City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

SEPTEMBER 23, 2019

On the Radar

FAQS ON THE MARKETS AND ECONOMY

What is CNR's outlook for equities?

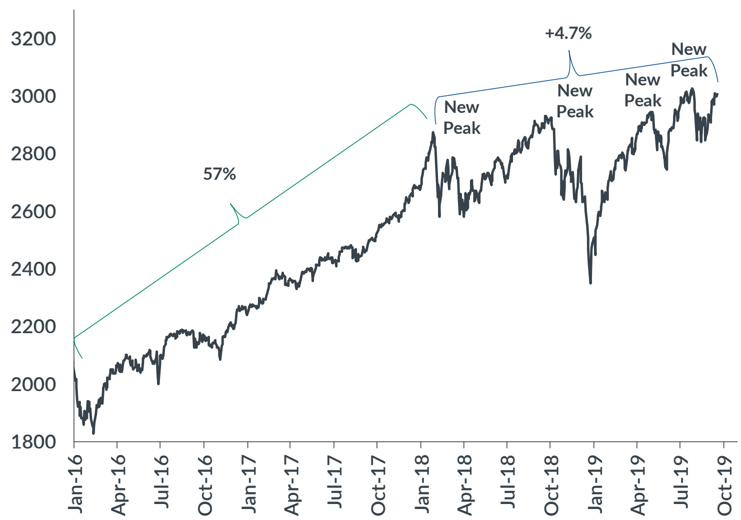
Optimism has returned to equity markets with U.S. stocks rallying back to near record highs on the Fed's continuing policy pivot, as well as better news regarding the U.S.-China trade dispute. This is typical of late cycle investing where gains are harder fought as uncertainty surrounding policy, and mixed messages about the expansion's sustainability, cause market sentiment to swing strongly. We still have enough confidence in the economic outlook, and see sufficient scope for earnings improvement, to remain positive on the long running bull market.

However, per our late cycle playbook, we have taken the opportunity provided by recent market strength to modestly reduce risk in portfolios and have lowered our allocation for U.S. equities to neutral weight.

The U.S. economic expansion is aging, economic and profit growth is becoming more challenging, and the risk of recession has risen. Equity valuations also are beginning to look high, which is typical of the late cycle. Though bear markets historically have rarely been linked to high valuations alone, they do create a higher the perch from which to fall.

We still believe maintaining a portfolio of high-quality and dividend paying domestic companies is the best strategy in the current environment. But, as the cycle matures and risks rise, we will continue to take steps to protect our clients' capital.

This Is What Late Cycle Looks Like: Harder Fought Gains
S&P 500



Source: FactSet as of September 19, 2019.

KEY QUESTIONS

Is the consumer still a dominant part of economic growth?

What did we learn from the Fed meeting?

Are equity valuations a concern?

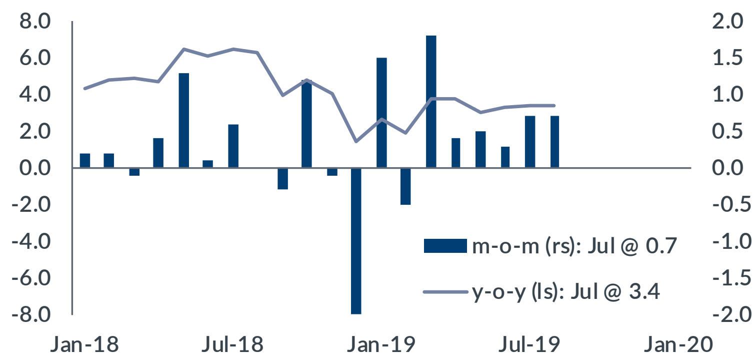
What is causing interest rates to fall so much?

Is the consumer still a dominant part of economic growth?

Personal consumption, which makes up about 70% of GDP, continues to be the driving force of economic growth. In Q2, it grew at 4.7% and in Q3, looks like it will grow around 3.0%, well ahead of the 2.3% growth rate of the overall economy for the past year. The robust growth is attributed to the near record low unemployment rate, solid wage gains and ample access to credit. This strength is helping to offset weakness arising from trade policy uncertainty (exports, investment, etc.) and should keep overall GDP growth around 2.0% this quarter.

