City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

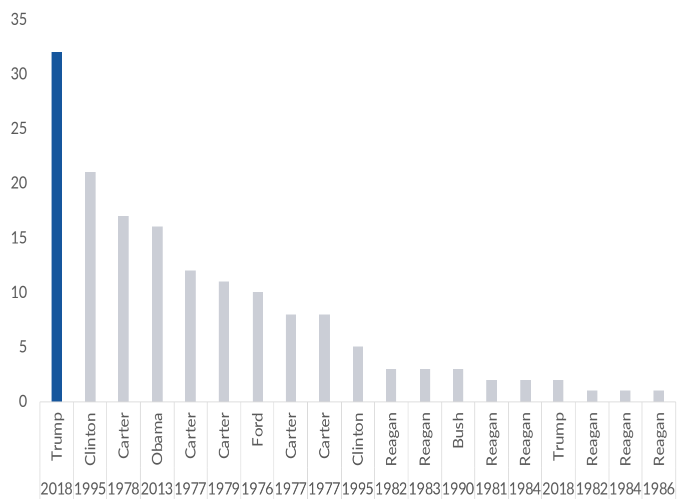
What is the impact of the U.S. government shutdown on the economy?

The government shutdown is now the longest in history and there's no sign that the standoff will be resolved anytime soon. Some 800,000 federal workers have been furloughed or are forced to work without pay, and another 4 million contractors have also been affected. Small businesses aren't getting loans, production has been put on hold, and permits are being delayed. So far, the direct shutdown impact on the economy as a whole is estimated to be fairly small. However, the longer the shutdown lasts, the bigger the risk is of broader damage.

According to the Council of Economic Advisers, the shutdown is currently reducing quarterly GDP by 0.13 percentage points every week. If it continues through the first quarter, it would subtract around 1.0-1.5% pts from Q1 GDP — enough to significantly slow but not derail economic growth.

Most but not all of that missed activity will be regained when the government reopens. Orders that would normally have been made will accelerate once the lights come back on, and we'll see a brief spurt of activity that should make up for lost time. For now, the bigger risk to the economy is probably still that the current stand-off is just a prelude to a full-blown crisis over the federal debt ceiling later this year.

Length (Days) of U.S. Government Shutdowns Since 1976



Sources: Congressional Research Service. As of January 2019.

KEY QUESTIONS

What does the defeat of the Brexit vote mean for the UK?

Will the bull market continue in 2019?

Is the labor market going to get stronger?

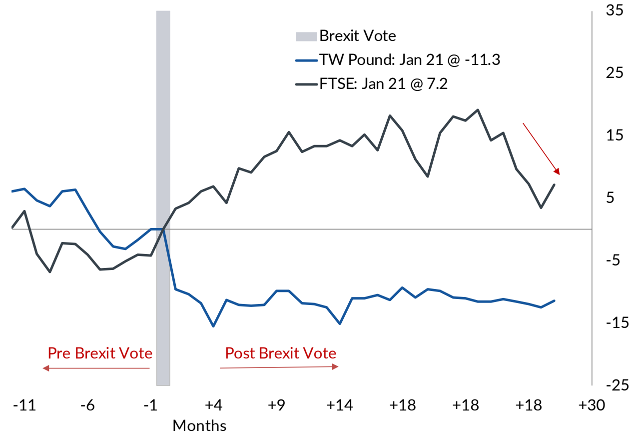
What does the defeat of the Brexit vote mean for the UK?

As the Brits would say, "This sure is a sticky wicket." It leaves the U.K and the European Union without any clarity on the details of the UK's planned departure from the 28-nation political block, which is scheduled for March 29.

Parliament defeated PM May's Brexit plan by 230 votes, the biggest defeat in Parliament in modern times. The fact that the defeat was so large makes it difficult to see the plan getting tweaked and approved in a second vote.

May's leadership narrowly survived a no-confidence vote. She will attempt to save the situation. There are several options ahead for the U.K. There could be new offers along with more votes, a new prime minister or government, a postponement of the exit due to another plan to be worked out with the European Union or something else.

UK Indicators (% Change, Indexed as of Brexit Vote)



Source: Bank of England, London Stock Exchange. As of January 21, 2019.

Will the bull market continue in 2019?

