City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

MAY 7, 2018

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Is City National Rochdale's outlook still positive for 2018?

Volatility spikes in the capital markets are not unusual even in the best of times. Our focus remains on the positive outlook for continued economic growth and improving corporate earnings.

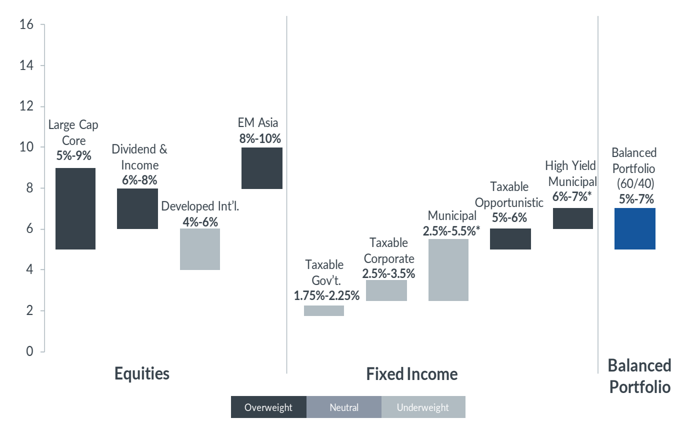
Under these conditions, maintaining our mild pro-growth cyclical investment stance (with a preference toward equities over bonds) continues to be warranted.

However, the investment landscape is growing more challenging as investors adjust to a more typical late-stage expansion environment of higher inflation, rising interest rates and less accommodative monetary policy.

None of this means there are not more worthwhile gains ahead for investors, but it does highlight the value of active management and the need for investors to become more selective.

Beginning in 2017, both our equity and fixed income research teams have been making deliberate risk-mitigating portfolio decisions. These decisions have helped fortified client portfolios to weather the turbulence we are experiencing while leaving them well positioned to take advantage of a still positive investment outlook.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of May 2018. Forecast expected returns represent City National Rochdale's opinion for these asset classes, are for illustrative purposes only, and do not represent client returns. The expected returns presented for these asset classes do not reflect any deductions for City National Rochdale fees or expenses. Actual client portfolio and investment returns will vary.

***Forecasted expected returns for HY Municipal and Municipal FI represent the taxable equivalent return at a 43.40% tax rate.**

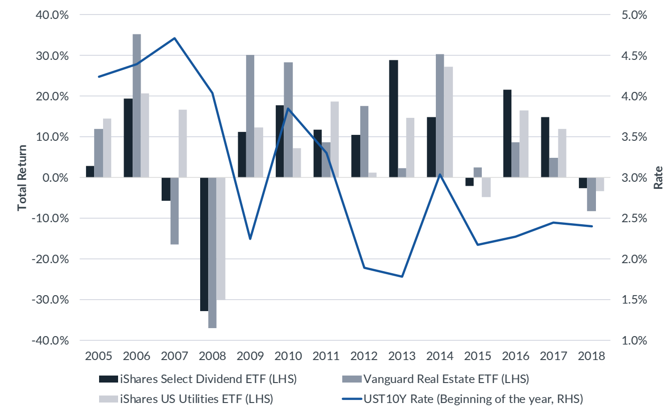
Are Dividend and Income Equities still attractive?

Yes, we believe that much of the weakness in dividend stocks this year has been due to outsized expectations regarding higher rates. However, over the longer term, lengthy historical analysis shows there has not been a strong correlation between returns of high dividend stocks and periods of rising interest rates.

Interest rates are just one of many factors that affect the longer-term performance of dividend stocks.In fact, past research has found that dividend stocks can do well in a higher rate environment provided that the economy is improving and companies are growing their earnings.

Our focus remains on identifying undervalued, high-quality companies with solid prospects for dividend growth under most conceivable economic environments. Going forward, we continue to feel that modest return expectations in the 6-8% range, as driven by yield (actual) and growth in yield (projected), are realistic.

Total Returns vs. UST10Y Rates (Through 3/29/2018)



Source: Factset. As of March 2018

Is the slowdown in Q1 U.S. GDP growth a cause for concern?

No, weakness in first quarter GDP has not been uncommon in recent years, with average growth well below that of other quarters, and factors driving the slow start to 2018 appear largely transitory rather than reflective of any problem with the economy's underlying fundamentals.

