

*May 29, 2025*

# Market Update Webinar

# Shifting Global Dynamics and Domestic Impact

- The foundational elements of global relationships are colliding, culminating in the Trump administration's policy priorities, which broadly span tariffs, deregulation and tax incentives.
- The creditworthiness of the federal government, the elevated political uncertainty, the development of critical technology and the increased potential for nonfinancial shocks combined with the post-pandemic economy will influence global capital and dictate forward market returns.

## Labor

The labor market remains strong, but questions remain about the forward outlook due to DOGE and tariff policy.

## Inflation

Inflation is likely to rise by midyear due to higher producer costs, but tariffs will not transfer to consumers on a one-to-one basis.

## Tariffs

Tariffs will continue to dominate headlines, but ongoing negotiations have improved sentiment.

## The Fed

The path of long-term inflation is unclear, and unemployment remains steady, putting pressure on the Fed to stay on hold.

Source: CNR Research, as of May 2025.

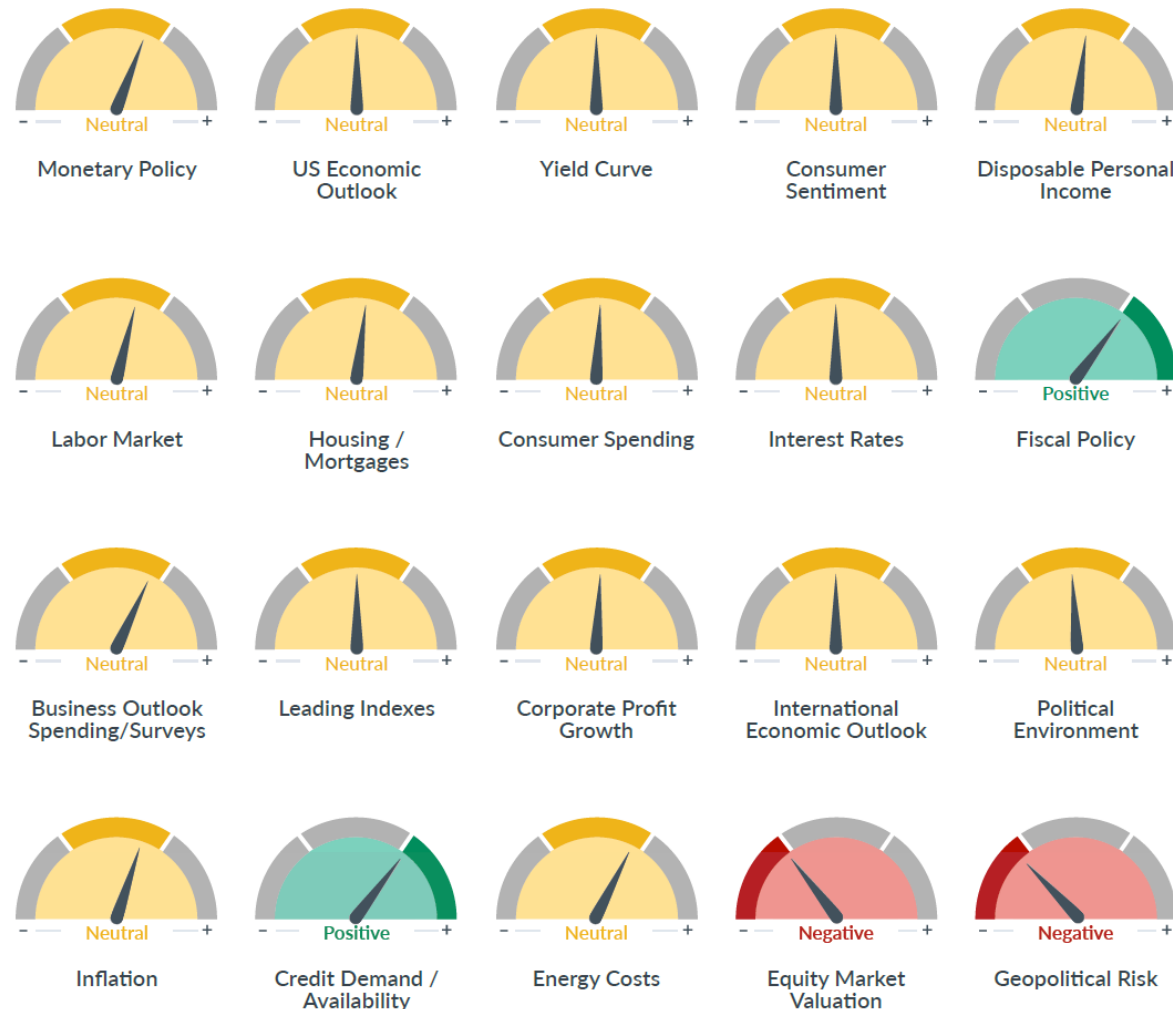


# CNR Speedometers® – June 2025

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

- The global outlook for growth has changed significantly due to tariffs.
- The Federal Reserve will remain on hold, unless price impacts are clear or unemployment rises.
- Consumer financials remain strong, but sentiment is weakening, which may impact spending.
- Despite the concern on tariffs, fiscal stimulus through deregulation and tax policy is still on the horizon.
- U.S. stock valuations are lower but have not corrected to attractive levels.
- The tariff situation remains fluid with China at 30% and Europe on the clock for 50%.

### Impact on Economy and Financial Markets



Impact on investment: ■ Positive ■ Neutral ■ Negative      Timeframe: ■ Current ■ Change from last month

Source: Proprietary opinions based on CNR Research, as of May 2025. Information is subject to change and is not a guarantee of future results.

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# Economic Forecasts

- June changes reflect the possibility of “peak tariff” policy and a stabilization of tariffs near 10% effective.

- GDP growth is expected to remain positive, but it may be weighed down by policy decisions.
- Corporate profits may swing within a wide range, but Q1 results are positive.
- Some inflation pressure will be present based on the administration’s policy.
- The Fed may cut rates 1-2 times later this year, which may be a tailwind for stocks.
- Structural pressure will likely keep 10-year Treasury yields over 4%.

City National Rochdale Forecasts		2024	Current 2025e
Real Annual GDP Growth		2.5%	1.0% to 1.75%
Corporate Profit Growth		9.6%	7.0% to 10.0%
Headline CPI Year End		2.9%	3.25% to 3.50%
Interest Rates	Federal Funds Rate	4.25% to 4.50%	3.75% to 4.25%
	Treasury Note, 10-Yr.	4.57%	4.0% to 4.5%

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.

e: estimate.

The consumer price index (CPI) measures the monthly change in prices paid by U.S. consumers.

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# Tariffs Have Changed 20 Times Since March

Effective Date	Trading Partner	Description	Tariff Effect
2/4/2025	China	All goods	10%
3/4/2025	Canada	Oil, Gas & Potash	10%
	Canada & Mexico	All goods	25%
	China	All goods	10%
3/5/2025	Canada & Mexico	One-month exemption for auto makers	-
3/7/2025	Canada & Mexico	Exempt USMCA compliant goods	-
3/12/2025	World	Steel & aluminum	25%
4/2/2025	World	Venezuelan oil importers	25%
4/3/2025	World	Auto imports	25%
	World	Auto & auto parts	25%
4/5/2025	World	Baseline tariffs on all goods	10%
4/9/2025	China	All goods	+34%
	China	All goods	125%
	World	Reciprocal tariffs	-
	World	Reciprocal tariffs	-
4/10/2025	China	All goods	145%
4/11/2025	China	Relief back to 10% on selected products	-
5/8/2025	U.K.	Trade deal	Tariff reductions
5/12/2025	China	Reduction in tariff rates	30% U.S. / 10% China
5/23/2025	Europe	All goods	50%
	Apple	iPhones	>= 25%

Data current as of May 22, 2025.

Sources: BCA Research, CNR Research.

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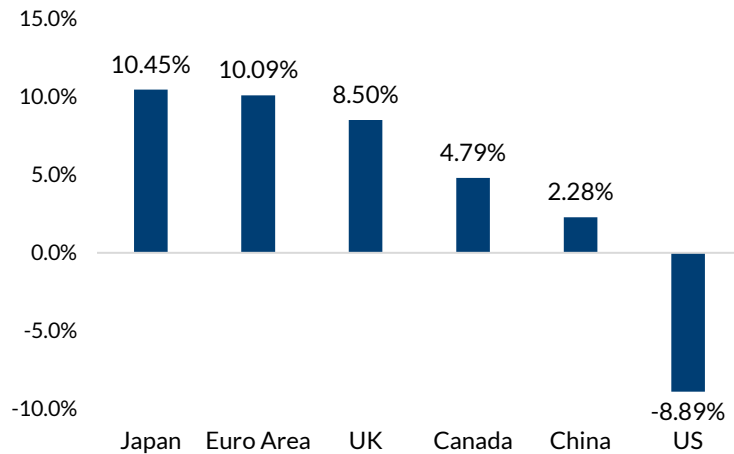
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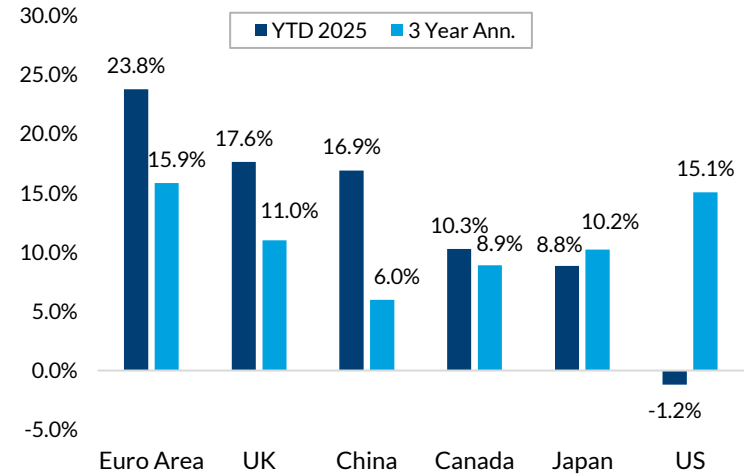
# What Is Driving YTD Returns Globally?

- Global returns have been characterized by currency moves and policy shifts in the U.S. and abroad.
- U.S. sector returns remain highly divergent, representing allocation opportunities amid market volatility.

