City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

What does impeachment mean for the market?

U.S. constitutional clashes like impeachment are rare events, with market outcomes too context-specific to draw definitive conclusions regarding current developments. However, going by the limited history we have, market reaction over the long term seems more linked to economic fundamentals.

Although the S&P 500 fell almost 50% through the Watergate affair and its aftermath, this decline reflected much more than concerns surrounding the fate of the Nixon administration. The country was slipping into recession, hit by an oil embargo and spiking inflation. In contrast, with the U.S. economy growing well over 4%, earnings strong and moderate inflation, President Clinton's troubles did little to blunt the 1990s bull market.

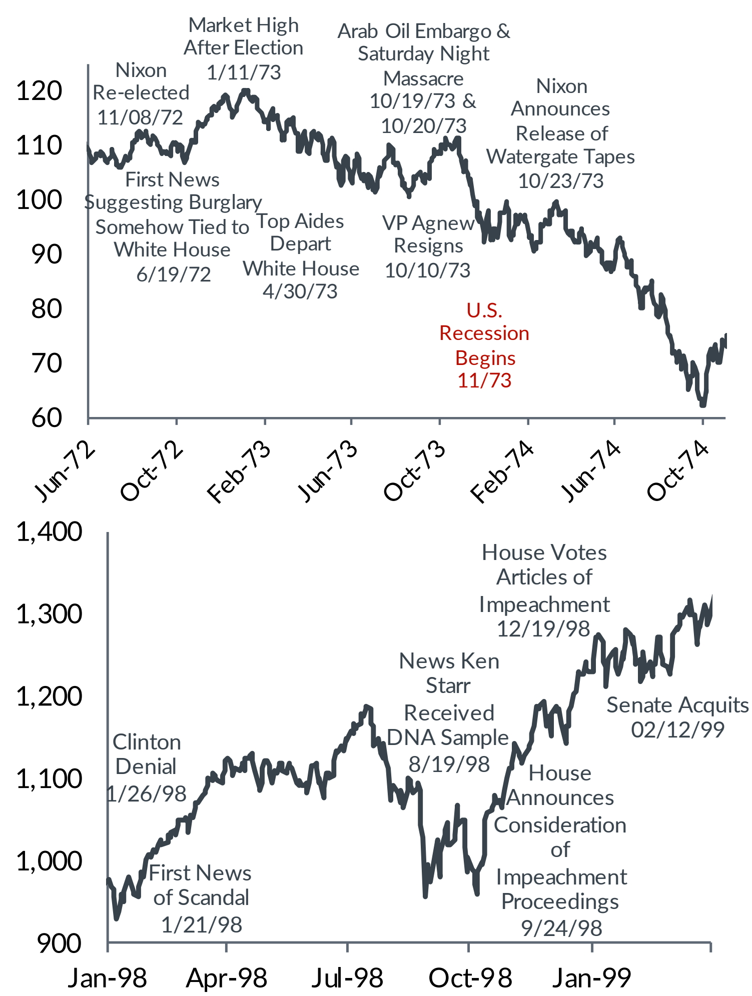
We think the same is true today, with recent market weakness having more to do with investor worries over softer economic data and manufacturing sector troubles, rather than political turmoil in Washington.

Nevertheless, it is early in a process that should take months to unfold, and it would be complacent to think that potential impact from impeachment will be limited. At a minimum, it adds another layer of uncertainty to the economic backdrop and will likely contribute to further market volatility ahead.

Our late-cycle playbook has positioned us well for an environment of heightened policy and political uncertainty, and we will be closely monitoring developments for signs that this uncertainty is bleeding into the broad economy and affecting consumer confidence. If so, we will act to further de-risk our portfolios as conditions warrant.

Stocks and Presidential Scandals

S&P 500



Source: S&P 500

KEY QUESTIONS

Is there new news regarding Puerto Rico bonds?

What is causing the weakness in the manufacturing sector?

What did we learn from the ISM Non-Manufacturing report?

Is there new news regarding Puerto Rico bonds?

Back in 2014, the major credit agencies downgraded several Puerto Rican bonds to "junk status." They couldn't sell new bonds in the open market and began using savings to pay down debt. Before those funds were exhausted, officials worked with the U.S. Congress to enact a law called PROMESA (Puerto Rico Oversight, Management and Economic Stability Act) that was enacted in 2016. That happened to be the same year that Puerto Rico suspended payments on some of its debt, which created the biggest governmental bankruptcy in U.S. history.

PROMESA allowed Congress to appoint a Fiscal Control Board. Current bondholders will receive an average of a 45% haircut. Depending upon the type of bond, the bondholder will receive anywhere from 35 cents on the dollar to 93 cents on the dollar. This plan faces some challenges and will need approval from debt holders.

The City National Rochdale High Income Fund does own a few Puerto Rico bonds in its portfolio. They were bought at a deeply discounted price and have been paying a high coupon. The City National Rochdale High Income Fund does not own any general obligation or pension debt, which is the subject of this proposed restructuring. They own other Puerto Rico debt that has already been restructured, has a separate plan or was never in default.

Puerto Rico Commonwealth
General Obligation Bond, 8.00% maturing on July 1, 2035, Price

Source: Bloomberg as of October 4, 2019.

What is causing the weakness in the manufacturing sector?

