City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

Quarterly Update

ECONOMIC AND INVESTMENT MANAGEMENT PERSPECTIVES

JULY 2018

THIS ISSUE

From the Desk of

Garrett D'Alessandro, CFA, CAIA, AIF®

Fair Trade, Free Trade, or Trade War?

The United States has some difficult choices to make if it really wants to have both fair and free trade with China. The approach the U.S. has taken with the Chinese over the past 15 years—relying primarily on diplomacy and believing they will honor the principles governing international trade—has utterly failed. At this point, we believe the only open question is whether changing China's behavior will require a trade war or if other forces can be brought to bear on Beijing.

The stakes are very high. The best minds in the world naturally gravitate toward countries that offer the greatest economic opportunities. Up until now, the U.S. has attracted the majority of those minds. However, this will change if the U.S. sees its economic prosperity continually eroded over the next five to 10 years.

We know where China stands. It wants to achieve economic domination over the U.S. by 2025 and has gone into hyper-drive with aggressive and unfair trade practices that include theft of American intellectual property, fraudulent reproduction of our goods, economic espionage, government subsidization of Chinese companies, unfair procurement practices, and bad faith negotiations. On our side, presidents and politicians have repeatedly failed us by not standing up to China when it violates both written agreements and specific World Trade Organization principles that are required of all countries engaged in global commerce.

To be clear, we do not believe that a trade deficit, on its own, justifies a trade war. Our view is that forceful action is required to stop the unfair trade practices China has deliberately engaged in ever since being admitted to the WTO in 2001.

We are aware that alarms are being sounded about the risks of taking actions that might inhibit global trade. However, we do not subscribe to the conventional view that all trade is good, which we regard as simplistic because it does not take into account the costs and adverse distributional consequences. We prefer the behavioral economic approach, which includes a benefits-costs analysis (BCA). When the costs from lost jobs, stolen intellectual property, fraudulent reproductions, illegal espionage, illegal subsidizations, and many other intentionally aggressive practices are measured, the benefits of trade are significantly diminished.

The existential issue for the U.S. is essentially this: Do we want to continue to be grossly and unfairly mistreated by Chinese trade practices? If the answer is no, then our view is that the U.S. as a country has to come together and define the forceful actions we are willing to take, as well as the economic pain we are willing to endure, in order to drive the Chinese to correct their malfeasance and unfair trade behavior. Diplomacy in the form of summit meetings whose agreements were subsequently ignored by the Chinese has repeatedly failed us, and there appears to be only one approach with a reasonable chance of bringing about respect for, and compliance with, the rules of fair trade. Call it what you like, but it will require fortitude, sacrifice, and endurance on our part for years to come.

Garrett R. D'Alessandro, CFA, CAIA, AIF®
Chief Executive Officer
City National Rochdale

OUR CONTRIBUTORS

Garrett R. D'Alessandro, CFA, CAIA, AIF®
Chief Executive Officer

Matthew Peron
Chief Investment Officer, Senior Managing Director

Tom Galvin
Managing Director, Senior Portfolio Manager

William D. Black, CFA
Managing Director, Senior Portfolio Manager

David J. Abella, CFA
Managing Director, Senior Portfolio Manager

Trade Wars: Playing Chicken

By Matthew Peron

Fifty years ago, America found itself on the brink of a major international crisis. The problem wasn't nuclear missiles in Cuba or a big wall in Berlin. No, the problem was frozen chicken. This strange, forgotten piece of history had its start back in 1962, when, following the introduction of factory farming, the U.S. began producing chickens on a massive scale and sending them overseas, where chicken was far rarer and more expensive. After tense negotiations failed, European countries began instituting huge tariffs in an effort to protect local farmers from being edged out of the market, and the Johnson administration quickly retaliated with the so-called "Chicken Tax," a 25% tariff on light trucks and other products.