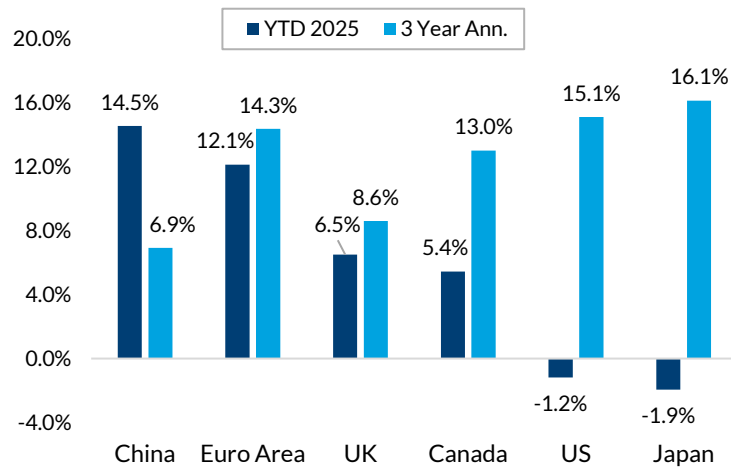
Currency YTD Total Return



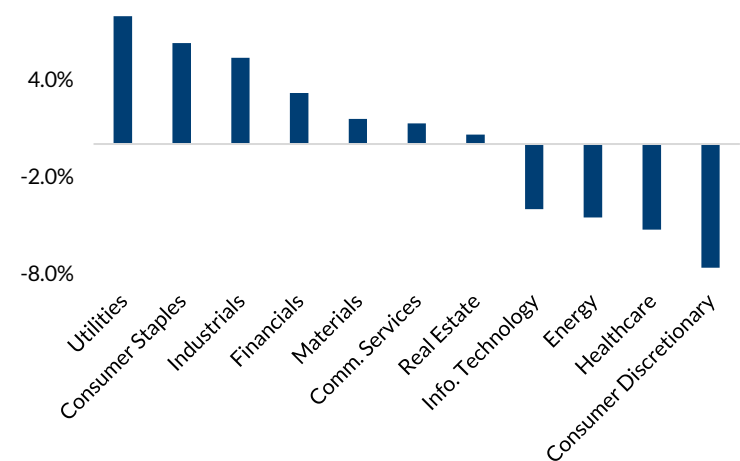
Equities YTD Total Returns in USD



Equities YTD Total Returns Local Currency



Equities YTD Total Returns in USD



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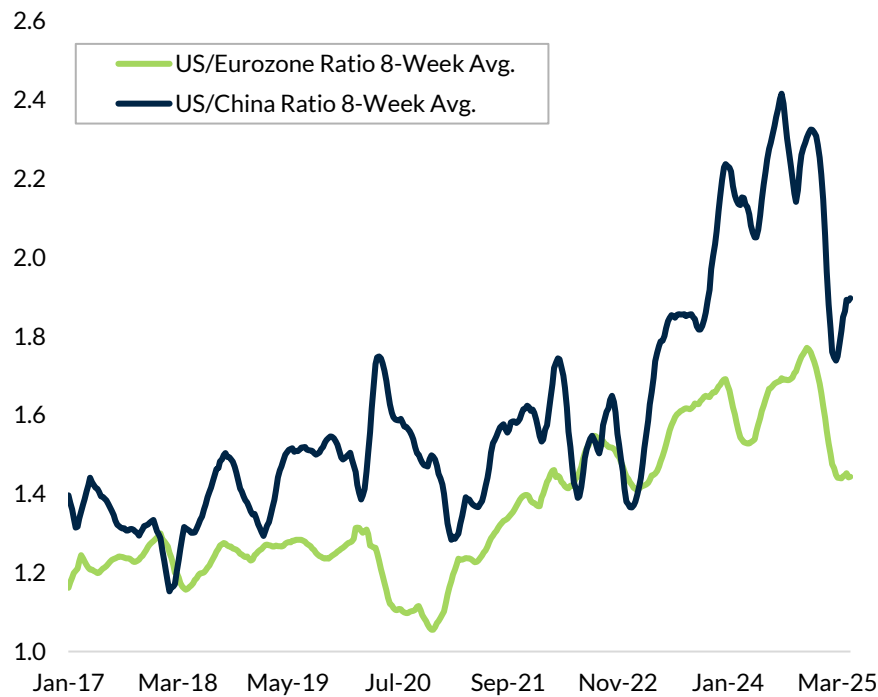
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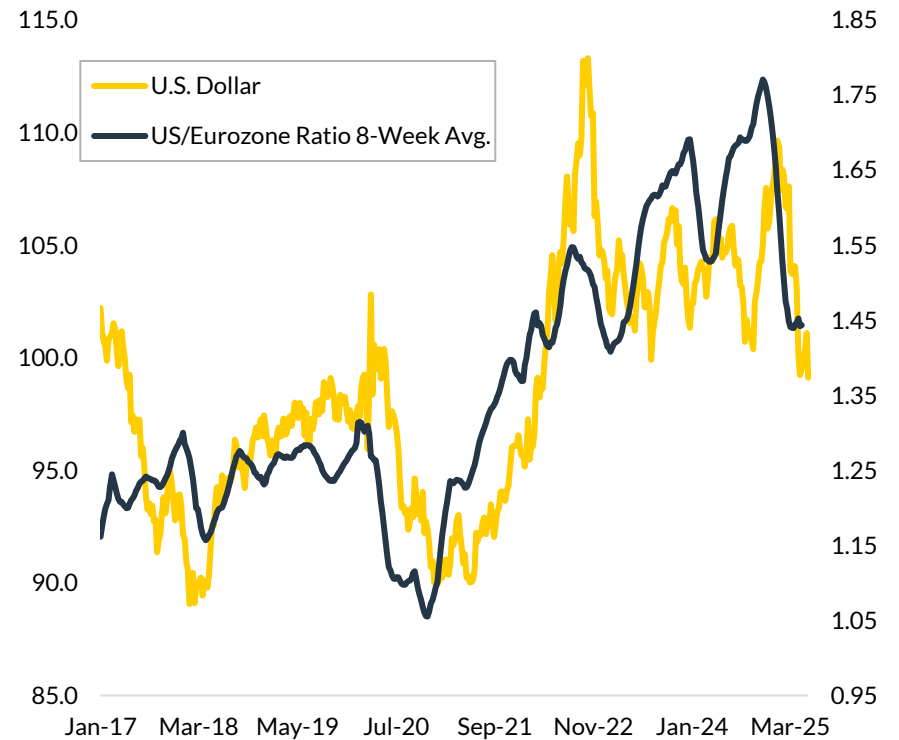
# Valuations Are Shifting and the Dollar Is Dominating

- The move in global Non-U.S. markets has been swift and pronounced, rapidly adjusting valuations.
- The correlation between relative valuation and USD is striking, emphasizing its importance to forward returns.

Relative Price-to-Earnings



Relative Price-to-Earnings vs. U.S. Dollar



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# Earnings Season Exceeded Expectations

- S&P 500 companies nearly doubled pre-season earnings expectations.
- While earnings remain strong, there is clear concern from companies regarding government policy.

1Q25 EPS Beat, Hit, Miss, Growth Table	Vs. Start of Season			Growth Rate					
	Report Count	% Count Reported	% Mkt Cap Reported	Beat	Hit*	Miss	Projection	Current	Difference
<b>S&amp;P 500</b>	<b>478</b>	<b>95.6%</b>	<b>91.6%</b>	<b>73.1%</b>	<b>3.5%</b>	<b>23.4%</b>	<b>6.59%</b>	<b>13.16%</b>	<b>6.57%</b>
Energy	23	100.0%	100.0%	15	1	7	-13.0%	-12.9%	0.10%
Materials	26	100.0%	100.0%	18	1	7	-11.9%	-5.8%	6.10%
Industrials	77	98.7%	99.7%	61	4	13	1.1%	8.1%	7.00%
Discretionary	48	94.1%	98.8%	29	4	15	1.7%	8.0%	6.30%
Staples	31	81.6%	95.7%	20	0	11	-8.0%	-6.8%	1.20%
Health Care	58	96.7%	99.1%	48	1	9	36.2%	43.9%	7.70%
Financials	73	100.0%	100.0%	49	2	22	-0.4%	2.9%	3.30%
Technology	60	87.0%	72.3%	52	2	6	15.5%	18.2%	2.70%
Communications	20	100.0%	100.0%	15	0	5	6.3%	31.2%	24.90%
Utilities	31	100.0%	100.0%	20	0	11	8.7%	16.7%	8.00%
Real Estate**	31	100.0%	100.0%	23	2	6	-3.3%	5.7%	9.00%
ex-Energy	455	95.6%	91.3%	335	16	105	7.80%	14.77%	6.97%
ex-Technology	418	97.0%	99.3%	298	15	106	4.10%	11.77%	7.67%
ex-Financial	405	94.8%	91.3%	301	15	90	8.37%	15.80%	7.43%
ex-Magnificent 7	469	95.1%	90.6%	344	17	111	3.98%	8.55%	4.57%

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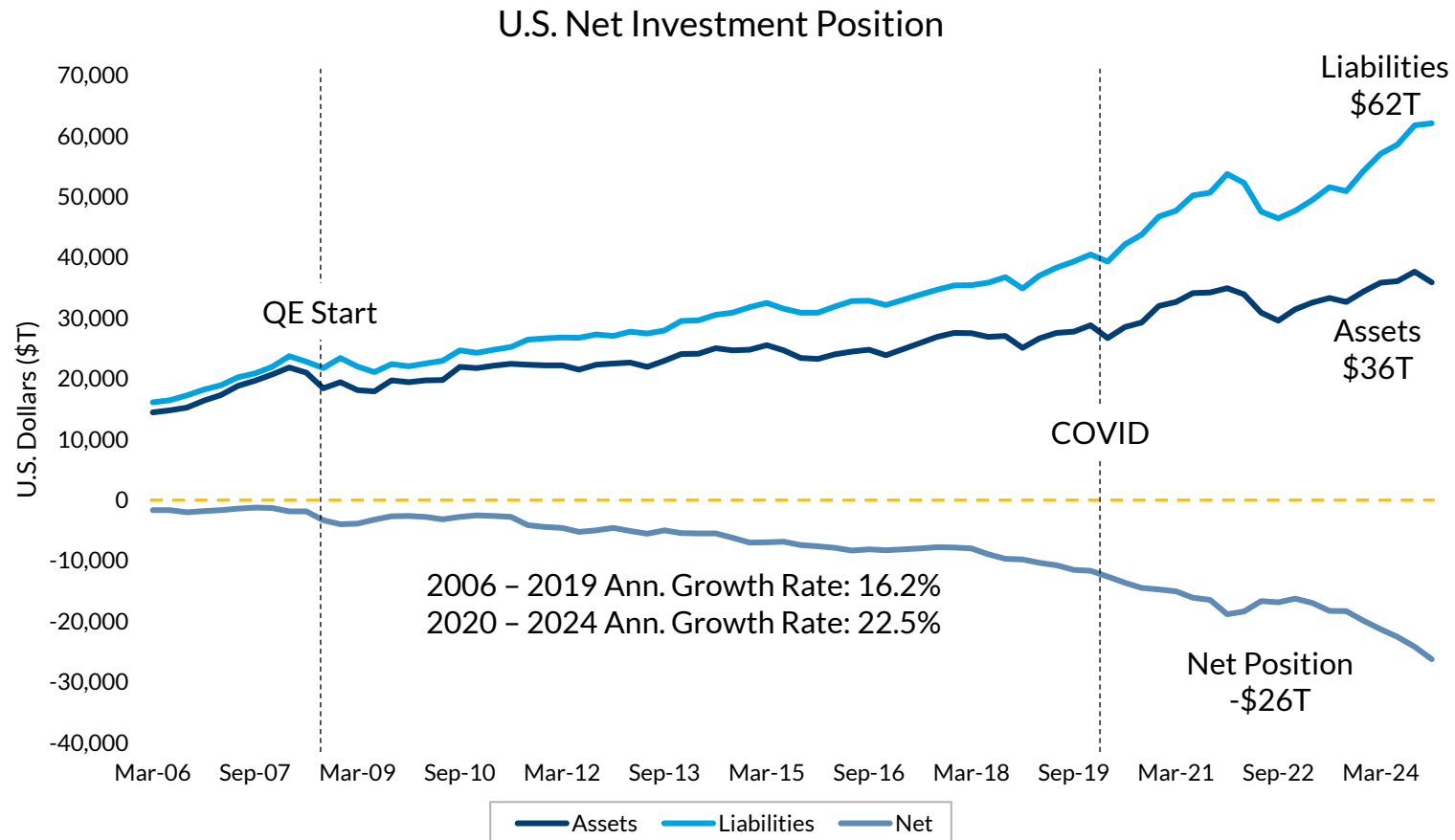
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# U.S. Net International Investment Position Is Growing

- The U.S. Net Investment position is a potential source of weakness for the U.S. dollar.
- Quantitative easing has led to a multiplier effect on the level of U.S. liabilities, exceeding assets abroad.



