

August 2024

Market Update

Overview

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- Speedometer and economic forecast updates
- Recent market volatility
- Geopolitical overview and election dynamics

Section 2: Economic Update

- Consumer Strength
- Labor Market
- Inflation

Section 3: Market Positioning

- Equity Update
- Interest Rates & Fixed Income Update



Market Perspective

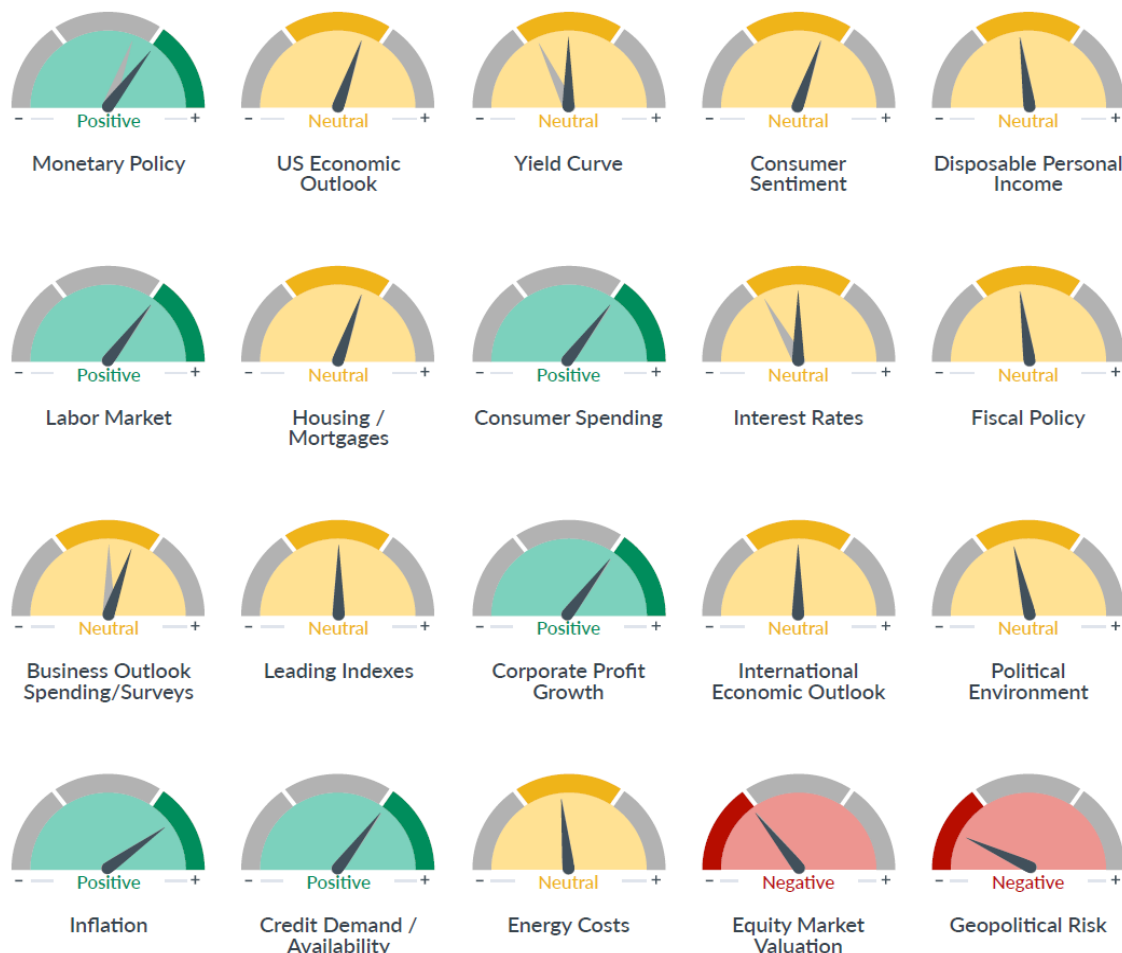


CNR Speedometers® – September 2024

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

Impact on Economy and Financial Markets

- Global economic outlook stable, US growth strong but moderating.
- Cooling inflation paving the way for Federal Reserve easing cycle.
- Job and income growth supporting consumer spending.
- Lower interest rates should support a pick-up in business investment.
- Elevated equity valuations in some sectors reflect strong corporate profits.
- Geopolitical events remain a key risk to the outlook.



Impact on investment: ■ Positive ■ Neutral ■ Negative

Timeframe: ■ Current ■ Change from last month

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

CITY NATIONAL ROCHDALE, LLC NON-DEPOSIT INVESTMENT PRODUCTS ARE: • NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE



Economic Forecasts

- GDP growth to moderate, but economy should remain resilient and avoid recession.
- Corporate profits expected to show improving growth.
- Inflation pressures expected to continue moderating.
- Now expecting 2-3 Fed rate cuts in 2024.
- Long term structural pressures likely to put 4% floor on 10-year Treasuries.

City National Rochdale Forecasts		2023	2024e	2025e
Real Annual GDP Growth		2.5%	1.75% to 2.25%	1.5% to 2.0%
Corporate Profit Growth		1%	9.0% to 12.0%	8.0% to 12.0%
Headline CPI Year End		3.3%	2.50% to 3.00%	2.50% to 2.75%
Core CPI Year End		3.9%	2.50% to 3.00%	2.25% to 2.75%
Interest Rates	Federal Funds Rate	5.25% to 5.50%	4.50% to 5.00%	3.75% to 4.25%
	Treasury Note, 10-Yr.	3.88%	4.00% to 4.50%	3.75% to 4.25%

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.

e: estimate.

Sources: Bloomberg, proprietary opinions based on CNR Research, as of August 2024.

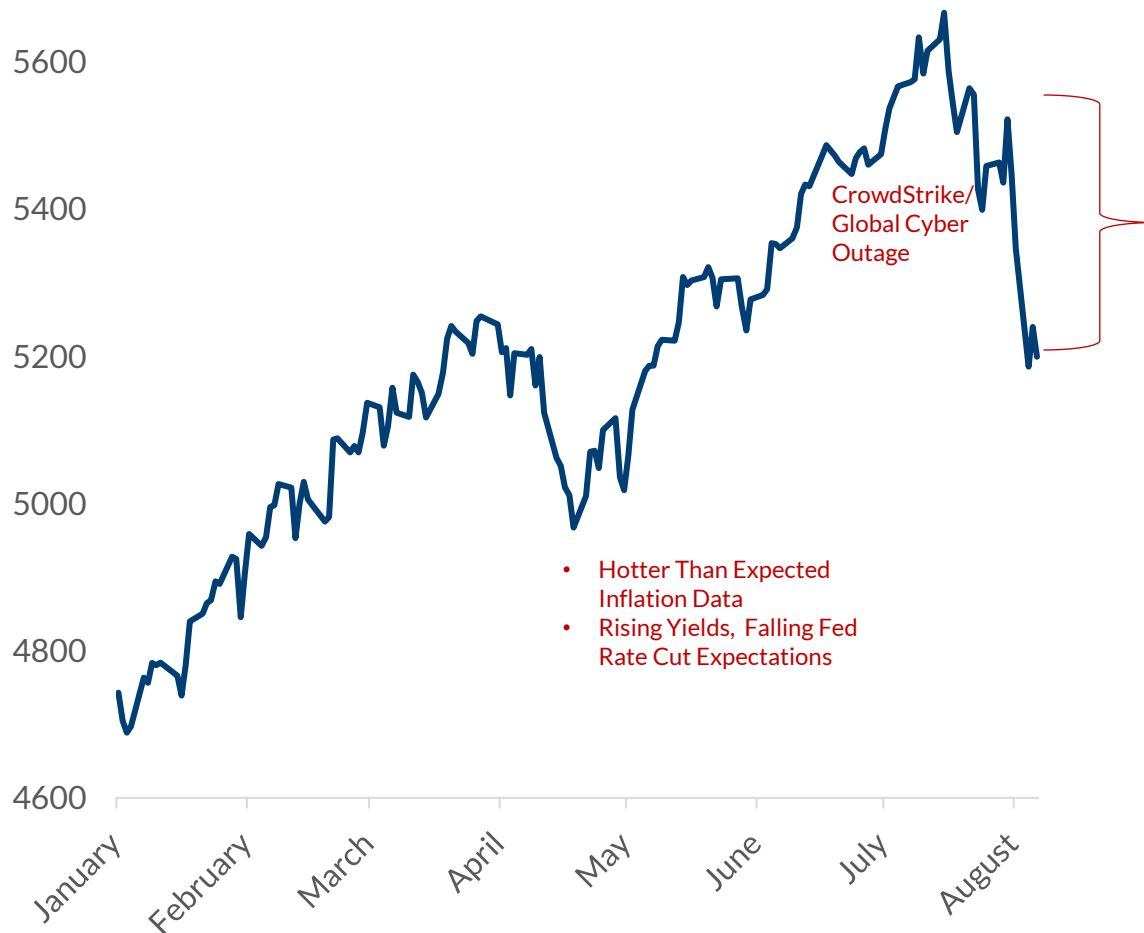
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What Drove The Market Sell-off?

- Unexpected weakness in inflation and jobs combined with a Bank of Japan rate hike triggered a sell-off.
- We believe the associated volatility was driven by technical market factors, not fundamentals.

2024 S&P 500



Top Reasons Behind The Market Pullback	
▪ Economic Growth Concerns	
▪ Greater Tech Earnings Scrutiny	
▪ Yen Carry Trade Unwind	
▪ Systematic Funds Selling Pressure	

Source: Bloomberg, as of August 2024.
 Past performance is no guarantee of future results.



Geopolitical Risks Continue To Cloud The Outlook

- Rising global conflicts and tensions are leading to increased economic uncertainty.
- Expect geopolitical considerations to play an increasing role in decision making for nations and corporations.

Region	Key Issues
China/ Taiwan	<ul style="list-style-type: none"> ▪ Long term strategic competition with US increasing ▪ Elevated military tensions in South China Sea – Taiwan potential flashpoint ▪ Watchful for increased tariffs, trade restrictions and supply chain disruptions, especially chip production
Russia/ Ukraine	<ul style="list-style-type: none"> ▪ No end to conflict in sight ▪ Regional escalation unlikely for now ▪ Watchful for further sanctions, impact on energy prices and EU economic activity
Mideast	<ul style="list-style-type: none"> ▪ Israeli-Hamas ceasefire remains elusive ▪ Regional escalation possible ▪ Watchful for impact on oil and greater international entanglement

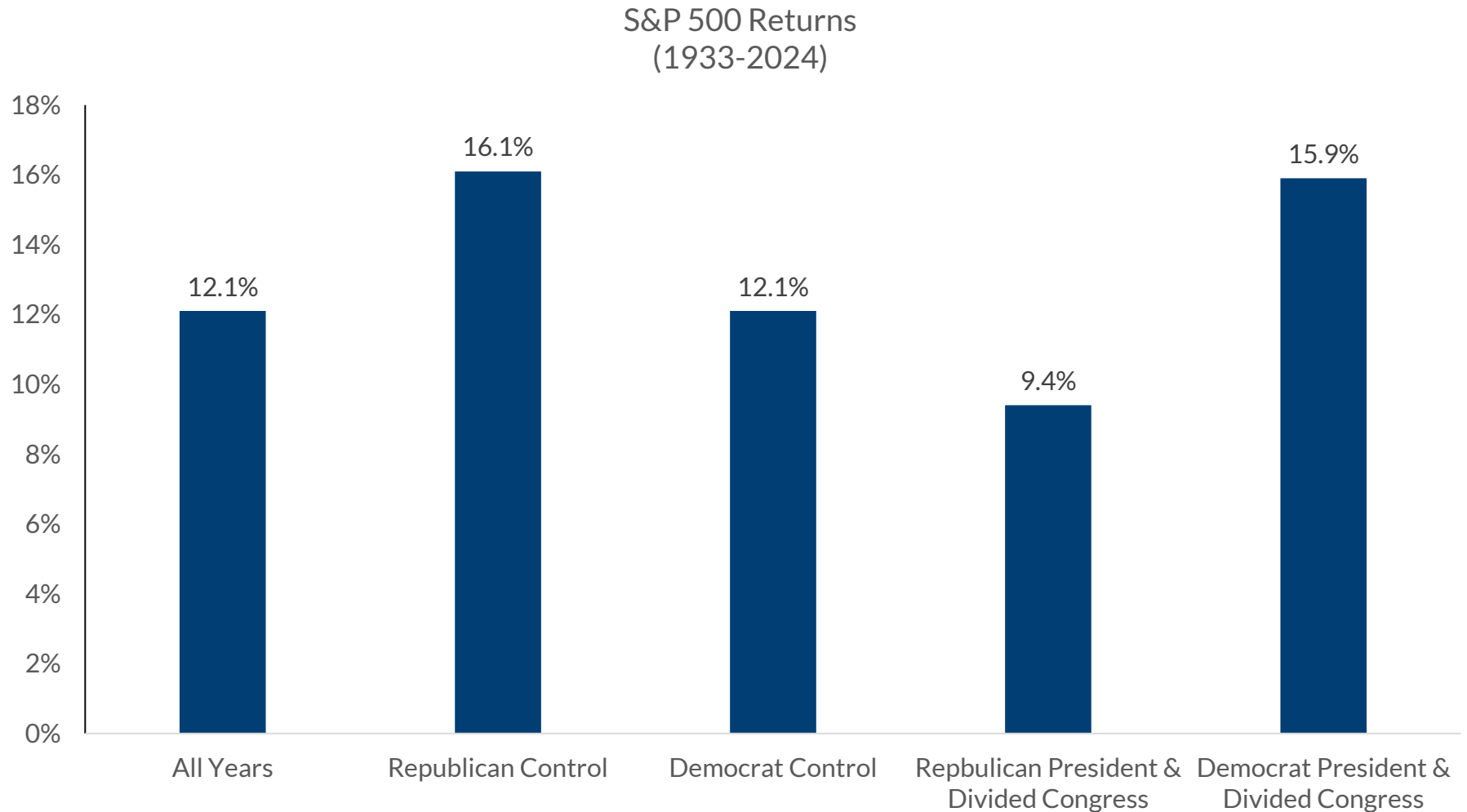


Source: CNR Research, economicpolicyuncertainty.com, as of July 2024.