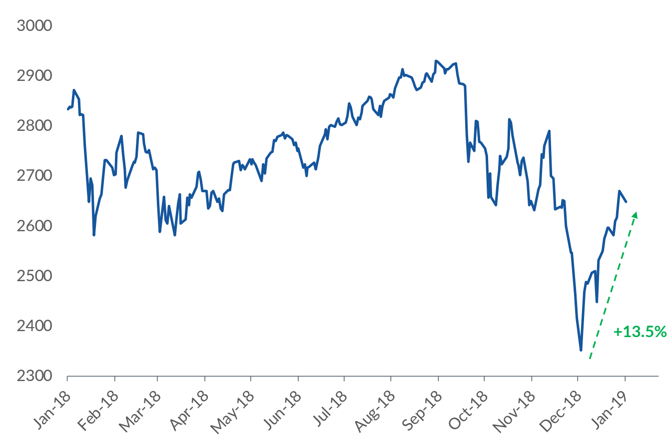
Based on positive economic, earnings and valuation factors, we continue to be bullish positive on U.S. equities in 2019 — though more moderate returns are expected. Equity markets appear to have found their footing over the first few weeks of the new year, with the S&P 500 now up 13.5% from December lows.

More dovish signals from the Fed and a resumption of trade negotiations with China have improved investor sentiment, while earnings and company guidance released so far have been better than feared. However, we think it is too early to declare the correction over, and we suspect the repricing process may last several months until we get more clarity on these issues.

Although recent declines in stock prices have been severe, it is important to remember that market corrections are also normal and investors should prepare for the potential of further volatility ahead. Longer term, we continue to believe the fundamental investment backdrop today is more favorable than recent short-term moves and headlines might suggest.

It may take time, but we believe investors will eventually reconnect to the still-positive outlook, allowing the long-running bull market to continue over the foreseeable future.

S&P 500



Sources: FactSet. As of January 2019.

Is the labor market going to get stronger?

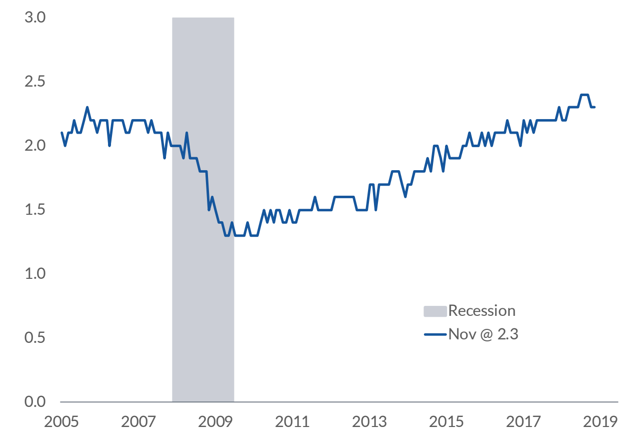
It sure looks that way. But the pace of growth may slow in 2019, for several reasons.

It was very strong last year, due heavily to the major corporate tax cut. Many companies used some of their tax savings to hire more workers in an attempt to capture market share. The tax cut will not be repeated, so companies will not be able to enjoy another year of tax savings.

Also, it is getting harder and harder to find qualified workers. This is the top complaint among employers.

This strong demand for workers is causing an upswing in the number of workers leaving their current job (chart) to get another job, which usually pays more.

The Quits Rate (%)



Source: Department of Labor. As of November 2018.

What are the credit implications of the partial federal government shutdown on municipal credit quality?

Over the near-term, it is unlikely municipal bond credit quality will materially be affected. The fundamental risk to state and local governmental issuers is the duration of the impasse, which amplifies the economic disruption the longer it persists as restricted resource flow slows the pace of fiscal expansion.

States have largely positioned themselves sufficiently during the current recovery (i.e., reserves and liquidity), which should support the capacity to counter the loss or delay in federal aid and grant contract revenue, but a prolonged scenario bears monitoring since legislative policy would likely become more difficult with time. Increasing demands on states to back-fill lost programmatic funding could force mid-course corrections to budgets.

For state and local governments, the regions where [non-appropriated] federal employment is concentrated, e.g., D.C. metro, the temporary loss of income is likely to reverberate through sales tax collections or other consumption-based levies. How well a government responds to revenue underperformance or unanticipated expenditure growth will be important considerations. Contingency planning is typically a well-embedded feature of high-quality municipal issuers.

We continue to monitor the impact of the shutdown on state and local governments, as well as enterprises such as transportation, and will proactively address concerns should they surface.