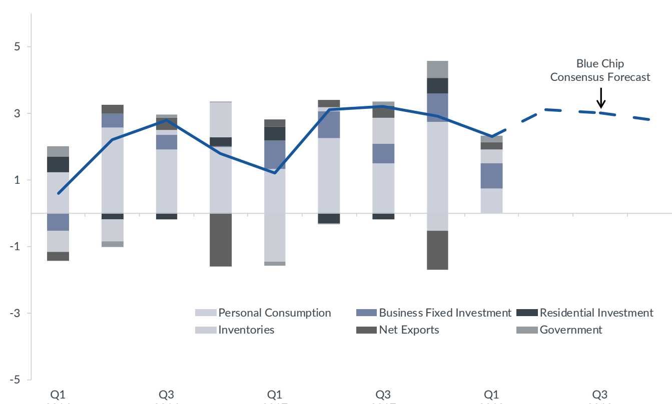
The underlying trend in domestic demand remains well supported by continued job creation, rising wages, healthy corporate and consumer balance sheets, solid corporate sales and corporate earnings growth, and high levels of business and consumer confidence.

In fact, smoothing out the quarter-to-quarter swings, the U.S. economy ran at a very healthy 2.9% y/y pace in Q1 – the best gain since the second quarter of 2015.

Much of the moderation in overall growth over Q1 reflected a slowdown in consumer spending after an especially strong end to last year, and more recent data suggest consumption growth is already rebounding.

Not only do most indicators suggest economic fundamentals remain strong, but expectations are that U.S. GDP growth will pick up in coming months as tax savings start to add up and higher government spending begins to filter through the economy.

GDP and Sector Contributions (%)



Source: Bureau of Economic Analysis, Blue Chip Economic Forecasts. As of April 2018.

Should investors be concerned about the flattening yield curve?

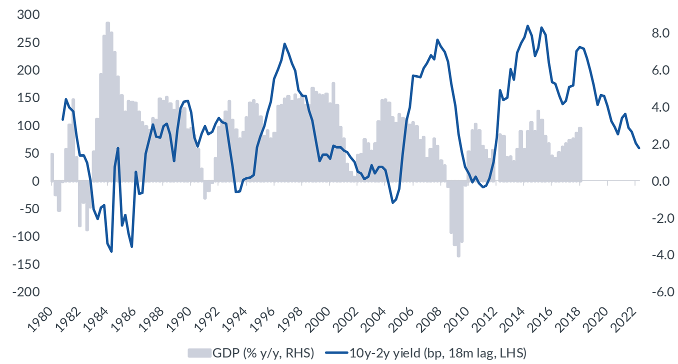
An inverting yield curve has been a good leading indicator of recessions in the past, but there is almost no broader relationship between the relative flatness of the yield curve and economic growth or equity returns.

For example, the gap between 10- and 2-year Treasury yields was close to zero for most of the second half of the 1990s, but the economy remained unusually strong for most of that time, and stock markets soared. More recently, the yield curve was unusually steep between 2010 and 2015, yet GDP growth averaged only slightly more than 2%.

We would not be dismissive of a flatter yield curve altogether – it is an important input to our forecasts – and if the curve were to actually invert at some point, we would be more concerned. Still, a flattening yield curve is a natural byproduct of a maturing of the business cycle.

The outlook for the economy, corporate profits, inflation and level of interest rates are more important for determining the direction of the stock market than the shape of the yield curve, especially after a period of substantial manipulation by central banks.

Yield Curve & GDP Growth



Source: Federal Reserve. As of April 2018.

What did the Fed decide at its recent meeting?

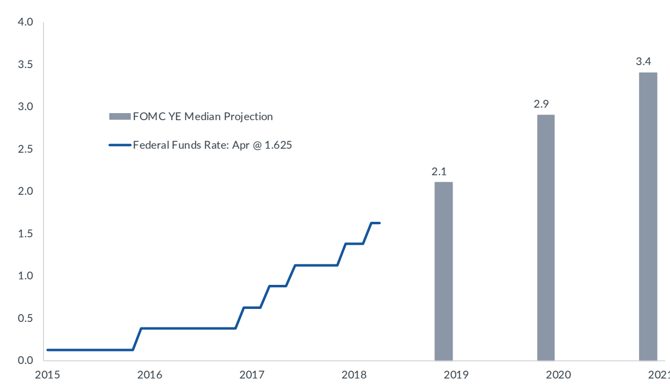
Although inflation is creeping higher, the Federal Open Market Committee decided to keep the federal funds rate at the current level (1.625%), as expected.

