City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

OCTOBER 22, 2018

On the Radar

FAQS ON THE MARKETS AND ECONOMY

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.

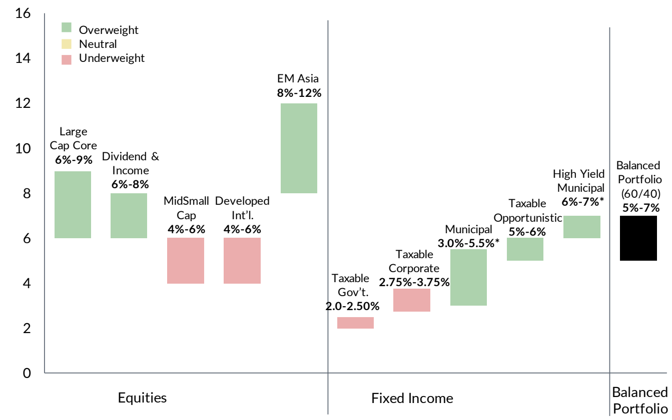
Still, we believe investors should prepare for more moderate returns in the months ahead and perhaps greater volatility. Patience and discipline will be more important than ever.

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.**

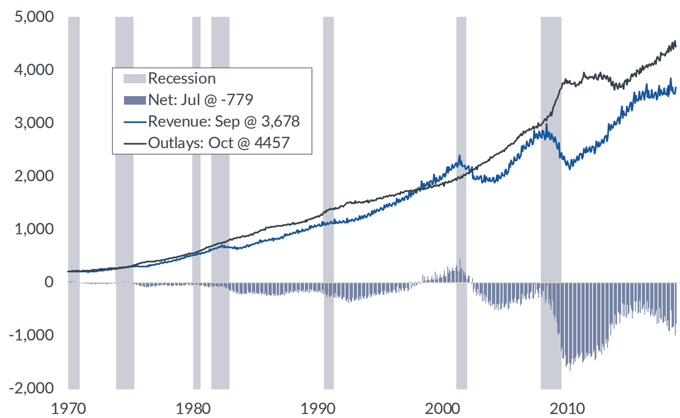
How big is the federal deficit?

The 2018 federal government's fiscal year ended on September 30 and the deficit spiked 17% to $779 billion, the largest deficit in six years. The total debt now stands at $21.5 trillion. For this fiscal year, the deficit is expected to increase another $1 trillion.

This is an unusual development in this expansionary economy. Normally, the deficit shrinks from higher tax revenue (from growing household income, larger corporate taxes and increasing capital gains) and shrinking expenditures (the declining need for unemployment insurance and food stamps). But this year, with the large tax cuts for individuals and corporations, revenues only grew 0.4% while expenditures grew 3.2%.

In the short run, this deficit has been stimulating the economy. Over the longer term, the large deficit is far more detrimental to the health of the economy. It tends to push up interest rates and squeezes out investment in productive capital, which leads to lower economic output.

Federal Revenues and Outlays, 12 mo. rolling total ($ billion)



Source: U.S. Treasury. As of September 2018.

With interest rates increasing, what is happening to the bond market?

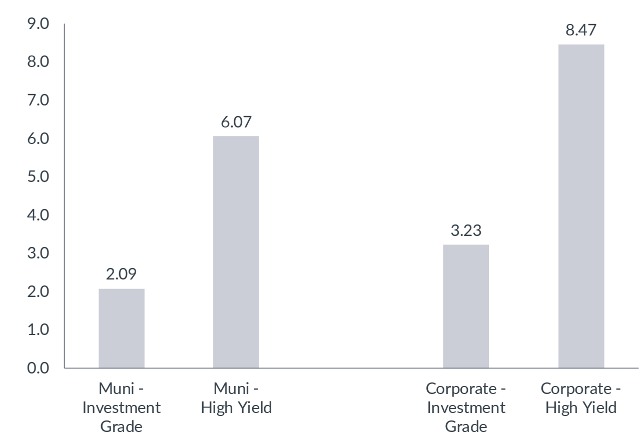
Interest rates have moving up at a gradual pace over several years. This is very good for improving total return (price change plus accrued interest) performance. Income increases due to the higher interest rates, while the price doesn't move much due to the slow-paced interest rate increase and aging of the bond.

Short-term interest rates started moving up in December 2015 when the Fed initiated its tightening of this cycle. Long-term rates began their upward movement in July 2016. So far, the Fed has increased rates 200 bps and the 10-year treasury has increased 184 bps.

Since the Fed started raising interest rates, investment grade bonds have had annualized total returns of 2-3% while High Yield has had total returns of 6-8%.

Looking forward, the Fed plans on continued gradual increases in short-term yields (one more hike this year and three hikes next year). Longer-term rates are expected to move up slowly due to relatively stable inflation.

Select Total Return Performance (%, annualized) (Since the Fed began raising interest rates)



Source: Bloomberg, Barclays. As of September 2018.