The Stock Market is Not Partisan

- Over the long run, market returns do not appear correlated to political party control.
- Corporate profits, interest rates, and the direction of monetary policy tend to be much more important.

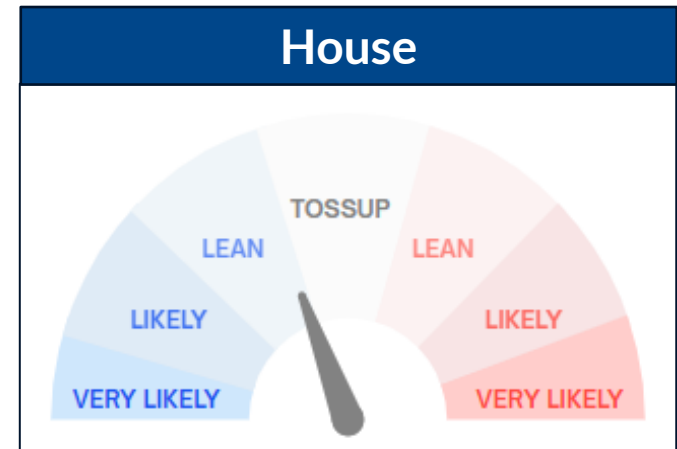
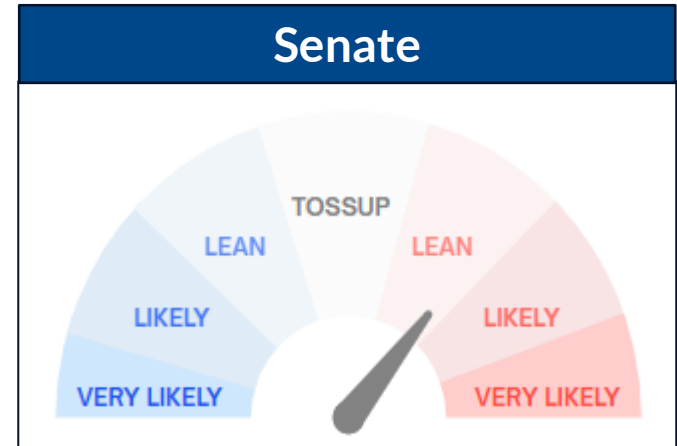
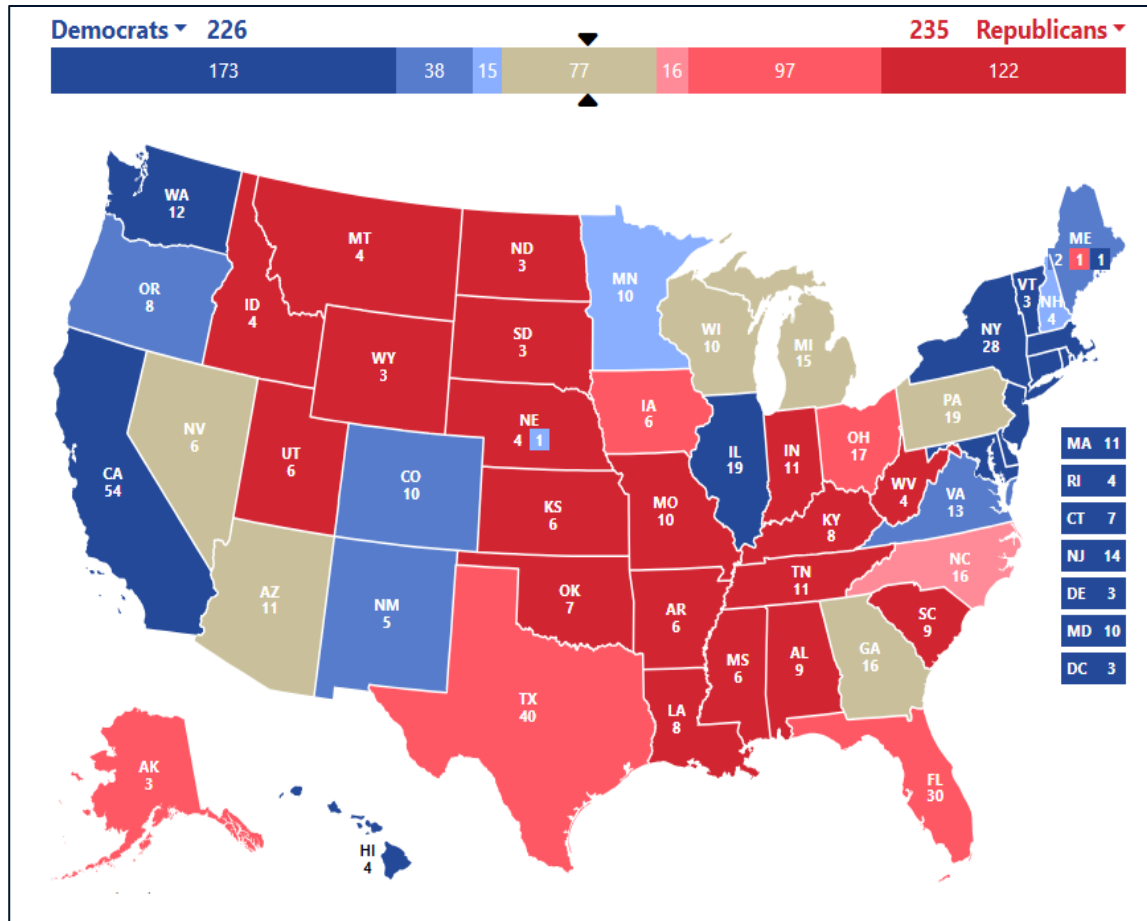


Source: CNR Research, Bloomberg, as of August 2024.



Election 2024 – Too Close to Call

- After a volatile summer, the presidential race is back to where it started – nearly a dead heat.
- It is increasingly likely that a divided government is the likely outcome in November.



Source: www.270towin.com, polymarket.org, as of August 2024.



Election 2024 – Sectors to Watch

- Long-term policy is key, but there can be short-term performance implications across sectors.
- Despite the potential for specific sectors to benefit, the impact is not likely to last long.

Harris	Trump
<ul style="list-style-type: none"> • Renewables/Electric/Environmental 	<ul style="list-style-type: none"> • Banks/Financials
<ul style="list-style-type: none"> • Telecom 	<ul style="list-style-type: none"> • Aerospace/Defense
<ul style="list-style-type: none"> • Homebuilders & Industrials 	<ul style="list-style-type: none"> • Healthcare
<ul style="list-style-type: none"> • Tech & Manufacturing 	<ul style="list-style-type: none"> • Traditional Energy

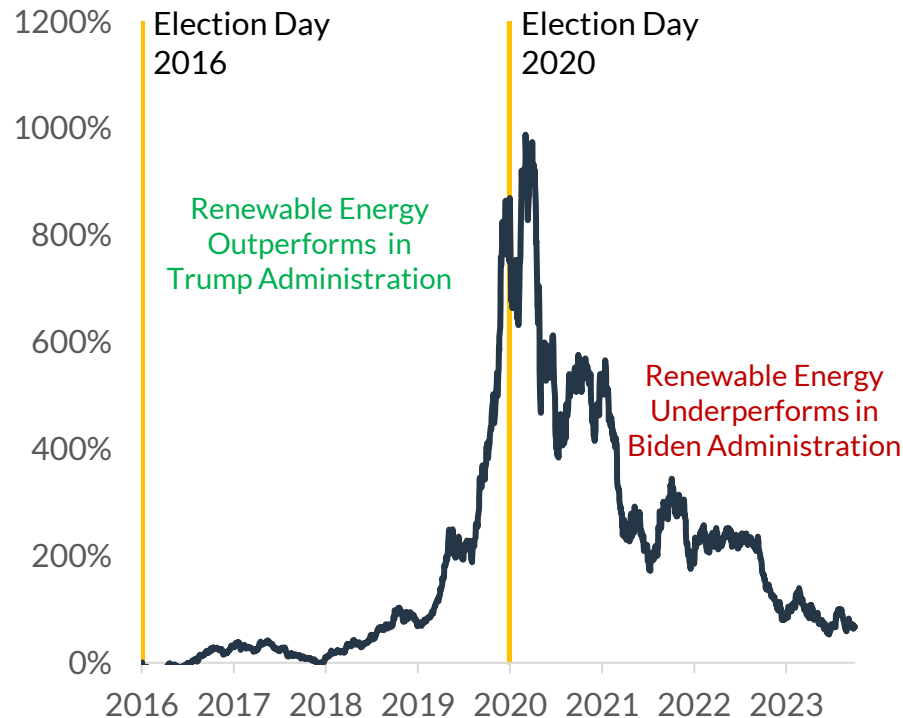
Source: CNR Research, as of August 2024.



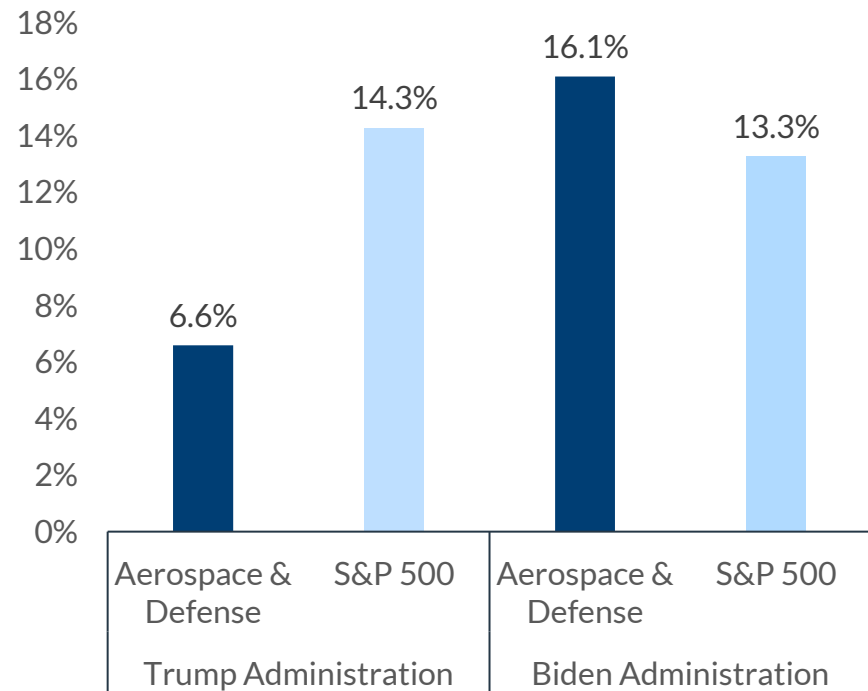
Investing on Expected Election Impacts is Difficult

- Elections can result in policy changes that impact market returns.
- However, positioning a portfolio based solely on potential policy changes can be a risky strategy.
- Specific sector, industry and company fundamentals, as well as macro developments, tend to be more important.

Renewable Energy vs Traditional Energy
Relative Performance



Aerospace & Defense vs. S&P 500
Relative Performance Since Election Day



Source: Bloomberg, as of July 2024.