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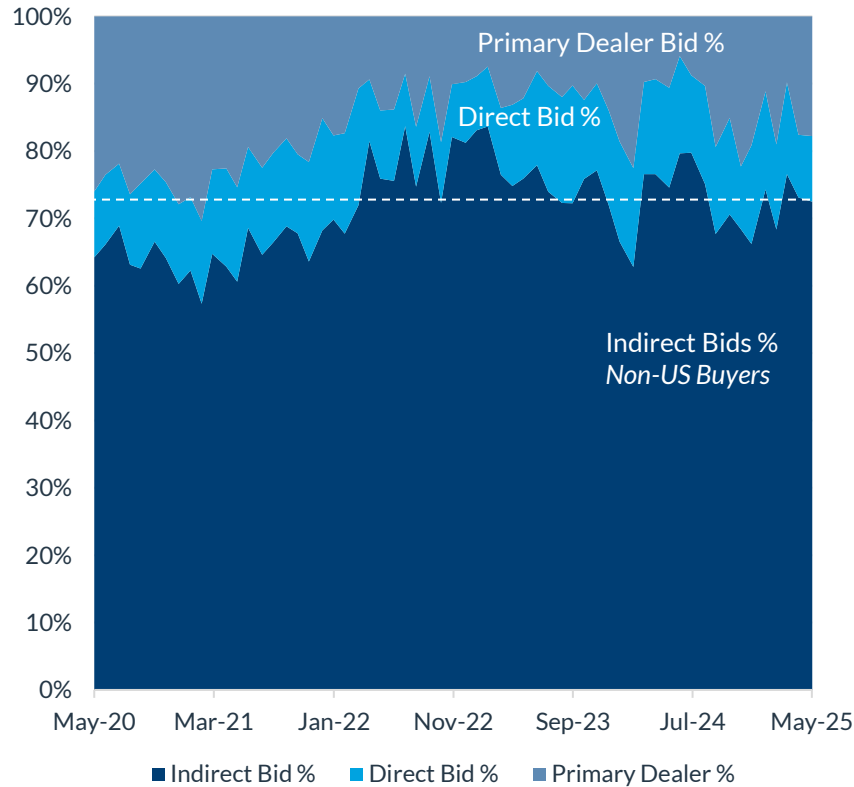
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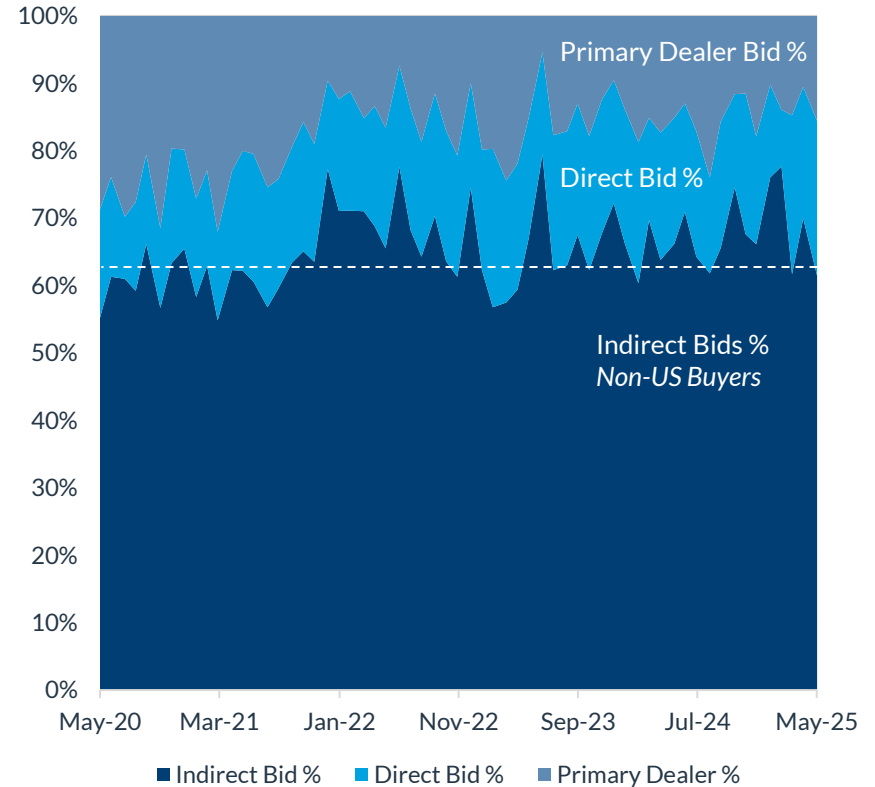
# U.S. Treasury Bond Auctions Are Not Weakening

- Concern regarding the U.S. debt is real; however, it is not showing up in treasury auction demand.
- Despite reports to the contrary and conflicting signals from the bond market, auctions are stable.

20-Year U.S. Treasury Auction Bidder %



10-Year U.S. Treasury Auction Bidder %



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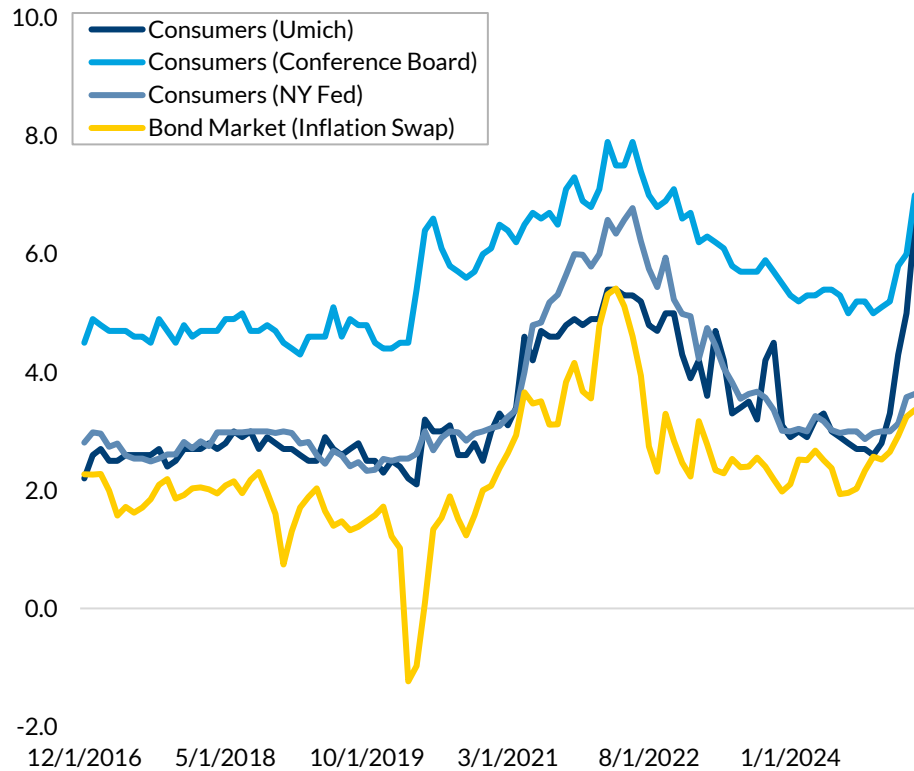
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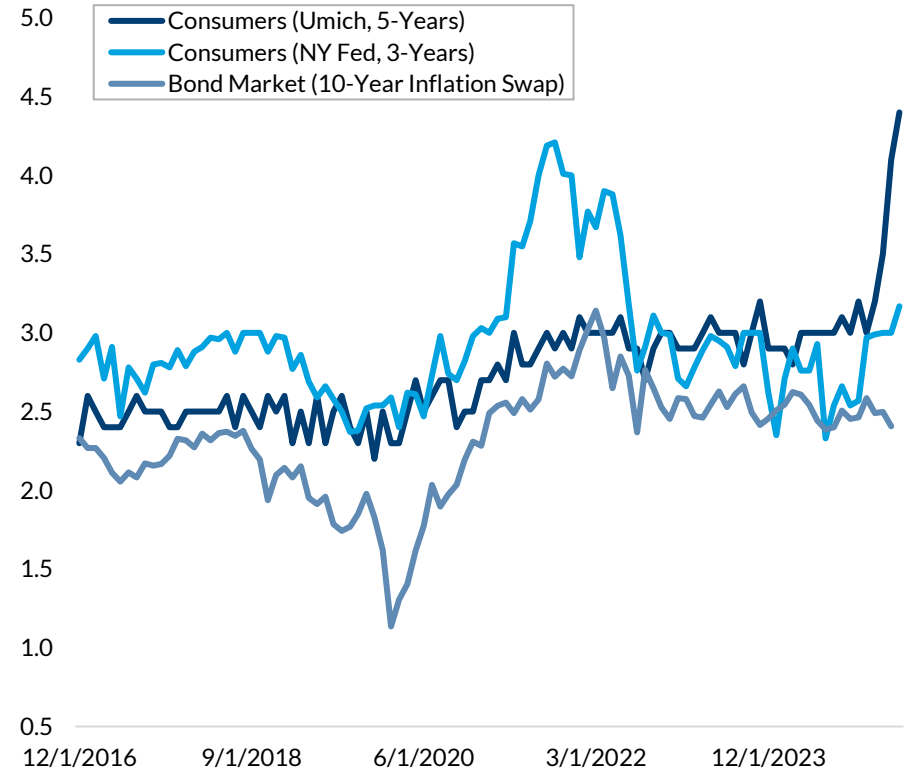
# Inflation Misunderstanding or Foreshadowing?

- Tariffs will raise prices, but there appears to be widespread misunderstanding about pass-through costs.
- Market-based inflation indicators seem to project the pricing impact more accurately than survey measures.