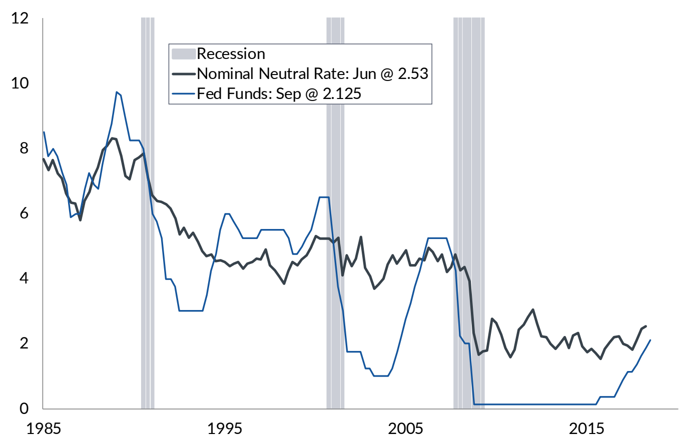
Did we gain any insight from the minutes of the recent FOMC meeting?

Surprisingly no, we did not gain any new insight, but we did get a deeper understanding of its outlook and future plans. In the press release following the September 26 meeting, Chairman Powell stated the economy was "remarkably positive" and the Fed may need to tighten monetary policy beyond the "neutral" rate. Adding to that, he believed the Fed had a long way to go to get to "neutral." That surprised many who thought the Fed was within two or three interest rate hikes away from neutral.

The neutral rate is a theoretical interest rate that neither stimulates nor constricts economic growth. The Fed has a model to calculate the neutral rate (chart). But, as Powell has pointed out, the neutral rate is not a precise number like the model reports, but a range around that number.

Although labor and inflation are in areas the Fed is comfortable with, it is not sitting back and enjoying it. The Fed will continue to vigilantly monitor various economic reports and will comment if they need to change their outlook. With the current strength of the economy, the Fed may need to move rates above the neutral level.

Nominal Neutral Rate & Federal Funds Rate (%)



Source: The Federal Reserve Bank, The Federal Reserve Bank of San Francisco. As of September 2018.

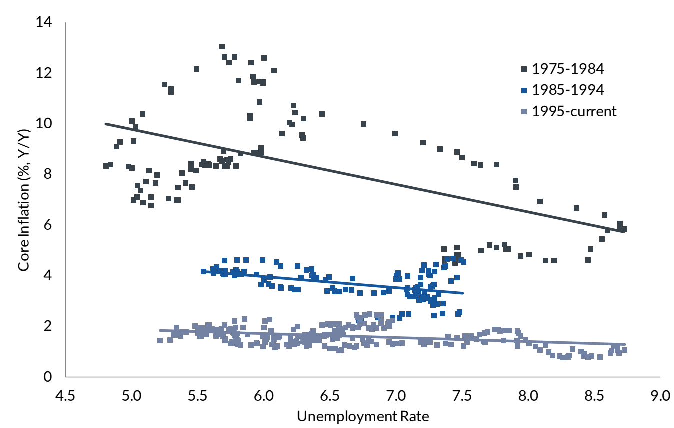
Is the Phillips Curve back from the dead?

After years of falling unemployment, wage growth has finally been picking up in the major advanced economies this year. This is partly because until recently there has been considerably more spare capacity in the labor markets than that captured by the headline unemployment rate.

However, the forces that have kept a lid on pay growth over the past decade are likely to prevent it from rising sharply, even at historically low jobless rates. For one thing, the factors that have caused the Phillips Curve to flatten over recent decades haven't gone away. Increased labor market flexibility, advances in labor-saving technology, and globalization are still weighing on workers' bargaining power.

Low and anchored inflation expectations, along with sluggish productivity growth, are also keeping a lid on earnings growth. The upshot is that we think wage growth is going to rise modestly in major advanced economies, but not take off. As a result, core inflation should also rise only gradually next year.

Phillips Curve Relationship (G7 Weighted Average)



Source: FactSet, Bloomberg. As of September 2018.

Is the recent stock market correction signaling the end of the bull market?

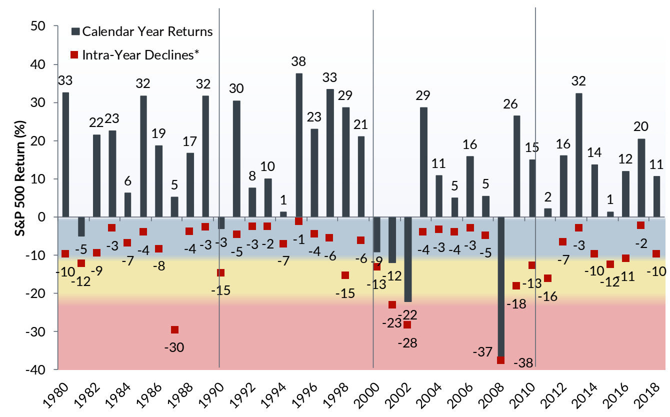
No. We see the current pullback as a healthy and probably overdue correction which can help ultimately extend the long-running bull market rather than the prelude to a more severe downturn. The sell-off has been spurred primarily by fears of higher real interest rates, as strong economic growth and signs of wage pressures have raised investor concerns that the Fed might tighten more aggressively than the markets had anticipated.

Our view is that as long as inflation remains at or near 2%, the Fed can continue to slowly hike short-term rates without cutting off the solid economic growth and robust corporate earnings that are supporting the current bull market.

While painful in the short term, corrections are a normal part of market movements. The S&P 500 has now endured three pullbacks of 5–10% this year, which is in line with the long-term average. 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 Return (%)



Source: FactSet. As of October 2018.

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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.