City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

MAY 28, 2019

On the Radar

FAQS ON THE MARKETS AND ECONOMY

What is the outlook for U.S. earnings?

The outlook for corporate profitability has slowed after last year's tax cut boosted double digit gains, but with continued economic expansion, subdued inflation, and low interest rates, we see enough earnings growth ahead to push stocks higher by year-end.

Q1 earnings season is nearly complete, and S&P 500 EPS growth is now tracking roughly flat year over year.

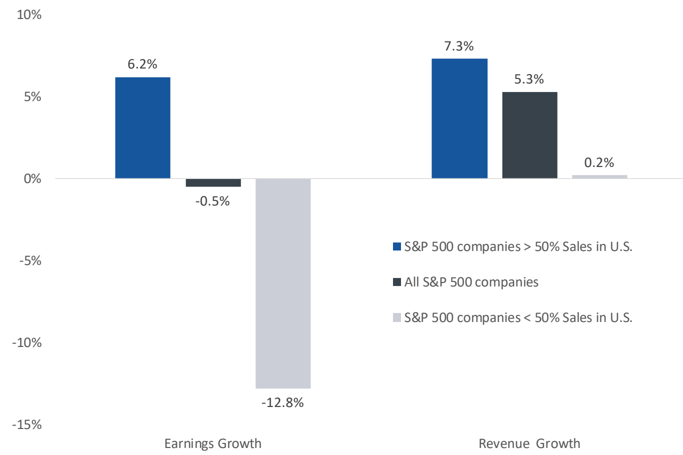
Encouragingly, that is a much better performance than the consensus estimate of a –5% decline when the reporting season began, and highlights the overall resiliency of US corporate profitability.

Weakness continues to center around companies with higher international revenue exposure where headwinds from the stronger dollar, slower global economic growth, and trade tensions are weighing on corporate bottom lines.

Our equity portfolios are focused on domestic growers and have stayed away from export-sensitive sectors of the economy, as well as global regions like Europe that are more exposed to trade disruptions.

Our base case expectation for modest 4% profit growth in 2019 has also incorporated worst-case assumptions of further escalation in trade tariffs with China.

S&P 500 Earnings & Revenue
Q1 2019



Source: FactSet. As of May 2019.

KEY QUESTIONS

With consumer confidence so high, what does that mean for the future?

What insight was gleaned from the release of the Fed minutes?

What is driving performance in the High Yield Municipal sector this year?

With consumer confidence so high, what does that mean for the future?

The May release of the University of Michigan Consumer Confidence report shows more than a 10-point jump in the survey since the beginning of the year (chart) and places it at a 15-year high.

An important caveat to this report is knowing that it was taken before the collapse in the U.S.-China trade talks.

That said, although this trade debate has garnered a lot of headlines, so far it has had very little impact on consumers.

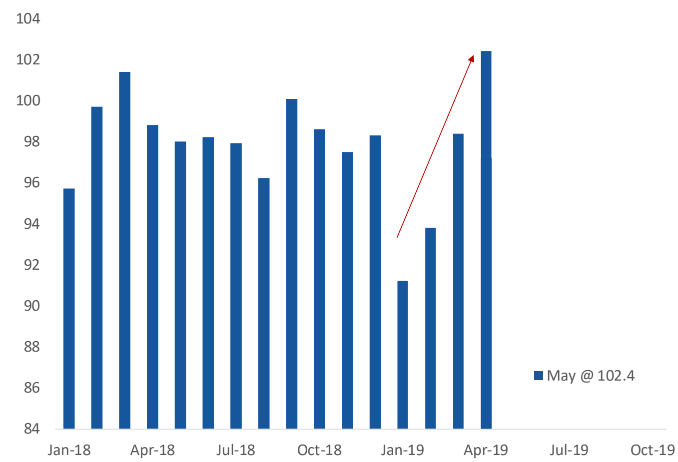
All the gain came from the expectations component of the index. This is very unusual at this stage of the business cycle because consumers generally believe that economic growth is not going to continue indefinitely.

Being in the tenth year of this economic expansion, this is impressive. The details of the report show 62% of consumers expect the economic expansion will continue for the next year, a 15-year high. At the same time, only 36% a downturn in the next five years, a 15-year low.

This report bodes well for consumer confidence to rebound in Q2 following a weak Q1, which was due heavily to the polar vortex.

Sentiment Bouncing Back Upward

University of Michigan Consumer Sentiment Index



Source: University of Michigan. As of May 2019.

What insight was gleaned from the release of the Fed minutes?