1-Year Inflation Expectations



Longer-Term Inflation Expectations



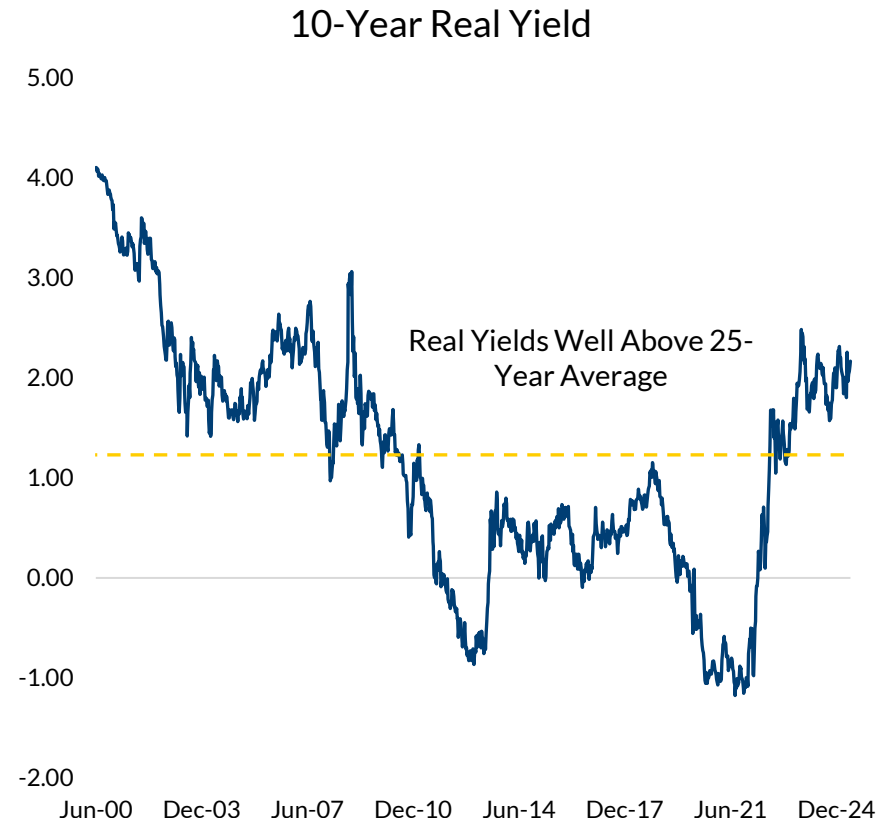
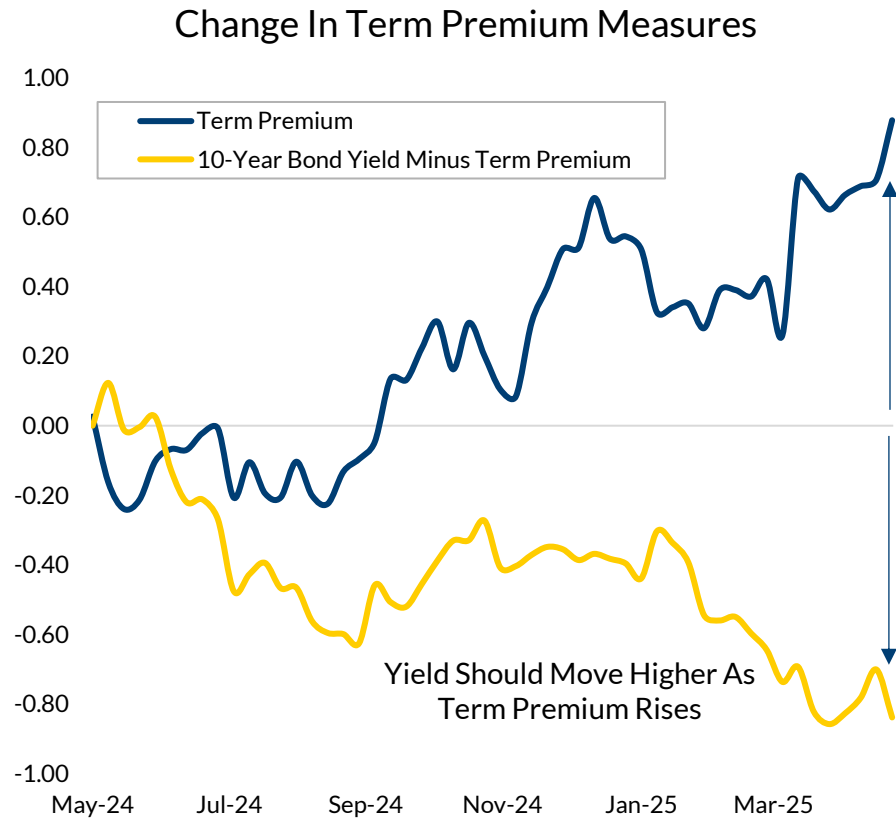
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# Conflicting Signals from the Bond Market

- Some shifts in the bond market suggest rates have not moved as high as they should.
- However, real yields indicate a potential opportunity that aligns with historical rate levels.

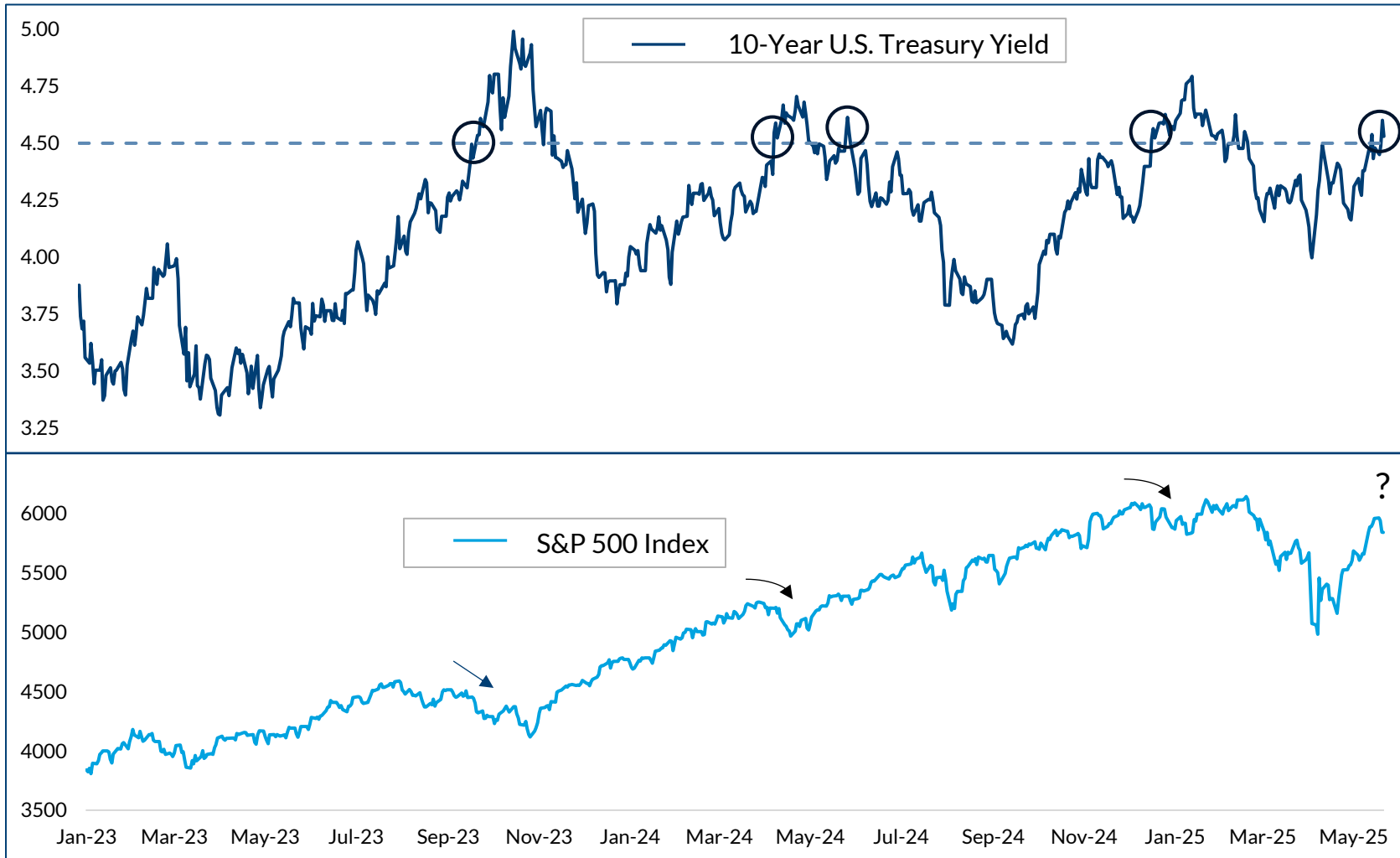


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# U.S. 10-Year Treasury Yields Above 4.5% Have Been Negative for Stocks



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# Key Takeaways

- The economy is being pulled in multiple directions, driven by unforeseen policy decisions, global flows and debt dynamics.
- Tariffs have changed over 20 times, creating market swings but not derailing 2025 returns. The market appears less sensitive to negative developments and more sensitive to positive developments – an environment where de-risking can be costly.
- Global equity market returns are stunning but largely driven by currency dynamics. The run-up, especially in Europe, is likely overdone.
- S&P 500 earnings tell a good story, but the key to returns is the U.S. dollar.
- The debt situation is unsustainable, and the net international position is increasingly negative. The administration doesn't have much time to show improvement, especially given the deficit increase within the current budget bill.
- The bond market is giving conflicting signals as inflation, term premium and real rates dance around, but we are concerned about the negative impacts to equities when 10-year treasury rates are above 4.5%.

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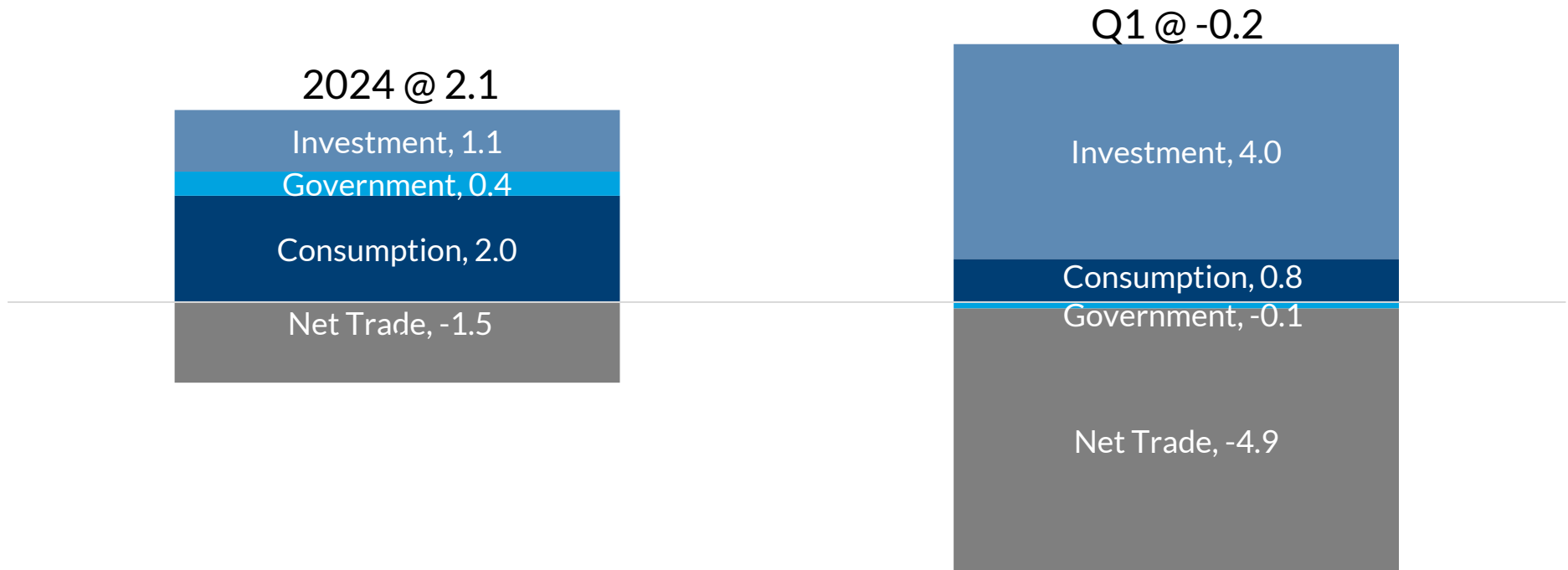
# Economics



# GDP

- Q1 GDP declined, which is rare in an expansion but not unheard of; it happened four other times since 2010.
- Net trade swung BIG, taking 4.8 percentage points off the headline number.
- Consumer spending slowed partly due to front-loading durable goods purchases in Q4.

