City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

JANUARY 21, 2020

On the Radar

FAQS ON THE MARKETS AND ECONOMY

What is City National Rochdale's investment outlook?

Given our continued favorable 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.

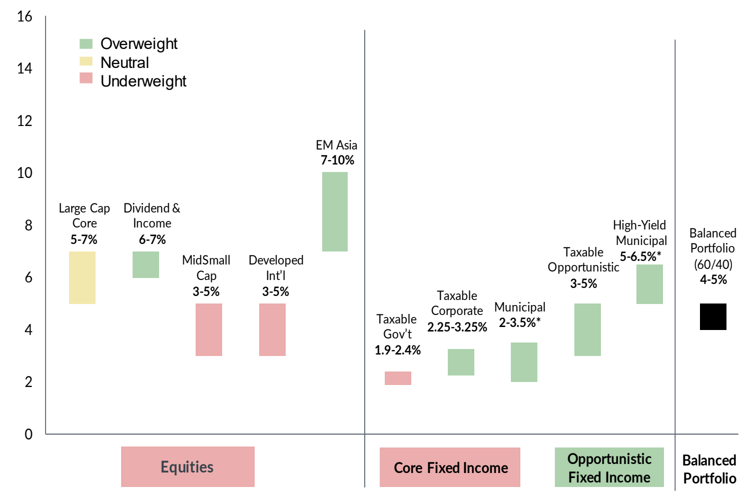
Still, we expect more modest and volatile gains across financial markets in 2020, with yield rather than price appreciation becoming an increasingly important part of total return.

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

Our late-cycle playbook has served us well through the many highs and lows over the past two years, and we continue to believe the best course of action as the economic cycle matures is building a resilient portfolio of high-quality, durable assets.

By keeping our focus on high-quality U.S. stocks, select credit areas and alternatives, we have positioned our portfolios to help withstand late-cycle volatility and minimize risk, yet continue to participate in ongoing gains.

One-Year Forecasted Returns (%)



Source: City National Rochdale as of January 2020. 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.

KEY QUESTIONS

How significant is the recently signed U.S.-China trade agreement?

Will higher oil prices derail the economy?

What is the big differential between ISM's manufacturing and non-manufacturing indexes telling us?

What did we learn from the recent Fed minutes?

How significant is the recently signed U.S.-China trade agreement?

The limited trade deal recently signed by U.S. and Chinese officials is certainly a welcome development in what's been an increasingly harmful confrontation between both nations. However, we are skeptical this signals the start of a more meaningful reduction in tensions anytime soon.

The agreement halts any additional new US tariffs, while scaling back by half a separate tranche imposed last September. On its own, that would very modestly reduce the average tariff on Chinese imports from 21.1% to 19.3% — still more than double the average rate when the trade war began in 2018.

