

WEBINAR

February 2025 Market Update Webinar

A Deep Dive into CNR's Economic and Investment Outlook

February 20, 2025

In the “Monthly Update” video released on February 20, 2025, City National Rochdale’s Chief Investment Officer, Charles Luke, and Senior Economist and Portfolio Manager, Paul Single, provide a comprehensive analysis of the current economic landscape and financial markets. Their discussion encompasses recent economic indicators, market trends and strategic investment considerations, aiming to equip investors with a nuanced understanding of the prevailing financial environment.

Economic Overview

Economic Forecasts

- January changes include a higher estimated ranges for 2025 GDP and interest rate forecasts.

- GDP growth is expected to remain above trend, supported by potential pro-growth fiscal policy.
- Corporate profits are expected to be higher in 2025.
- Inflation pressures are expected to ease but may remain elevated based on the new administration’s policy.
- Additional Fed cuts are supportive of continued expansion.
- Structural pressure will likely keep 10-year Treasury yields over 4%.

City National Rochdale Forecasts		2024	2025e
Real Annual GDP Growth		2.5% (a)	2.0% to 2.5%
Corporate Profit Growth		8.8% (e)	10.0% to 14.0%
Headline CPI Year End		2.9% (a)	2.50% to 2.75%
Interest Rates	Federal Funds Rate	4.25% to 4.50% (a)	3.75% to 4.25%
	Treasury Note, 10-Yr.	4.57% (a)	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. a: actual.

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

Sources: Bloomberg, FactSet, proprietary opinions based on CNR Research, as of February 2025. Information is subject to change and is not a guarantee of future results.

The U.S. economy continues to exhibit growth as it progresses into 2025. City National Rochdale projects a Gross Domestic Product (GDP) growth rate ranging between 2.0% and 2.5% for the year, indicating steady and sustainable economic expansion. This optimistic outlook is underpinned by several key factors:

- **Inflation Trends:** Inflation rates remain on a downward trajectory, with expectations to fall solidly below 3% by year-end. Some measures may even approach the Federal Reserve’s 2% target by the third quarter, suggesting effective containment of price increases. However, potential tariff implementation and broader policy objectives could change the prevailing trends.
- **Labor Market Strength:** The employment sector remains resilient, characterized by strong job creation and wage growth. This vitality in the labor market serves as a cornerstone for ongoing economic momentum, bolstering consumer spending and confidence.

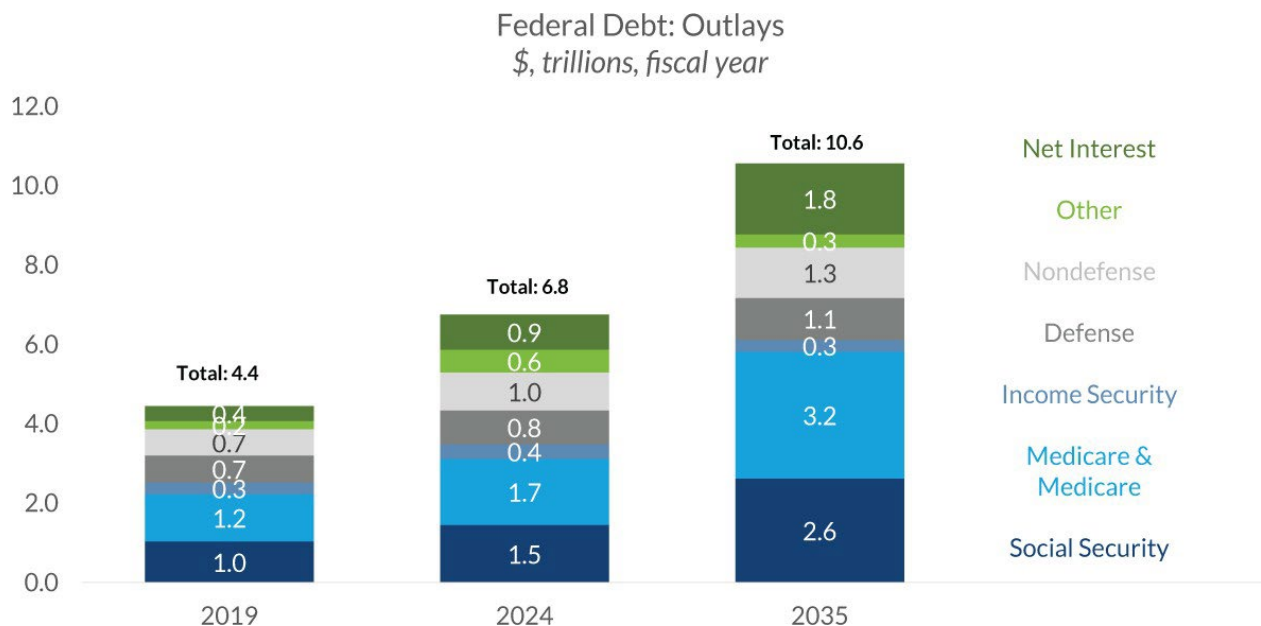
Monetary Policy and Interest Rates

Monetary policy continues to play a pivotal role in shaping the economic landscape. The Federal Reserve is proceeding with its easing cycle, albeit at a cautious and measured pace. Following a 25-basis-point rate cut in December 2024, the Fed has signaled a more gradual approach to further reductions. City National Rochdale maintains its forecast of one to two additional rate cuts in 2025, aligning with the stance held since the previous fall.

