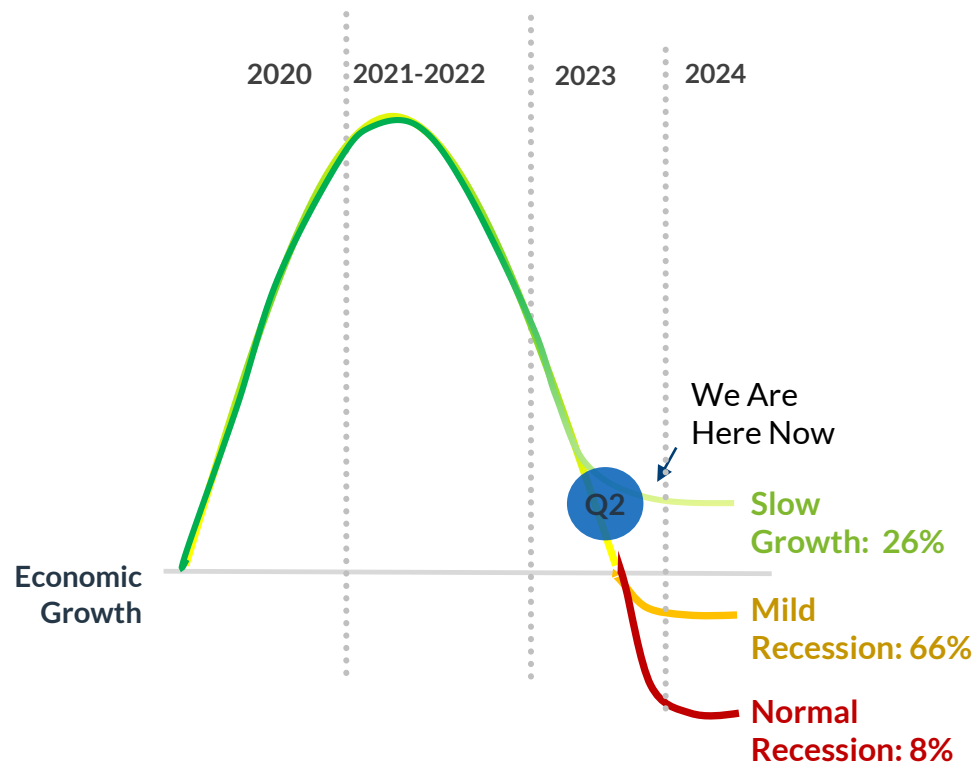


*August 2023*

# Market Update

# Mild US Recession Likely Delayed, Not Averted

- Mild downturn still expected due to Fed tightening and constraints on consumer/business lending.
- Labor shortages should limit increases in unemployment, lowering risk of more normal recession.
- Consumer retrenchment is expected to be modest, supported by strong household balance sheets and real income.



Near Term GDP Growth Estimates					
Outlook	2023				2024
	Q1	Q2	Q3e	Q4e	Q1e
Previous	2.0%	2.4%	-1.0%	-1.0%	NA
Current	2.0%	2.4%	0% to 1.0%	-1.0% to 0%	-1.5% to -0.5%

Sources: Bloomberg, CNR Research, as of July 2023.  
 Information is subject to change and is not a guarantee of future results.



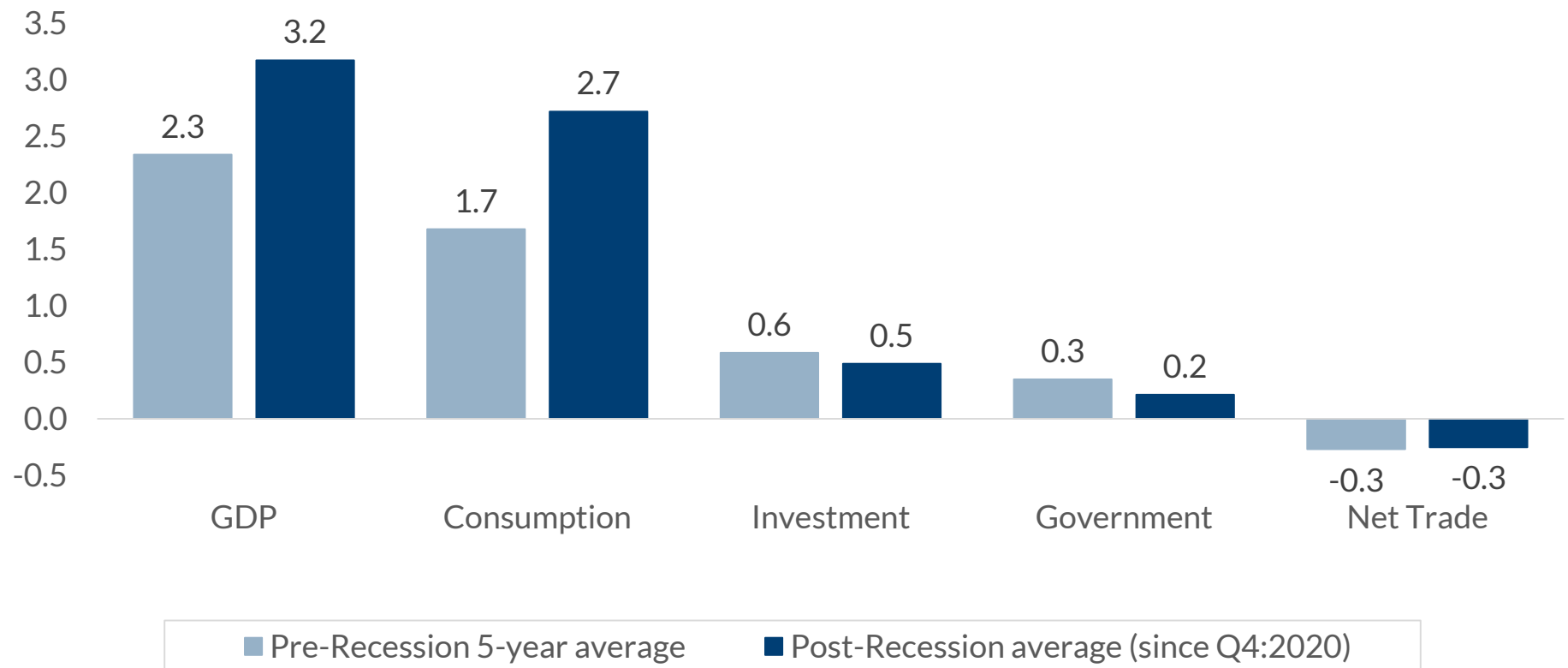
# Consumer Spending



# The Economy

- The pace of economic growth since the pandemic has been more robust.
- The consumer has been the driving force of the increase in growth.

GDP: Contribution to Growth  
 %, average period change, annualized rate

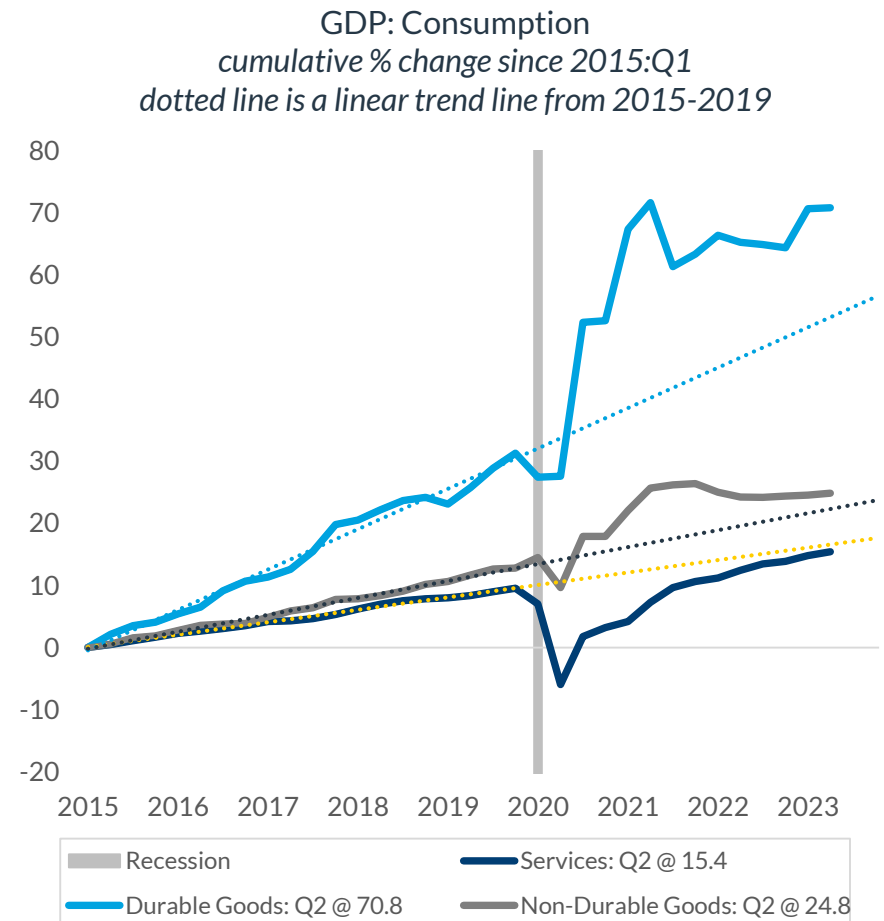
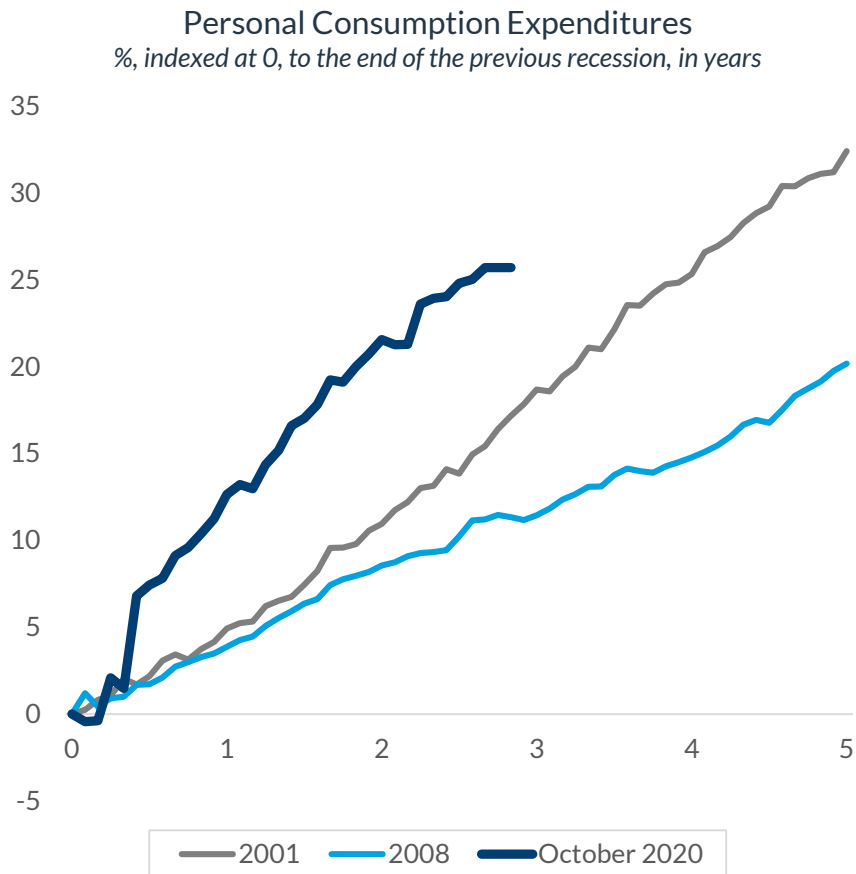


Data current as of August 28, 2023  
 Source: Bureau of Economic Analysis  
 Information is subject to change and is not a guarantee of future results.



# Consumption

- The pace of consumer spending has been more robust than in the past two expansions.
- Initially, spending was strong with durable goods, but that has since shifted to services.
- Consumer spending has shifted back to services, which accounts for 61% of all spending.



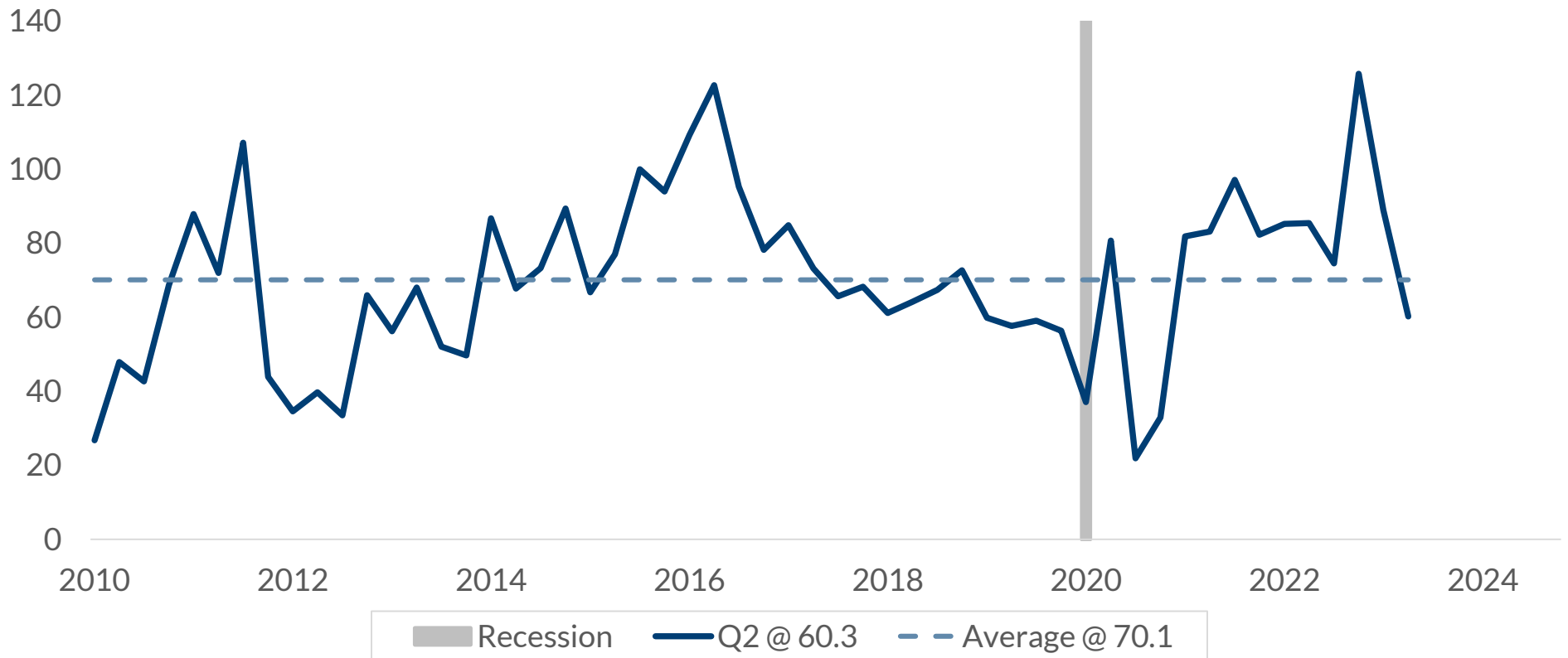
Data current as of August 28, 2023  
 Source: Bureau of Economic Analysis  
 Information is subject to change and is not a guarantee of future results.