That said, the markets are fully pricing in a rate hike at the next FOMC meeting on June 13, six weeks away.

The FOMC's median estimate is for two more rate increases this year, to bring the 2018 total to three (chart). But it is a close vote. Eight policy makers believe the Fed will have a total of three hikes or less, while seven believe it will be four or more hikes.

The important issue for investors is that the Fed is committed to the gradual increase in interest rates, which it has had in place for several years.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve Bank. As of April 2018.

Should municipal bond investors consider extending out on the yield curve despite expected increases in the Fed Funds rate?

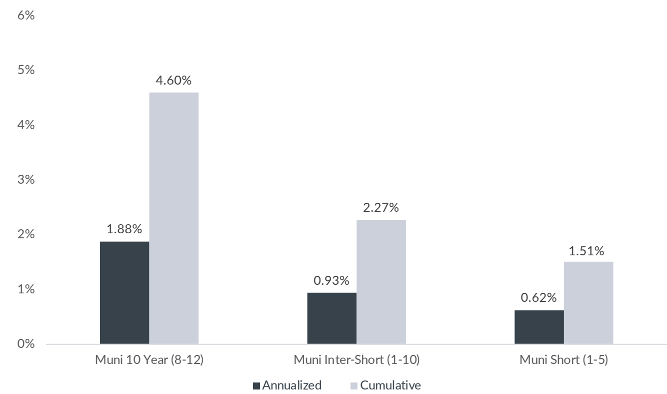
Given that the Federal Reserve has increased the overnight lending rate six times since December 2015, many investors may be surprised to learn that longer duration municipal bond strategies have actually outperformed shorter duration strategies during this time period. The chart to the right demonstrates the annualized and cumulative returns for three municipal bond indices (namely a 1-5 year, 1-10 year and 8-12 year index) since the Fed first raised rates in this current tightening cycle.

When investors hear that the Federal Reserve is raising rates, the knee-jerk reaction is to avoid longer maturing bonds. After all, why would an investor knowingly assume the risk associated with longer duration assets when interest rates are increasing?

The answer is quite simple – as the Fed increases the Fed Funds rate, the curve rarely shifts upward in a parallel fashion. For example, during this current tightening cycle the Fed Funds rate has increased 1.50% whereas the 10 year treasury bond has increased only 60 basis points during the same time period (through March 31). Furthermore, the 10 year AAA municipal yield has increased by only 44 basis points during the same time period – municipals tend to lag moves in the treasury market.

The same phenomenon has occurred in the prior three Fed tightening cycles. Armed with this knowledge, municipal investors should not fear the Fed even if they are invested in longer maturing bonds.

Municipal Returns Since Fed Began Tightening 11/30/2015 - 04/30/2018



Source: Bloomberg Barclays Index. As of April 2018

Important Disclosures

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Certain statements contained herein may constitute projections, forecasts, and other forward-looking statements, which do not reflect actual results and are based primarily upon a hypothetical set of assumptions applied to certain historical financial information. Certain information has been provided by third-party sources, and although believed to be reliable, it has not been independently verified, and its accuracy or completeness cannot be guaranteed.

Any opinions, projections, forecasts, and forward-looking statements presented herein are valid as of the date of this document and are subject to change.

There are inherent risks with equity investing. These include, but are not limited to, stock market, manager, or investment style risks. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investing in international markets carries 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. Emerging markets can have greater custodial and operational risks, and less-developed legal and accounting systems, than developed markets.

There are inherent risks with fixed income investing. These may 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.

Investments in below-investment-grade debt securities, which are usually called “high-yield” or “junk” bonds, are typically in weaker financial health, and 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.

The yields and market values of municipal securities may be more affected by changes in tax rates and policies than similar incomebearing 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.

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.

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

Returns include the reinvestment of interest and dividends.

Investing involves risk, including the loss of principal.

As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money.

Past performance is no guarantee of future performance.

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.