This deliberate approach by the Federal Reserve aims to balance the objectives of sustaining economic growth while mitigating potential inflationary pressures. Investors are advised to monitor central bank communications closely, as monetary policy decisions will significantly influence market dynamics and investment strategies.

The Federal Government Spends a Lot of Money

- ◆ Federal outlays were 55% higher than just five years ago; both years saw a healthy economy – no special needs.
- ◆ Spending is expected to grow 56% by 2035, assuming no change to current law.
- ◆ Federal spending has averaged 140% of income for the past 15 years.



Data current as of February 19, 2025

Source: Congressional Budget Office

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

Energy Sector Dynamics

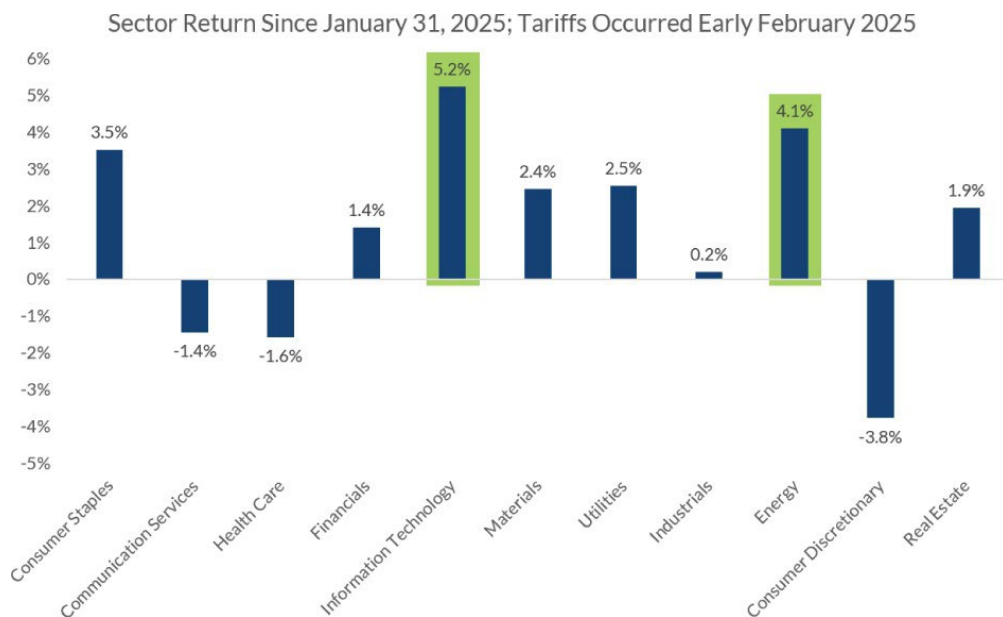
The energy sector has undergone notable adjustments, influenced by policy decisions, supply dynamics and geopolitical factors. City National Rochdale has slightly increased its positive outlook on energy costs, reflecting these developments. Key considerations include:

- **Policy Initiatives:** The administration has actively pursued strategies to lower oil prices and boost production. President Trump's emphasis on energy security, coupled with efforts to control inflation, has led to direct appeals to major oil-producing nations to adjust output and pricing.
- **Supply and Demand Balance:** Domestic energy production remains robust, with supply effectively meeting demand. This equilibrium suggests that, despite potential volatility, significant spikes in energy prices are unlikely in the near term.

For investors, the stabilization of energy prices presents both opportunities and challenges. While lower energy costs can alleviate inflationary pressures and support economic growth, the sector may experience periods of volatility due to geopolitical uncertainties and policy shifts.

Potential Sectors to Embrace or Avoid

- ◆ Returns to S&P 500 sectors reveal the potential company impact from additional tariffs.
- ◆ Given low tech exposure to Canada & Mexico and energy's domestic focus, both sectors stand out.