# Consumption

- Consumption, as a contributor to overall GDP growth, is beginning to decline.
- Higher interest rates, reduced savings, and credit being challenging to access will continue to reduce spending.

GDP: Consumption as a Percent of GDP  
 %, 4-quarter rolling average, seasonally adjusted



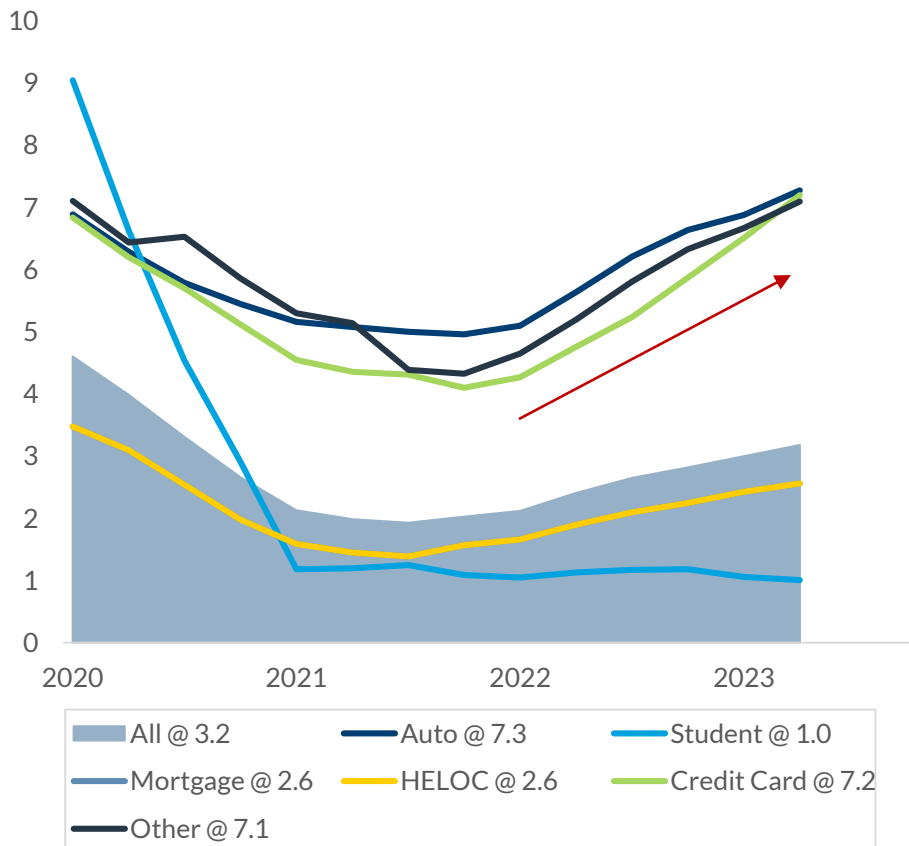
Data current as of August 28, 2023  
 Source: Bureau of Economic Analysis  
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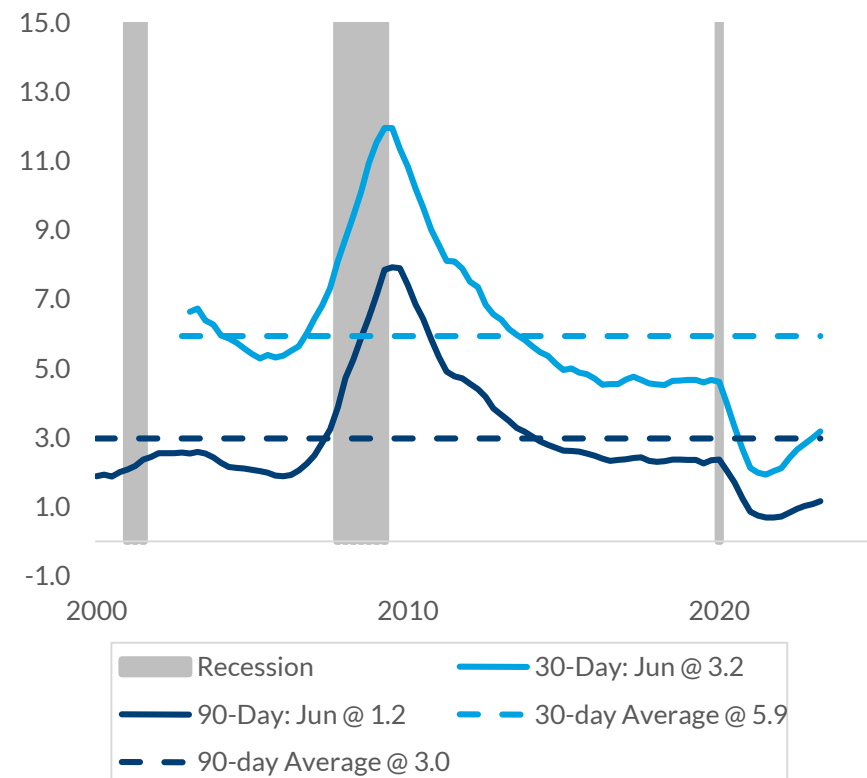
# Consumer

- The amount of delinquencies for some forms of credit is picking up.
- This is an early sign of financial difficulties.
- But overall, delinquencies remain low, indicating it is not a macroeconomic concern.

30 Delinquency Rates for Consumer Loans  
%, seasonally adjusted



Delinquency Rates for All Consumer Loans  
%, seasonally adjusted



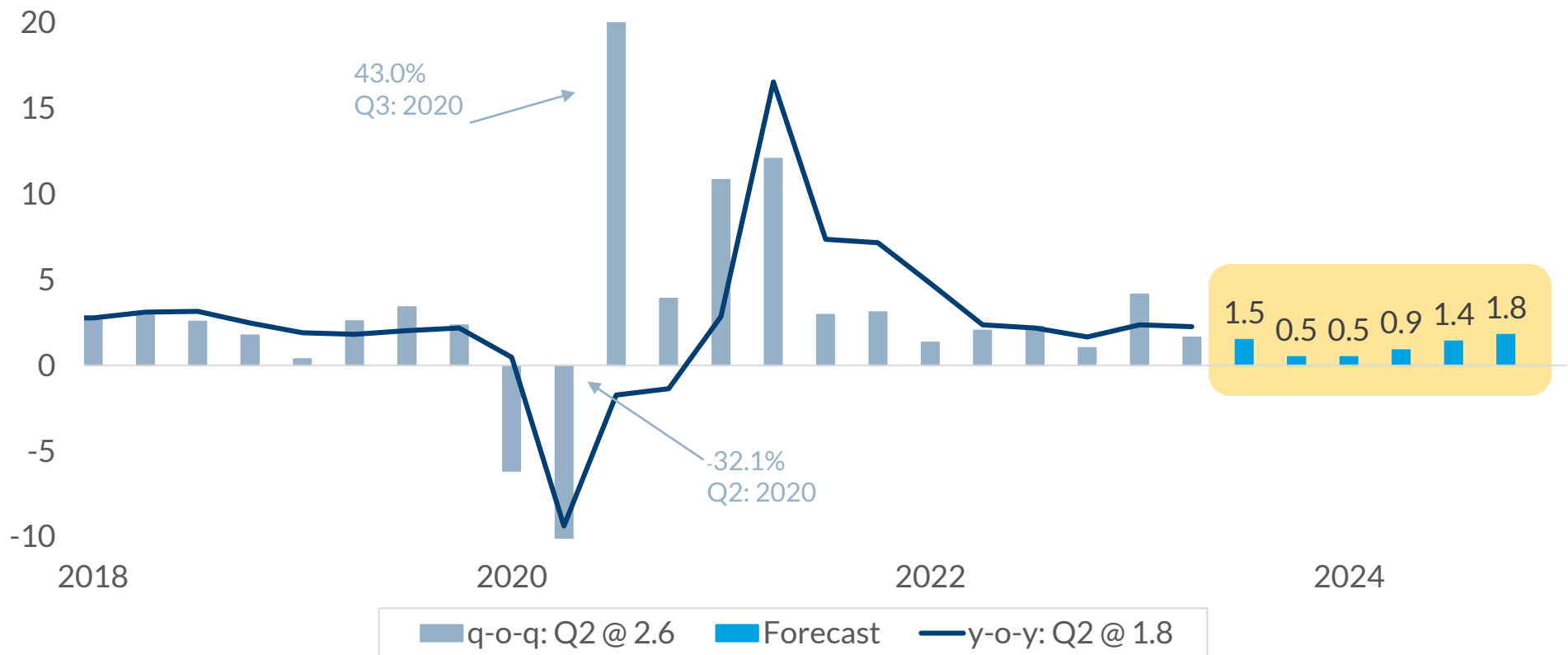
Data current as of August 28, 2023  
 Source: Federal Reserve Bank of New York Credit Panel/Equifax  
 Information is subject to change and is not a guarantee of future results.



# Consumer

- The pace of consumption is expected to moderate in the coming quarters before increasing back to long-term trend growth.
- This is due to the higher credit costs, severe reduction in excess savings, and concerns about future economic growth.

GDP: Consumption - Actual and Forecast  
 % change, seasonally adjusted annualized rate



Data current as of August 28, 2023  
 Source: Bureau of Economic Analysis, Bloomberg Composite of Economic Forecasts  
 Information is subject to change and is not a guarantee of future results.





# Core Equity Consumer Portfolio Positioning

- High quality companies with strong management teams, selling at reasonable valuations.
- Durable franchises with strong cash flow, good earnings visibility and growth prospects.
- Companies with blend of offense and defense to manage through recession and recovery.

Company	Ticker	Highlights
 Amazon.com, Inc.	AMZN	▪ The largest e-commerce platform and continues taking market share
 McDonald's Corporation	MCD	▪ Superior value proposition, global foot print
 PepsiCo, Inc.	PEP	▪ Leading portfolio of global brands in savory snacks and CSD
 Walmart Inc.	WMT	▪ Beneficiary from consumer trade down during recession

Source: CNR Research, August 2023





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The mention of any particular security should not be construed as a recommendation to buy or sell. Information is subject to change and is not a guarantee of future results.



# Equity Income Consumer Portfolio Positioning

- High quality companies with strong management teams, selling at reasonable valuations.
- Durable franchises with strong cash flow, good earnings visibility and growth prospects.
- Companies with blend of offense and defense to manage through recession and recovery.
- Sustainable and growing dividends.

Company	Ticker	Highlights
 General Mills, Inc.	GIS	<ul style="list-style-type: none"> <li>▪ Portfolio of leading brands in food categories relatively insulated from private label and commodities.</li> </ul>
 The Coca-Cola Company	KO	<ul style="list-style-type: none"> <li>▪ Leading portfolio of global and local beverage brands</li> </ul>
 Procter & Gamble Co.	PG	<ul style="list-style-type: none"> <li>▪ Leading portfolio of global household and personal products brands in categories focused on daily use</li> </ul>
 Wendy's Co.	WEN	<ul style="list-style-type: none"> <li>▪ Superior value proposition, beneficiary of consumer trade down during recession.</li> </ul>

Source: CNR Research, August 2023

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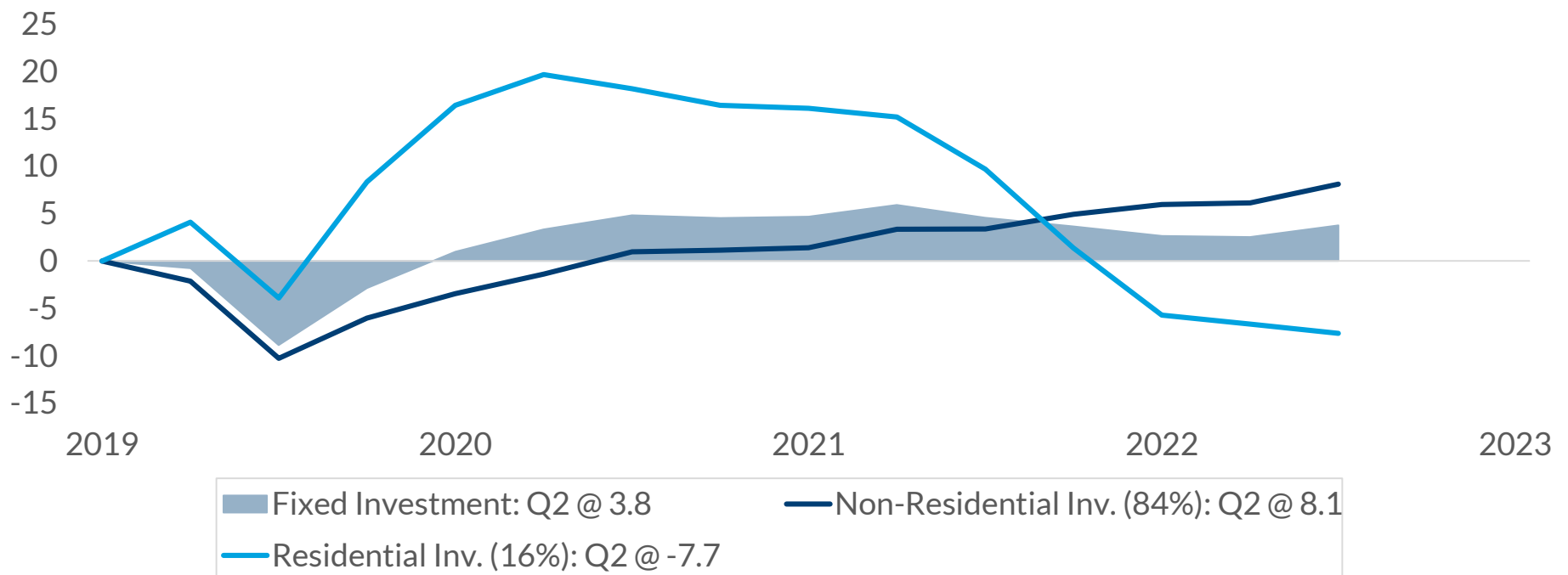
# Government & Investment



# Investment

- Growth has shifted from housing to non-residential.
- The growth story appears to be with the non-residential sector due to reshoring, increased inventory levels, and federal stimulus.
- The high level of mortgage rates will prevent the residential sector from being an important contributor to GDP in the near-term.