Aerospace & Defense: iShares US Aerospace & Defense ETF (ITA) Clean Energy: iShares Global Clean Energy ETF (ICLN) Traditional Energy: Energy Select Sector SPDR Fund (XLE) ITA, ICLN, and XLE information is for illustrative purposes only and is not an investment recommendation. ETFs are subject to risk. Investment return and principal value will fluctuate, and an investment in securities may be worth more or less than their original cost. Indices are unmanaged and are not available for direct investment. Index returns do not reflect a deduction for fees or expenses. Past performance is no guarantee of future results.



Key Takeaways

- The economy is decelerating, and we've adjusted our metrics and forecasts for long-term GDP growth of 1.5% - 2.0%.
- We believe the recent market instability is not due to economic decline, but technical factors related to the Japanese yen carry trade triggering systematic US equity sales.
- Geopolitical risks persist, with escalating tensions in U.S. – China relations and the Middle East. The Russia-Ukraine conflict is stable in our view.
- The upcoming tight Presidential and House races may increase market volatility. However, market performance doesn't correlate with government control, and any sector benefits from the elected candidate are usually temporary.

Source: CNR Research, as of August 2024.
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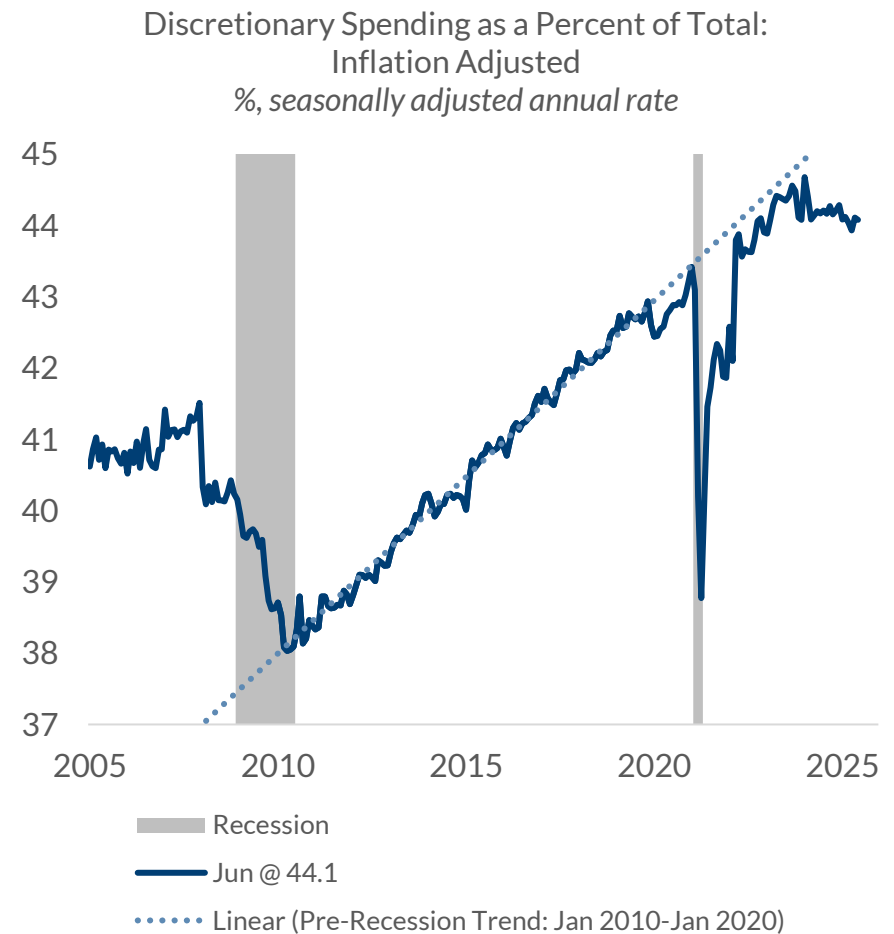
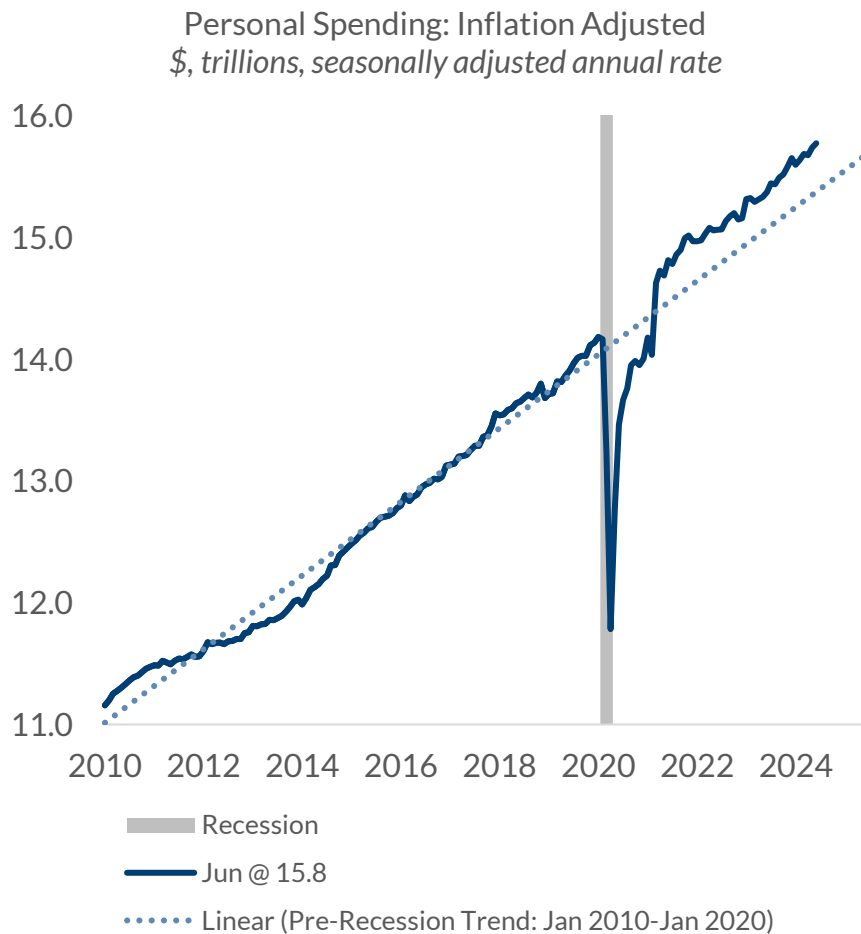


Economic Update



The Consumer

- Resilient consumers remain the cornerstone of solid GDP growth.
- With the low unemployment rate, income growth remains strong, helping to drive spending.
- Discretionary spending has been slowing, a signal of the later stage of the economic cycle.

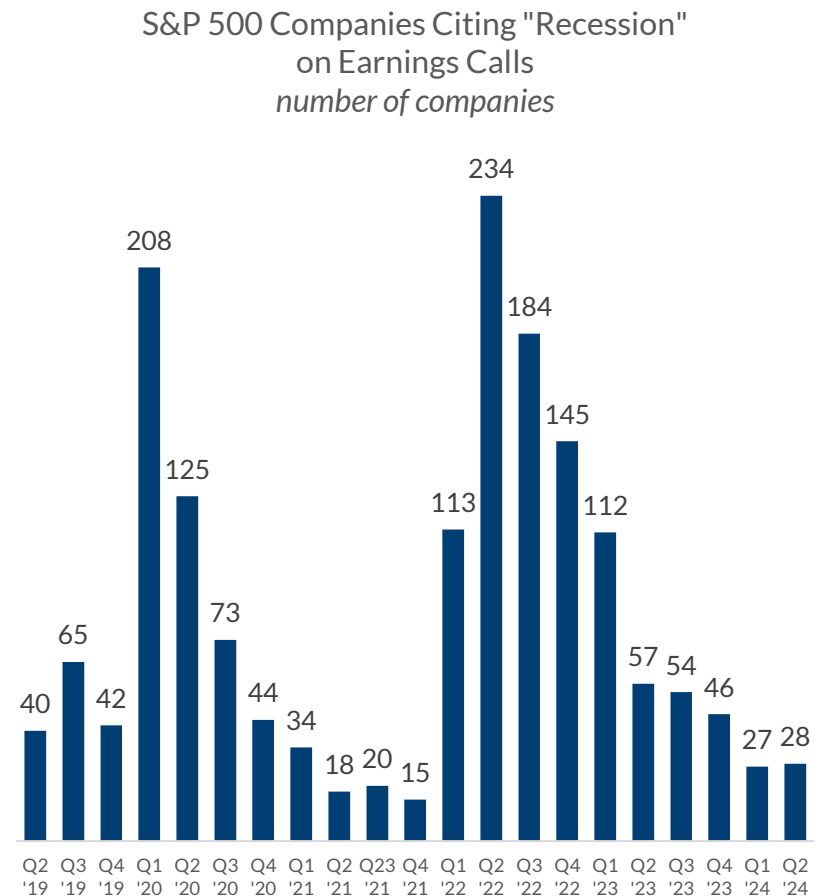
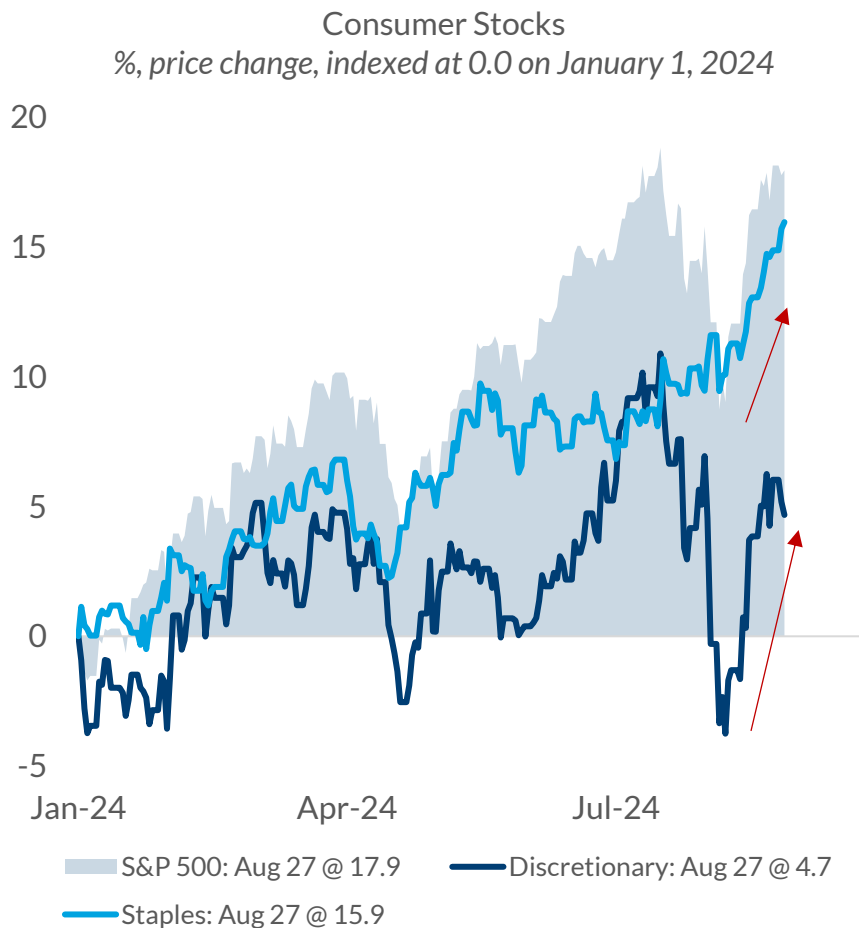


Data current as of August 27, 2024
 Source: Bureau of Economic Analysis
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The Consumer

- The growth rate of consumer spending remains healthy, despite earlier fears by some analysts.
- Income growth has been stronger than inflation, providing greater disposable income.
- The recent decline in inflation has increased real income, helping to keep a solid pace of consumer spending.