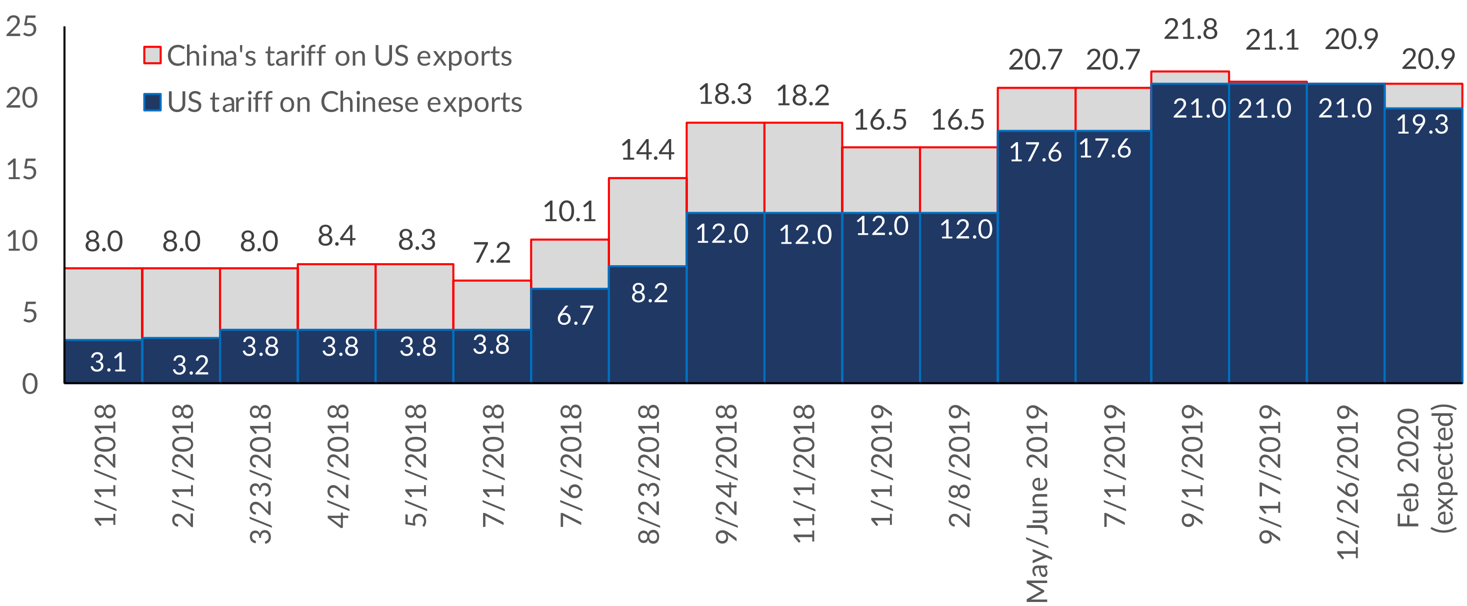
In exchange, Chinese officials have pledged to substantially increase China's imports of U.S. goods and services by at least $200 billion over the next two years. China has also agreed to make some structural changes in how it deals with intellectual property rights and its practice of forcing technology transfers of American companies in order to access the Chinese market.

By removing the threat of new tariffs, reducing some uncertainty and providing a small boost to GDP from exports, the deal is certainly a near-term positive for the US economy, as well as the global outlook which has struggled against rising trade tensions. Equity markets have rallied to record highs, in part, on rising hopes that the U.S. and China are making progress in their trade dispute.

Still, we think good news has been priced in, and, with many core issues of contention having been pushed off to "Phase 2" negotiations, we suspect that friction between both nations will be a continuing source of economic uncertainty and market volatility in 2020. We also remain concerned that the Trump Administration may now take the opportunity to turn its attention on other key trading partners and economically sensitive sectors, such as autos.

Our asset allocation and investment strategies are positioned to take this uncertainty into account. We are overweight in U.S. equities and underweight in international markets, particularly those of other developed economies that are more affected by trade disruptions. Likewise, our domestic equity strategy has little exposure to sectors of the economy that have greater potential to be impacted, such as autos and semiconductors.

Despite Phase 1 Trade Deal, Tariffs Remain Significantly Higher



Source: Peterson Institue for International Economics as of January 2020.

Will higher oil prices derail the economy?

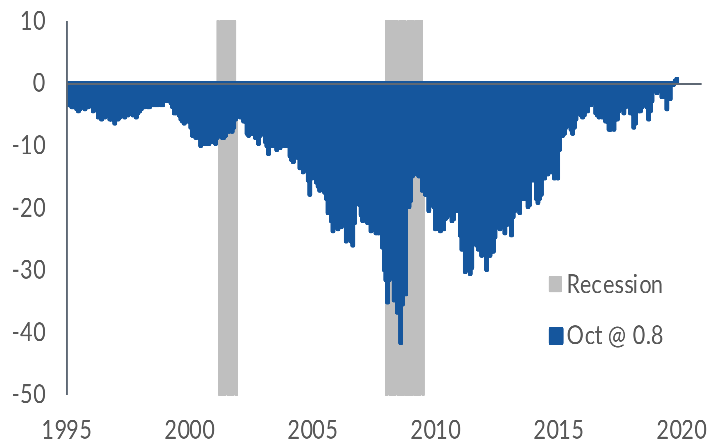
We do not think so. The world is a very different place, compared to the 1970s, when the price hikes following the 1973 OPEC oil embargo and 1979 Iranian revolution strained the U.S. economy.

Nowadays, spending on gas and energy accounts for just about 2% of all household spending, which is down dramatically from the 6% level of the 1980s. So, if there is a marked increase in the price of oil, the impact would not be as great. In addition, household balance sheets are very strong, so they can more likely weather the higher prices.