**GDP: Fixed Investment**  
 % cumulative change, indexed at 0.0 on December 2019

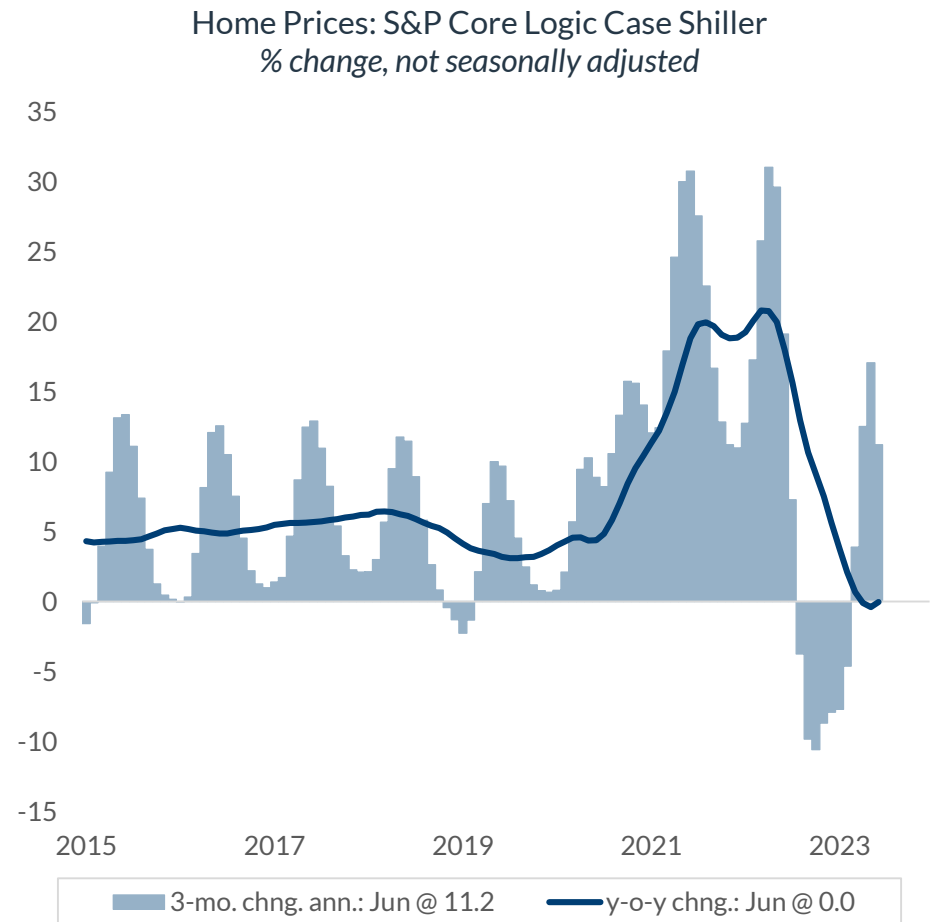
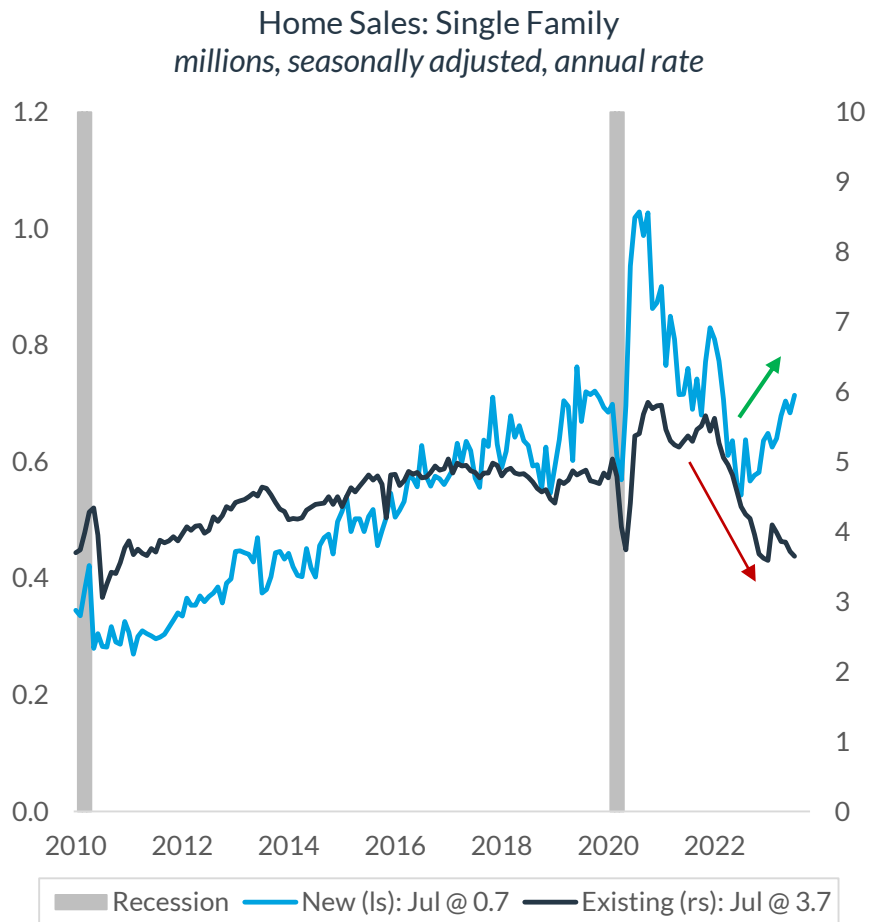


Source: Bureau of Economic Analysis



# Investment – Residential

- Residential investment has been skewed heavily by the effects of the pandemic.
- Existing home sales have been declining due to households locking in low-level mortgages and not wanting to sell.



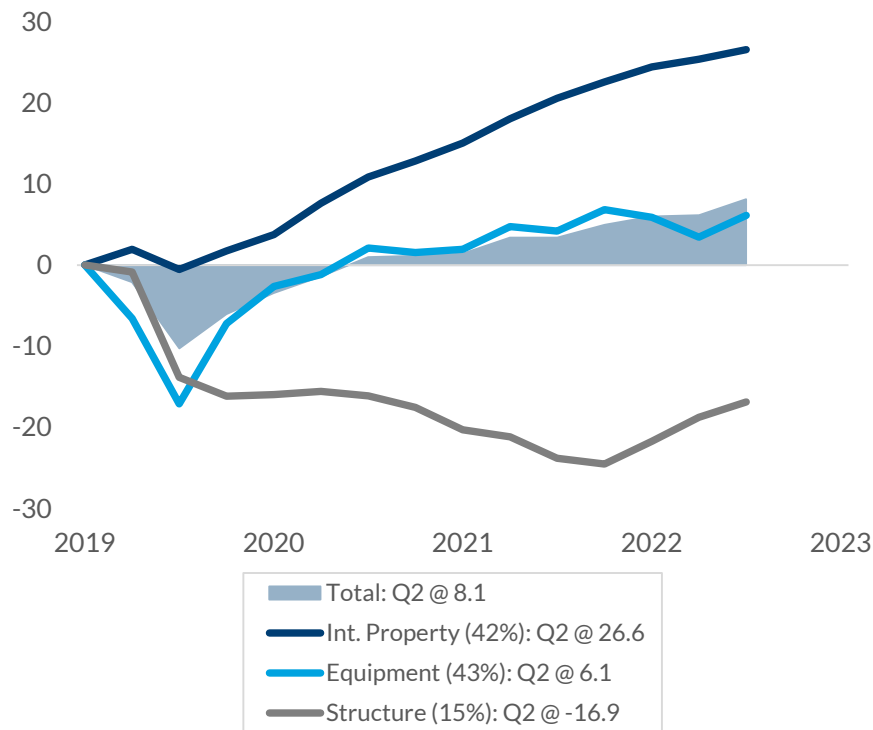
Source: U.S. Census Bureau, National Association of Realtors, S&P CoreLogic Case-Shiller



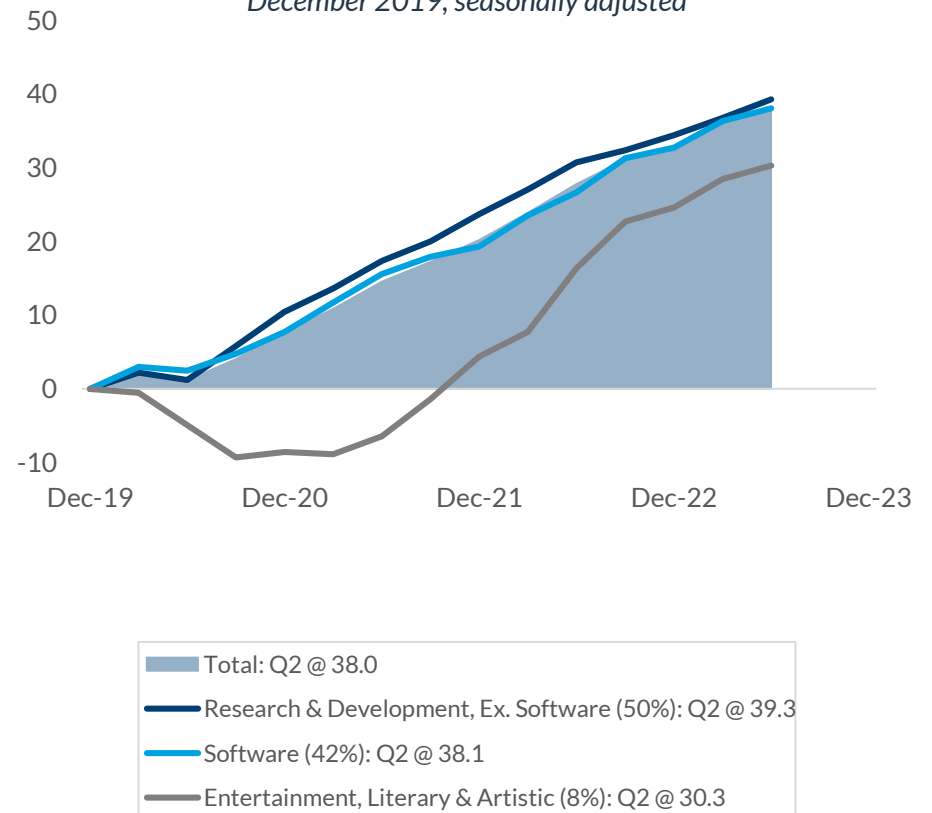
# Investment – Non-Residential

- The intellectual property and equipment components have been a driving force.
- Huge airplane orders have bumped up the equipment component.
- The structure component is just beginning to pick up.

GDP: Non-Residential Investment  
% cumulative change, indexed at 0.0 on  
December 2019, seasonally adjusted



GDP: Investment - Intellectual Property  
% cumulative change, indexed at 0.0 on  
December 2019, seasonally adjusted



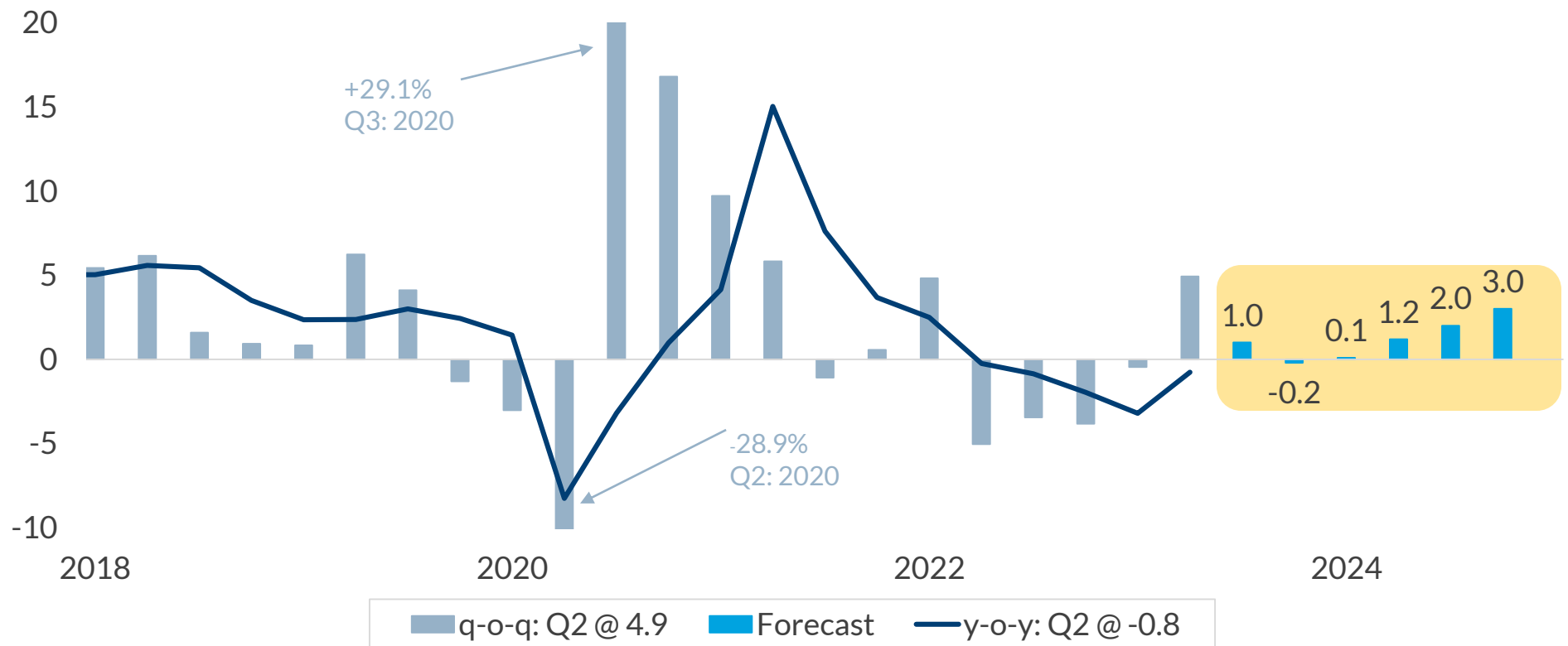
Source: Bureau of Economic Analysis



# Investment

- Growth is expected to moderate for a few quarters, then rebound.
- This component tends to be more volatile than consumption due to the timing of these large expenditures.