Fortunately, the great poultry war of the 1960s was short-lived, and most of the tariffs were soon lifted. However, the one on imported light trucks remains in place to this day, causing lasting distortions in the marketplace. By insulating U.S. automakers from foreign competition, the tariff has reduced pressure on them to innovate and match competing international models with increased fuel economy. It has also caused both foreign and domestic automakers to go to great, almost comical, lengths to circumvent the tariff. Ford, for example, imported the Transit Connect as a passenger vehicle from its plant in Turkey, then stripped the vans of their rear seats and windows once they were in this country. Although the move cost the company thousands of dollars, it saved thousands more in taxes. For American truck buyers, however, the Chicken Tax has only meant higher prices and fewer options.

Financial markets seem to be of two minds about the impact of mounting trade tensions between the U.S. and its global trading partners. Despite the escalating tit-for-tat between countries, tariffs enacted so far affect only a relatively small part of overall GDP. The consensus is that these measures should not have a significant and lasting impact on the U.S. economy, or on U.S. stocks, and may even help bring about fairer trade in the long run. **Still, each escalation increases the risk of slipping, either deliberately or inadvertently, into a full-blown trade war that would significantly damage corporate earnings and overall economic growth, thereby hurting equities**, especially non-U.S. equities.

Given the fluid nature and complexity of the situation, confidently predicting an eventual resolution is difficult. The $34 billion in tariffs currently in place on Chinese goods amounts to a drop in the bucket of a nearly $20 trillion U.S. economy. But **the Trump administration appears to be playing an escalating game of chicken with the global trade community**, and no major economic region or trading partner

- Current tariffs unlikely to derail strong U.S. economy
- Overseas markets more affected by trade tensions
- Confidence of consumers, companies is important

Tariff Tracker

COUNTRY	TARGET	SUBJECT	RATE	IMPOSED OR THREATENED
U.S.	China, South Korea & Mexico	Washing machines	20%-50%	Imposed
U.S.	Most countries, notably China	Solar panels	30%	Imposed
U.S.	Canada	Newsprint	22%	Imposed
U.S.	EU, Canada, Mexico & most other countries	Steel	25%	Imposed
U.S.	EU, Canada, Mexico & most other countries	Aluminum	10%	Imposed
EU	U.S.	Bourbon, orange juice, jeans & other products	25%	Imposed
Mexico	U.S.	$3bn of U.S. goods including steel & pork	20%-25%	Imposed
Canada	U.S.	$12.8bn of goods including maple syrup & whiskey	10-25%	Imposed
EU	Most countries	Import tariff quotas on steel products	25%	Imposed
India	U.S.	$241mn of apples, stainless steel & other products	7.5%-60%	To take effect Aug. 4
U.S.	China	$50bn of goods	25%	$34bn imposed. $16bn pending review.
China	U.S.	$34bn of U.S. goods	25%	Imposed
U.S.	China	Additional $200bn of goods	10%	Threatened
U.S.	EU	Automobiles	20%	Threatened

Source: U.S. Trade Department, MarketWatch, Tax Foundation, Office of the U.S. President as of 7/2018.

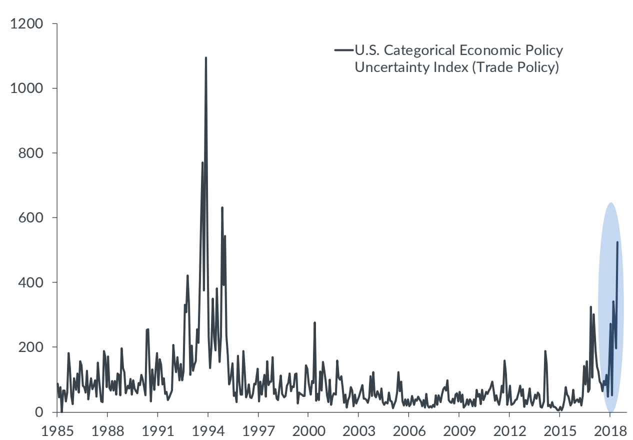
has been spared from threatening rhetoric. Already the president has signaled his willingness to put tariffs on all Chinese goods imported to the U.S., which would amount to more than $500 billion. Meanwhile, his team is investigating whether to place tariffs on the roughly $360 billion worth of auto, truck, and car parts that were imported from European and other foreign nations last year. In addition, there are the ongoing NAFTA negotiations, which affect more than $1 trillion worth of annual trilateral trade.