Furthermore, most of the oil the U.S. consumes comes from domestic sources.

During the past two months, the U.S. has become a net exporter of petroleum products (chart). This is due to the increased amount of oil that we are producing from fracking. It also includes exports, such as liquefied natural gas, which is a byproduct of fracking.

U.S. Trade Balance of Petroleum Products, SA



Source: U.S. Census Bureau as of October 2019.

What is the big differential between ISM's manufacturing and non-manufacturing indexes telling us?

Simply, manufacturing is in the doldrums, and the service sector, which employs about 90% of the workforce, is doing just fine.

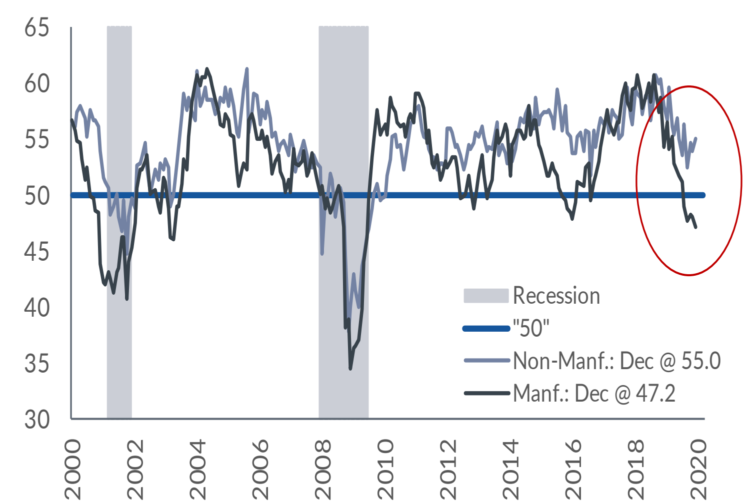
The manufacturing index has spent five months below 50 (this is a diffusion index: below 50 indicates contraction), and at the current level of 47.2, it is at the lowest level in nine years.

This past summer, there were concerns that the weakness in manufacturing could be a possible harbinger of a near-term recession (we didn't believe it). That is not the case now. The downdraft in the manufacturing sector is not due to a weak domestic economy/demand, but rather it is the result of antagonistic trade policies, weak markets to export, and a pullback in investment. With the Phase One trade deal with China planned to be signed this week, better days for manufacturing may lie ahead.

The service sector of the economy is expected to continue to perform well, due to the low unemployment rate providing demand for many services.

Service Sector Outperforming Manufacturing Sector

ISM Manuf. and Non-Manufacturing Diffusion Index



Source: Institute of Supply Management as of December 2019.

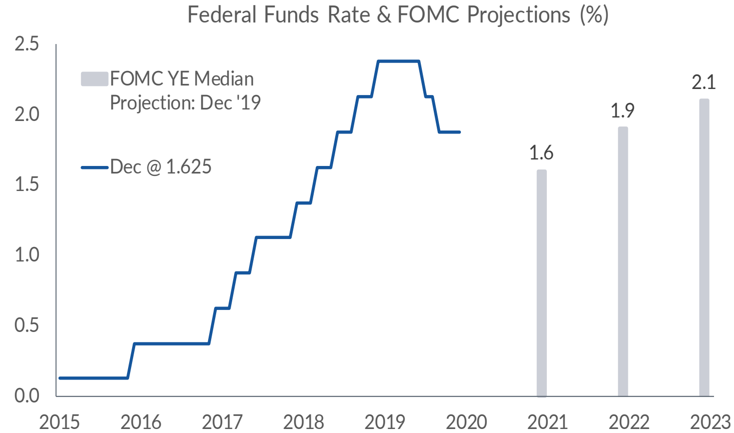
What did we learn from the recent Fed minutes?

The Fed would really like to stay put with the level of interest rates, even if economic growth and inflation pick up again (chart). Their new mantra regarding monetary policy is "it is in a good place."

There were no surprises in their outlook. The general description of economic growth is "moderate," and inflation is continuing to run below their target of 2.0%.

Many members now view risks to the economy as "tilted somewhat toward the downside." They are upbeat about the prospective improvements in the U.S.–China trade relation (Phase One deal is to be signed this week) and a coordinated Brexit scenario.

Retail Sales (%)



Source: Federal Reserve Bank as of December 2019.

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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.

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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.

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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.