GDP: Private Investment - Actual and Forecast  
% change, seasonally adjusted annualized rate

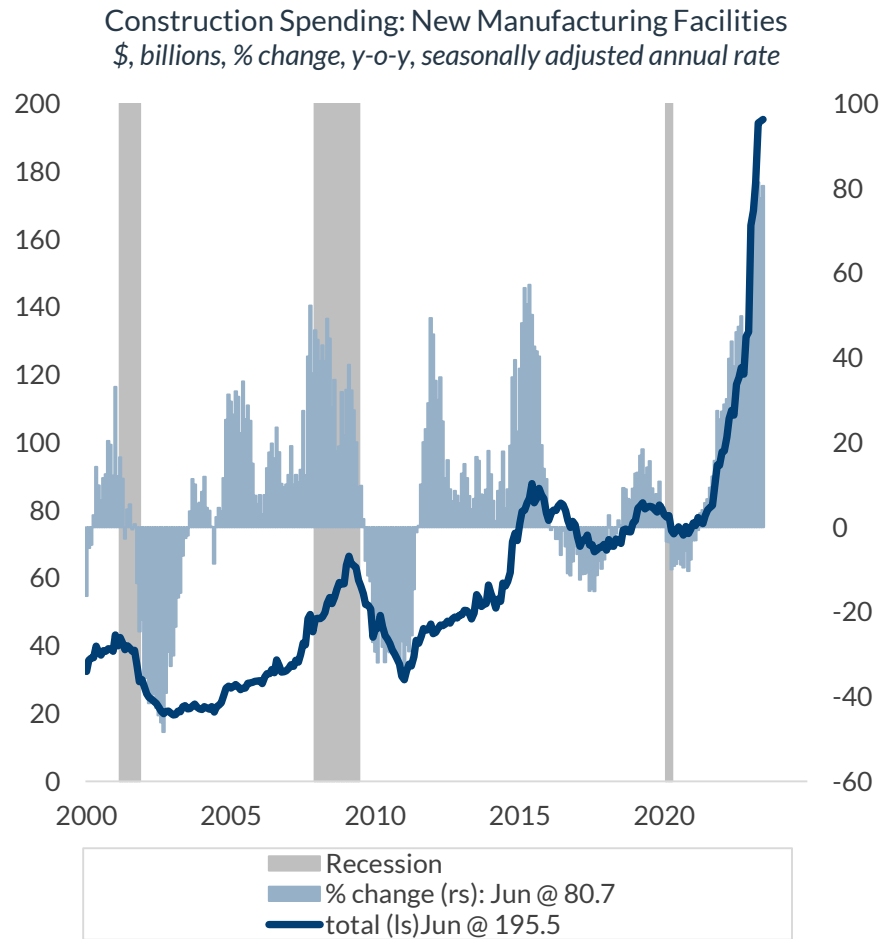


Source: Bureau of Economic Analysis, Bloomberg Composite of Economic Forecasts



# Investment

- Construction for new manufacturing facilities has grown more than 80% in the past year.
- It is due to frustration over supply chain disruptions, rising global tensions, and the changing domestic political landscape.
- The Chips Act will focus on developing and manufacturing semiconductors domestically.



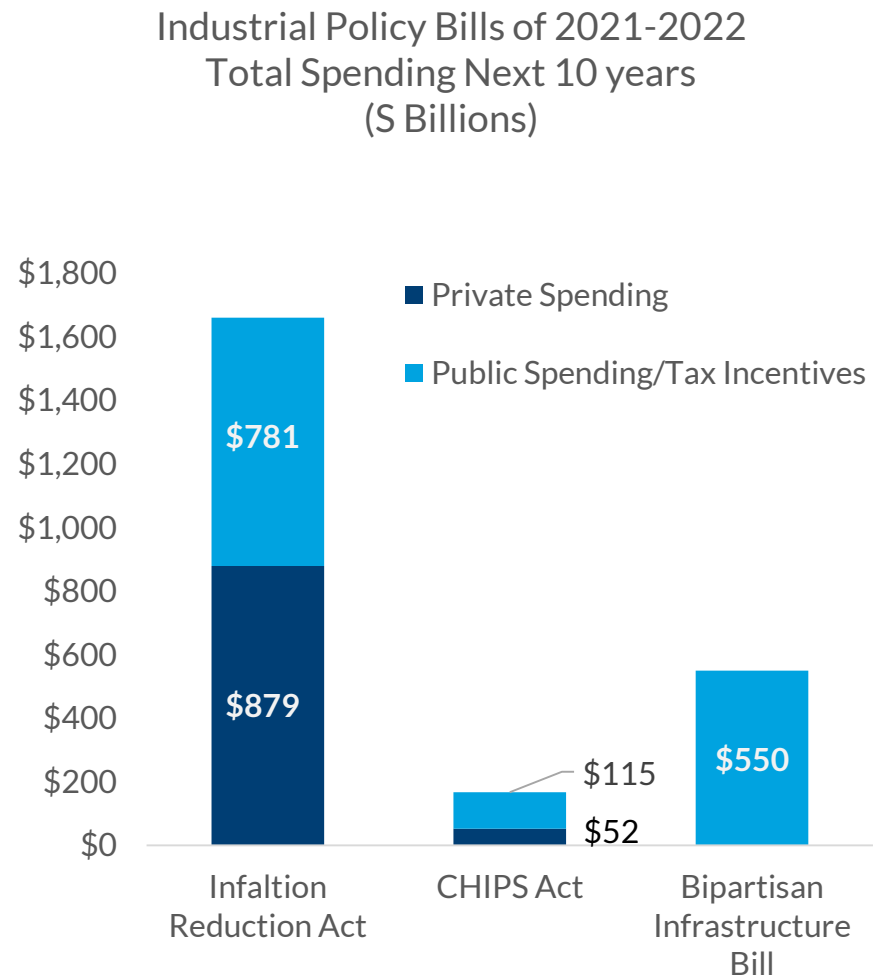
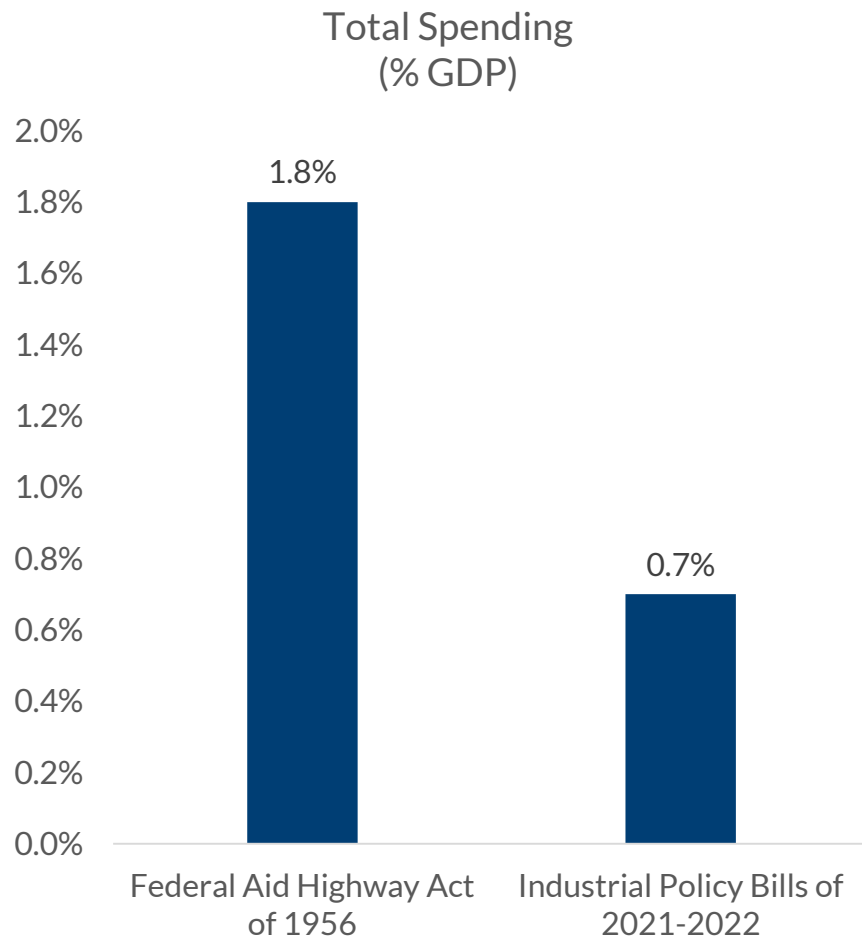
Source: U.S. Census Bureau





# Funding for Industrial Policy Has Ramped Up Significantly

- Recent passed federal legislation amounts to the largest industrial policy project in over 60 years.
- The bills included almost \$2.4 trillion in funding.







Source: JP Morgan Research, August 2023



# Core Equity Portfolio Positioning

- High quality companies with strong management teams, selling at reasonable valuations.
- Durable franchises with strong cash flow, good earnings visibility and growth prospects.
- Companies well positioned for strategically important spending initiatives.

Company	Ticker	Highlights
 Microsoft Corp	MSFT	▪ Largest software services company globally. Beneficiary of the generative AI trend
 ASML Holding	ASML	▪ Dominant provider of leading edge (EUV) semiconductor equipment systems needed for advanced semi chip designs
 Trane Technologies PLC	TT	▪ Well positioned for need for cleaner air in offices and semi manufacturing
 Quanta Services, Inc.	PWR	▪ Levered to long term trend of modernizing aging US utility infrastructure

Source: CNR Research, August 2023





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# Equity Income Portfolio Positioning

- High quality companies with strong management teams, selling at reasonable valuations.
- Durable franchises with strong cash flow, good earnings visibility and growth prospects.
- Companies well positioned for strategically important spending initiatives.

Company	Ticker	Highlights
 International Business Machines Corp.	IBM	<ul style="list-style-type: none"> <li>▪ Leading provider of IT infrastructure and process solutions, with exposure to the AI ecosystem</li> </ul>
 Emerson Electric Co.	EMR	<ul style="list-style-type: none"> <li>▪ Provider of industrial and software solutions to facilitate automation, near-shoring, and infrastructure including Energy Transition, LNG, and battery projects</li> </ul>
 NextEra Energy Partners LP	NEP	<ul style="list-style-type: none"> <li>▪ Leading investor and manager of renewable energy and natural gas projects</li> </ul>
 Lockheed Martin Corp.	LMT	<ul style="list-style-type: none"> <li>▪ Levered to an unstable geopolitical climate, with a renewed focus on near peer adversaries</li> </ul>

