City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

NOVEMBER 5, 2018

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Has the volatility in the stock market affected the bond market?

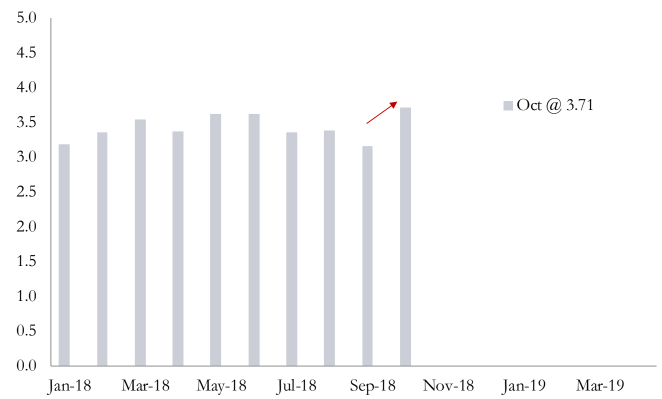
There has been some movement in the high-yield sector, with credit spreads widening out 69 basis points from the lows of October, to 371 bps (chart).

The credit spread is the yield advantage that bonds have over like maturity treasury securities. The larger credit spread represents greater perceived risk of the bond.

The widening of the credit spreads is not a result of increased risk of immediate credit default, but instead reflects a greater feeling of uncertainty from the stock market. The high-yield market has about a 70% correlation with the equity markets.

Most of the poor performance in October has been at the lower end of the credit spectrum (bonds rated CCC), rather than the higher end of the spectrum (BB).

U.S. High-Yield Spreads Are Widening (%, Bloomberg/ Barclays HY Index, Option Adjusted Spread)



Source: Bloomberg, Barclays Index. As of October 2018.

KEY QUESTIONS

The Q3 GDP report came in strong; were there any surprises?

Is the recent decline in stocks the beginning of the end for the bull market?

Has the sell-off in the equity market affected the Fed's view?

The Q3 GDP report came in strong; were there any surprises?

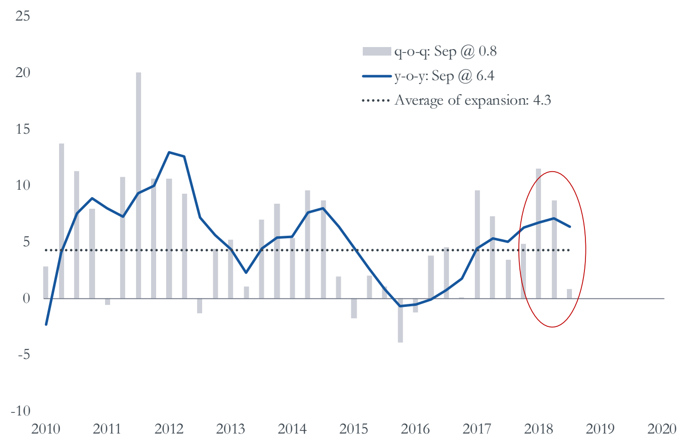
Q3 GDP came in stronger than expected, confirming the economy is maintaining solid momentum. Q3 GDP growth was 3.5%; this is on top of the 4.2% growth rate in Q2. It marks one of the best six-month stretches in the past decade.

A surprise came with unexpected weakness in business spending. This has been fading quickly since hitting a recent peak back in Q1 of 11.5%. But it fell in Q2 to 8.7% and in the recently released Q3 report it showed growth of just 0.8% (chart).

This was the area that the $1.5 trillion tax cut was supposed to boost with increased spending on capex, which would propel and sustain growth above the 3.0% rate.

It could be that corporations are focusing their tax savings on stock buyback.

GDP: Non-Residential Investment (%)



Source: Bureau of Economic Analysis. As of September 2018.

Is the recent decline in stocks the beginning of the end for the bull market?

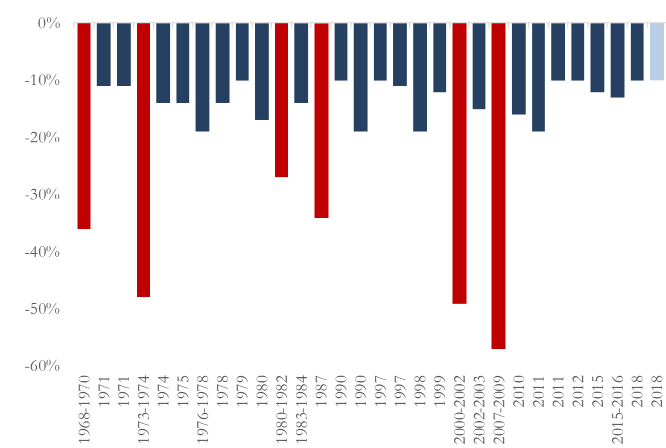
No. We see the current pullback as a healthy and probably overdue correction that can help ultimately extend the long-running bull market, rather than the prelude to a more severe downturn.

The sell-off has been spurred by concerns over a number of issues ,including: peaking corporate profits, slowing global growth, ongoing trade tensions, rising interest rates and a fading boost from fiscal stimulus.