GDP - Consumption is made up of both goods and services and is reported quarterly (a month after quarter end). To get an idea of how the current quarter is progressing, we look at the monthly release of retail sales, which reports the sale of goods only, without services. This has been on a strong trend of late (chart), driven by stronger vehicle sales.

Retail Sales (%)



Source: Bureau of Labor Statistics as of August 2019.

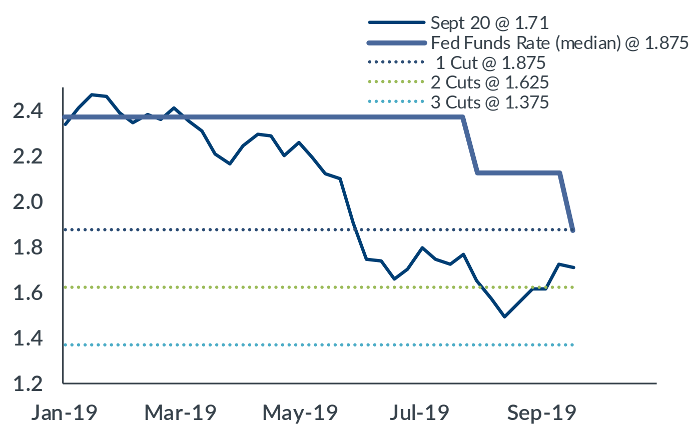
What did we learn from the Fed meeting?

The Federal Reserve Bank lowered the federal funds rate by 25 basis points to the median level of 1.875%. Interestingly, there was a level of discontent. Seven of the voting members approved the move and three dissented. Of the three objectors, one wanted to cut rates by 50 bps and two members wanted to keep interest rates unchanged. As for their outlook, both voting and non-voting members of the FOMC make their projections. The median is for no change in interest rates for the remainder of the year, yet seven of the 17 members want another cut to interest rates before year end.

The varying views may be the result of difficulties is projecting the economic outlook. Although the Fed agrees that job gains have been solid and the household spending has been rising at a strong pace, there are concerns about the soft business investment and weakening exports. What makes it even more difficult is the high level of uncertainty regarding trade policy. Fortunately, in the past week or so, some of the trade rhetoric has been softening. In October, there is a meeting between high-level trade dignitaries of the U.S. and China, and it should shed more light on the issue.

The federal funds futures market is split over the future Fed actions this year. There is currently a 1.71% probability of another cut.

Yield of December 2019 Federal Funds Contract (%)



Source: Chicago Board of Trade as of September 20, 2019.

Are equity valuations a concern?

Equity valuations, although still reasonable in the context of today's low interest rates, are beginning to look high from a historical perspective and do require close attention. High valuations are associated with lower long-term returns and provide a higher perch from which to fall in the next downturn.

Per our late-cycle playbook, we have taken measures to reduce this risk by focusing on lower P/E and higher quality, large cap and dividend paying stocks. However, it is important to note that bear markets historically have rarely been linked to high valuations alone. Usually, a combination of other factors such as recession, aggressive Fed tightening, or some kind of external shock is needed.

Over the shorter term, research shows that valuations have limited predictive value, and that factors such as the state of the business cycle, profit growth, sentiment, and momentum all tend to be more important. As a result, equity markets can and have remained expensive for extended periods.