**GDP: Contribution to GDP**  
*%, past quarter and average of the previous 4 quarters*



Data current as of May 29, 2025.  
 Source: Bureau of Economic Analysis.  
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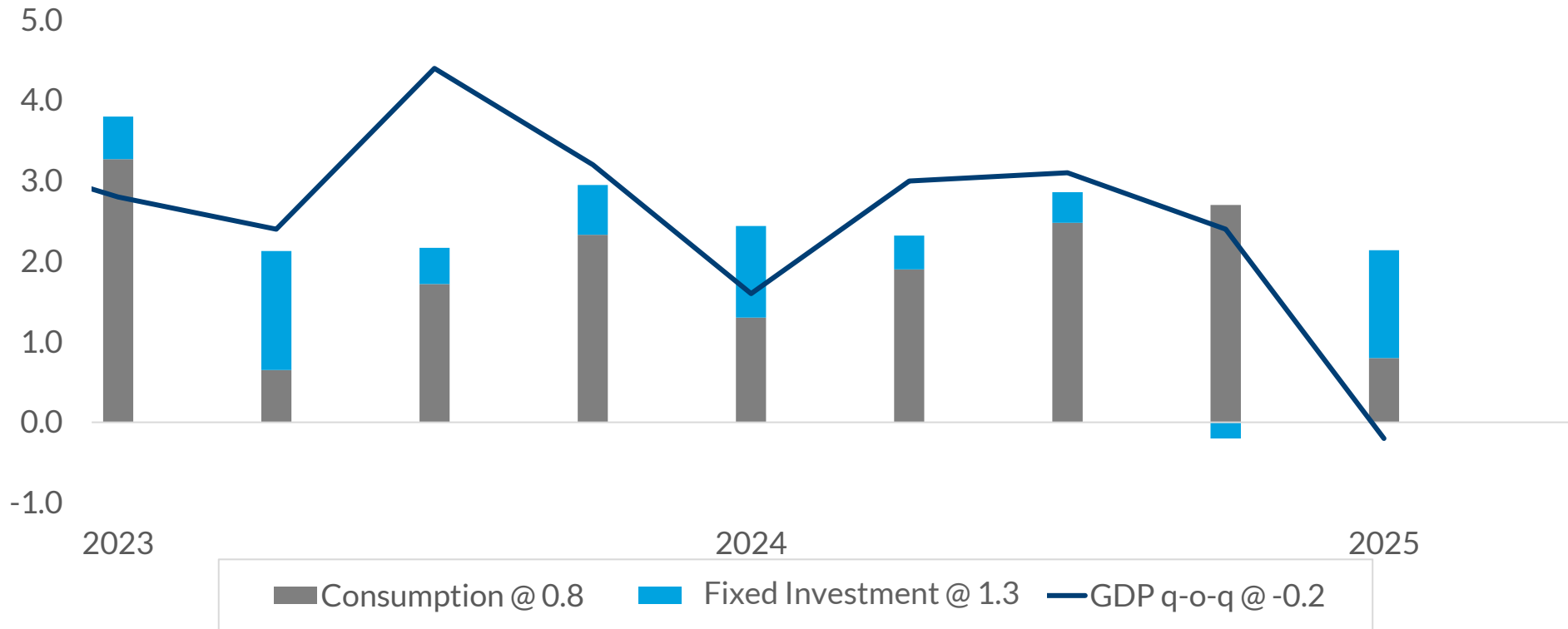




# Final Sales to Domestic Private Purchasers

- It clearly shows domestic demand and the strength of private-sector spending.
- It measures the total domestic spending of domestically produced goods and services.
- It excludes government spending, net trade and changes in inventories, which can be volatile.

GDP & Final Sales to Domestic Purchases  
 %, quarterly change, seasonally adjusted  
 As of 2025: Q1



Data current as of May 29, 2025  
 Source: Bureau of Economic Analysis  
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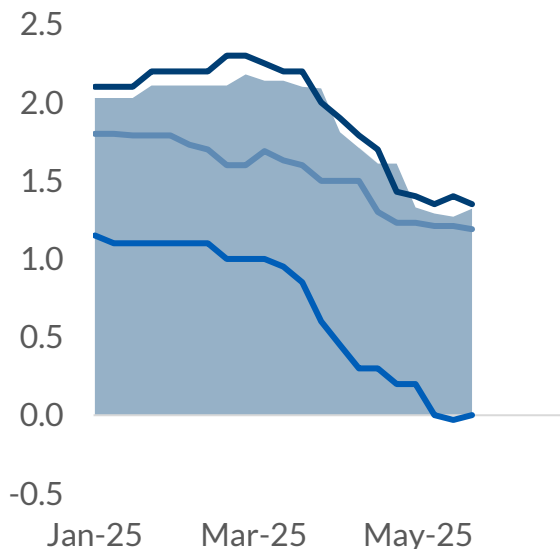
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# Global GDP

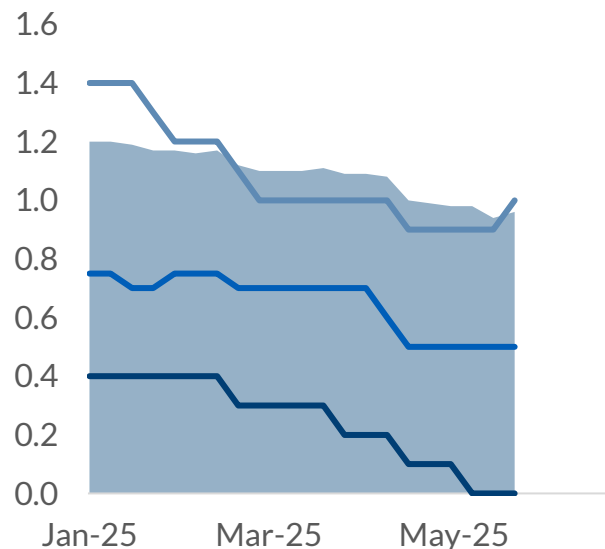
- The outlook for economic growth has diminished due primarily to tariff talk and fear of a trade war.
- Most countries are structured for free trade; adjustments will harm near-term performance.
- Uncertainty over trade policies continues to weigh on the economic outlook.

GDP 2025 Forecast:  
North America  
%, annual rate



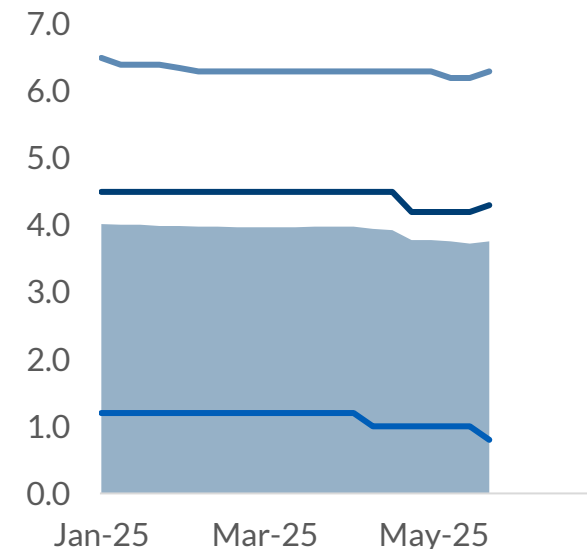
North America @ 1.3  
 U.S. @ 1.4  
 Canada @ 1.2  
 Mexico @ 0.0

GDP 2025 Forecast:  
Western Europe  
%, annual rate



Western Europe @ 1.0  
 Germany @ 0.0  
 U.K. @ 1.0  
 France @ 0.5

GDP 2025 Forecast:  
Asia Pacific  
%, annual



Asia Pacific @ 3.8  
 China @ 4.3  
 India @ 6.3  
 Japan @ 0.8

Data current as of May 27, 2025.

Sources: Bloomberg Composite of Economic Forecasts.

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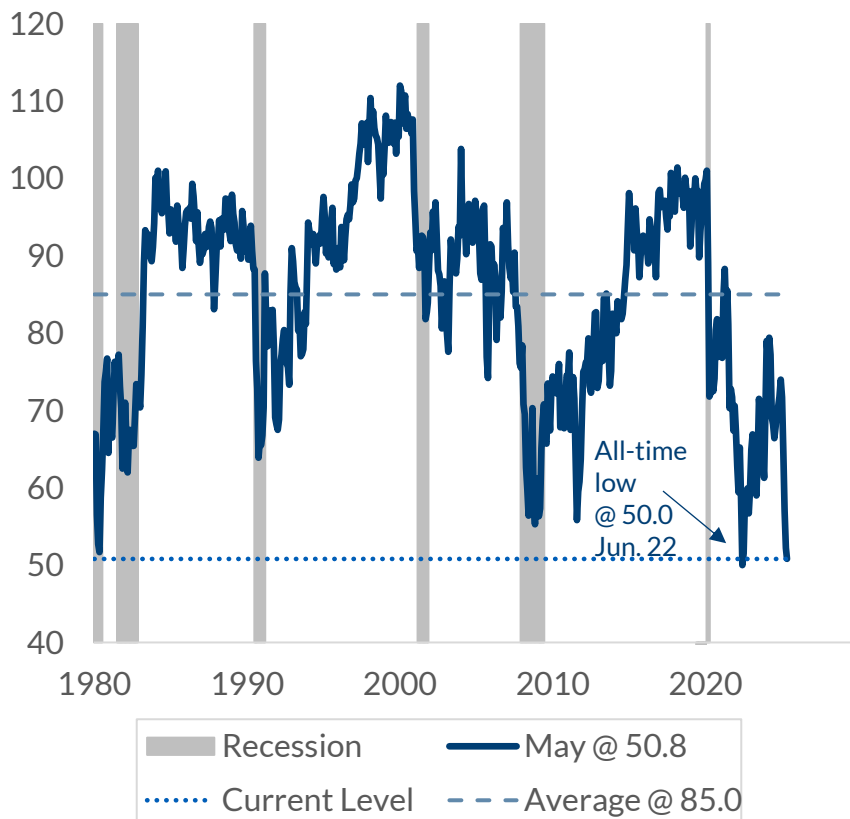
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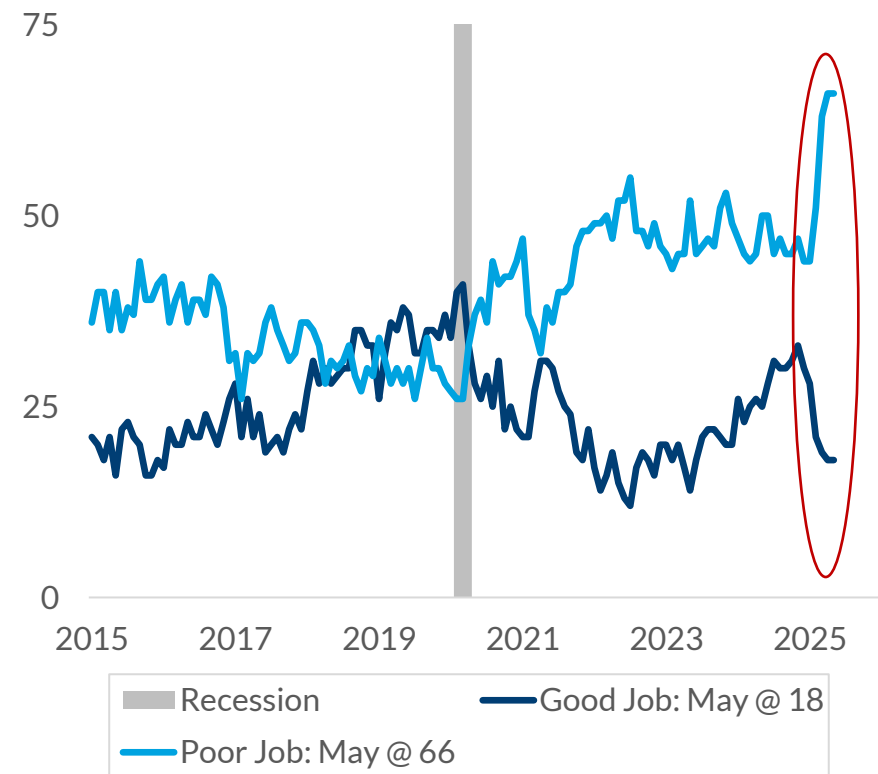
# Consumer Sentiment

- The post-election euphoria has disappeared due to a high level of uncertainty.
- Households remain concerned regarding the impact of tariffs, inflation and income.
- Sentiment has decoupled from actual consumer spending over the past several years.