Source: CNR Research, August 2023

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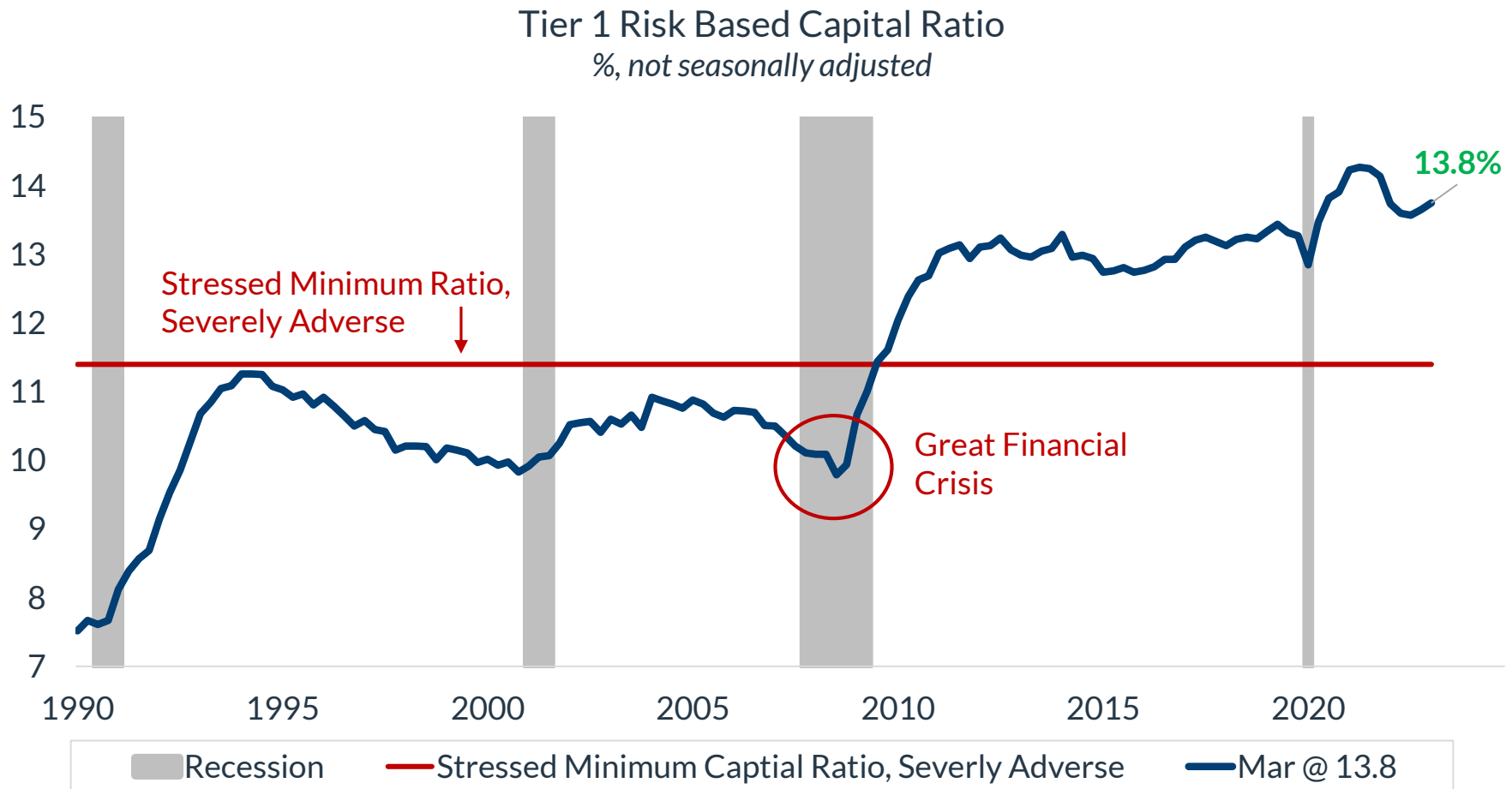


# Banks



# Banking

- The US banking system in general is well capitalized.
- Banks are in a significantly stronger position today than before the great financial crisis.



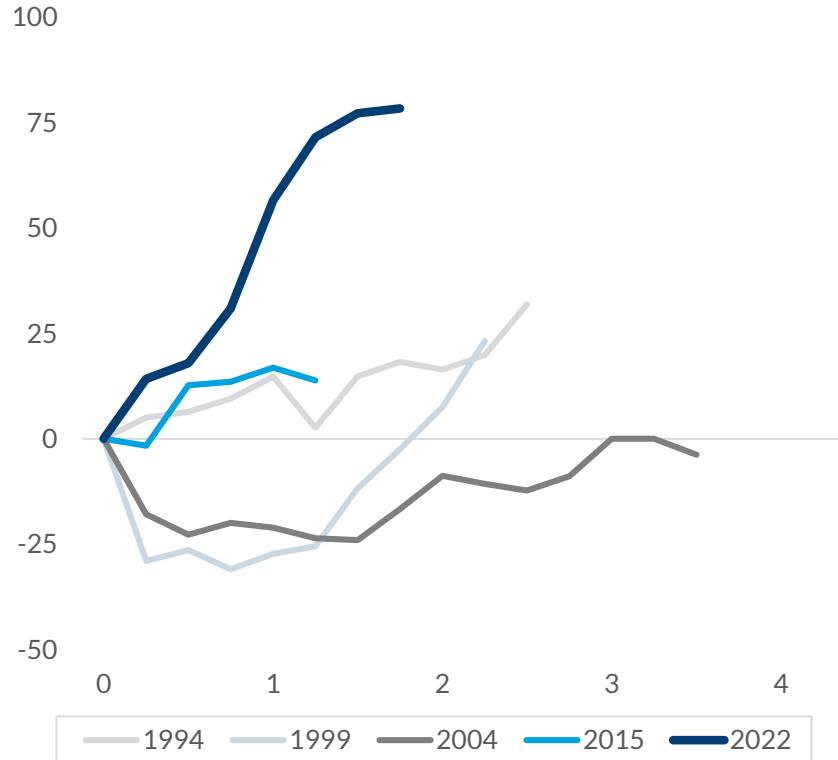
Source: Federal Reserve, Q1 2023



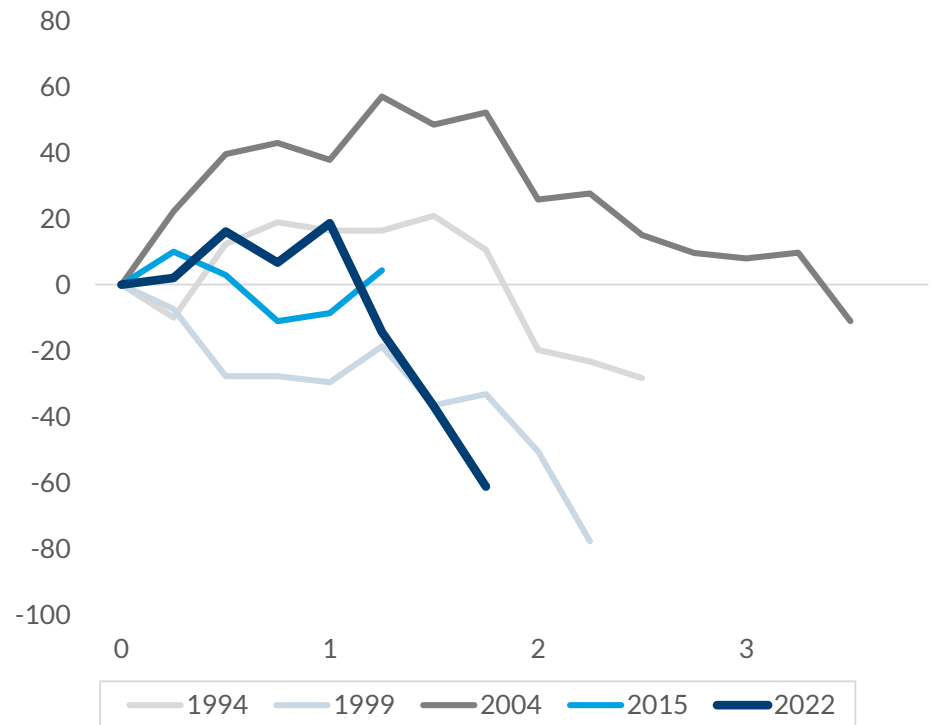
# Banking

- Banks have raised their lending standards for business and consumer loans.
- The tighter standards and reduced lending are expected to force businesses to reduce hiring and pull back on expansion plans.

**Change in Tightening Credit Standards**  
 Commercial and Industrial Loans to Large/Medium Firm  
 cumulative percentage point change since the quarter  
 before Fed rate hike



**Change in Demand for Loans**  
 Commercial and Industrial Loans to Large/Medium Firm  
 cumulative percentage point change since the quarter before  
 Fed rate hike



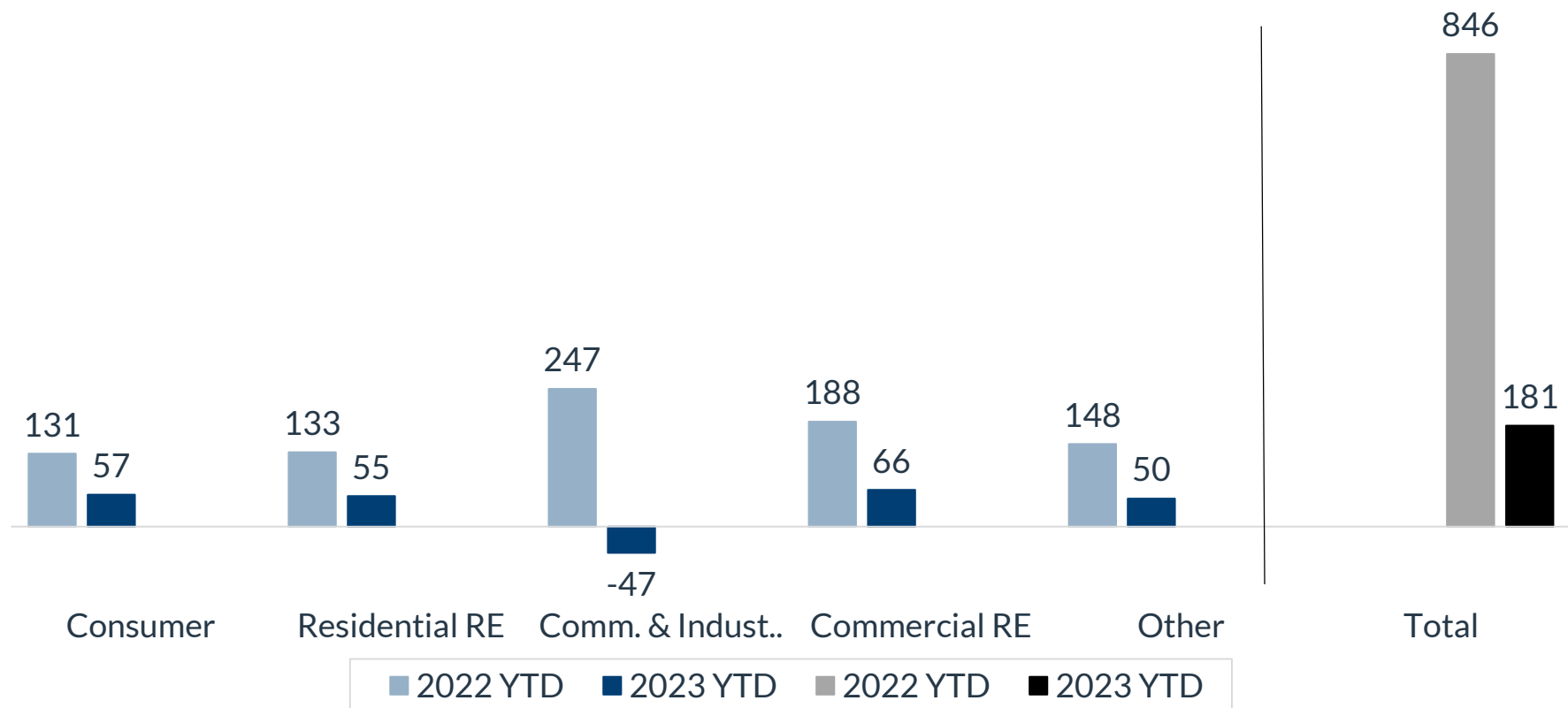
Source: Federal Reserve, August 2023



# Banking

- The reduction in lending is broad-based, with all significant categories lending less this year compared to last year's YTD.
- The tighter standards and reduced lending for C&I loans are expected to force businesses to reduce hiring and pull back on expansion plans.

Change in Loans & Leases - YTD  
 \$, billions, seasonally adjusted, as of August 16, 2023



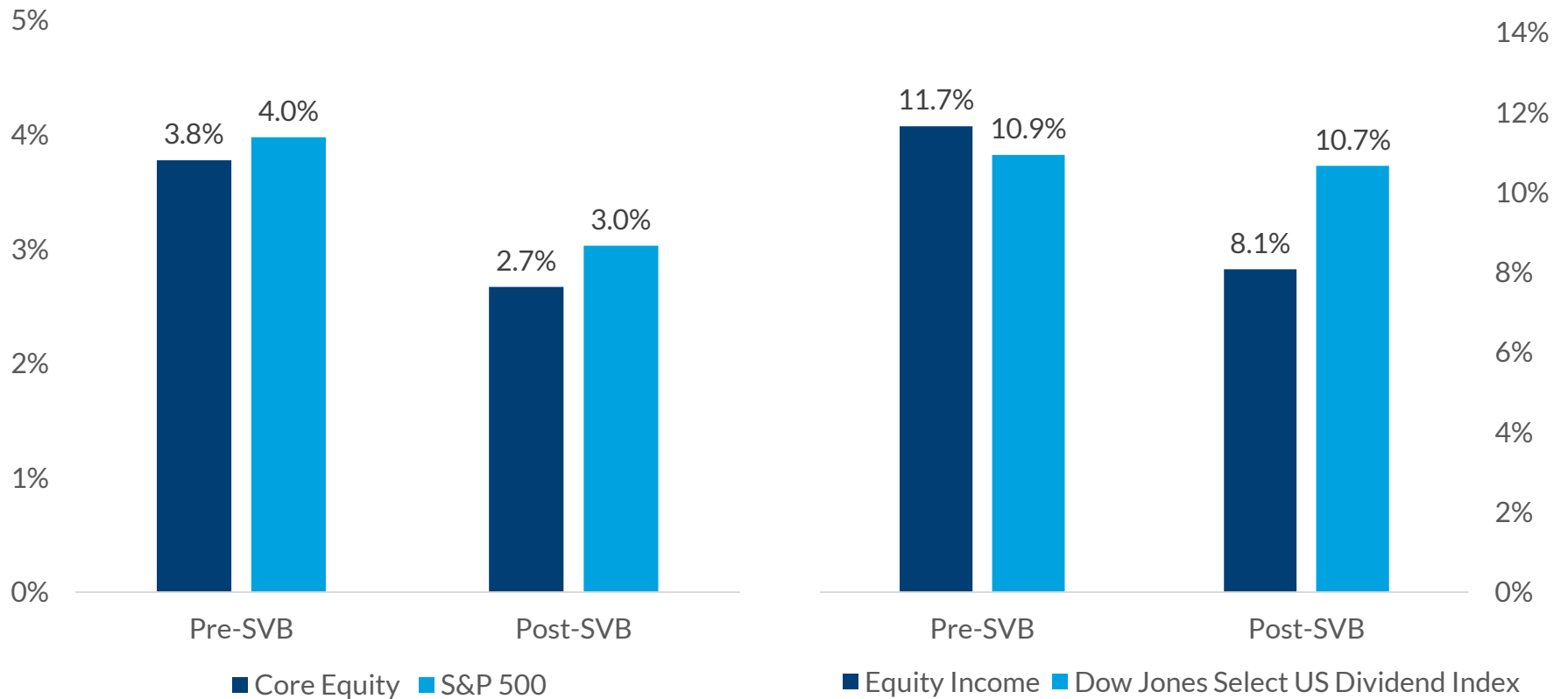
Source: Federal Reserve



# CNR Equity Strategies - Financial Sector Exposure

- CNR proactively lowered bank weights in equity portfolios as stresses in the industry emerged.
- Remaining bank holdings are high quality, with solid financial ratios.
- Overall financial sector exposure is less cyclical than the benchmark.