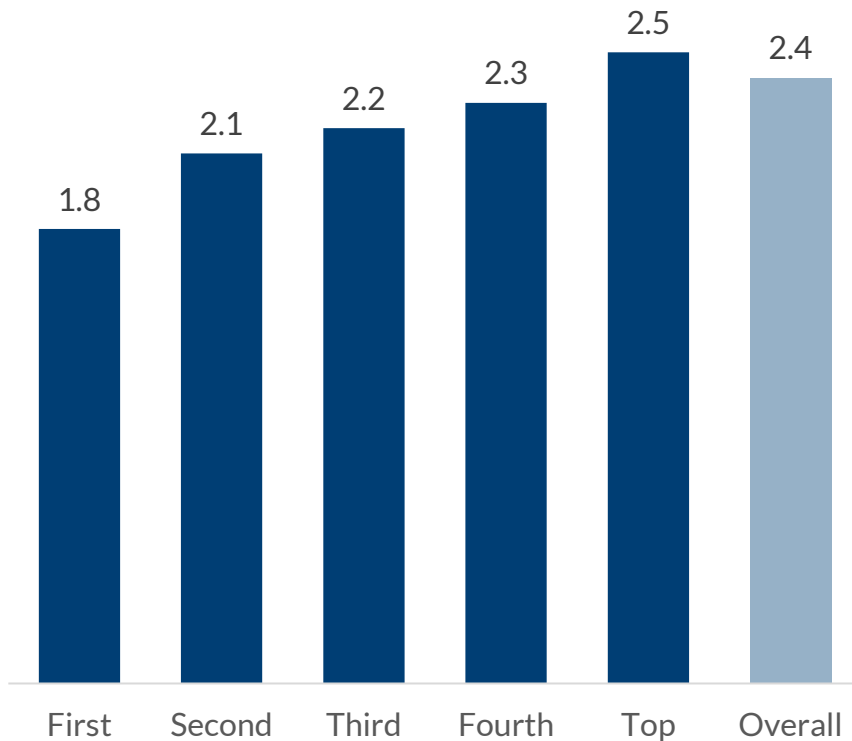
Data current as of August 27, 2024
 Source: S&P 500 Dow Jones Indices, FactSet.
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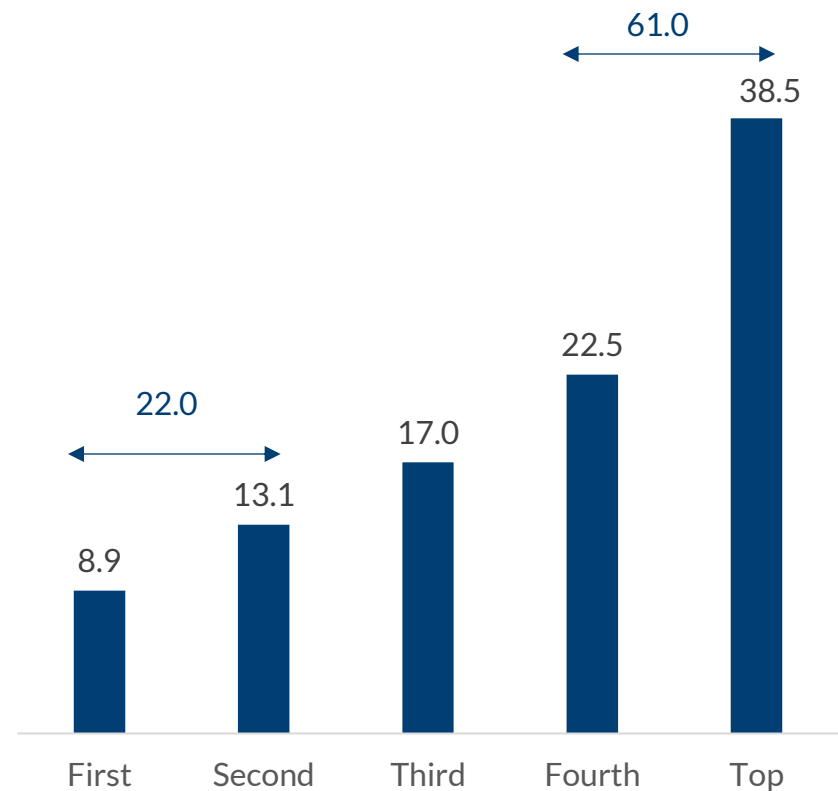
The Consumer

- There are growing pressures on lower-income consumers, but their inflation-adjusted income is still positive.
- Spending among the different income cohorts is unequal; higher income brackets drive spending.

2024 Real Income: Forecast Growth
%, by quintile, Q4/Q4 basis



Annual Expenditures
by quintile of income before taxes
% of total, as of 2022 YE



Data current as of August 27, 2024

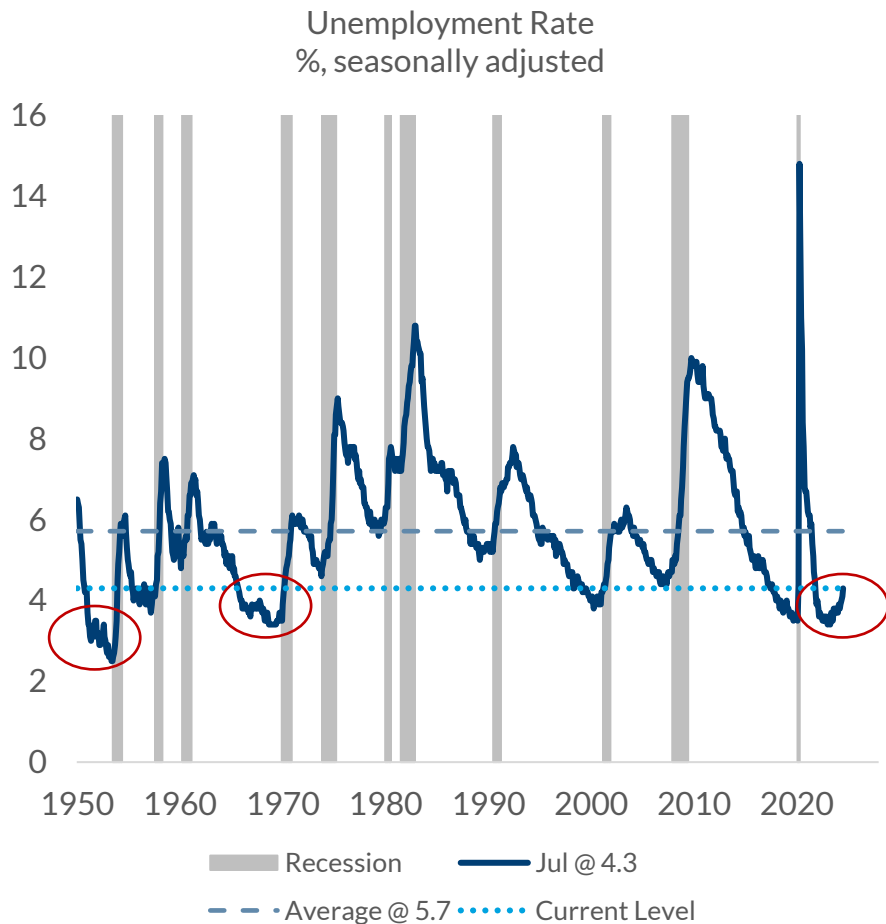
Source: Goldman Sachs Global Investment Research, Bureau of Labor Statistics

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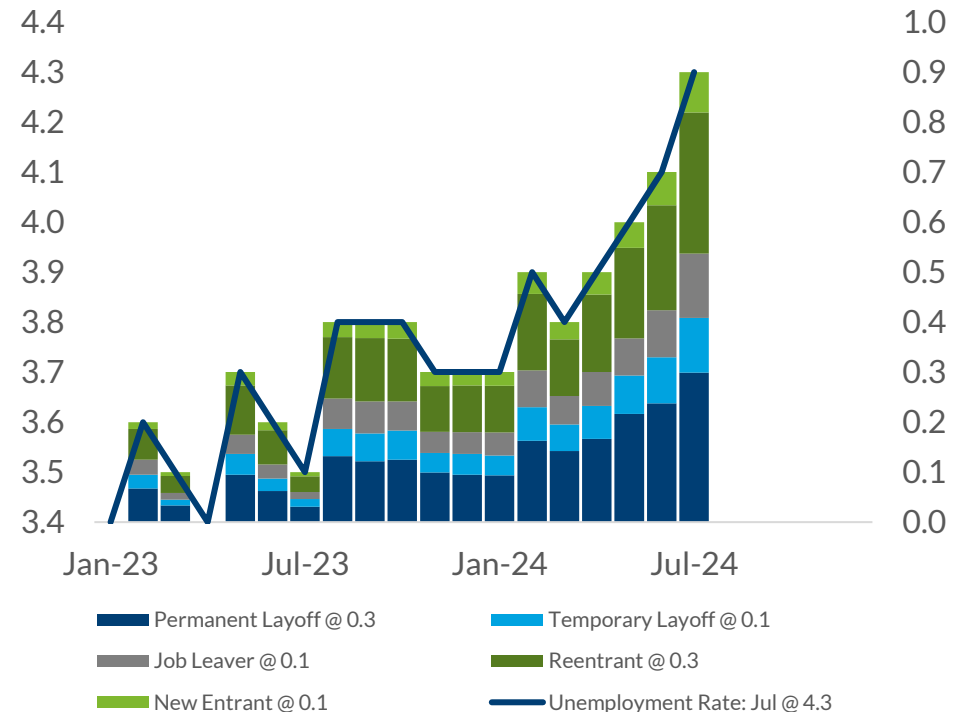


Labor

- Despite the increase in the unemployment rate, it is still well below the long-term average.
- The increase in the unemployment rate is driven mostly by the increase in supply of available workers.
- The unemployment rate is hovering around the Fed’s long-term goal of 4.2%.



Unemployment Rate: Change from Cycle Low
 Net change from the 3.4% on January 2023 to July 2024
 percentage points, aggregate change with reason for unemployment

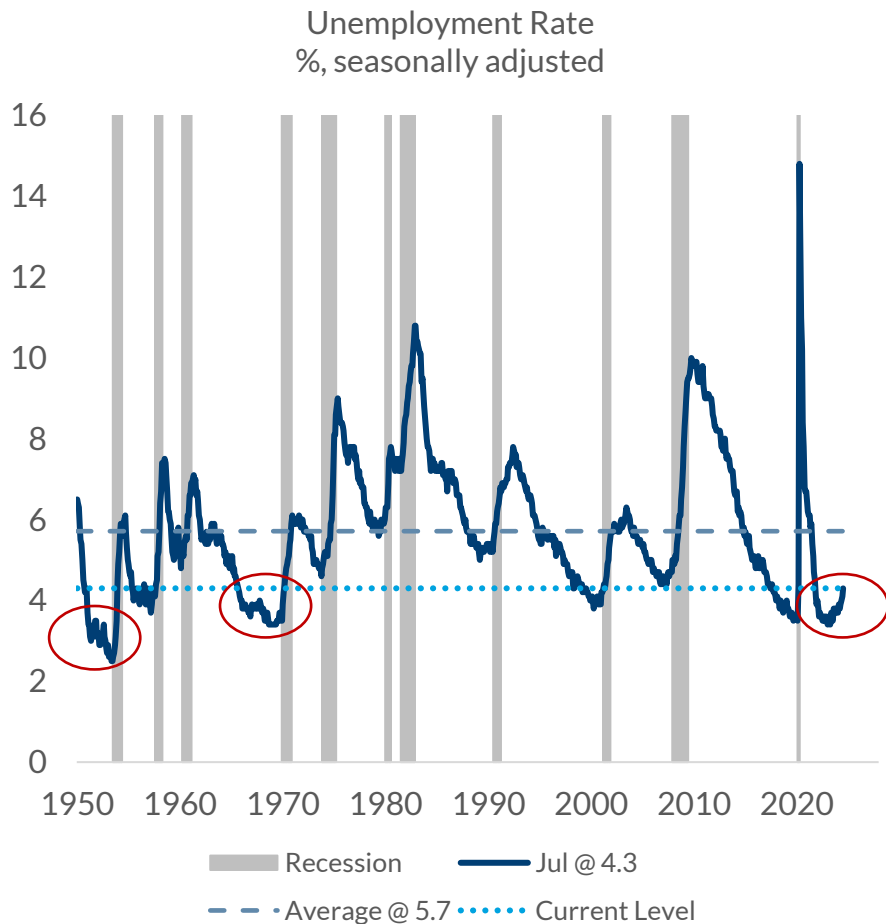


Data current as of August 27, 2024
 Source: Bureau of Labor Statistics
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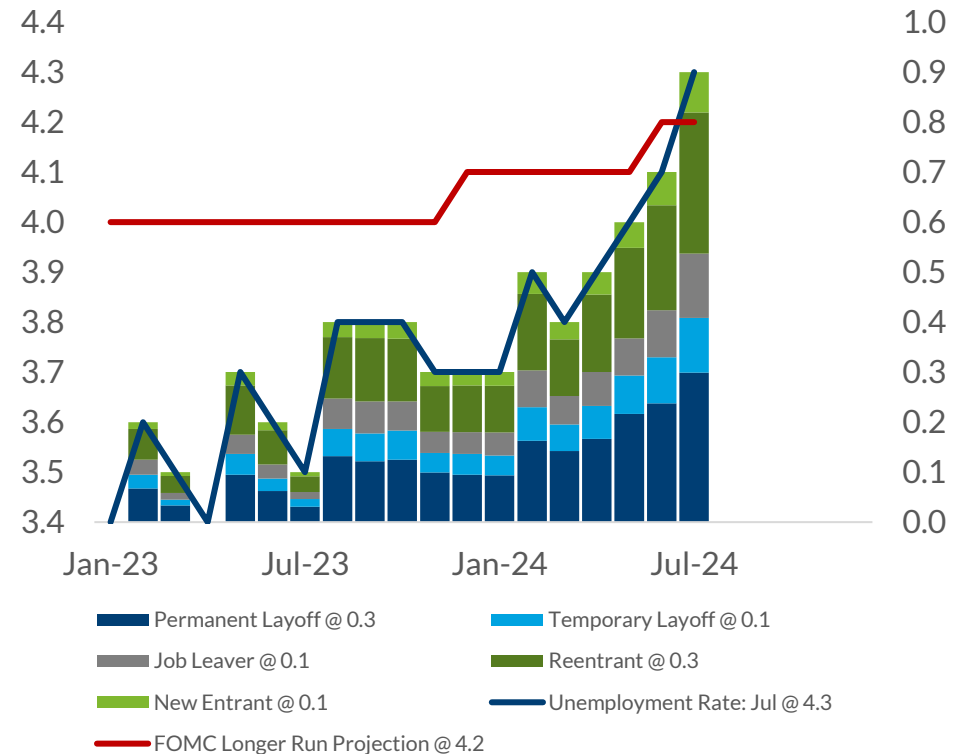