It's not hard to see how quickly trade actions could begin to add up and have a noticeable impact on economic growth. For example, RBC Capital Markets estimates that if the U.S. and China were to levy 25% tariffs on all imports from each country, and China were to include additional non-tariff barriers so as to match the total U.S. tariffs, this would subtract a little more than one-half of a percentage point from annual U.S. GDP growth. According to the Tax Foundation, if the Trump administration also enacts additional auto tariffs, GDP would fall by an additional 0.36%, resulting in 0.26% lower wages and 277,825 fewer full-time equivalent jobs.

Quantifying just how much damage a broad trade battle could wreak upon the economy is a tricky task, and one made more challenging by the difficulty in estimating the effects of private sector uncertainty, which can exacerbate the shock from tariffs themselves. **For now, the U.S. economy appears in good shape and able to withstand some trade-related headwinds.** There is an ongoing tailwind from tax reform, job growth remains strong, and optimism over future economic conditions is high. But there are potential "second order" effects that we believe could be more serious. **If the confidence of consumers or businesses is shaken, spending and capital investment might level off or decline, which could lead to a short-circuiting of the economic expansion and bull market.**

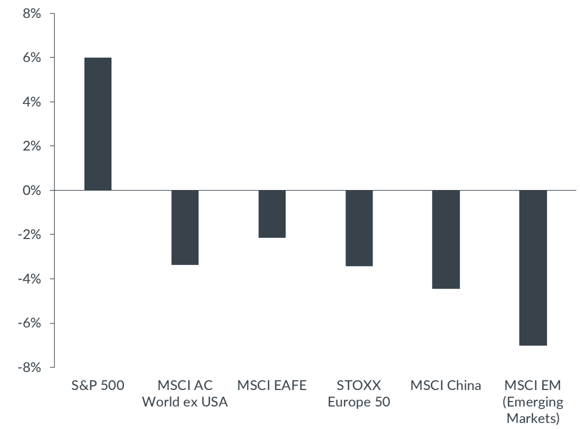
While international equity markets have been weighed down by escalating trade tensions, this caution hasn't yet shown up in the U.S. stock market in a significant way. In fact, U.S. stocks have largely recovered from their first-quarter declines, buoyed by solid economic data and very strong corporate earnings. Still, we think stock prices would be higher today were it not for trade issues. And this new era of protectionism could hardly have come at a more sensitive time for markets. While the backdrop for growth is indeed strong—particularly in the U.S.—financial assets were already bracing for tighter financial conditions as the world's major central banks step back from stimulus.

Trade Policy Uncertainty Rising



Source: Economic Policy Uncertainty as of 6/1/2018.

YTD Performance



Source: FactSet as of 7/19/2018.

Our asset allocation and investment strategies are positioned to take these uncertainties into account. We are overweight U.S. equity markets and underweight international equity markets, which we believe will continue to be more affected by trade disruptions. Likewise, our domestic equity strategy has little exposure to the sectors we believe will be most likely impacted by an escalation in tensions, such as autos and semiconductors. It is from this relatively strong position that we are watching the markets, looking for signs that conditions may deteriorate but also keeping an eye out for opportunities. For example, we recently added some short-term emerging market credit as spreads widened out to levels we felt incorporated a worst-case outcome.

As portfolio managers, it is our job to get ahead of the curve and work proactively to manage risk in our clients' portfolios. This requires the ability to respond dynamically to a changing economic outlook and shifting market conditions. All sides of the trade disputes have incentives to resolve their differences, and we think this will occur eventually. But, in the meantime there could be more heated rhetoric and additional tariffs implemented that could keep equity markets off balance. Indeed, as the Chicken Tax shows us, the history of trade actions is rife with unintended consequences.