The vast majority of corrections are relatively short-lived and don't turn into bear markets. We have been expecting a return to more normal market volatility this year, as rates rise and central banks around the world are poised to provide less stimulus.

Our client portfolios are constructed with this volatility in mind and should withstand the correction relatively well due to our high-quality equity allocation and overweight to U.S. Large Cap stocks versus Midsmall Cap and International.

S&P 500 Corrections & Bear Markets



Source: FactSet. As of October 2018.

Has the sell-off in the equity market affected the Fed's view?

At this stage, the Fed is probably not going to alter their tightening stance on monetary policy. They have five more hikes planned between now and the end of 2020.

The Fed takes a longer-term view on market conditions compared with how the press and traders look at the market. The Fed looks at the gains in wealth from the stock market over the past two, three, five and ten years, not the movement in the past month.

Not only has the stock market traded off, but financial conditions are getting tighter (chart). The Goldman Sachs Financial Conditions Index (FCI) measures financial conditions that influence economic activity. This index measures: federal funds, 10-year treasury yields, credit spreads, S&P 500, and trade-weighted dollar.

After years of getting easier, it has taken a turn, due mostly to the higher interest rates and value of the dollar.

Financial Conditions Have Been Tightening (Goldman Sachs Financial Conditions Index)

Source: Goldman Sachs. As of October 2018.

What are the takeaways from the October employment report?

After a hurricane-dampened September, October's better-than-expected 250,000 gain in nonfarm payrolls confirms that the labor market, a key pillar of support for the economy, remains strong.

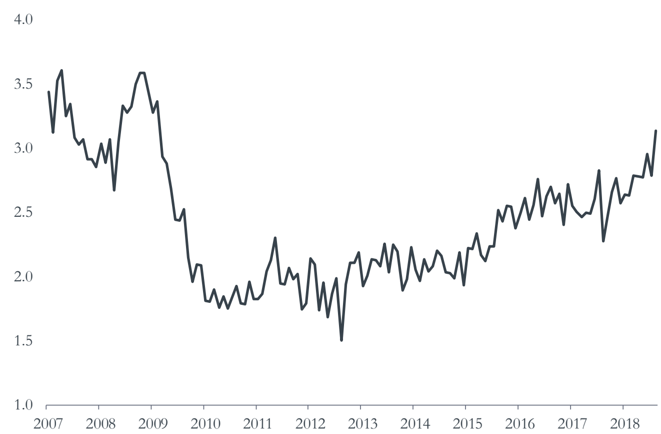
The number of Americans with jobs relative to the population reached a new post-recession high and annual growth in average hourly earnings jumped to its highest rate in a decade.

While there is little doubt that the full-employment half of the Fed's dual mandate is right on track, it has long been the inflation side of the scale that has caused head scratching among policymakers.

Inflation is on target now, and the question is how much pressure is bubbling beneath the surface. So far, there isn't a great deal of evidence for a breakout in price pressures. The improvement in wages, while welcome, has yet to confirm a sustained trend, as similar one-off increases earlier in the year have proven temporary.

That underpins our expectation that the Fed can continue with its gradual pace of rate hikes without running the risk of derailing overall economic growth.

Average Hourly Earnings % Change From Year Ago



Source: The Federal Reserve. As of October 2018.

Is City National Rochdale's investment outlook still positive?

Based on our outlook for solid economic growth and improving corporate earnings, we remain bullish on equities in general and continue to see attractive prospects in the opportunistic fixed income class. Bear markets outside recessions are rare.

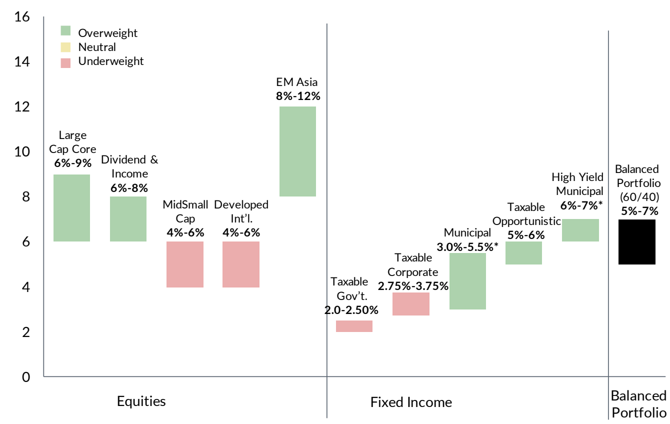
Still, we believe investors should prepare for more moderate returns in the months ahead and perhaps greater volatility. Patience and discipline will be more important than ever.

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

Meanwhile, concerns over global growth, rising trade tensions, midterm elections, and other geopolitical risks mean markets will likely continue to be subject to periodic swings in sentiment and potential pullbacks.

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. We actively manage portfolios to be aware of where we are in the cycle, to take advantage of opportunities as they arise, and to be on alert if conditions deteriorate.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of October 2018. Forecasted 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.**

Important Disclosures

The information presented does not involve the rendering of personalized investment, financial, legal, or tax advice. This presentation is not an offer to buy or sell, or a solicitation of any offer to buy or sell, any of the securities mentioned herein.

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 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.

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.