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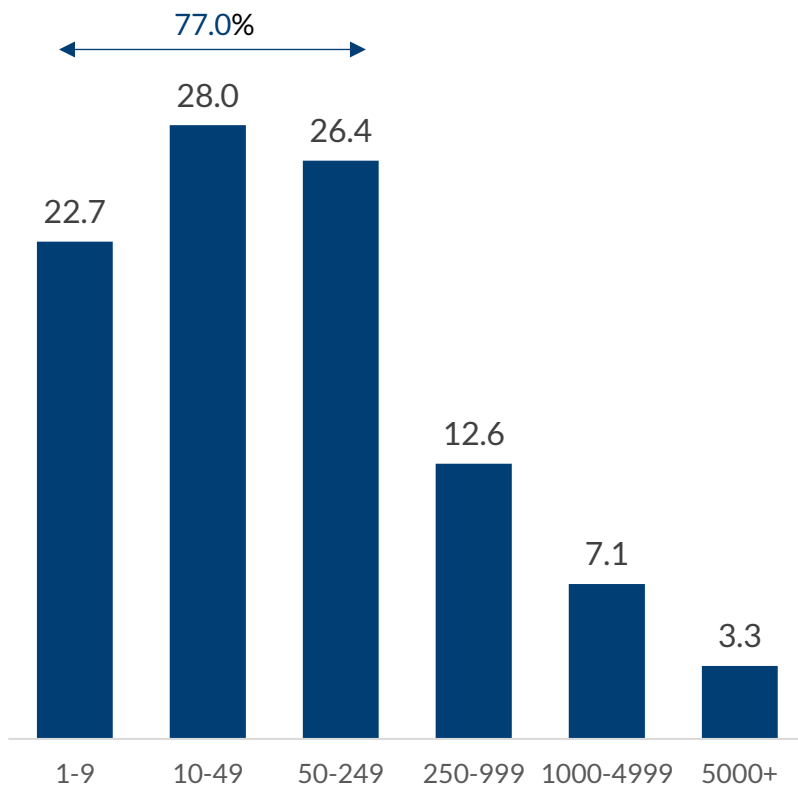
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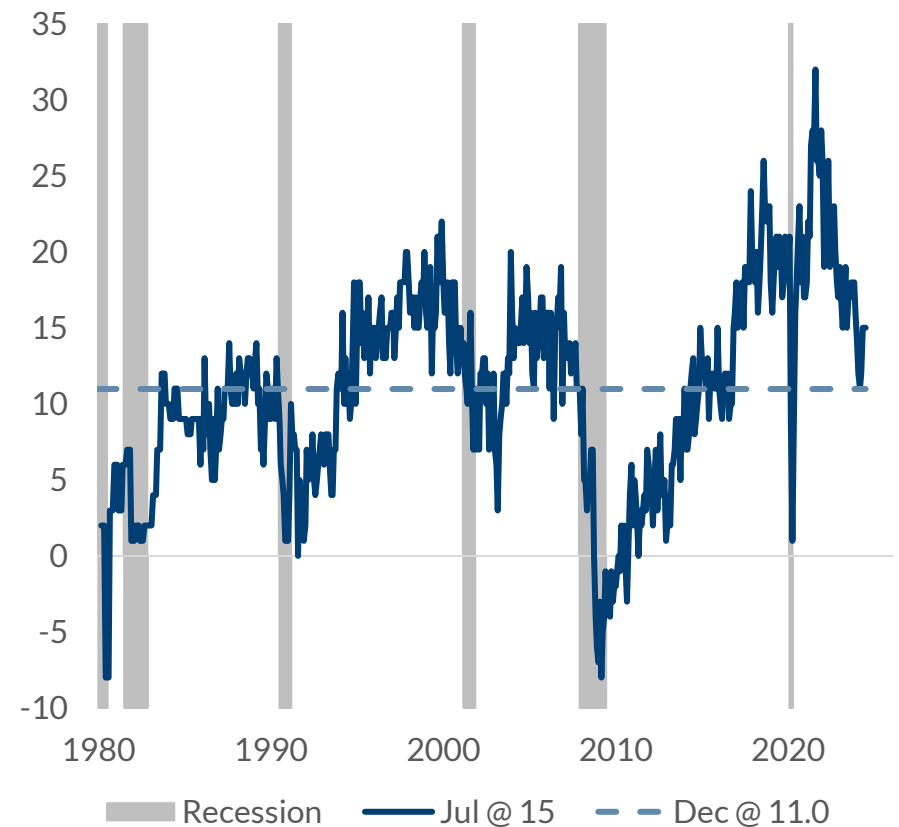
Labor

- Small businesses have been impacted more by higher interest rates than large corporations.
- They tend to borrow money for growth from banks, whereas large corporations can access the capital markets.
- Smaller companies, defined as 250 employees or less, continue to have strong demand for workers.

Job Openings by Company Size
% of total, average of past 12-months



NFIB: Small Business Hiring Plans Index
index, seasonally adjusted

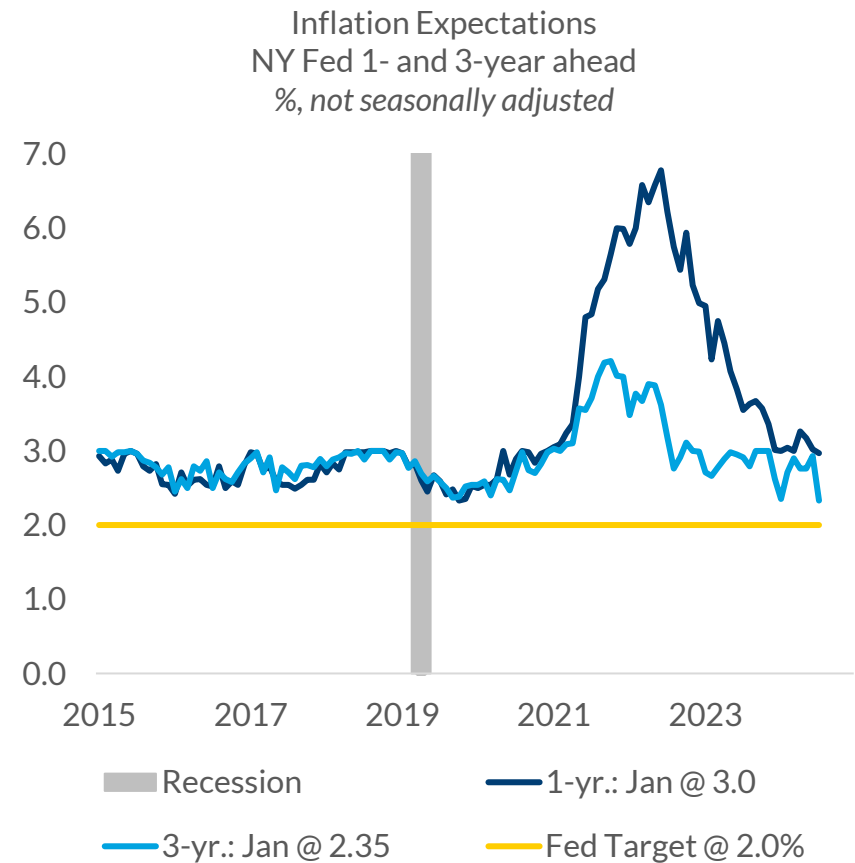
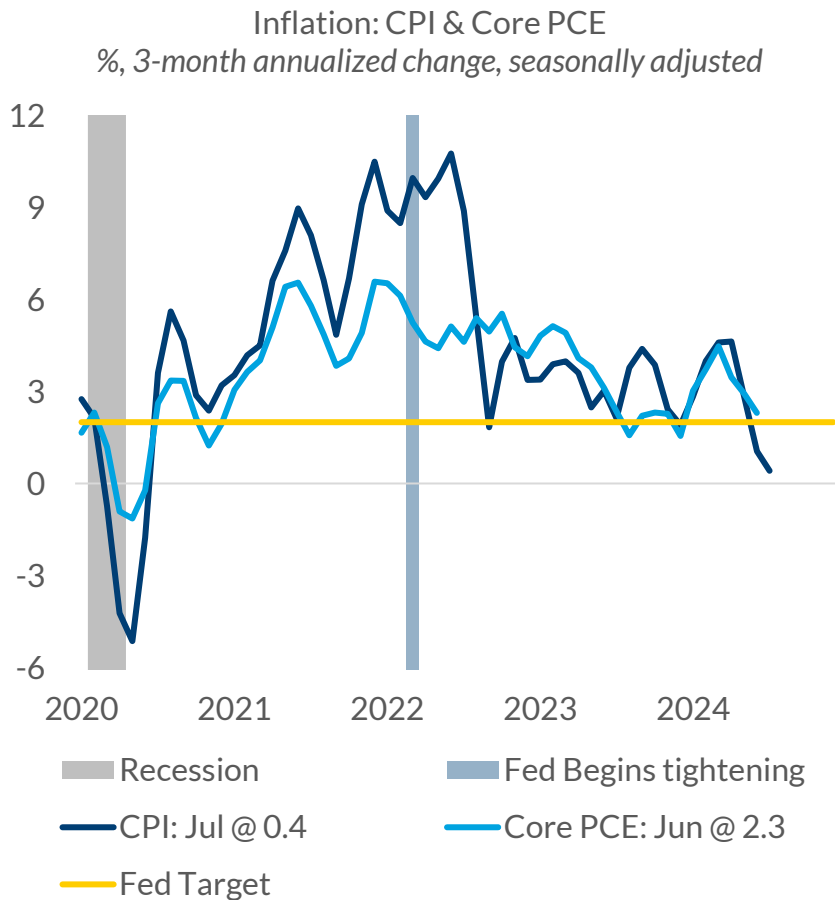


Data current as of August 27, 2024
 Source: National Association of Independent Businesses
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Inflation

- “The trend is your friend.” Price pressures have receded sharply over the past few months.
- The Fed is confident that inflation will move toward a sustainable 2.0%.
- The Fed is also pleased that inflationary expectation is also moving toward 2.0%



Data current as of August 27, 2024

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of New York

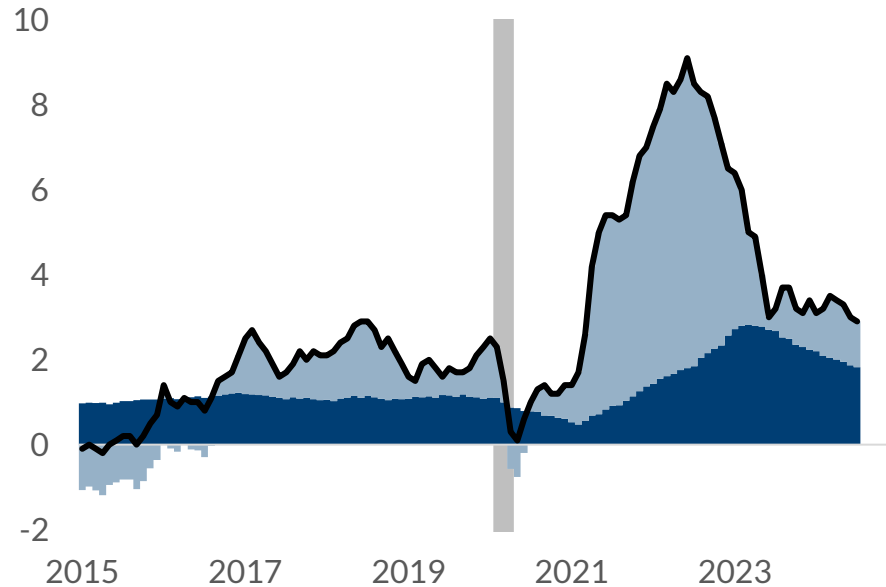
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Inflation