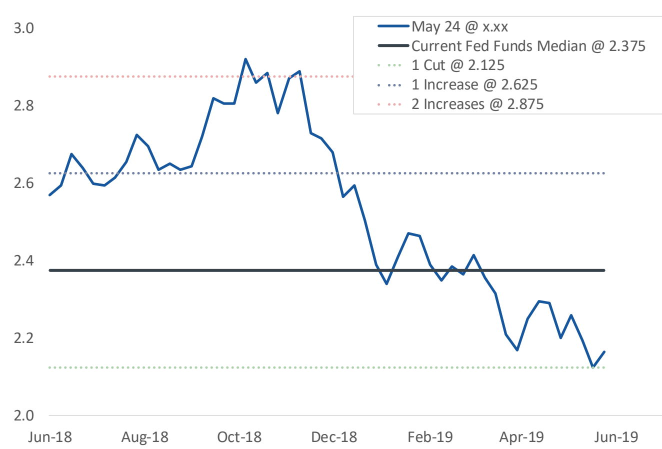
The Fed is in no rush to change the level of interest rates. Even if the economy strengthens, which it believes, the Fed plans on keeping interest rates unchanged for the year.

Although inflation, which stands at 1.6%, is below the target level of 2.0%, the Fed believes it is low due to transient reasons and will rebound. It has no plans to lower interest rates to spur inflation.

The federal funds futures market has a different view. It believes the Fed will lower interest rates this year (see chart).

City National Rochdale continues to believe the Fed will hold interest rates steady this year.

Federal Funds Futures Contract
Yield of December 2019 Contract (%)



Source: Chicago Board of Trade. As of May 2019.

What is driving performance in the High Yield Municipal sector this year?

High yield (HY) municipal bonds have returned 5.3% YTD, according to the Bloomberg Barclays family of indices.

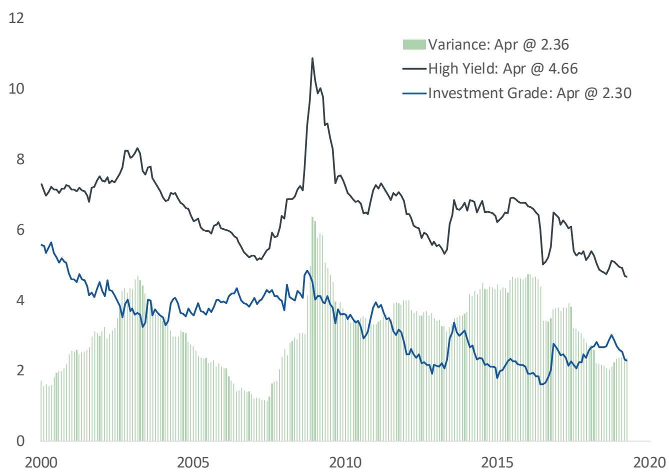
The yield earned on HY municipal bonds has dropped more quickly than the yield in investment grade municipal bonds, thus lowering the differential, a key valuation measure (see chart).

The demand for HY municipal bonds is outstripping the available supply in the market as investors have become more comfortable with the sector as the economic expansion continues to improve. Robust net inflows also support prices for HY municipal bonds, which could persist for some time despite stretched valuations.

The current yield-to-worst (YTW) on the HY municipal bond index stands at approximately 4.7%, an attractive yield for some investors, especially after the adjustment for taxes is considered.

At City National Rochdale, the rally is an opportunity to improve overall credit positioning, and to add bonds that retain adequate protections for bondholders.

Yield Differential Narrowing on Municipal Bonds Bloomberg-Barclays Index Yields (%)



Source: Bloomberg Barclays Index Data. As of April 2019.

What is City National Rochdale's investment outlook?

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, we believe investors should prepare for more moderate returns in the year ahead and continued volatility.

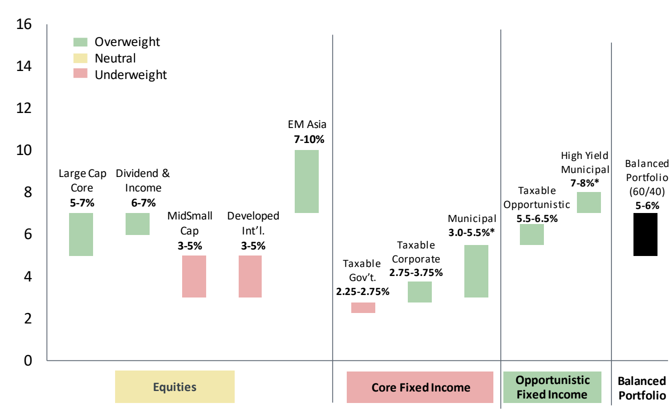
The investment landscape has grown more challenging as investors adjust to more typical late-stage expansion conditions of higher inflation, rising interest rates, and less accommodative monetary policy.

Meanwhile, concerns over global growth, trade tensions, 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.

Our equity and fixed income research teams have made deliberate risk mitigating changes to help fortify client portfolios against the type of turbulence we have recently experienced while leaving them well positioned to take advantage of opportunities should they present themselves.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of May 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.**

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.

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of U.S. consumer confidence levels conducted by the University of Michigan. It is based on telephone surveys that gather information on consumer expectations regarding the overall economy.

The Bloomberg Barclays High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody’s Investors Service with a remaining maturity of at least one year.