States' Federal Employment Most Affected by Partial Government Shutdown

State	Employment in Agencies Without Appropriations	Agencies With Enacted Appropriations	Unfunded Agencies % of Employment
District of Columbia	102,183	39,331	72.2%
California	41,478	102,223	28.9%
Texas	35,694	80,997	30.6%
Virginia	34,344	101,312	25.3%
Maryland	28,266	100,968	21.9%

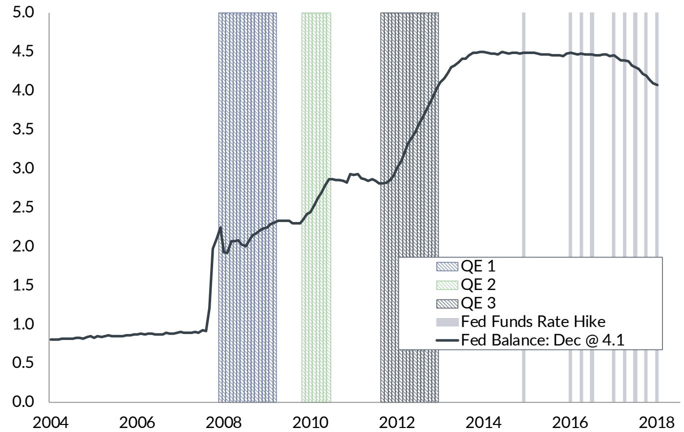
Source: Governing News & Analysis. As of December 2018.

What is happening with the Fed's planned reduction in their balance sheet?

In what has been dubbed "quantitative tightening" or QT, the reversal of the Fed's quantitative easing, the Fed is allowing bonds to mature out of their portfolio and not reinvesting the proceeds. The coupon payments still go to the Treasury. This is reducing the size of the Fed's balance sheet, which now stands at $4.1 trillion, down from a peak of $4.5 trillion. They are on a path to reach $3.5 trillion by mid-2020.

Since late 2017, when the Fed began this passive reduction program, they have wanted it to be "as boring as watching paint dry." And for most of the period it has been exactly that. But recently the markets have begun to worry about how much the Fed will shrink it. The Fed does not plan to bring it back down to the pre-recession level of $860 billion, mainly since their liability side of the balance sheet has grown. As the balance sheet shrinks, the bond market becomes livelier since the Fed is not buying as many securities, and this is occurring at a time the Treasury is stepping up issuance due to the ever-growing federal deficit.

Federal Reserve Balance Sheet ($, trillion)



Source: Federal Reserve Bank. As of December 2018.

What is City National Rochdale's investment outlook for 2019?

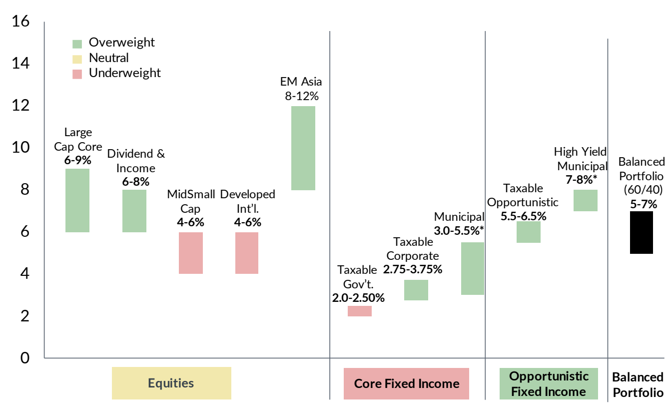
Although it can be difficult to remain calm in the midst of market action like we've seen over the past couple of months, our advice is to stay disciplined and invested. Given our positive assessment of the fundamental backdrop, we remain bullish on equities in general for 2019 and continue to see attractive prospects in the opportunistic fixed-income class.

Still, patience and discipline will be more important than ever. The investment landscape has grown more challenging as investors adjust to more typical late-stage conditions of higher inflation, rising interest rates and less accommodative monetary policy.

Meanwhile, concerns over slowing global growth, trade tensions and other geopolitical risks mean that markets likely will continue to be subject to periodic swings in sentiment and potential pullbacks. Both our equity and fixed income research teams have made deliberate risk-mitigating portfolio changes over the past year with the recent type of volatility in mind.

These decisions have helped fortify client portfolios to weather the turbulence we are experiencing, while leaving them well-positioned to take advantage of opportunities ahead should they present themselves.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of January 2019. 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.

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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.