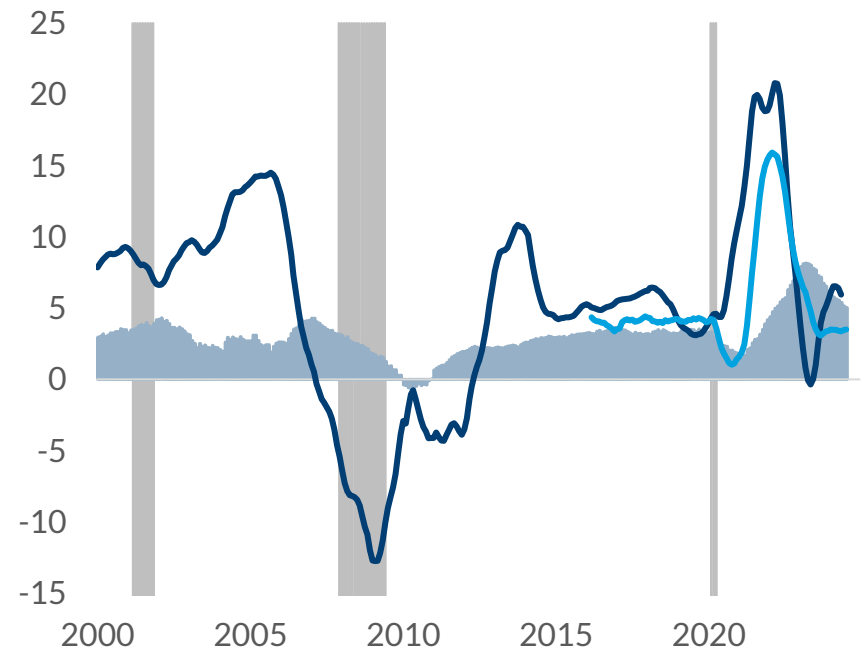
- Shelter costs are the primary cause of the 2.9% annual inflation rate.
- CPI's calculation of shelter costs lags behind the market prices for home ownership and rentals.
- Without shelter costs, CPI would be just 1.1% y-o-y.

CPI: Contribution
% change, y-o-y, seasonally adjusted



Recession
 Shelter: Jul @ 1.8
 All Other Components: Jul @ 1.1
 CPI: Jul @ 2.9

Home Prices: CPI: Shelter, Ownership, Rental
% change, y-o-y



Recession
 Ownership (ls): May @ 5.9
 Rental (ls): Jul @ 3.5
 CPI: Shelter (rs): Jul @ 5.0

Data current as of August 27, 2024

Source: Bureau of Labor Statistics, S&P CoreLogic Case Shiller U.S. National Home Price Index, U.S. Zillow Rent Index

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



Key Takeaways

- Growth has entered a mature phase of the business cycle.
- Payroll growth is expected to slow to 2019 levels, with most hiring in non-cyclical sectors like teaching, healthcare, government, and hospitality.
- Inflation is likely to moderate due to slowing wage growth, softer demand, and easing shelter costs.
- The Fed is making a preemptive change to prevent labor growth from stalling and is expected to be aggressive in easing monetary policy if labor data warrants it.

Data current as of August 27, 2024
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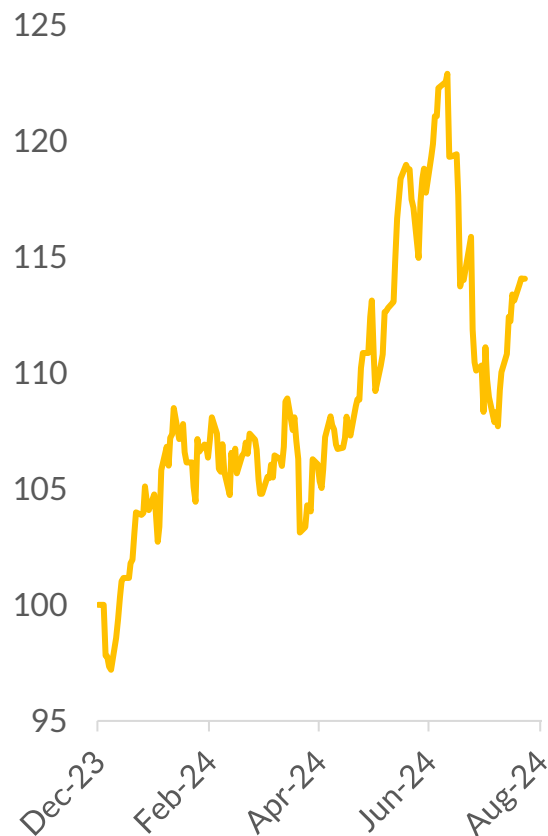
Market Positioning



Market Pullback/Rotation

- After weaker-than-expected data and heavy election volatility, value, income and small-cap stocks performed well.
- However, given the change in election dynamics and developments during earnings season, that trend has reversed.

S&P Growth/S&P Value



Russell Top 50/2000



S&P 500/Dow Jones US Select Dividend Index

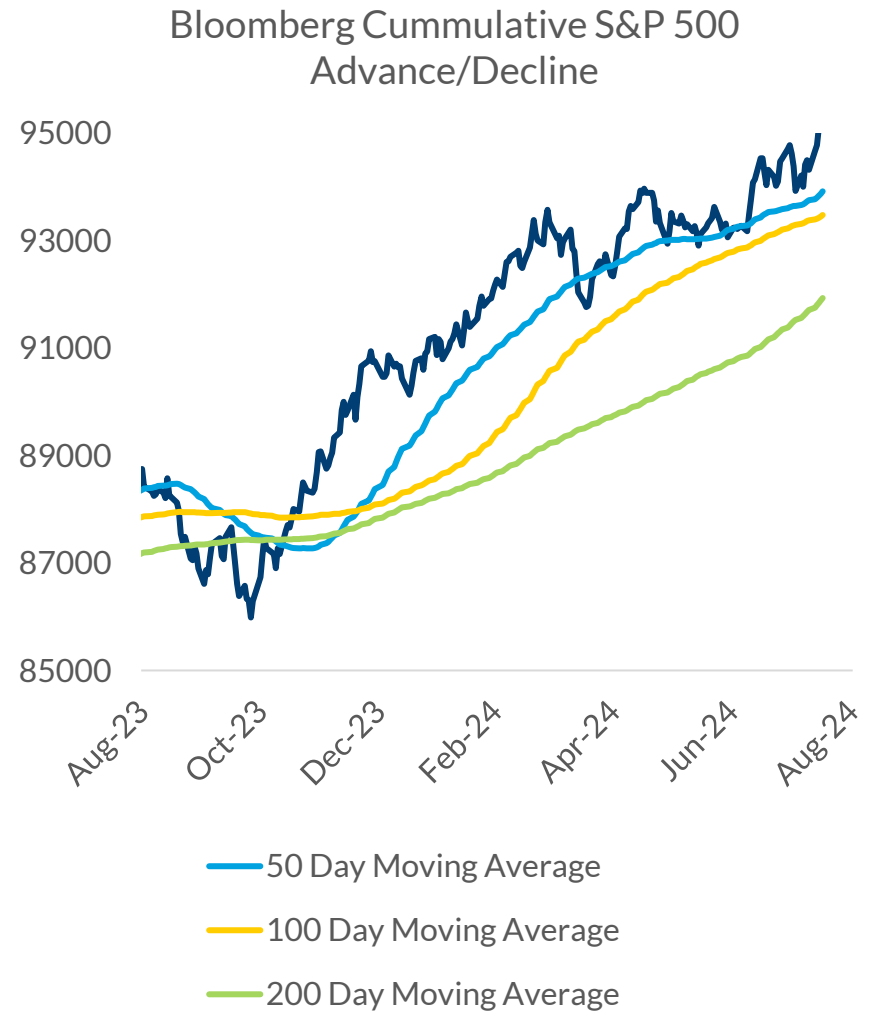
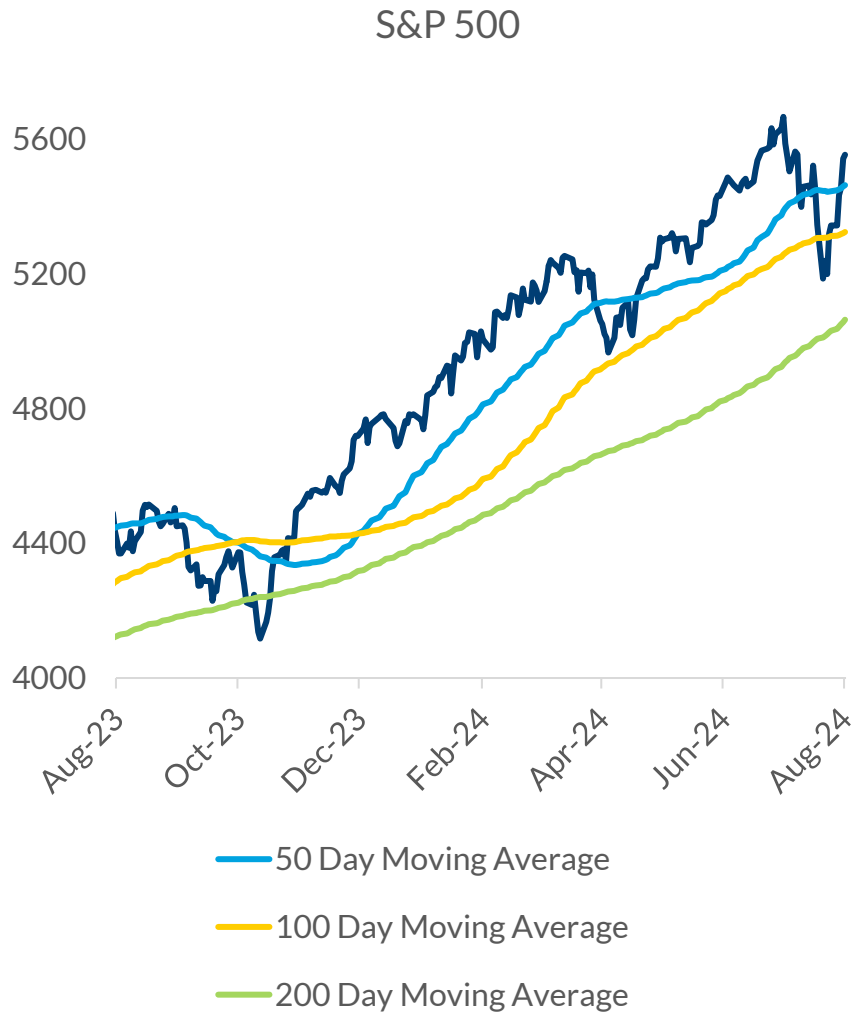


Source: Bloomberg, as of July 2024.
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Market Price Trends Can Impact Performance

- Peak-to-trough the S&P 500 fell 9.7%, but did not break key price levels that could have derailed momentum.
- The market did not break its 200-day moving average and advancing stocks vs. declining stocks advanced.