CNR Equity Portfolio Bank Weights vs Benchmark



Source: CNR Research, August 2023  
 SVB = Silicon Valley Bank

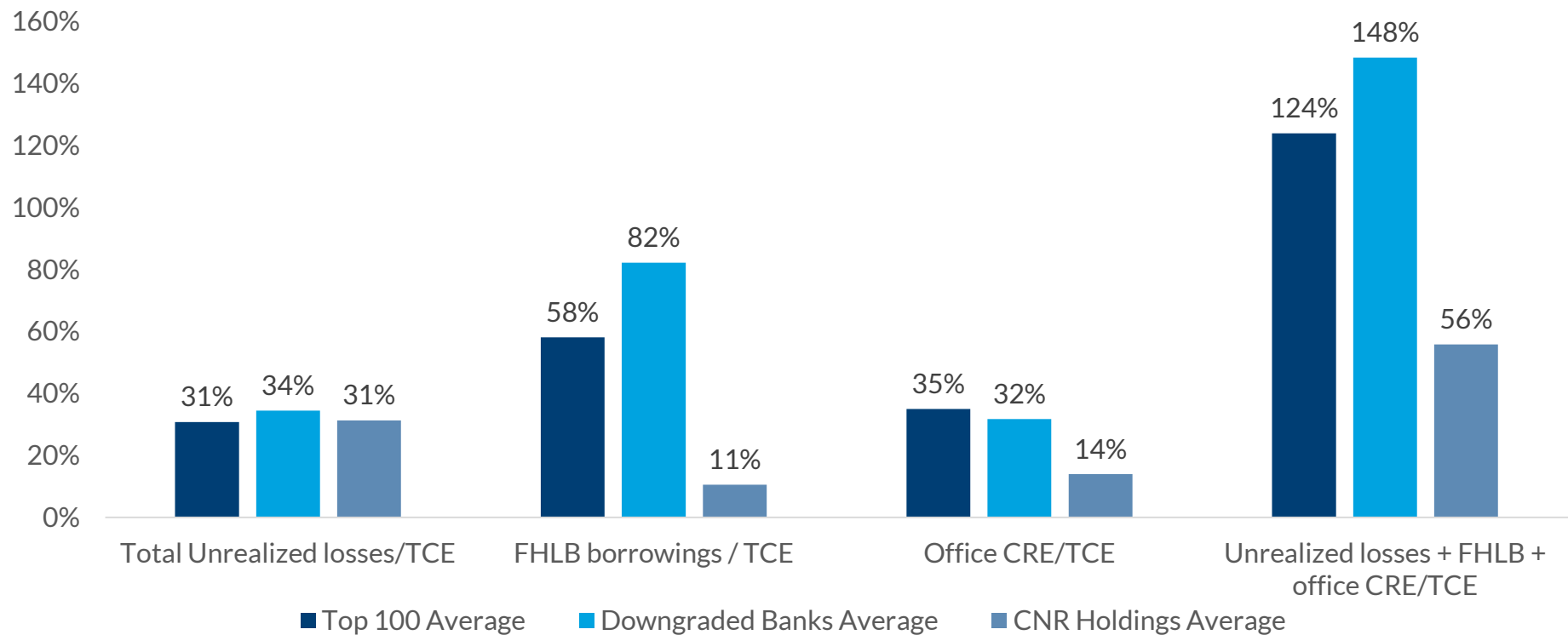




# CNR Equity Strategies - Financial Sector Exposure

- Portfolios constructed to be well diversified across, loan book lower exposure to commercial real estate.
- Bank holdings are higher quality, with solid financial ratios.
- Holdings have well-balanced sources of deposits and lending books.

Bank Risk Metrics



Source: CNR Research, JP Morgan Research, Moody's, CNBC August 2023.

Tangible common equity (TCE) is a measure of a company's physical capital, which is used to evaluate a financial institution's ability to deal with potential losses.

Commercial real estate (CRE) is property used exclusively for business-related purposes or to provide a workspace rather than a living space, which would instead constitute residential real estate.

The Federal Home Loan Bank System (FHLB) is a consortium of 11 regional banks across the U.S. that provide a reliable stream of cash to other banks and lenders to finance housing, infrastructure, economic development, and other individual and community needs.

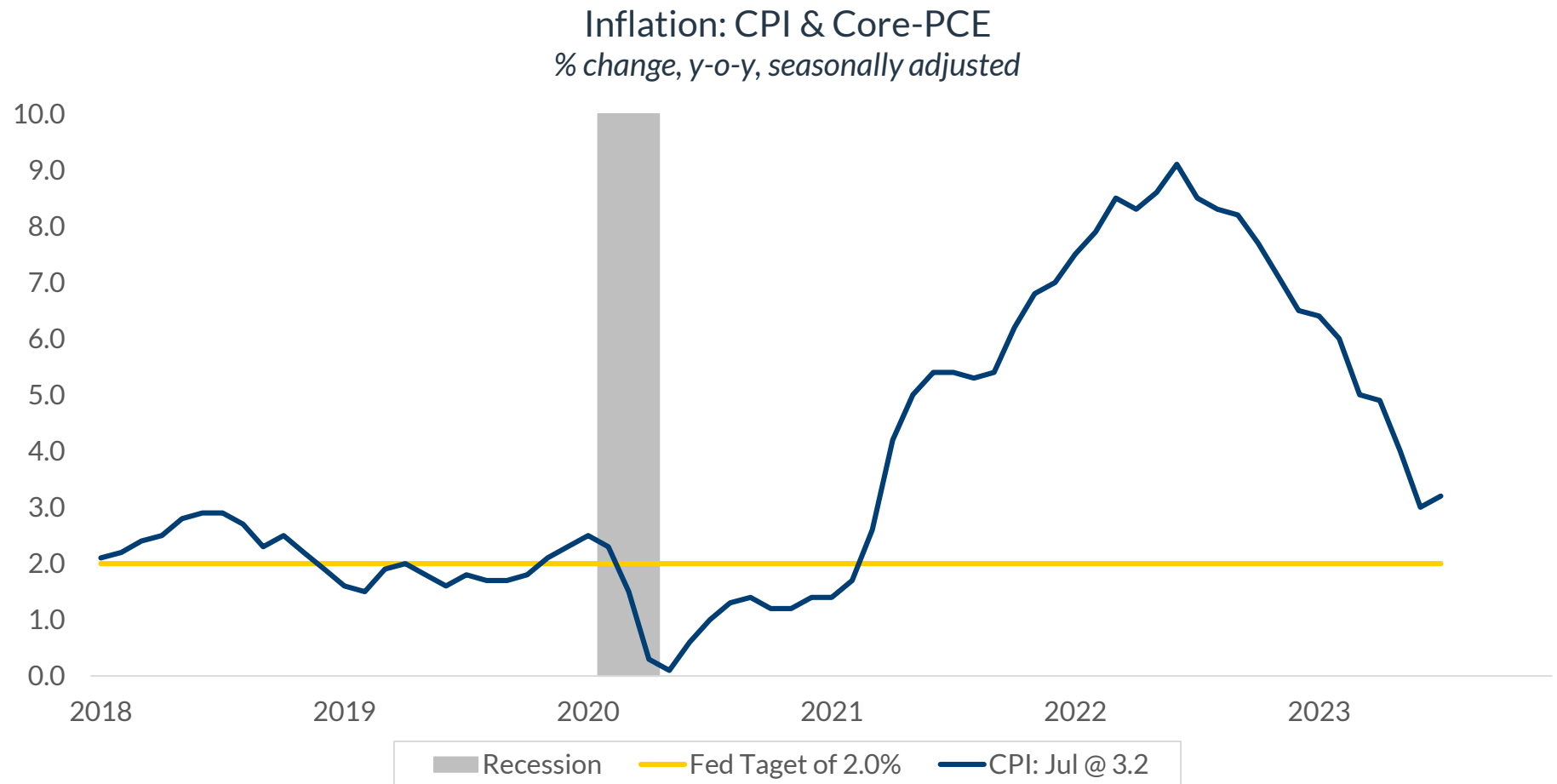


# Fed, Inflation & Interest Rates



# Inflation

- Inflation has moderated, but it is still too high for the Fed.
- The Fed remains committed to bringing inflation to the target rate of 2.0%.
- They remain concerned with the stickiness of housing and other service inflation.



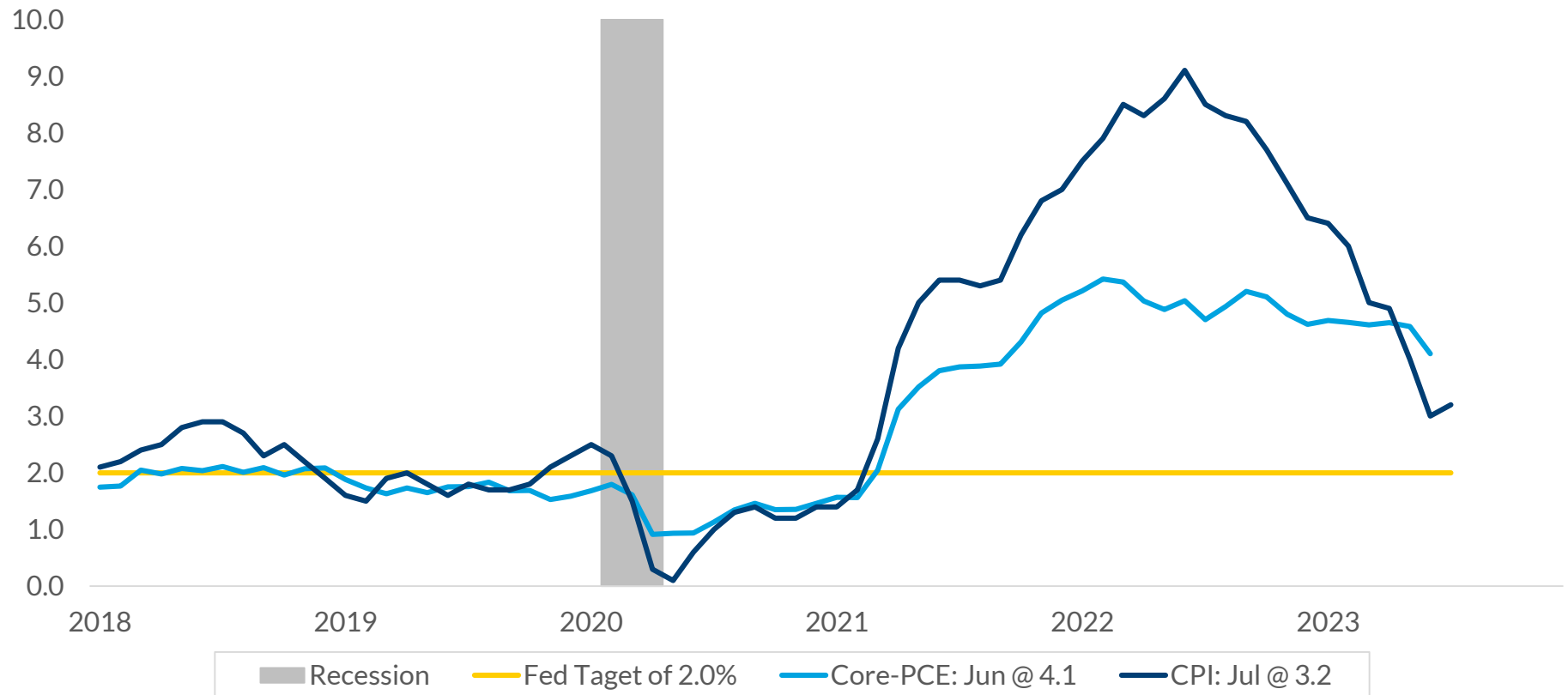
Source: Bureau of Labor Statistics, Bureau of Economic Analysis



# Inflation

- Inflation has moderated, but it is still too high for the Fed.
- The Fed remains committed to bringing inflation to the target rate of 2.0%.
- They remain concerned with the stickiness of housing and other service inflation.

