial real estate failed to disrupt markets in 2023.
- Valuations have adjusted and, while downside risks remain, the run rate of non-performing loans is falling, and market stabilization has the potential to increase anemic transaction volume.
- The direction of CRE markets will be key to the valuation of mortgage-backed securities and will affect broader rate markets.

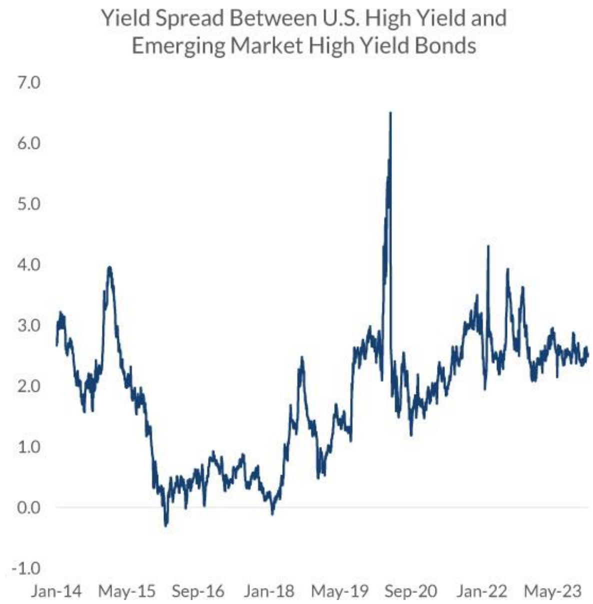
As of January 2, 2024. Source: NAREIT, Bloomberg, Dallas Federal Reserve.

Although risks remain in Commercial real estate, the percentage of loans going bad peaked in the third quarter of 2023, and we think commercial real estate will strengthen in 2024 and there should be more transactions.

Emerging Market Bond Valuations

- The outlook is shifting for Emerging Market ("EM") bonds as inflation continues to cool.
- Emerging market high yield bond yields exceed U.S. levels by more than 2.5%.
- Fed rate cuts could spark a period of global easing, which may create tailwinds in Emerging Market bonds.
- No allocation adjustments have been made at this time, but attractive entry points are possible.





Source: Bloomberg, CNR. As of January 22, 2024. Indexes used: Bloomberg Emerging Market High Yield Index; Bloomberg U.S. High Yield Corporate Bond Index.

While no allocation changes have been made, CNR's outlook is shifting on emerging market bonds. As the Fed cuts rates later in 2024, global easing is possible. That could be a good tailwind for emerging market bonds.

Key Issues for Stocks

Positives	Negatives
• Acceleration in EPS growth	• Margins near all time high
• Positive historical stock returns in election year/Fed pivot	• Geopolitical risks – Slowing global GDP
• Resilient labor market/consumer strength	• Equity risk premium low – High valuations
• Broadening of participation in rally	• Record optimism for soft landing

S&P 500 Fair Value Matrix

P/E	2024 EPS		
	$231	$240	$246
16	3696	3837	3942
18	4158	4316	4435
20	4620	4796	4928

Source: Factset, as of December 2023. Information is subject to change and is not a guarantee of future results.

Given the expectation that the U.S. economy will continue to prove more resilient than Europe's or Asia's, CNR continues to favor U.S. stocks. On the positive side, they are seeing accelerating earnings per share growth, a resilient labor market and consumers, broader participation in the market rally beyond tech stocks, and a history of market strength in presidential election years. But they are watching some potential negative factors such as geopolitical risks, high valuations, margins near an all-time high, and potential over-optimism about a soft landing.

Key Issues for Stocks

- Expect US equities to outperform non-US equities
- Forecasting positive but moderate returns for S&P 500, timing and extent of EPS growth is key
- History suggest a modest rebound in Dow Jones US Dividend Select Index vs. S&P 500
- Fixed income returns expected to be mostly positive
- Investment grade corporate and municipals have the potential to offer attractive yields with lower volatility
- High yield corporates and municipals, while volatile, have the potential to offer attractive yield
- Alternatives* may provide diversifying benefits and attractive opportunities

Source: CNR Research, as of December 2023. Information is subject to change and is not a guarantee of future results *Alternative investments are speculative, may entail substantial risks and may not be suitable for all investors.

Overall, CNR is expecting positive but more modest returns across asset classes in 2024.

Review Your Portfolio with Your Financial Advisor Today

City National encourages you to review your investment portfolio with your advisor. Contact our financial professionals today to get help with your wealth planning needs.

Important Information

All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money. Diversification may not protect against market risk or loss. Past performance is no guarantee of future performance. Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.Equity investing strategies & products. There are inherent risks with equity investing. These risks include, but are not limited to stock market, manager or investment style. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Fixed Income investing strategies & products. There are inherent risks with fixed income investing. These risks 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 in international markets. There are inherent risks with international investing. These risks include, but are not limited to, risks such as currency fluctuation, regulatory risks, and economic and political instability. Emerging markets involve heightened risks related to the same factors, as well as increased volatility, lower trading volume and less liquidity. In addition, emerging markets can have greater custodial and operational risks and less developed legal and accounting systems than developed markets. Investments in emerging markets bonds may be substantially more volatile, and substantially less liquid, than the bonds of governments, government agencies, and government-owned corporations located in more developed foreign markets.

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Index Definitions

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

MSCI EAFE Index. The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization weighted index that is designed to measure developed equity market results, excluding the US and Canada.

Bloomberg US Corporate High Yield Index. The Bloomberg US Corporate High Yield Index measures the performance of non-investment grade, US dollar-denominated, fixed-rate, taxable corporate bonds.

Bloomberg Municipal Bond Index. The Bloomberg US Municipal Bond Index measures the performance of investment grade, US dollar-denominated, long-term tax-exempt bonds.

Bloomberg Municipal High Yield Bond Index. The Bloomberg Municipal High Yield Bond Index measures the performance of non-investment grade, US dollar-denominated, and non-rated, tax-exempt bonds.

Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD: The Bloomberg US Corporate Bond 1-5 Year Index measures the investment grade, fixed-rate, taxable corporate bond market with 1-5 year maturities.

Bloomberg US Investment Grade Corporate Bond Index: The Bloomberg 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.

DJ U.S. Select Dividend Index®. The Dow Jones U.S. Select Dividend Index® measures the performance of the top 100 U.S. stocks by dividend yield.

Bloomberg U.S. Aggregate Bond Index: The Bloomberg U.S. Aggregate Bond Index measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bonds.

Alternatives – Income-based performance: Returns illustrated are 50% Palmer Square BB CLO Index/50% Palmer Square BBB CLO Index.

Indexes are unmanaged and do not reflect a deduction for fees or expenses. Investors cannot invest directly in an index.

Definitions:

Commercial and Industrial (C&I) Loan A commercial and industrial (C&I) loan is a loan made to a business or corporation.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers.

Yield to Worst (YTW) is the lower of the yield to maturity or the yield to call. It is essentially the lowest potential rate of return for a bond, excluding delinquency or default.