Fundamentals Solid Despite Trade Concerns, Bull Market Intact

By Tom Galvin

Equity performance in the first half has tracked pretty closely with the expectations we had coming into 2018, and **we retain our view of 5-9% returns with increased volatility for the calendar year**. Bolstered by an improving economic backdrop in the U.S. and solid economic activity globally, corporate revenue growth has been healthy. The benefits from tax cuts have been stronger than expected. These factors have bolstered reported earnings and cash flows. Stock buybacks, dividend increases, and M&A activity have accelerated as a result. Reflecting these factors, **we have increased our EPS growth projections to 16-18% for 2018, up from 12-14% at the start of the year**.

As we illustrate in our EPS building blocks chart, we expect the largest contributors to 2018 earnings growth to be tax cuts, at about 8%; stock buybacks, 3.5%; real GDP, approximately 3%; and inflation, 2%. The more volatile components that impact EPS, such as the impact of dollar and oil price fluctuations, should be relatively benign but positive. Recent developments in tariff and trade discussions will have a modestly negative impact on actual business activity and raise uncertainty in business decision making in certain parts of the economy, so we are assuming a slight headwind from that area on EPS growth. We remain watchful to see if trade tensions worsen meaningfully from current levels. Nevertheless, our base case assumes the outlook for EPS growth in 2018 is healthy at 16-18%.

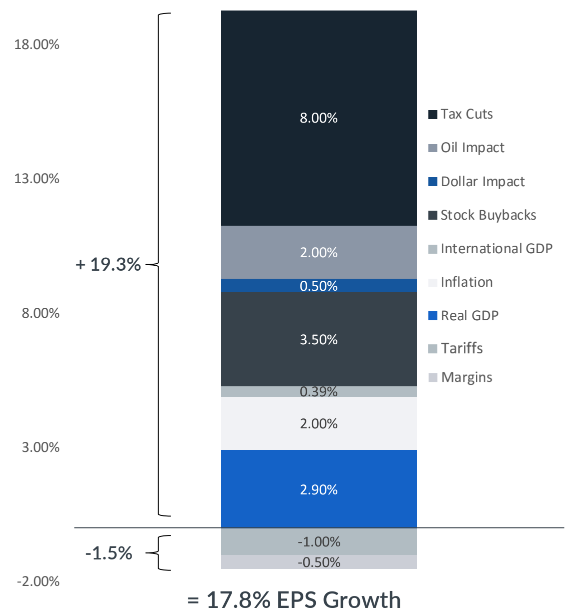
As we look forward to 2019, we expect growth to normalize to a slower pace to approximately 5-7% range as benefits from lower taxes are reduced, and we assess potential impacts from tariffs.

Our expectations for heightened volatility and "normal corrections" remain intact. As we look at the second half, there are several factors we believe will create uncertainty for investors and lead to continued volatility. Foremost among these are the impact of tariffs and trade relations, along with midterm elections in the U.S., the impact of rising deficit spending and inflation expectations on interest rates, geopolitical risks and the potential for exogenous shocks.

Despite increased uncertainty and volatility, we believe the market can deliver modest equity returns bolstered by healthy corporate profits. **We believe the secular bull market will remain intact.**

- Equity returns supported by solid earnings growth
- Tax cut benefits stronger than expected
- Uncertainty, continued volatility likely in second half

Tax Cuts Bolster Our EPS Outlook
City National Rochdale 2018 S&P 500 EPS Forecast



Source: City National Rochdale Estimates as of 6/30/2018.

High Yield Municipals Gain Despite Rising Rates

By William D. Black, CFA

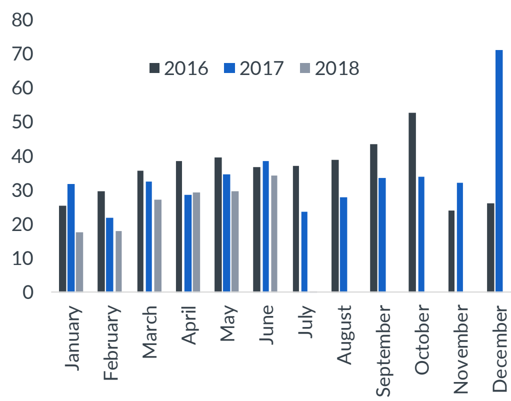
Performance in the High Yield Municipal asset class has been strong this year even though the Federal Reserve has raised rates twice and signaled its intention to raise them twice more. As of June 30, returns for the S&P Municipal Bond High Yield Index were 4.32% for the first half and 2.99% for the second quarter. These results are appreciably better than those for many other fixed income asset classes.