**Inflation: CPI & Core-PCE**  
*% change, y-o-y, seasonally adjusted*



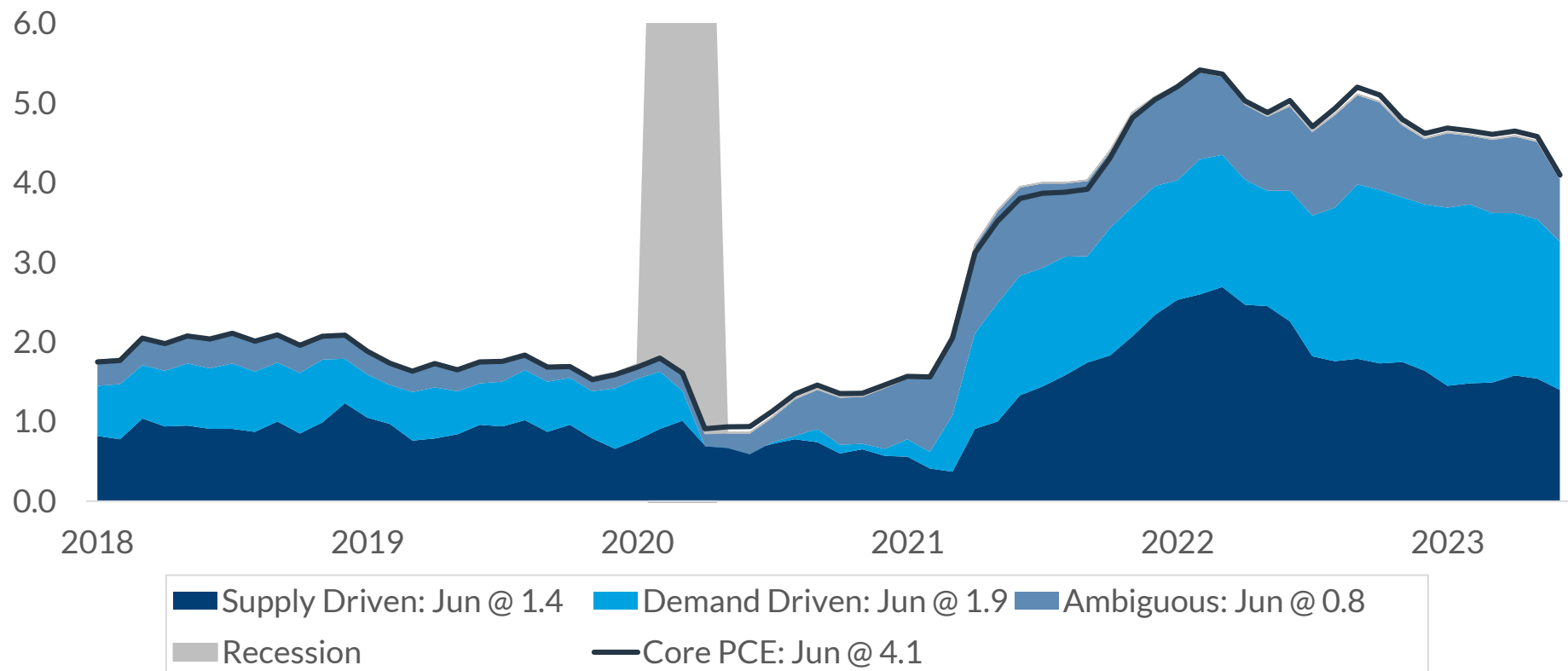
Source: Bureau of Labor Statistics, Bureau of Economic Analysis



# Inflation

- Inflation pressures appear to have shifted to demand-driven from supply-driven.
- The Fed needs to keep interest higher for longer to reduce consumer demand.

Core PCE: Supply & Demand Drivers  
% change, y-o-y, seasonal adjusted



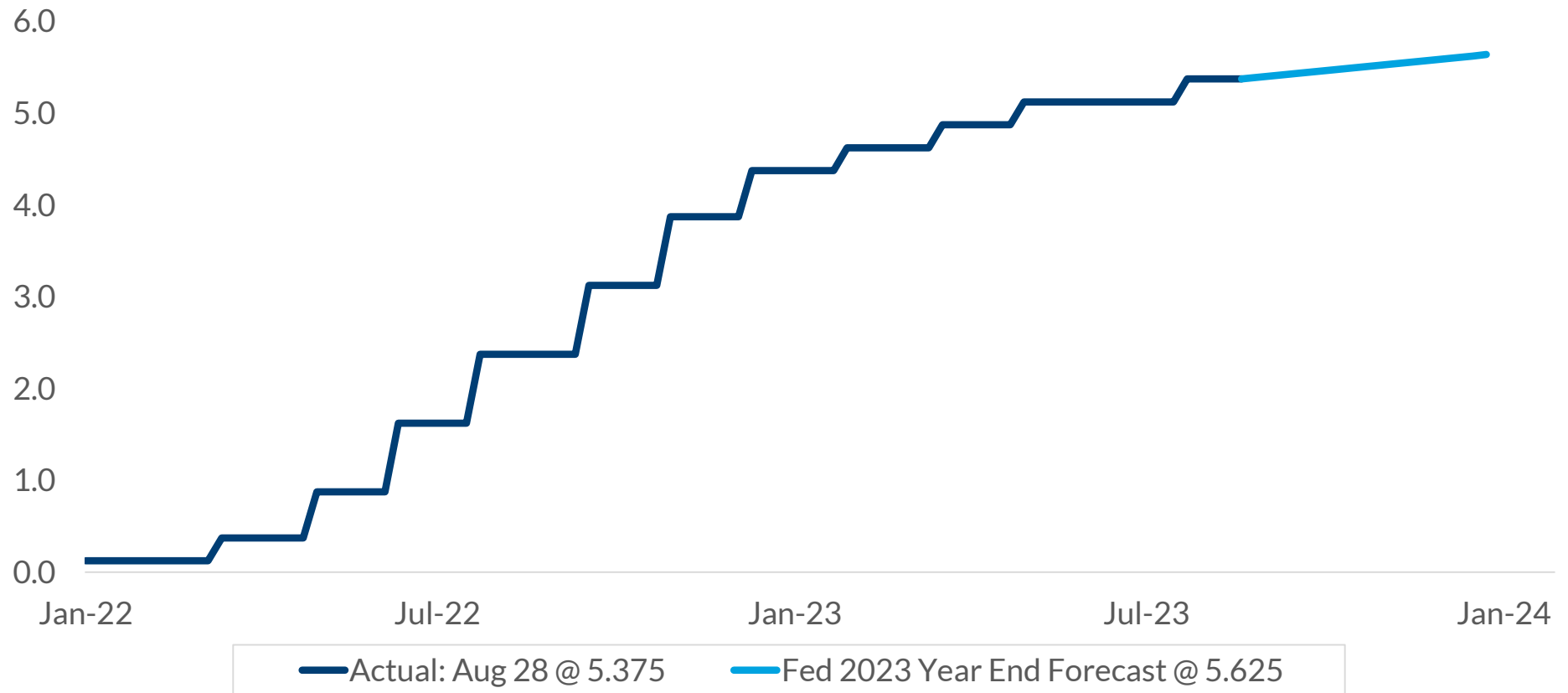
Source: Bureau of Economic Analysis



# The Fed

- The Fed is near the end of its tightening cycle.
- Back in June, they expected to raise the funds rate two more times this year; they have already done it once.
- We do not expect another hike; the federal funds futures market puts only a 40% probability of another hike.

Federal Funds Rate: Median Level  
%, not seasonally adjusted

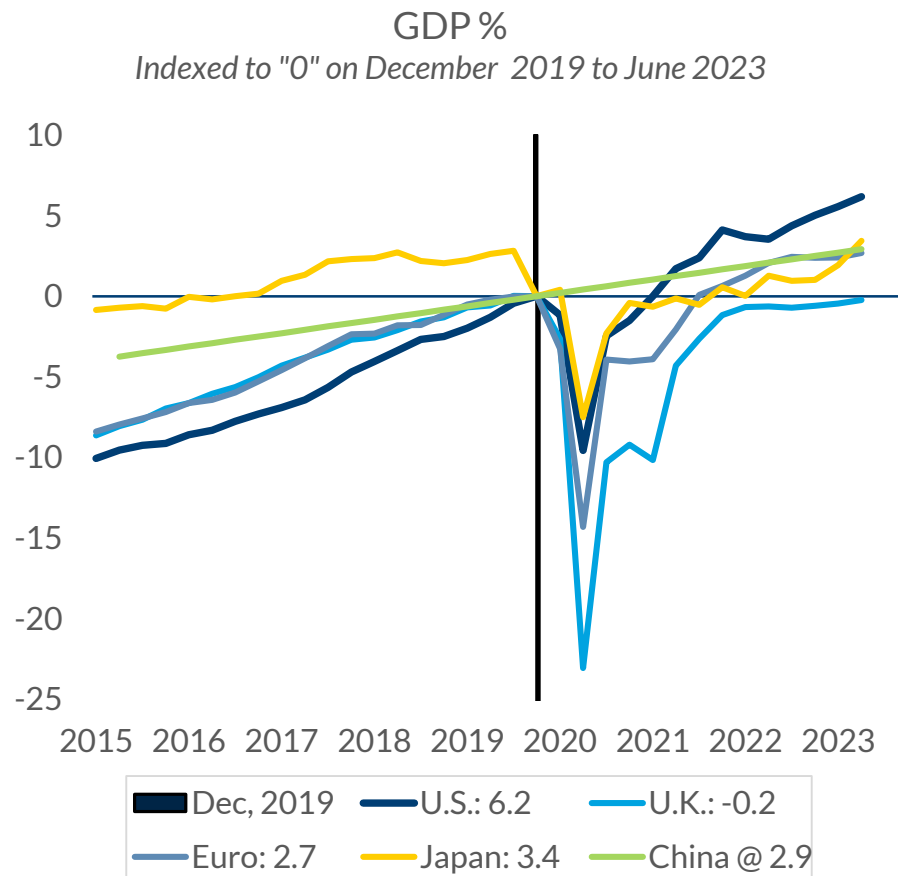


Source: Federal Reserve



# US Remains Best Region Given Macro Uncertainty

- Europe: More exposed to global trade; ECB is behind the Fed in battle against inflation.
- China: Reopening boost largely behind us; credit impulse slowing, policy uncertainty high, property sector bubble.
- US consumer financials remain healthy, which should help mitigate against a coming downturn in economic activity.



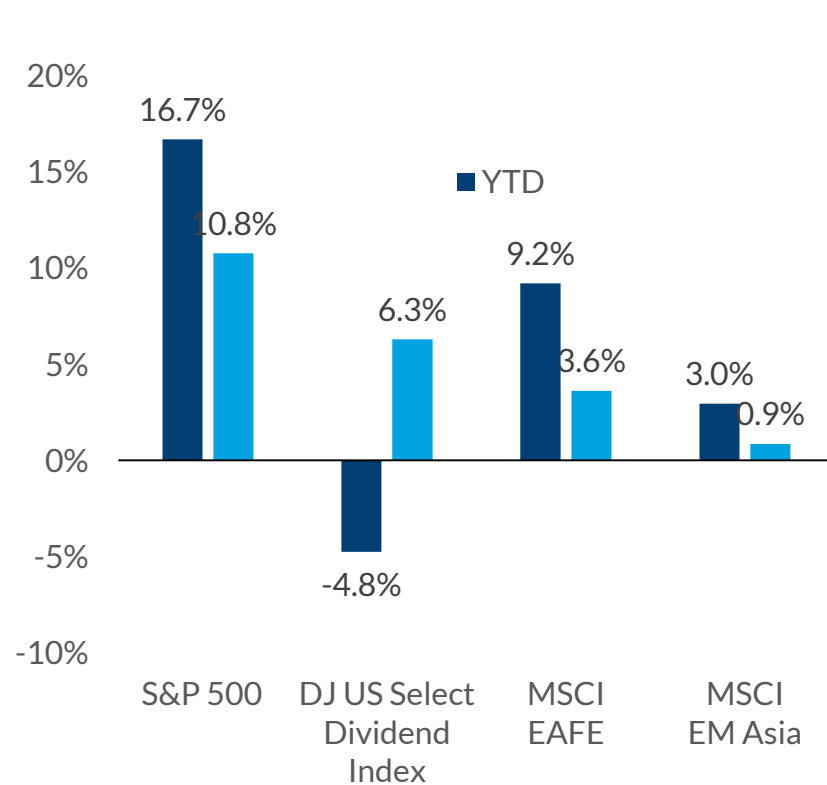
Source: Bureau of Economic Analysis, UK Office for National Statistics, Eurostat, Economic and Social Research Institute of Japan, National Bureau of Statistics of China, Bloomberg, August 2023



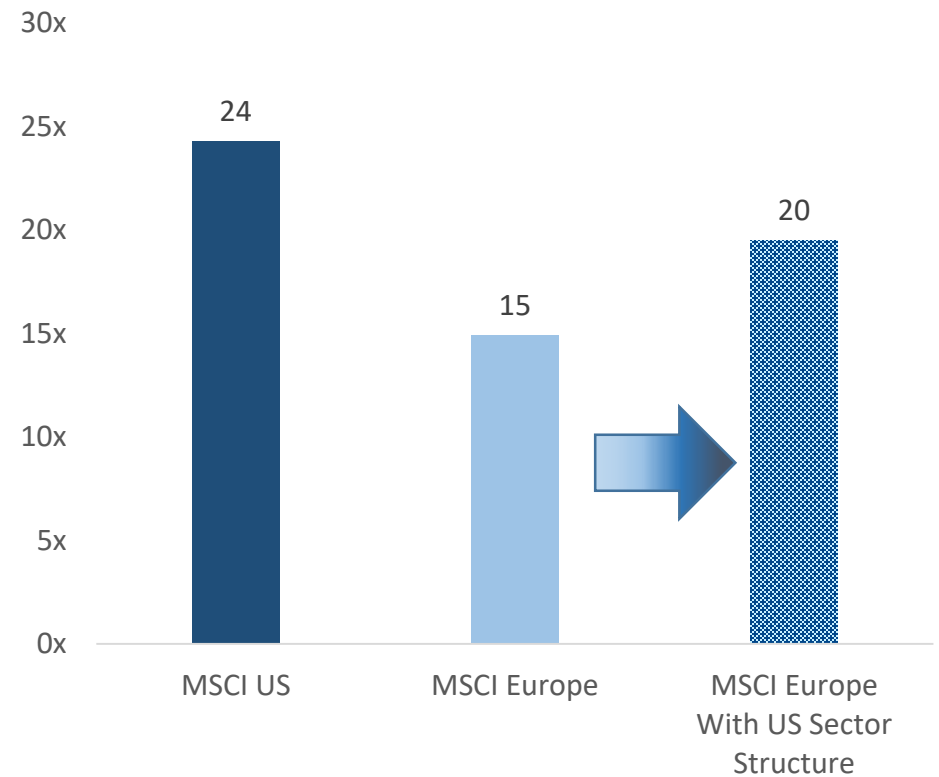
# Continue to Favor US Equities

- US outperformance continues to be significant.
- US has more exposure to secular growth industries such as technology and health care.
- When adjusted for sector and industry composition, the Euro valuation advantage is much smaller.