UMich: Consumer Sentiment  
index value, not seasonally adjusted



UMich: Opinion of Government's  
Economic Policy Index  
index value, not seasonally adjusted



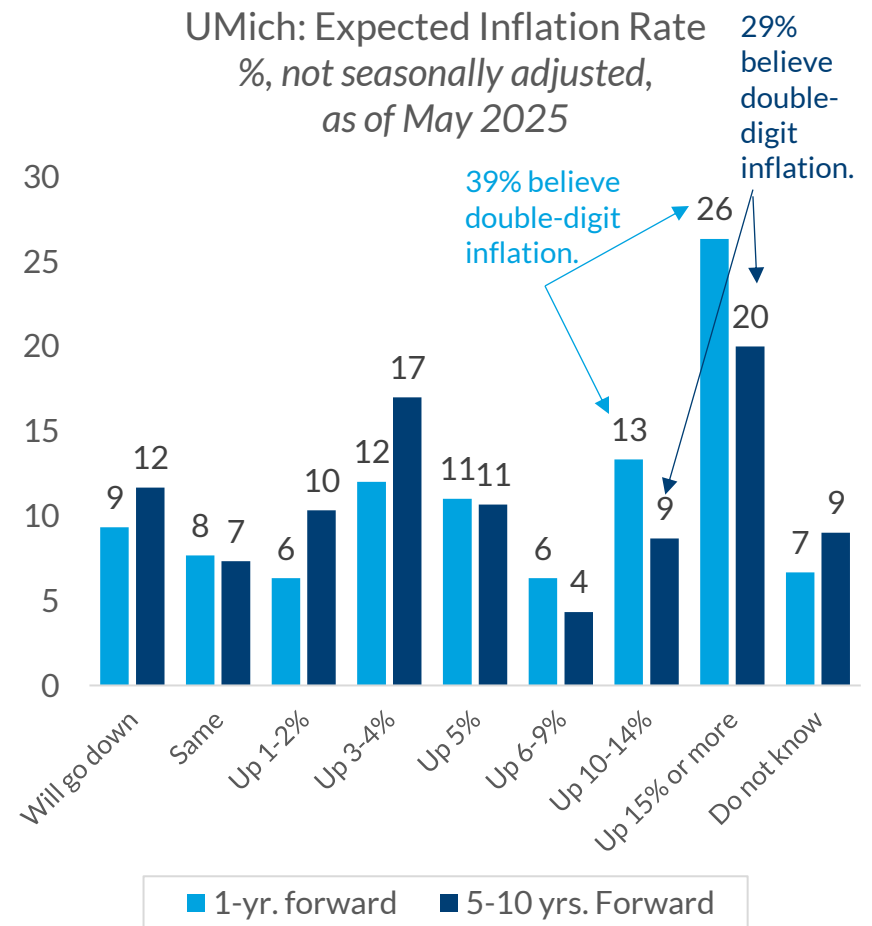
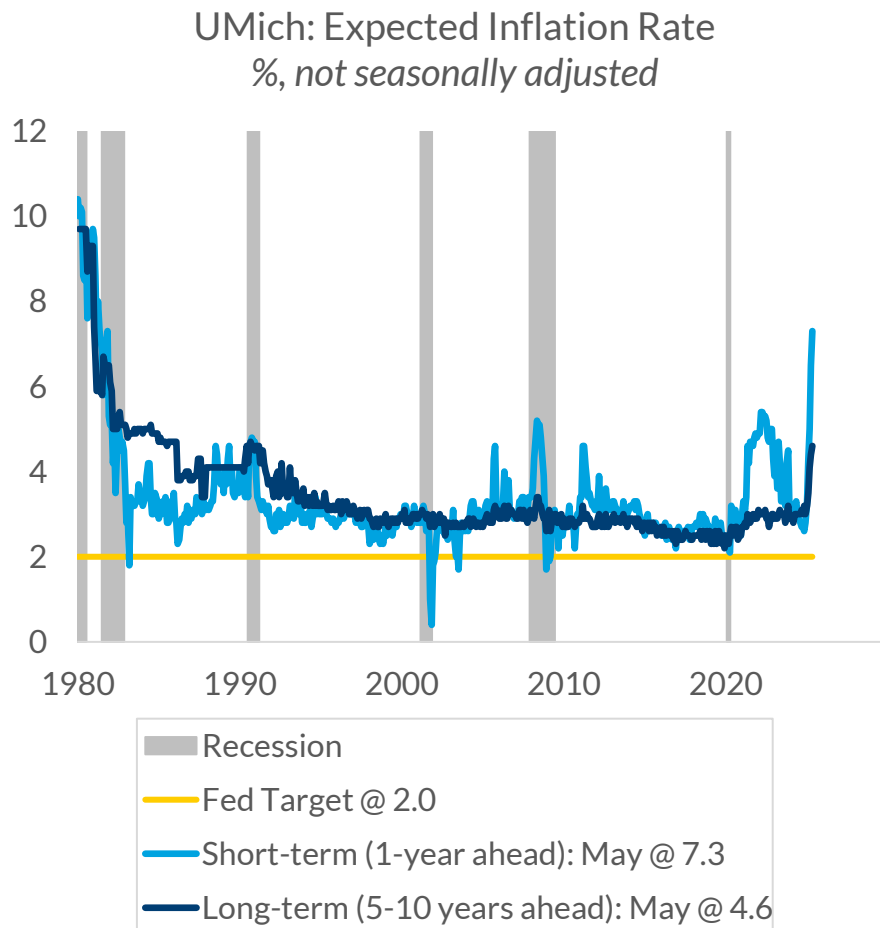
Data current as of May 27, 2025.  
Source: University of Michigan Surveys of Consumers.  
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# Inflation Expectations

- Inflation fears had been fading, but tariffs have revived concerns.
- Near- and long-term inflation expectations have jumped to levels not seen in several decades.
- CNR believes that tariffs are not an inflationary impulse but just a one-time jump that reduces demand for other goods and services.



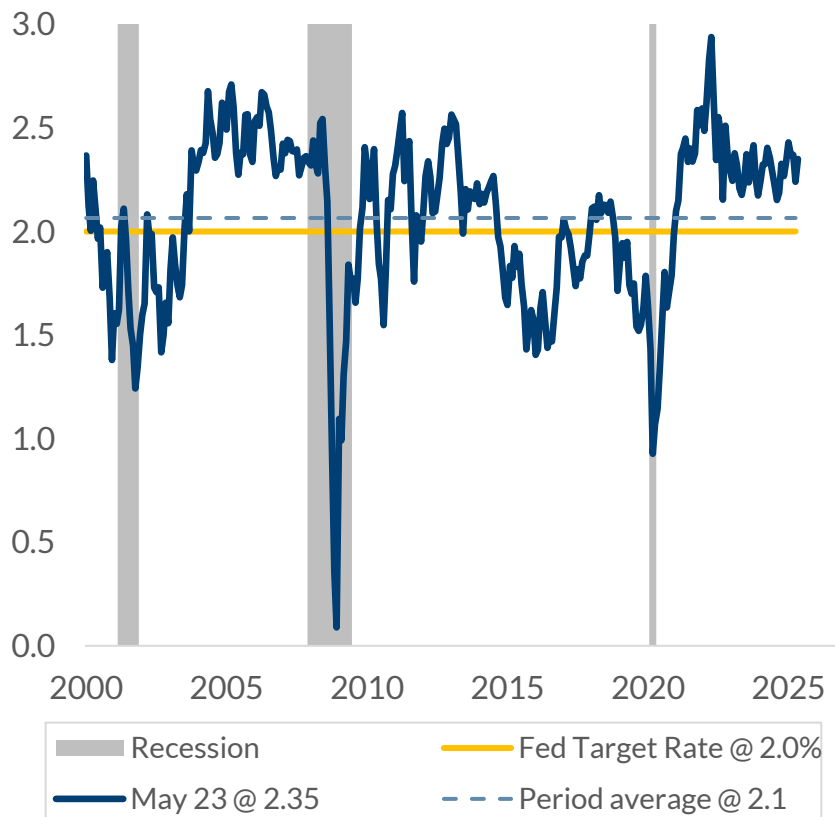
Data current as of May 27, 2025.  
Source: University of Michigan Consumer Sentiment Index.  
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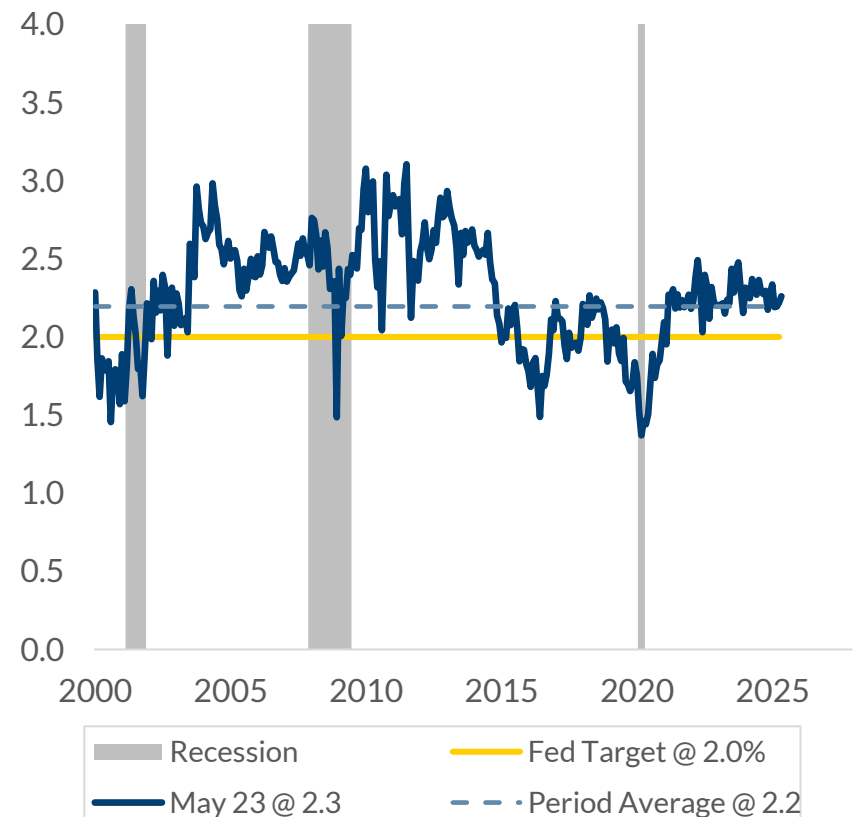
# Inflation Expectations

- Market-based inflation expectations are not fearful of inflation increasing significantly.
- These indicators are more broad-based than survey data and are updated daily.

Inflation Expectations  
%, 10-yr treasury breakeven



Inflation Expectations  
%, 5-year/5-year forward breakeven



Data current as of May 27, 2025.

Source: Bloomberg.