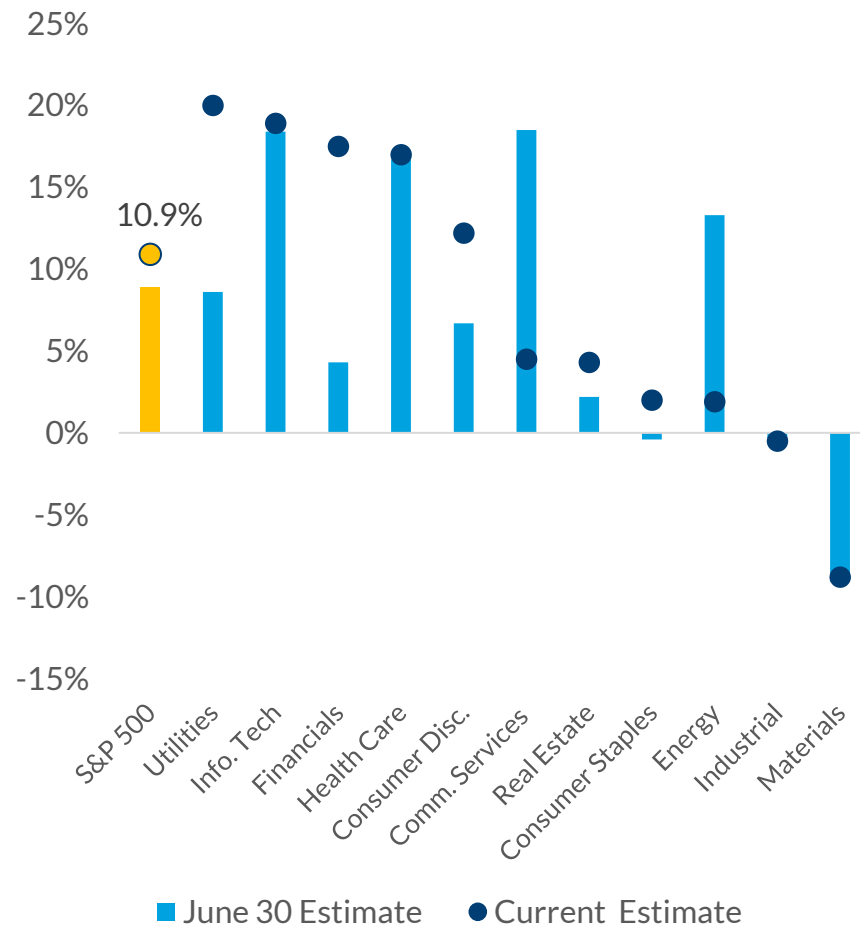
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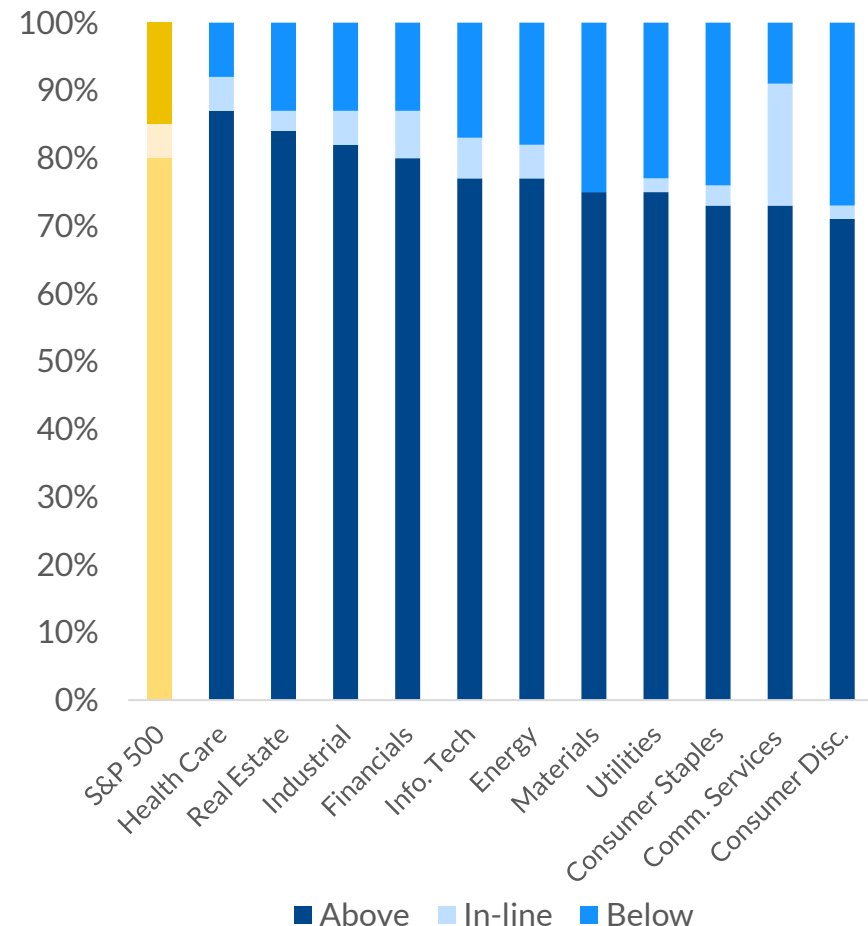
Earnings Remain Supportive

- While some concern over revenue growth surfaced during Q2 earnings season, profitability continued to be strong.
- With 96% of companies reporting, 81% beat consensus expectations for an average blended increase of 10.9%.

S&P 500 Q2 Y/Y Earnings Growth



Q2 Earnings vs. Consensus Estimates

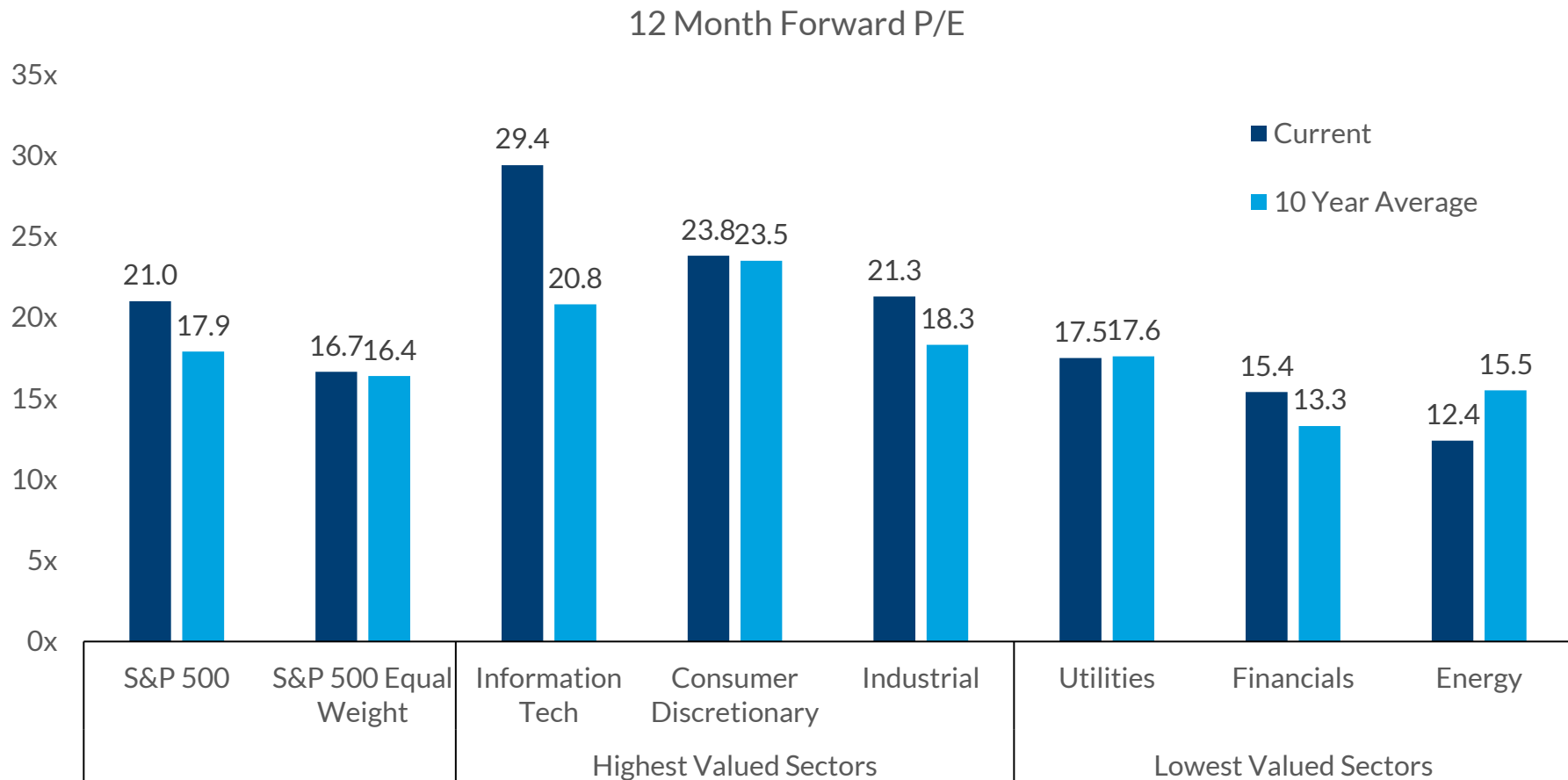


Source: FactSet, as of August 2024.
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Valuations Divergent Across Sectors

- While market valuation remains high, it is heavily skewed by technology and is highly divergent across sectors.
- There are many sectors that appear fairly valued, which has supported the market during periods of volatility.

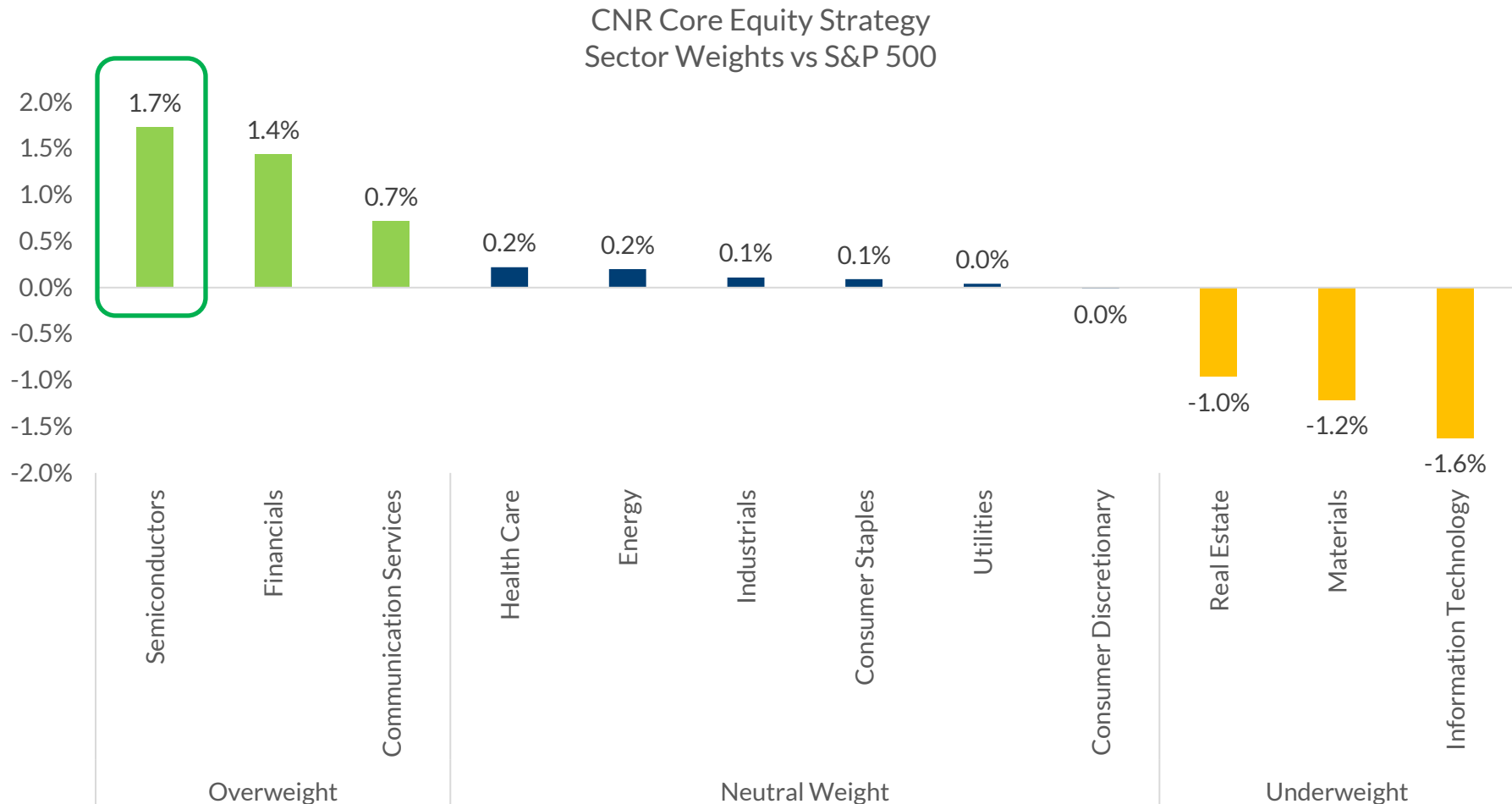


Source: Bloomberg, as of August 2024.
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CNR Equity Positioning

- Sector positioning is key to long-term performance in addition to individual security selection.
- We believe that our relative positioning emphasizes quality, competitive market position and financial strength.