Index Performance  
(As of 8/28/23)



Trailing P/E Ratios in Europe and in the US  
(Raw Data and Sector-Adjusted)



Source: FactSet, Ned Davis Research, August 2023

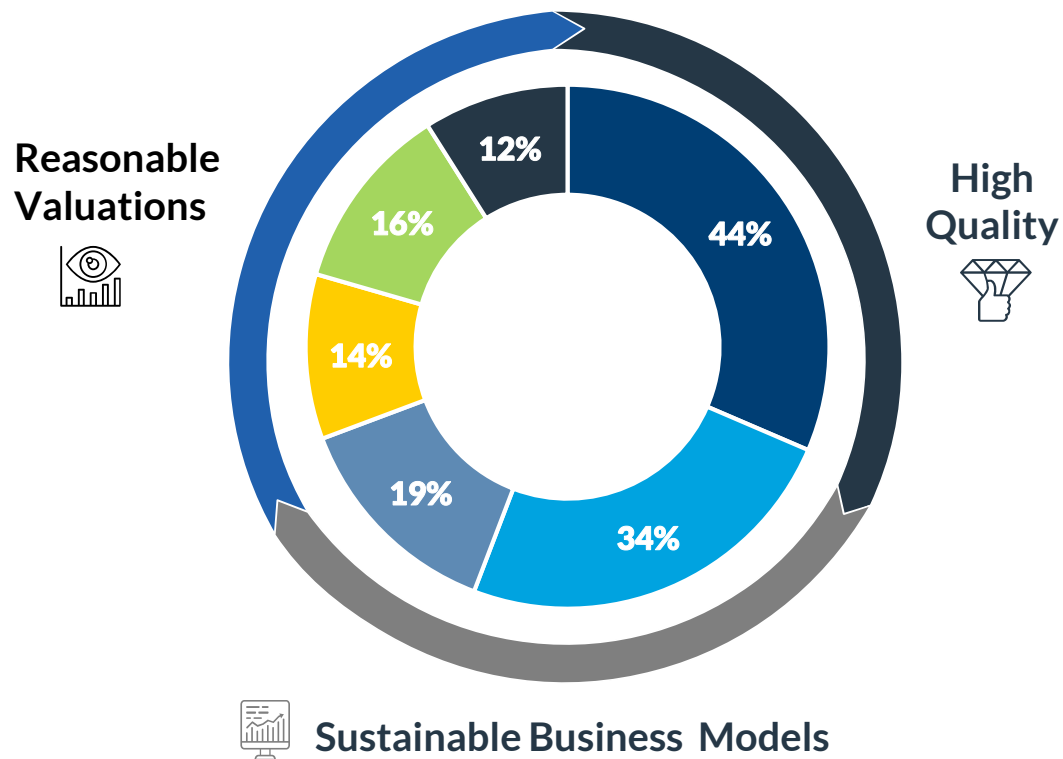




# Core Equity- Thematic Research Focus

- Digital Revolution\*
- Domestic Growers\*
- Healthcare Innovators
- Durable Consumer Franchise
- Industrial Leaders
- Clean Climate

- Portfolio construction reflects assessment of economic and profit cycles and appropriate risk positioning.
- Identify secular themes that have potential for above-average long-term revenue growth and long-term capital appreciation potential.
- Identify industries and companies that are positively and negatively impacted by these trends.
- Position portfolio so it has the potential to take advantage of themes and seek long-term capital appreciation.
- Continue to prefer US quality companies.

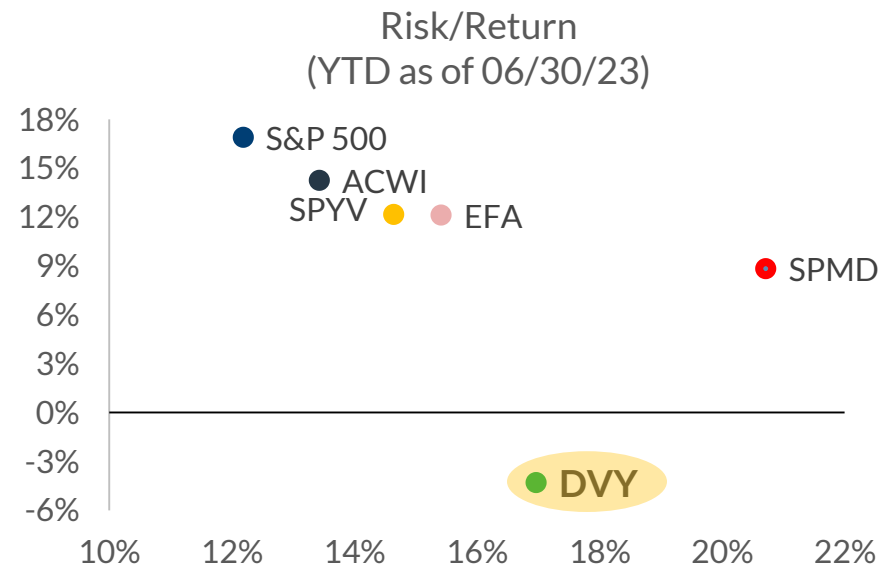
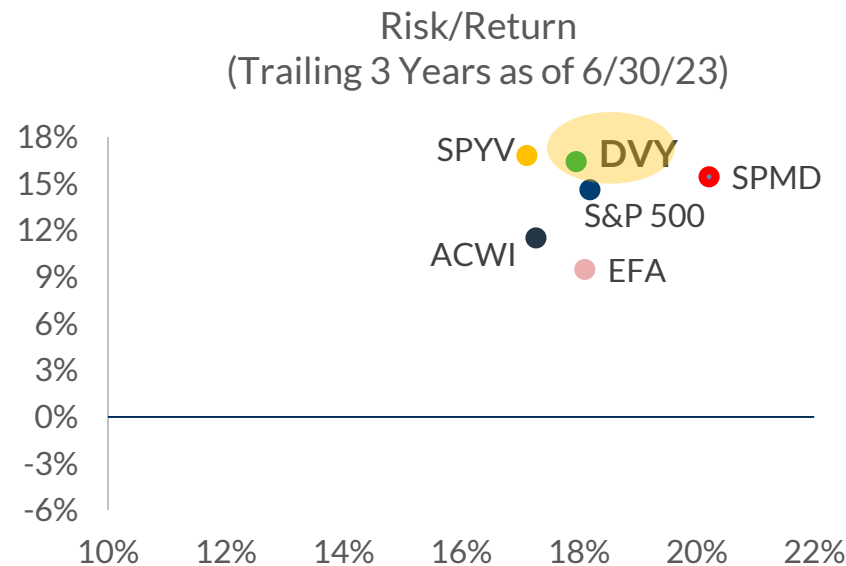


\*Some stocks are included in more than one theme. Information is subject to change.



# The Role of Equity Income in Client Portfolios

Equity Income is a Solution For	Equity Income is Not a Solution For
<ul style="list-style-type: none"> <li>▪ Clients looking for both capital appreciation and income</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clients looking for income only</li> </ul>
<ul style="list-style-type: none"> <li>▪ Diversification relative to S&amp;P 500</li> </ul>	<ul style="list-style-type: none"> <li>▪ Matching S&amp;P 500 returns</li> </ul>
<ul style="list-style-type: none"> <li>▪ Dividend growth to help maintain purchasing power</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low to no volatility due to interest rate sensitivity</li> </ul>



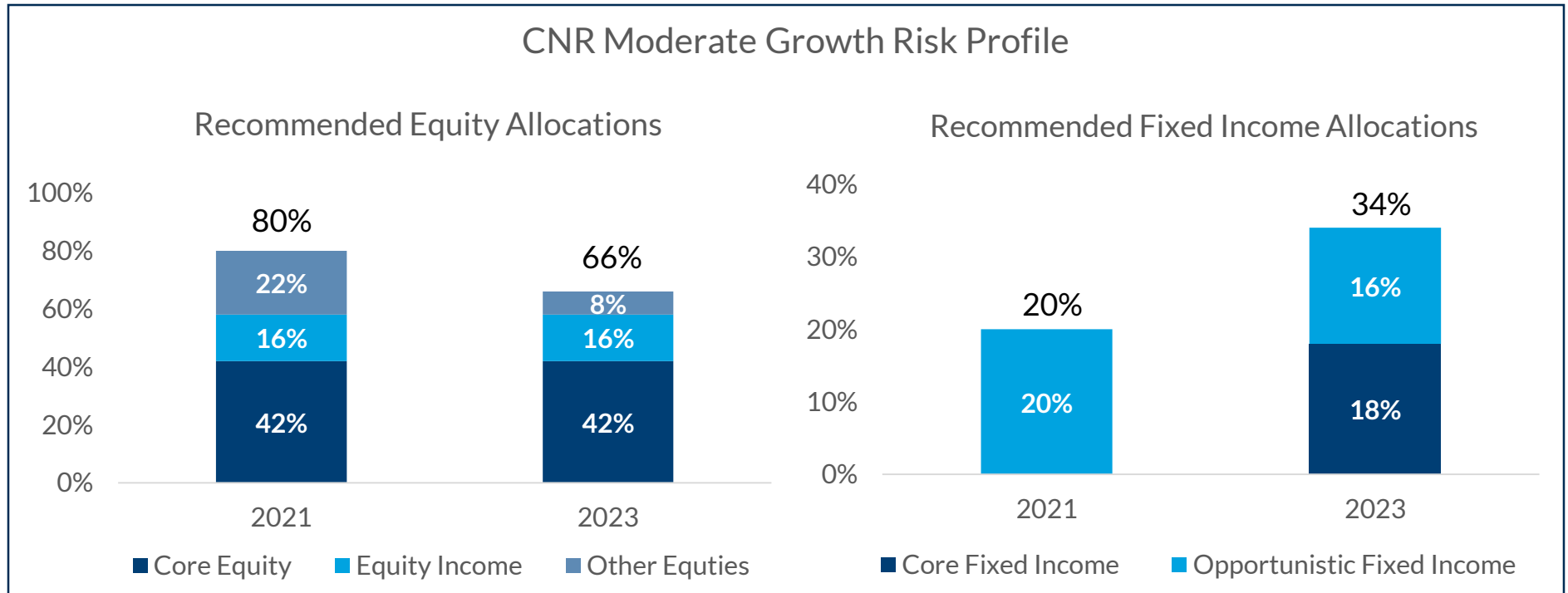
FactSet June 2023

**DVY:** The iShares Select Dividend ETF (DVY) is the largest ETF to track a dividend-weighted index. **SPYV:** The SPDR Portfolio S&P 500 Value ETF (SPYV) is an exchange-traded fund that is based on the S&P 500 Value index. **S&P 500:** S&P 500 is a stock market index that is meant to track the U.S. equity market. **ACWI:** MSCI All Country World Index is Morgan Stanley Capital International’s flagship global equity index, which tracks the performance of small- to large-cap stocks from 23 developed and 24 emerging markets. **EFA:** MSCI EAFE The EAFE Index is a stock index offered by Morgan Stanley Capital International (MSCI). It covers non-U.S. and non-Canadian equity markets. **SPMD:** S&P MidCap 400 The term S&P MidCap 400 refers to a benchmark index published by Standard & Poor’s (S&P). The index is comprised of 400 companies that broadly represent companies with midrange market capitalization between \$3.6 billion and \$13.1 billion.



# Maintaining Modestly Defensive Positioning

- We remain modestly underweight equities and modestly overweight fixed income.
- While approaching the end of the Fed’s rate hiking cycle is positive for stocks, competition from bonds is real.
- Mild recession outlook, negative EPS revision trends and high valuations support our modest equity underweight.
- We remain focused on quality stocks. US remains the region of choice.
- We remain optimistic on bond returns and see numerous opportunities.
- Remain overweight higher quality bonds and underweight duration.



Source: CNR Research, as of August 2023.

Past performance is no guarantee of future results.

Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.



# Q&A



# Important Information

**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.

**High yield securities.** Investments in below-investment-grade debt securities, which are usually called “high yield” or “junk bonds,” are typically in weaker financial health. Such securities can be harder to value and sell, and their prices can be more volatile than more highly rated securities. While these securities generally have higher rates of interest, they also involve greater risk of default than do securities of a higher-quality rating.

**Real estate sector or REITs.** Concentrating assets in the real estate sector or REITs may disproportionately subject a portfolio to the risks of that industry, including the loss of value because of adverse developments affecting the real estate industry and real property values. Investments in REITs may be subject to increased price volatility and liquidity risk; concentration risk is high.

**Municipal securities.** The yields and market values of municipal securities may be more affected by changes in tax rates and policies than similar income-bearing taxable securities. Certain investors' incomes may be subject to the Federal Alternative Minimum Tax (AMT), and taxable gains are also possible.

Investments in the municipal securities of a particular state or territory may be subject to the risk that changes in the economic conditions of that state or territory will negatively impact performance. These events may include severe financial difficulties and continued budget deficits, economic or political policy changes, tax base erosion, state constitutional limits on tax increases and changes in the credit ratings.

All investment strategies have the potential for profit or loss; changes in investment strategies, contributions or withdrawals may materially alter the performance and results of a portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be suitable or profitable for a client's investment portfolio.

Returns include the reinvestment of interest and dividends.

Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.



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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 US 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.

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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.

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

**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.

**MSCI EM Index.** The MSCI Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market results in the global emerging markets, consisting of more than 20 emerging market country indexes.

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

**Bloomberg US Investment Grade Corporate Bond Index.** The Bloomberg US Investment Grade Corporate Bond Index measures the performance of investment grade, corporate, fixed-rate bonds with maturities of one year or more.

**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:**

**Citi Economic Surprise Index:** The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median).

**Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD 1-5y.** Bloomberg US 1-15 Yr. Municipal Bond Index consists of a broad selection of investment grade general obligation and revenue bonds of maturities ranging from one year to 17 years.

**Palmer Square BB CLO Index.** Palmer Square CLO BB Index is a rules-based observable pricing and total return index for CLO debt sold the United States, rated A, BBB or BB (or equivalent rating), i.e. mezzanine CLO debt.

**Morningstar LSTA Leveraged Loan Index.** Morningstar LSTA US Leveraged Loan Index is designed to measure the performance of the 100 largest facilities in the US leveraged loan market.

**Bloomberg High Yield.** The Bloomberg Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

**Bloomberg Investment Grade Municipal Index.** Bloomberg Municipal Index The Bloomberg Municipal Index measures the performance of the Bloomberg U.S. Municipal bond market, which covers the USD- denominated Long-Term tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

**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.







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