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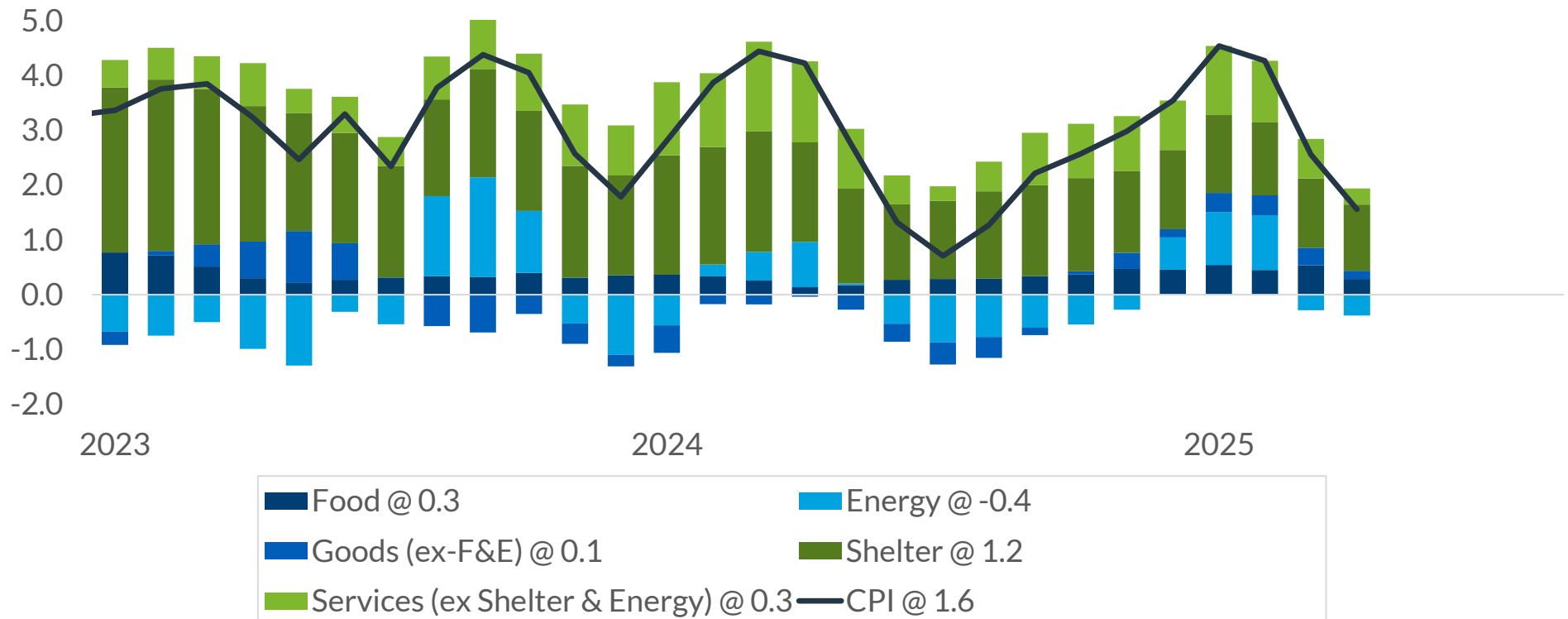
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# Inflation

- Tariffs have yet to significantly impact prices. This is not surprising; it takes time.
- CPI has moderated over the past few months due primarily to lower energy prices.
- Due to tariffs, goods prices are expected to increase after years of deflation.

CPI: Contribution  
 3-month annualized rate, seasonally adjusted  
 as of April 2025



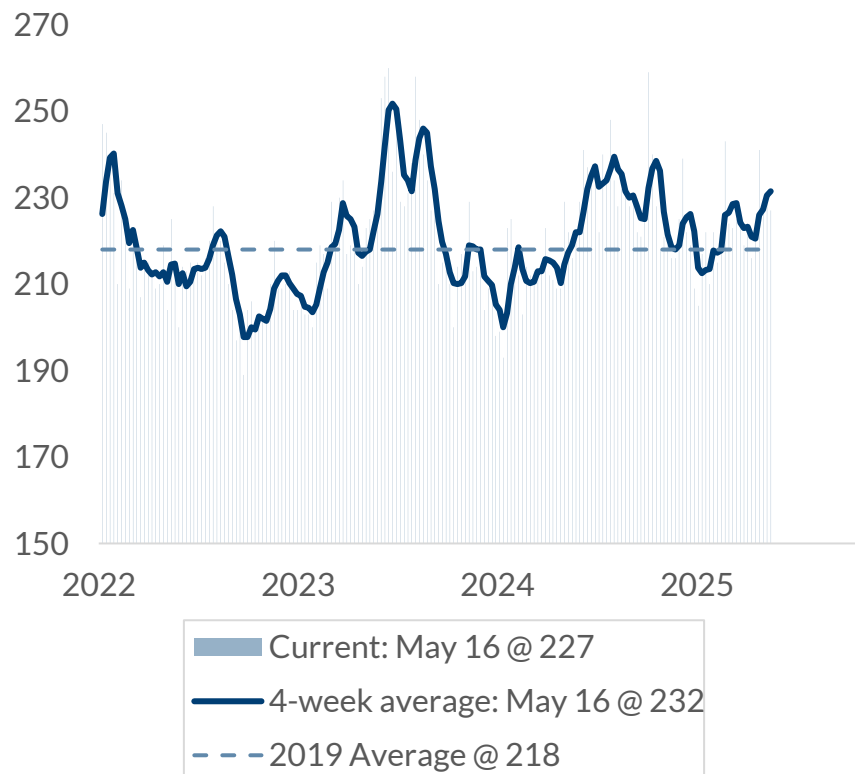
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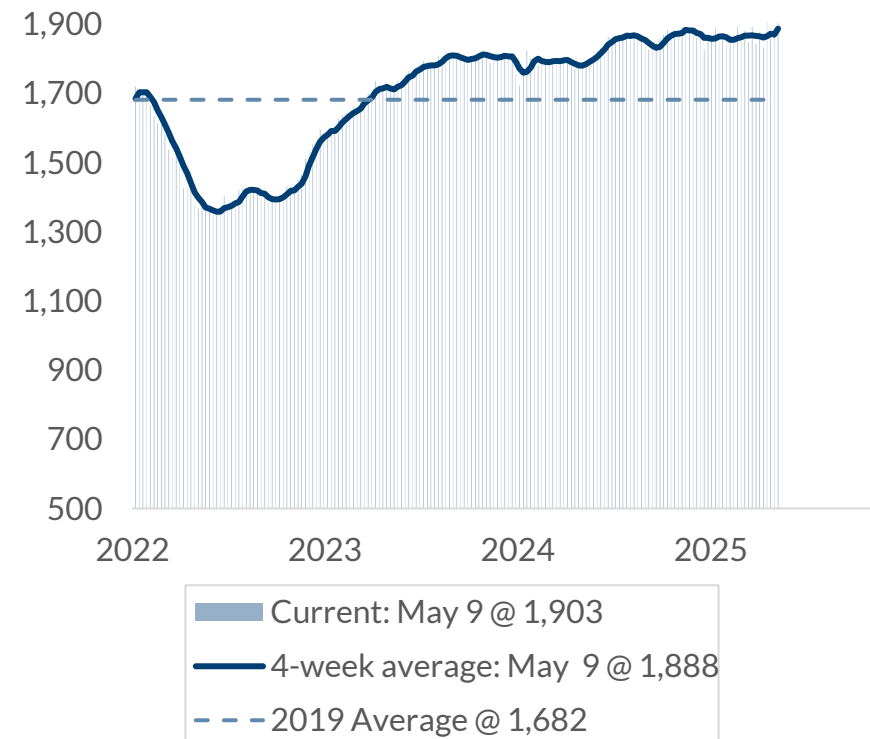
# Labor Market

- Although economic growth is expected to moderate, businesses have yet to start laying off workers.
- Part of that is due to uncertainty over how severe the tariff impact will be.
- Many businesses remember the pandemic layoffs, following that, it challenging to rehire workers.

Initial Claims for Unemployment Insurance '000, seasonally adjusted



Continuing Claims for Unemployment Insurance '000, seasonally adjusted



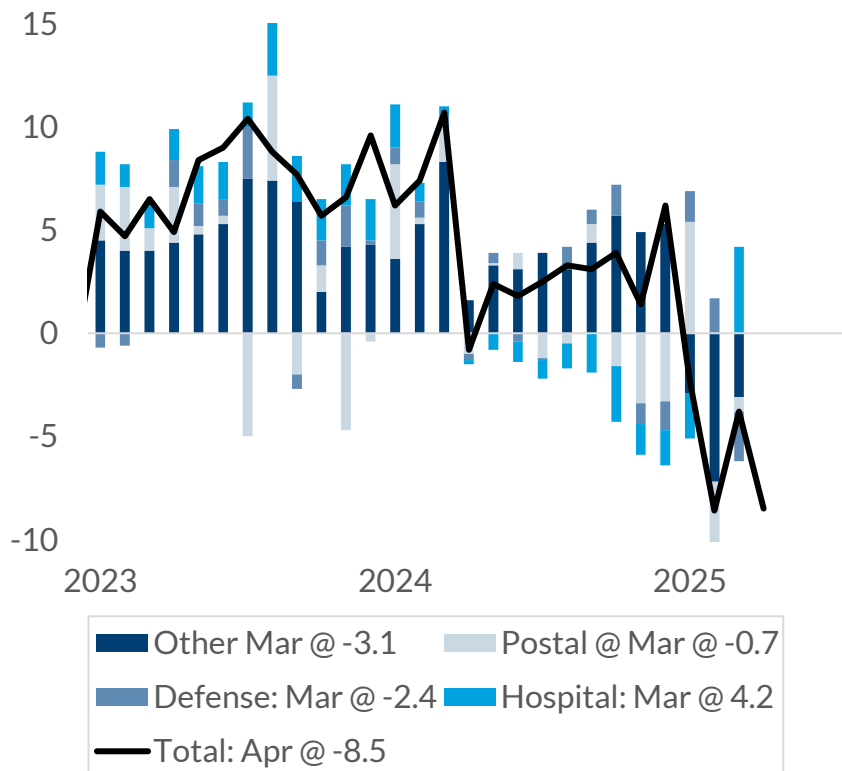
Data current as of May 27, 2025.  
 Source: Department of labor.  
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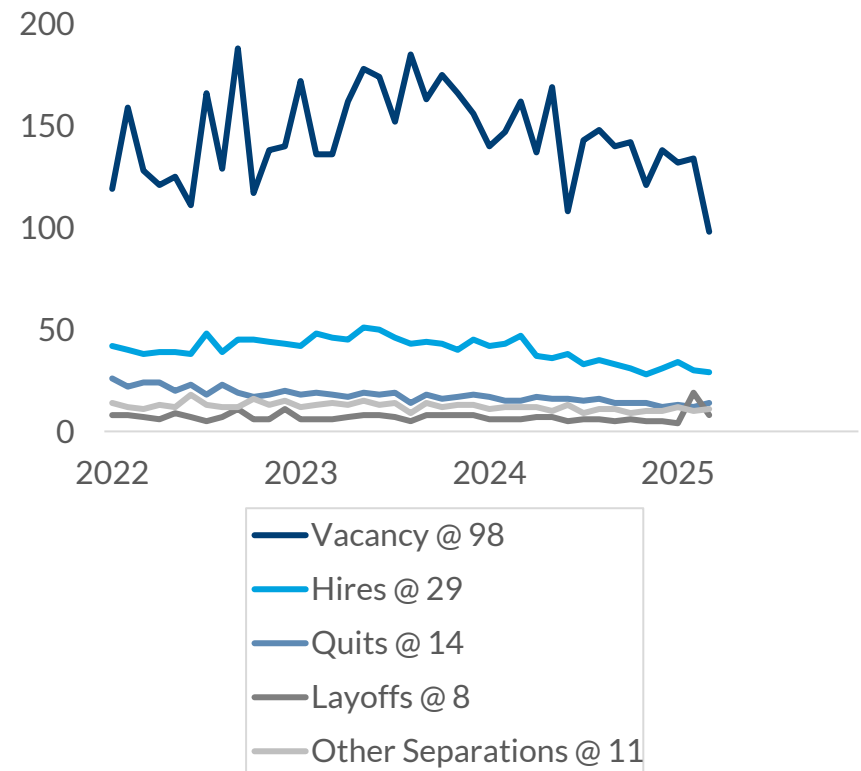
# DOGE

- Goal: To modernize information technology, maximize productivity and efficiency, and cut wasteful spending.
- News reports on its progress have focused on layoffs, not other parts of its goals.
- Although DOGE’s actions have been met with opposition and lawsuits, they appear to have an impact on federal government hiring.