Several factors have contributed to this positive performance. First, **a belief by investors that the recoveries on Puerto Rico bonds may be stronger than expected has led prices for bonds such as those issued by the Puerto Rico Aqueducts and Sewers Authority (PRASA) to rise dramatically**, boosting overall index returns for the year. (We are not confident about further gains coming from Puerto Rico bonds in the index, as demographics and the underlying economy are likely to continue to weigh on the commonwealth's finances.)

A second factor that has supported prices is continued demand for yield in the face of limited supply of high yield municipal bonds. Finally, a strong economy has allowed the revenue streams that pay the debt service on these predominantly project-backed bonds to remain strong.

We believe that for the remainder of 2018, demand for high yield municipals will continue to support the sector, and a growing economy will continue to support credit quality, allowing outperformance versus other fixed income sectors to continue. Borrowers are likely to take advantage of the high level of demand by demanding not just lower rates but weaker covenants and bond structures. This makes for an environment in which investors will benefit from thorough research and a high degree of selectivity.

Municipal Issuance by Month ($bn)



Source: Bloomberg as of 7/12/2018.

Municipal Bond Funds Indicated Outflows of $150mn for the period ending 7/04/2018

	Fund Flows ($mm)*			Fund Assets	
Type of Funds	Actual	YTD Total	4-Week Average	Actual	4-Week Average
All Term Muni Funds	-150	6,967	285	705,697	705,180
New York	-22	-843	-35	30,129	30,150
California	-42	297	10	70,251	70,183
National Funds	-11	9,938	411	538,752	537,402
High Yield	114	2,521	199	98,196	97,595
Intermediate	48	6,254	121	190,897	190,588
Long Term	-127	4,473	181	389,279	388,182
Tax-Exempt Money Market	2,332	8,986	-198	141,394	139,838
Taxable Money Market	-1,031	-44,357	-12,720	2,589,815	2,591,535
Taxable Fixed Income	5,442	104,455	1,628	4,890,777	4,886,720
Equity	-9,332	35,961	-9,728	12,314,439	12,412,894

Source: Lipper U.S. Fund Flows, JP Morgan as of 7/4/2018.

- Returns on Puerto Rico bonds boost overall index
- Supply and demand characteristics support outperformance
- Continued strong economy, positive technical factors should help sector throughout 2018

Steady Economy Helps Propel Dividend Growth

By David J. Abella, CFA

While City National Rochdale's High Dividend Income strategy focuses on stocks with attractive yields, a key driver for us currently is the future growth of these dividends.

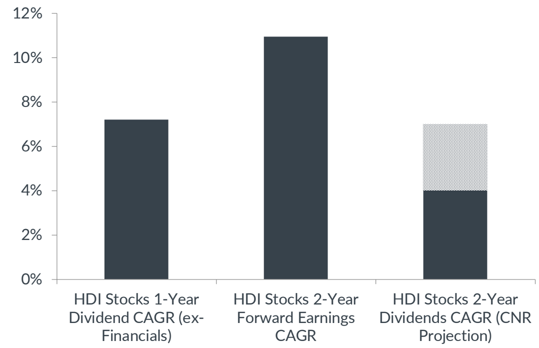
As the U.S. economy continues to hum along, **the companies we hold have been able to increase their dividends near the high end of our target range of 4-8%.** The actual year-over-year growth number was 7.2%, excluding financial service stocks (which had higher than normal growth to compensate for underpaying the past few years). **Analysts currently project annual earnings growth of 11% for our stocks over the next two years, meaning that our estimate of 4-7% dividend growth during that time is comfortably within the range of expected earnings** (see first chart). These cash flow streams enable us to project one-year forward returns of 6-8% for our holdings. While markets can be volatile, we have very high confidence in our estimates of aggregate yield and the growth of our companies' cash flows.