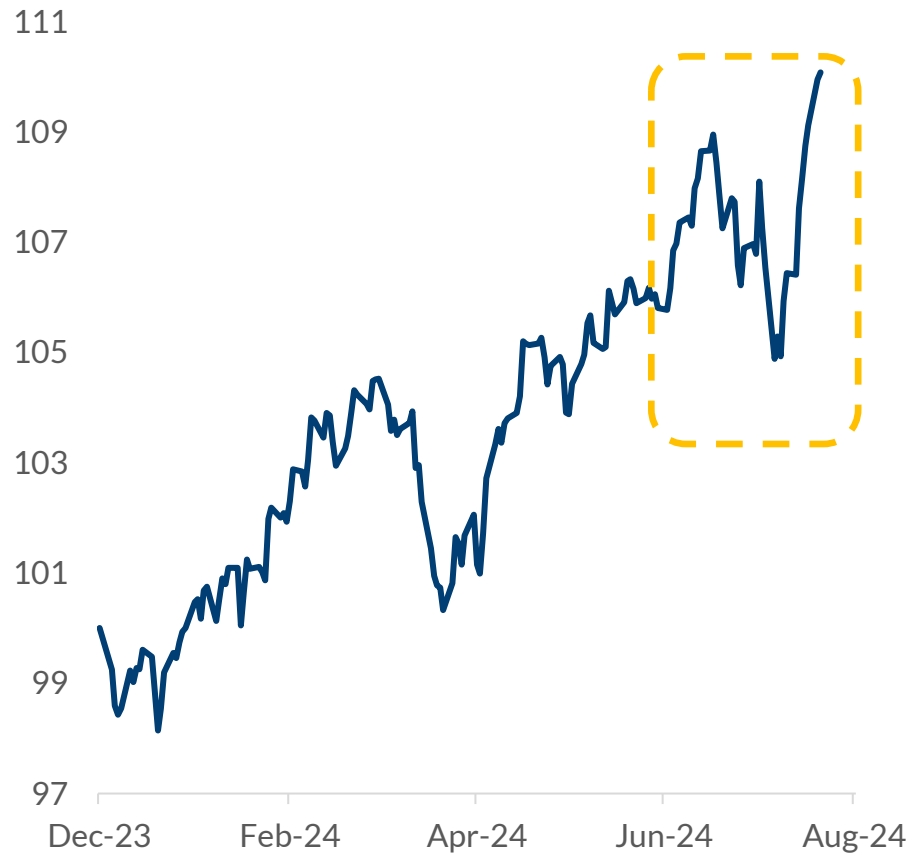
Source: FactSet, as of June 2024.
 Information is subject to change and is not a guarantee of future results.
 Sector weights are relative to the S&P 500, as of June 2024.



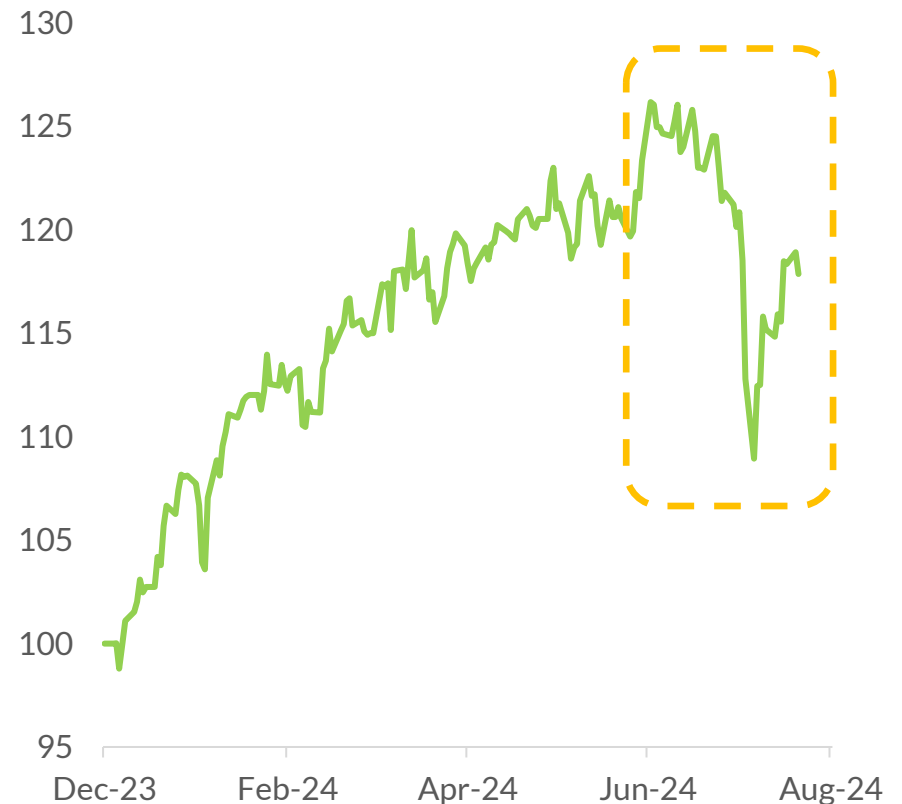
Bonds Acting Like Bonds Again

- The bond market has started acting “normal” again, rising when equities fall.
- While certainly impacted, a global 60/40 portfolio performed well through recent market volatility.

Global 60/40 Portfolio



Stock/Bond Return



Source: Bloomberg, as of August 2024.

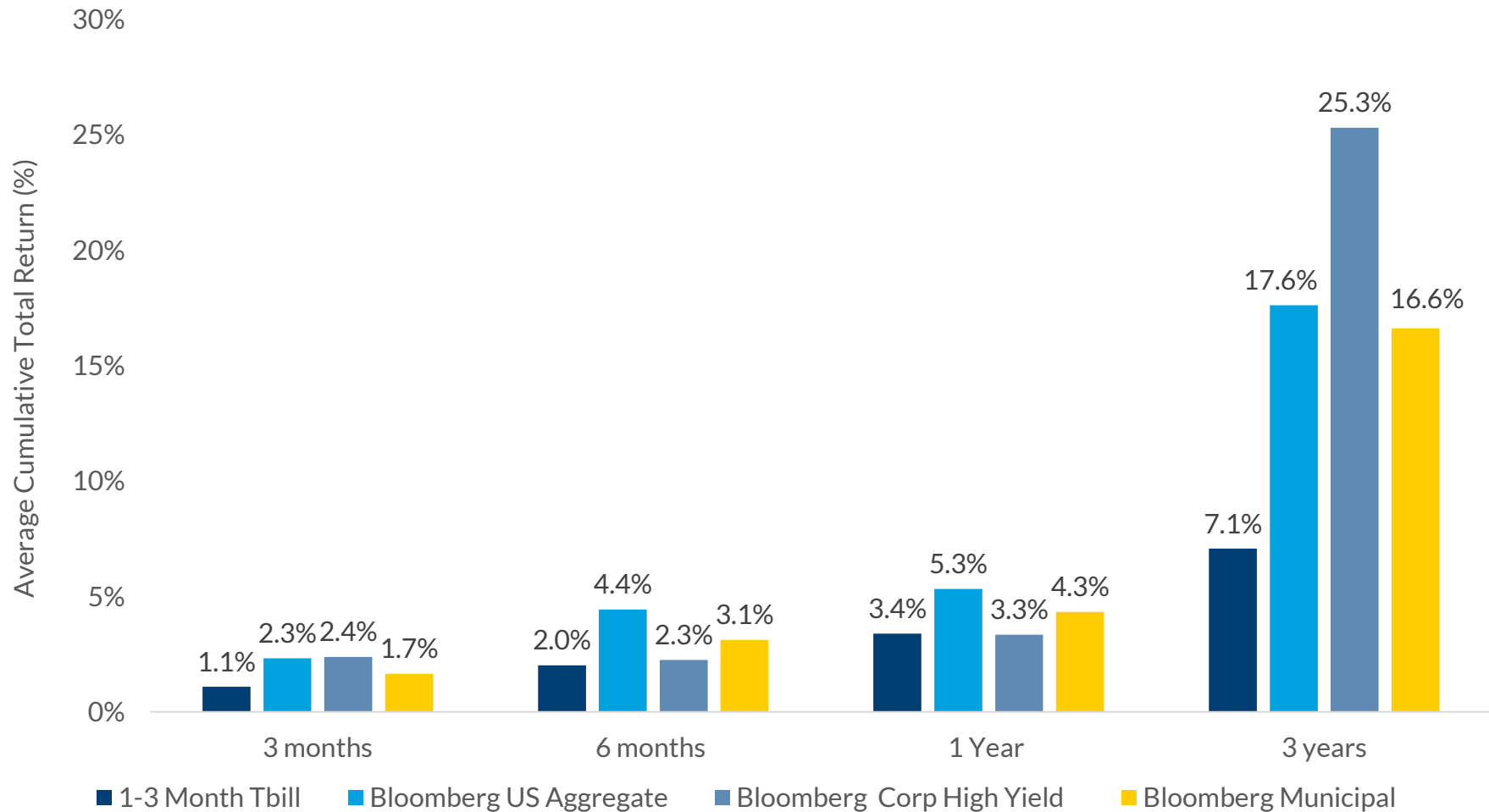
Global 60/40 Portfolio: Bloomberg Global EQ:FI 60:40 Index. Designed to measure cross-asset global market performance. The index rebalances monthly to 60% equities and 40% fixed income.

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



Historical Fixed Income Performance Post-Rate Cut

- Historically, extending duration can enhance forward returns in bond portfolios as the Fed cuts rates.
- Despite structural pressures on interest rates, we believe now is a good time to purchase longer maturities.



Source: Bloomberg. Data represents the average performance of the Bloomberg 1-3 Month Tbill Index, Bloomberg US Aggregate Index, Bloomberg High Yield Index and the Bloomberg Municipal Index over 3-month, 6-month, 1-year and 3-year time periods following the first Federal Reserve rate cut with start dates of 7/31/2019, 9/18/2007, 1/3/2001 and 7/6/1995.

Information is subject to change and is not a guarantee of future results. Past performance is not an indication of future returns.



Key Takeaways

- Inflation surprises and a softening job market, along with election volatility, prompted a shift from growth to value stocks, but this has largely reversed.
- Despite a drop in equities, crucial price levels have not been breached, highlighting the significance of market prices.
- S&P 500 earnings surpassed expectations by 2.3%, even though the size of earnings beats was below long-term averages.
- Market valuation is complex. While some sectors have high valuations, others have low valuations, providing a potential buffer during market downturns.
- Our equity strategy emphasizes quality, market competitiveness, and financial robustness. We are overweight in semi-conductor, financial, and healthcare sectors, and underweight in real estate and materials.
- Bonds have resumed their defensive role, providing a hedge against equity volatility.
- Although the Treasury curve may soon turn positive, its predictive power may not be as potent as before. We suggest investors consider extending maturities where it makes sense.

Source: CNR Research, as of August 2024.
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Q&A



Index Definitions

The Standard & 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.

The Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged, U.S.-dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of \$150 million.

The Dow Jones U.S. Select Dividend Index aims to represent the U.S.'s leading stocks by dividend yield.

Bloomberg 60% Tax-Exempt High Yield/40% Municipal Investment Grade TR Index Unhedged 1% issuer cap: A custom index comprised 60% of the Bloomberg Municipal Bond High Yield Index TR Unhedged and 40% of the Bloomberg Municipal Bond Index TR Unhedged. The issuer cap is 1%.

The Bloomberg Aggregate Bond Index, or "the Agg," is a broad-based fixed-income index used by bond traders and managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg 1-3 Month U.S. Treasury Bill Index (the "Index") is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

The Russell 2000 Index is a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index.



Definitions

6M T-Bills: The 6 Month Treasury Bill Rate is the yield received for investing in a US government issued treasury bill that has a maturity of 6 months.

Employment Index: U.S. jobs with the exception of farmwork; unincorporated self-employment; and employment by private households, the military, and intelligence agencies.

A collateralized loan obligation (CLO) is a single security backed by a pool of debt.

A consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

A leveraged loan is a type of loan that is extended to companies or individuals that already have considerable amounts of debt or poor credit history.

A high-yield bond, or junk bond, is a corporate bond that represents debt issued by a firm with the promise to pay interest and return the principal at maturity. Junk bonds are issued by companies with poorer credit quality.

Muni Bond: A municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools. These bonds can be thought of as loans that investors make to local governments.

Liquidity Management: The liquidity index calculates the days required to convert a company's trade receivables and inventory into cash.

Investment Grade Municipal Bonds: Investment-grade municipal bonds are debt securities, issued by state and local governments carrying the lowest credit risk that a bond issuer may default. **Investment Grade Municipal Bonds: Bloomberg Municipal Bond Inter-Short 1-10 Year Total Return Index.**

Investment Grade Corporate Bonds: Investment grade corporate bonds are low-risk bonds. Because they are bonds, they are not tied to equity. Instead, they are like debt notes issued by a corporation. **Investment Grade Corporate Bonds: Bloomberg Intermediate Corporate Bond Index.**

The “core” Personal Consumption Expenditures (PCE) price index is defined as prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

Municipal bonds (or “munis”) are a fixture among income-investing portfolios. Investors who want higher returns can invest in high yield municipal bonds.

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.

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.

CNR Speedometers® are indicators that reflect forecasts of a 6 to 9 month time horizon. The colors of each indicator, as well as the direction of the arrows represent our positive/negative/neutral view for each indicator. Thus, arrows directed towards the (+) sign represents a positive view which in turn makes it green. Arrows directed towards the (-) sign represents a negative view which in turn makes it red. Arrows that land in the middle of the indicator, in line with the (0), represents a neutral view which in turn makes it yellow. All of these indicators combined affect City National Rochdale's overall outlook of the economy.



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