NFP: Federal Workforce  
% of workforce, as of April 2025



JOLTS Data: Federal Workers  
'000, seasonally adjusted, as of March 2025



Data current as of May 27, 2025.  
Source: Bureau of Labor Statistics.  
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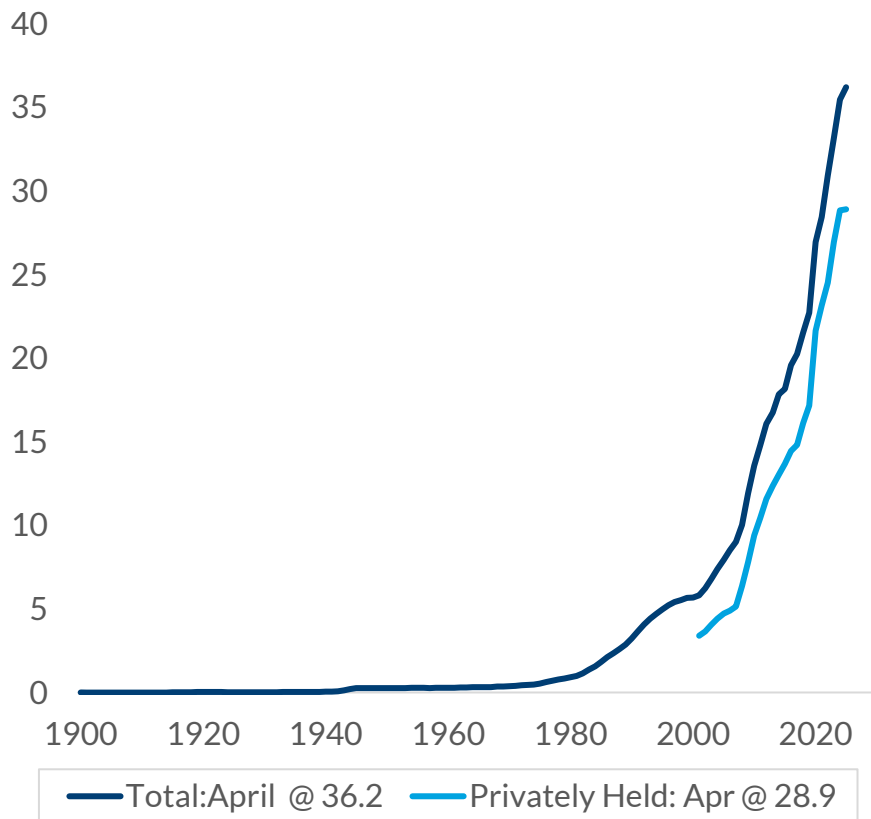




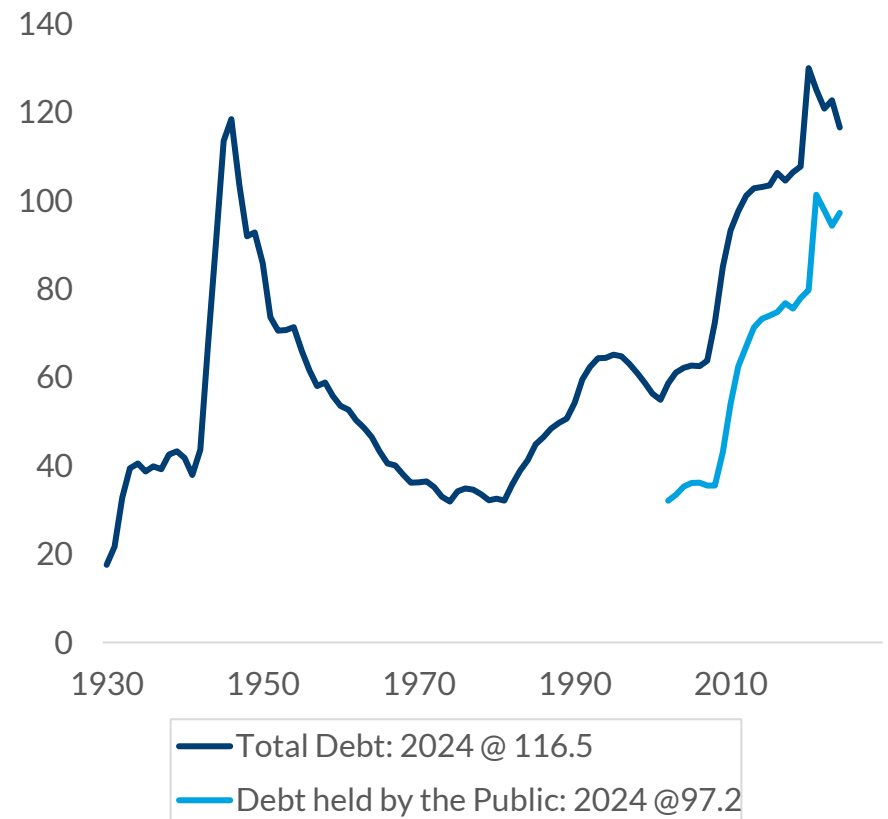
# Federal Debt

- The amount of federal debt, in absolute or relative to GDP, is at or near record highs.
- There is growing concern about the sustainability of the continued growth of the debt.

Federal Debt  
\$, trillions



Federal Debt to GDP  
%, total debt and privately held debt



Data current as of May 27, 2025.  
Sources: U.S. Treasury, Bloomberg.  
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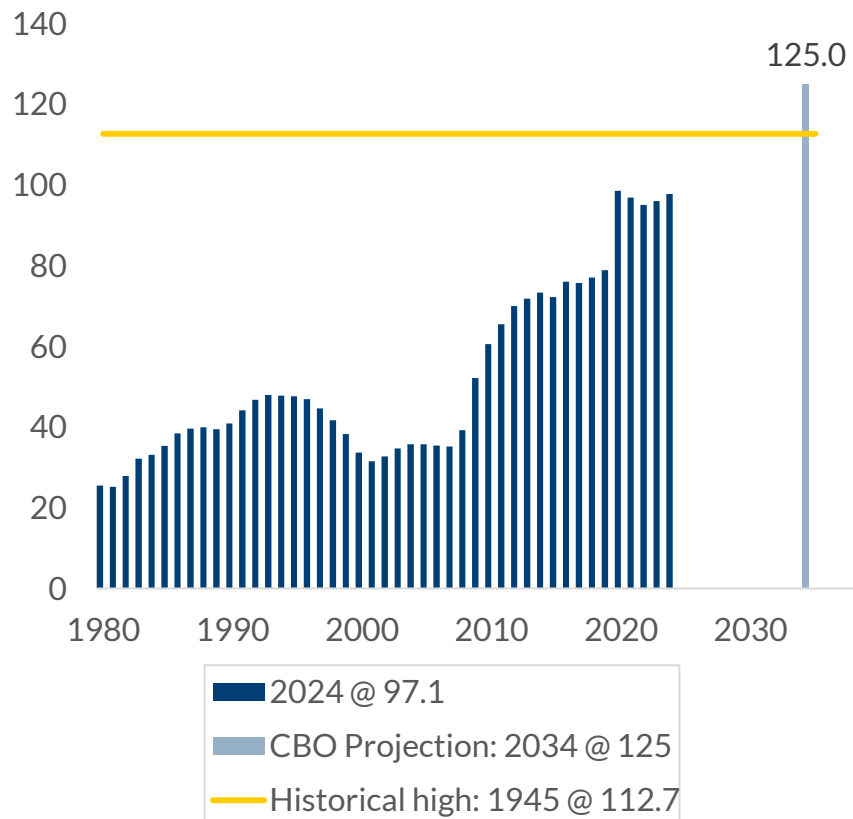
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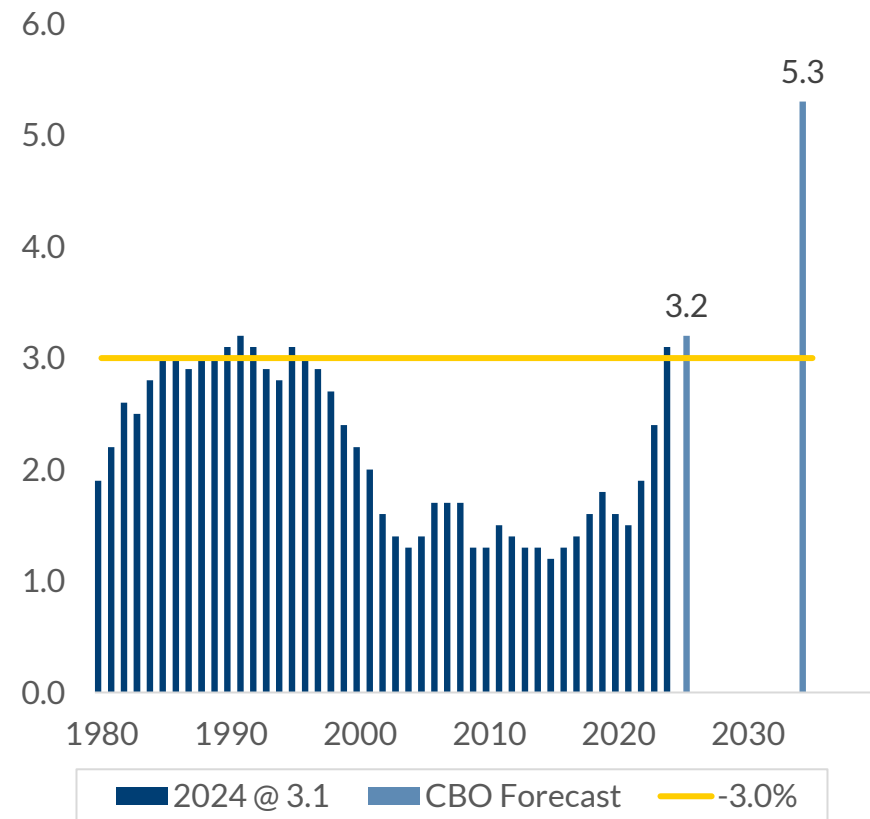
# Federal Debt

- Many economists believe the annual federal deficit should be around 3.0% of GDP.
- Treasury Secretary Bessent shares that same goal.
- That will be hard to accomplish since interest payments alone are 3.1%.
- The House budget has it growing to 5.3% by 2034.

Federal Debt: As a Percent of GDP  
%, annual, May 2025 CBO forecast



Federal Debt: Net Interest Outlays  
% of GDP, with CBO January 2025 forecast



Data current as of May 27, 2025.  
Source: U.S. Treasury, Congressional Budget Office.  
Information is subject to change and is not a guarantee of future results.

NON-DEPOSIT INVESTMENT PRODUCTS: • ARE NOT FDIC INSURED • ARE NOT BANK GUARANTEED • MAY LOSE VALUE



# Key Points

- CNR does not forecast a recession this year.
- We do not expect a trade war, just a fight over tariffs, which should end by Q4.
- Inflationary pressures should be contained allowing the Fed to cut the funds rate later this year.
- The administration wants to focus its attention away from tariffs and toward the budget and reducing regulations.

Data current as of May 2025.  
Information is subject to change and is not a guarantee of future results.

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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 US equity performance.

The 10-year Treasury bond yield is the interest rate the U.S. government pays to borrow money for a decade, serving as a benchmark for other interest rates and a key indicator of investor sentiment about economic conditions. It matters because it influences borrowing costs, impacts the valuation of financial assets, and signals expectations about inflation and economic growth.



# Definitions

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

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.

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.

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.

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.

Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting.

Risk sentiment refers to how financial market participants (traders and investors) are behaving and feeling. It describes their willingness to take on risk, with risk-on sentiment indicating preparedness to take risks and risk-off sentiment indicating caution

A collateralized Bond Obligation (CBO) is an investment-grade bond that is backed by a pool of junk bonds. Junk bonds are typically not investment grade, but because the pool includes several types of credit quality bonds together from multiple issuers, they offer enough diversification to be structured as “investment grade.”

The term premium refers to the additional return that investors require for holding a longer-term bond as opposed to a series of shorter-term bonds.



# Important Information

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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.

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.

There are inherent risks with fixed income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond. 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.

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.

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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