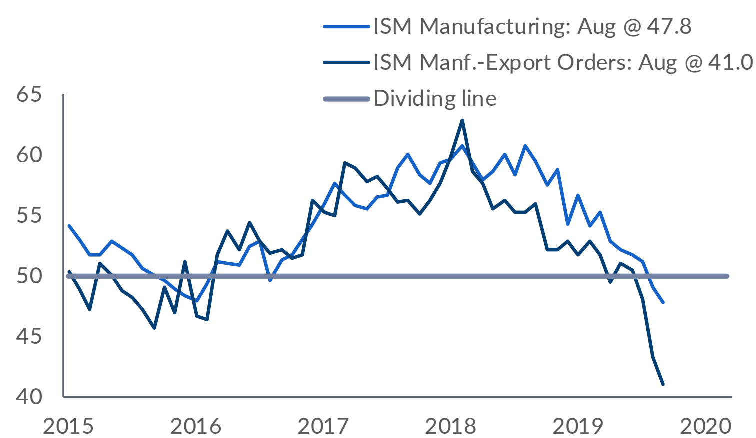
According to the ISM manufacturing index, of the 10 sectors of the economy surveyed, nine are in the contraction phase. Supplier deliveries is the only one in the expansion phase, but it is not an important component compared to others like new orders, employment or inventories.

Another important component, export orders, is really taking it on the chin (see chart). It is clearly showing the rising cost of the trade war.

The ISM Manufacturing report is one of many metrics for measuring the strength of the manufacturing sector. Some of the others are not as dire, but when aggregating them, they all point to a sector of the economy that is showing flat to slightly negative growth.

Another factor impacting manufacturing is the GM strike. There are 48,000 workers on strike and roughly workers at GM suppliers that have been furloughed.

Export Orders have Collapsed
ISM Manufacturing and ISM-Export Orders (Diffusion Index)



Source: Institute of Supply Management as of September 2019.

What did we learn from the ISM Non-Manufacturing report?

The index dropped 3.8 points to 52.6. (see chart) and shows there is increasing risk of manufacturing weakness spilling over to the service sector of the economy. It has been on a gentle decline since hitting an expansion peak last September, but still in the expansion territory.

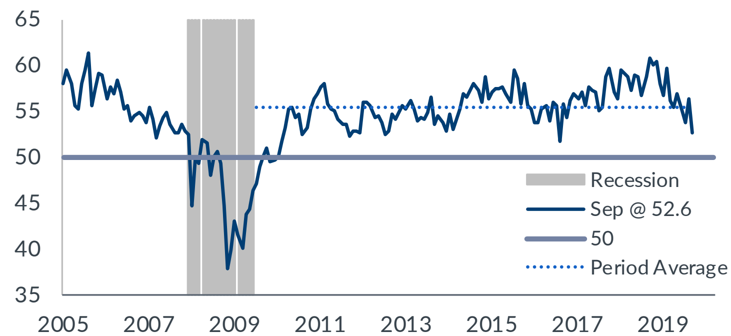
This report measures the service sector, which accounts for about 90% of the economy. The economy is still growing, but it appears to be at a slightly slower pace.

The respondents are mostly concerned with tariffs, labor resources and the direction of the economy.

Nine of the 10 subindexes are in the positive territory, but there were some big declines in a few of the import subcomponents, such as business activity and new orders.

This report increases the chances of the Fed cutting the federal funds rate, despite no plans to do so.

ISM Non-Manufacturing Index
Diffusion Index



Source: Institute of Supply Management as of September 2019.

What is City National Rochdale's investment outlook?

Given our continued positive assessment of the fundamental backdrop, we remain positive on U.S. equities in general and continue to see attractive prospects in the opportunistic fixed income class.

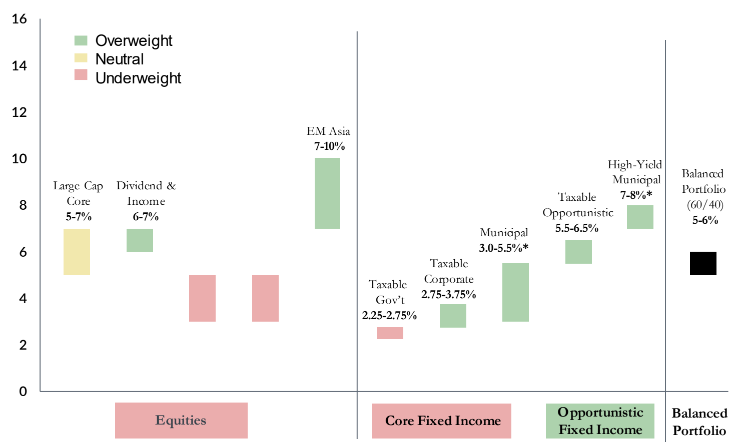
Still, downside risks have increased somewhat and the investment landscape is growing more challenging.

Late-cycle conditions of slowing growth and greater vulnerability to policy missteps will require investors to change their approach and be more selective in their portfolios.

None of this means there are not more opportunities ahead for investors, but gains are likely to be more muted. At the same time, concerns over global growth, trade tensions and the path of interest rates mean markets will likely continue to be subject to periodic swings in sentiment and potential pullbacks.

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

One-Year Forecasted Returns (%)



Source: City National Rochdale as of September 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.

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.