Near-Term Bear Market Risk Is Low

Bear Markets	Market Peak	Return	Duration (Months)	Macro Environment			
				Recession	Commodity Spike	Aggressive Fed	Extreme Valuations
Crash of 1929 – Excessive leverage, irrational exuberance	September 1929	-86%	32				
1937 Fed Tightening – Premature policy tightening	March 1937	-60%	61				
Post-WWII Crash – Postwar demobilization, recession fears	May 1946	-30%	36				
Flash Crash of 1962 – Flash crash, Cuban Missile Crisis	December 1961	-28%	6				
Tech Crash of 1970 – Economic overheating, civil unrest	November 1968	-36%	17				
Stagflation – OPEC oil embargo	January 1973	-48%	20				
Volcker Tightening – Whip Inflation Now	November 1980	-27%	20				
1987 Crash – Program trading, overheating markets	August 1987	-34%	3				
Tech Bubble – Extreme valuations, dot-com boom/bust	March 2000	-49%	30				
Global Financial Crisis – Leverage/housing, Lehman collapse	October 2007	-57%	17				
Current Cycle	-	-	-				
Average		**-46%**	**24**	**80%**	**40%**	**40%**	**50%**

Bear markets outside recessions are rare.

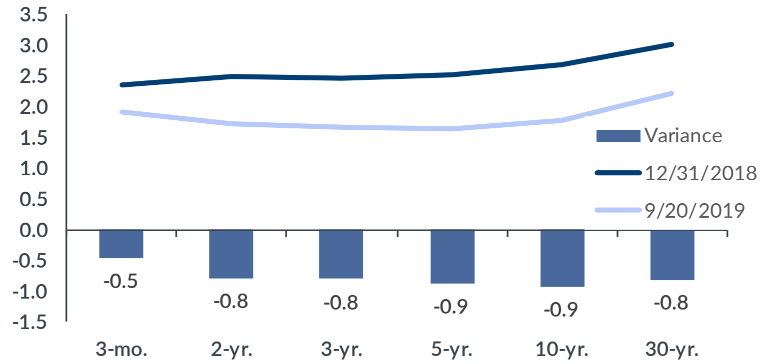
Source: J.P. Morgan, FactSet.

What is causing interest rates to fall so much?

Ever since the early 1980s, interest rates have been falling. At the time, the 10-year treasury note hit a peak yield of 15.8%. The primary force that has pushed yields down since then has been lower and lower inflation. Back in the early 1980s, the consumer price index hit a peak of 14.8%. Now it is 1.7%.

This year, interest rates have been falling across the yield curve (chart). Short-term interest rates have fallen mostly in response to easing of monetary policy by the Federal Reserve Bank. Longer-term interest rates have been falling due to the drop in short-term interest rates, falling inflation expectations and lower yields on other sovereign debt around the world. For example, the 10-year government bond in the U.K. has a yield of 0.63%, in Germany it is 0.51%, and in Japan it is 0.21%. There is more than $14.5 trillion in global debt with negative yields, a staggering amount. For global investors, the 1.77% yield on the U.S. Treasury note looks very attractive. These global investors have been buying large amounts of our debt, pushing up prices and pushing down yields. Not only have they benefited from the higher coupon income, they have enjoyed the rally in the USD.

Interest Rates (Treasuries, %)



Source: Bloomberg as of September 20, 2019.

What is City National Rochdale's investment outlook?

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

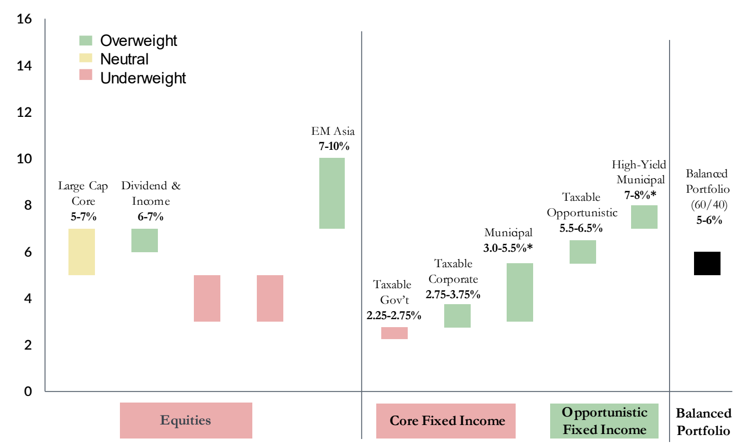
Still, downside risks have increased somewhat and the investment landscape is growing more challenging.

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.

A consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.