Data current as of January 30, 2025

Source: CNR Research

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

Market Themes and Geopolitical Considerations

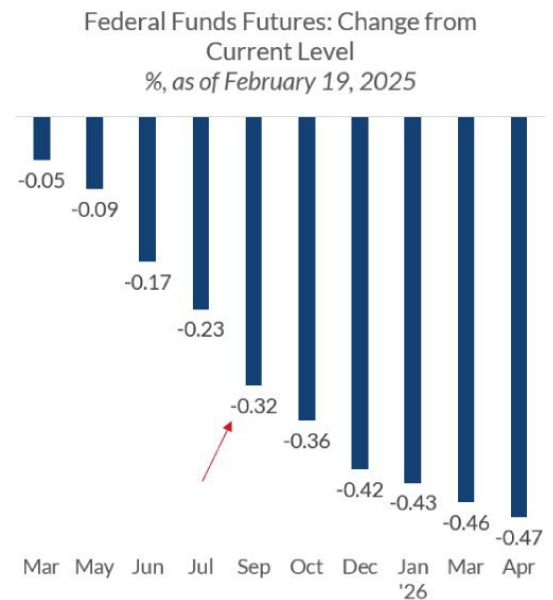
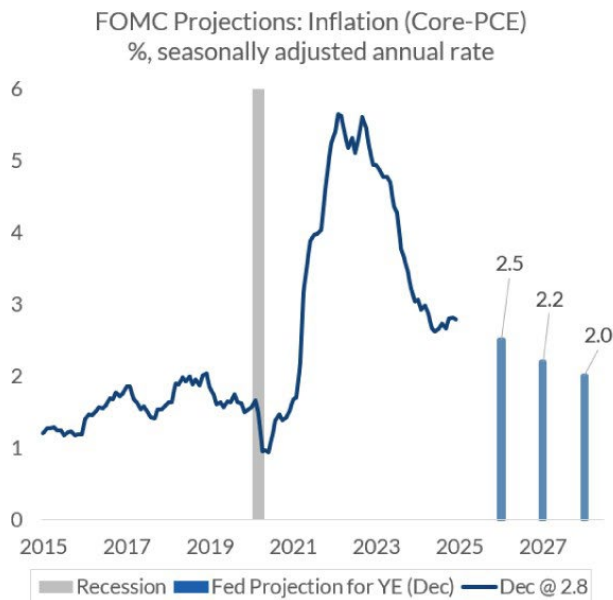
Several overarching themes are poised to influence global markets throughout 2025:

- **Administrative Policies:** Governmental decisions, particularly those related to trade and regulation, are expected to have profound impacts on various sectors. Investors should stay informed about policy changes that could affect market conditions and investment opportunities.
- **Geopolitical Tensions:** International relations and geopolitical events remain critical risk factors. Ongoing tensions in certain regions could lead to market volatility, affecting investor sentiment and asset valuations.
- **Technological Advancements:** The acceleration of artificial intelligence and other technological innovations continues to reshape industries and investment landscapes. Staying abreast of technological trends is essential for identifying growth opportunities and potential disruptions.

City National Rochdale emphasizes the importance of these themes, noting that several have already begun to influence market behavior in the early months of the year. Investors are encouraged to consider these factors when making strategic decisions, as they are likely to play significant roles in shaping the financial environment.

The Market Appears to Be More Skittish Than The Fed

- ◆ The Fed focuses on PCE (and Core-PCE) inflation, just 0.3 percentage points from the YE projection.
- ◆ The Fed plans 50 bps in cuts to the federal funds rate; the market is not as aggressive.



Data current as of February 19, 2025

Source: Federal Reserve Bank, Bloomberg's WIRP page

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Investment Strategies and Considerations

In light of the current economic and market conditions, City National Rochdale suggests several strategic considerations for investors:

- **Diversification:** Maintaining a diversified portfolio can help mitigate risks associated with sector-specific volatility and geopolitical uncertainties.
- **Focus on Quality:** Investing in high-quality assets with strong fundamentals may provide resilience against market fluctuations and economic shifts.
- **Monitor Policy Developments:** Staying informed about monetary policy and administrative decisions is crucial, as these factors can have immediate and long-term impacts on various asset classes.
- **Adapt to Technological Changes:** Recognizing and adapting to technological advancements can uncover new investment opportunities and safeguard against obsolescence in certain sectors.

By integrating these considerations into their investment approaches, individuals can better navigate the complexities of the current financial landscape. City National Rochdale

remains committed to providing insights and guidance to assist investors in making informed decisions aligned with their financial goals.

In conclusion, the “Monthly Update” underscores a cautiously optimistic outlook for the U.S. economy and financial markets in 2025. While challenges persist, particularly concerning geopolitical tensions and policy uncertainties, the fundamental indicators point toward sustained growth and stability. Investors are encouraged to remain vigilant, informed and adaptable as they navigate the evolving economic terrain.

Note: The information provided in this summary is based on insights from City National Rochdale as of February 2025 and is intended for informational purposes only. Investors should consult with financial professionals to tailor strategies to their individual circumstances.

Review Your Portfolio with Your Financial Advisor Today

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

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.

Definitions

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.

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.

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