A basic illustration uses a starting interest rate of 3% on the benchmark 10-year Treasury and a dividend yield of 4.5% (see second chart). Using a 5.5% dividend growth rate (the mid-point of our expectations), in five years the dividend yield (with no stock price growth) will have moved up to 5.9%. A rate of 3.5% for the 10-year Treasury in five years (the high end of our current estimates) shows the spread growing from 1.5% to 2.4%. This additional spread can mitigate against rising rates. While rates could move even higher or dividend growth could be slower, this represents our current outlook.

Our view is that **strong cash flows, coupled with solid growth rates, should continue to drive the attractive total returns the City National Rochdale Dividend Strategy has achieved in the past**. The key building block remains identifying undervalued, high-quality companies with solid prospects for future dividend growth under most conceivable economic environments.

- Favorable economy positive for dividend growth
- Dividend growth mitigates effect of rising rates
- Rates remain low by historical standards

Focus on Dividend and Earnings Growth



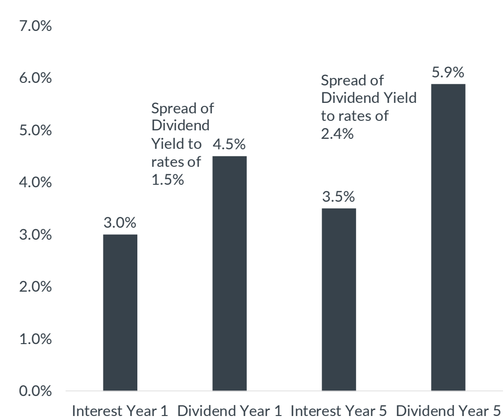
Companies that make up the universe of holdings in our D&I strategy (ex-Financials) grew their dividends, on average, 7.2% in the past year.

In addition, our companies have a projected growth in earnings of 11.0% and in dividends of 4-7% over the next two years.

Source: FactSet (based on published analyst estimates), based on City National Rochdale HDI strategy universe of stocks, as of 3/18/2018.

The projected growth rate in earnings is the aggregate average of all the published sellside analysts as reported through Factset.

Growing Dividend vs. Increased Rates Hypothetical Example



Source: City National Rochdale as of 6/30/2018.

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 MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,154 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. As of June 2007, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The STOXX Europe 50 index provides a blue-chip representation of supersector leaders in Europe covering almost 50% of the free-float market capitalization of the European stock market. The index covers 50 stocks from 18 European countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 447 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 2.5% of their free float adjusted market capitalization.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade. The S&P Municipal Bond Index measures the performance of bonds issued by state and local municipalities in the U.S. and its territories. All bonds in the index are exempt from U.S. federal income taxes, but some are subject to alternative minimum tax (AMT).

Indices are unmanaged, and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

Important Information

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 risks include, but are not limited to, stock market, manager, or investment style. 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.

Concentrating assets in the real estate sector or REITs may disproportionately subject a portfolio to the risks of that industry, including the loss of value because of adverse developments affecting the real estate industry and real property values. Investments in REITs may be subject to increased price volatility and liquidity risk; concentration risk is high.

Investments in Master Limited Partnerships (MLP) are susceptible to concentration risk, illiquidity, exposure to potential volatility, tax reporting complexity, fiscal policy, and market risk. Investors in MLPs are subject to increased tax reporting requirements. MLP investors typically receive a complicated schedule K-1 form rather than Form 1099. MLPs may not be appropriate investments for tax-advantaged accounts because of potential negative tax consequences (Unrelated Business Income Tax).

There are inherent risks with fixed-income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond. 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. 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 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.

Investments in emerging market 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. Emerging market bonds can have greater custodial and operational risks and less developed legal and accounting systems than developed markets.

As with any investment strategy, there is no guarantee that investment objectives will be met, and investors may lose money. Returns include the reinvestment of interest and dividends. Investing involves risk, including the loss of principal. Diversification may not protect against market loss or risk. Past performance is no guarantee of future performance.