City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

Quarterly Update

ECONOMIC AND INVESTMENT MANAGEMENT PERSPECTIVES

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THIS ISSUE

From the Desk of

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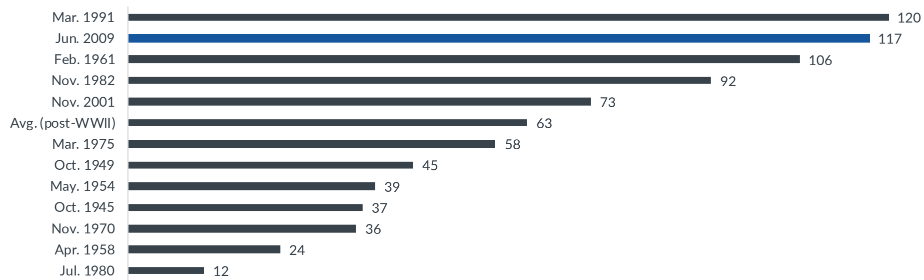
The longest economic expansion in the history of the U.S. will reach 121 months this July, surpassing the prior record referenced in the chart below. The current bull market became the longest in U.S. history last August — 113 months at that point — and remains intact today.

Duration of U.S. Expansions in Months (Trough to Peak)



Source: FactSet, as of 3/2019

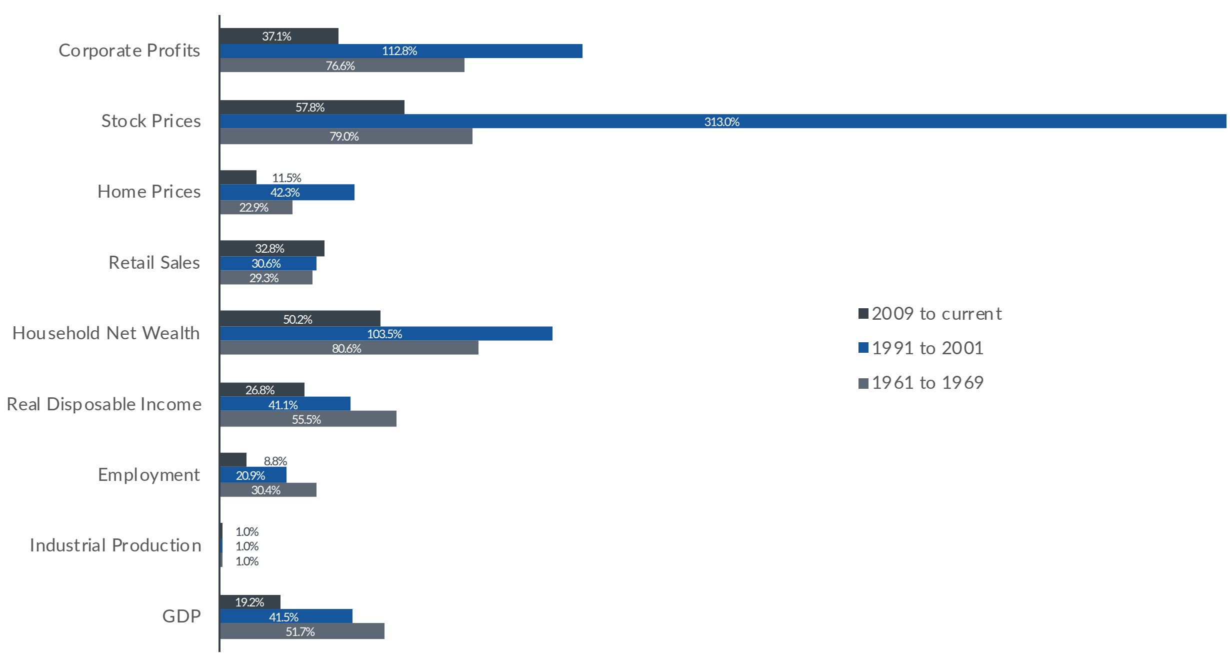
We are often asked when the current bull market and economic expansion will end, since both have been going on for so long. Our response is that economic expansions and bull markets do not die of old age; something causes their demise. Past culprits have included:

- The Federal Reserve raising interest rates too high too fast
- Sectors of the economy experiencing high and unsustainable debt leverage — i.e., the consumer or banking sector becoming overburdened with debt
- Unexpected spikes in significant areas of the economy that cause inflation to flare up
- Significant and sustained declines in consumer and business confidence
- Extreme valuations in asset prices, i.e., stock or housing prices becoming too high

None of these historically significant factors are currently present to any meaningful extent, and we therefore remain positive on U.S. equities. In fact, the S&P 500 is within just 3.3% of the all-time high reached in September 2018 (as of 3/29/2019).

It's important to look not just at the length of an expansion or bull market but also at how much growth has occurred in significant areas of the economy and financial markets during their history. The chart below shows growth in nine key areas during the current and prior two longest expansions. As you can see, growth during this expansion has been lower. This is not necessarily bad news. Lower for longer can be quite positive — and profitable.

Percent Growth From Previous Peak



Sources: FactSet, St. Louis Federal Reserve, Yale University Department of Economics, as of 3/2019.

One of the most important determinants of investment returns is asset allocation — how investors divide their capital between stocks, bonds and alternatives. Since we expect generally lower returns from fixed income in the next few years, we think investors need to look beyond bonds to generate attractive returns. However, we also know that bonds provide stability during volatile markets. Therefore, we believe investors should develop more resilient portfolios that encompass these categories:

- Higher-yielding bonds, mainly high-yield municipals
- Higher-yielding, dividend-paying stocks
- New and unique alternative investment strategies with attractive yields

These three categories, when combined with blue chip equities and investment grade bonds, produce a resilient portfolio intended to achieve better performance with lower volatility.

Why is a more resilient portfolio better? Investors can weather volatility in the equity portion of their portfolios more readily when their other holdings are resilient and stabilizing. This helps them maintain a long-term commitment to equities, which can be quite beneficial. For example, over the past 146 years, investors had more than a 90% probability of positive outcomes when investing in equities over a 10-year holding period and a 100% probability of positive outcomes over a 20-year holding period. This compares with only a 70% probability when investing in equities for a one-year period.

The lesson is clear — in today's volatile markets, strategically allocated, resilient portfolios offer investors the best opportunity for long-term success.

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Back to Regularly Scheduled Programming

By Matthew Peron

The past two quarters have been a study of sharp contrasts in investor sentiment. After ending 2018 by posting its worst monthly performance since 1931, the S&P 500 bounced back with its biggest quarterly gain in a decade, rising 13.7%, with bond markets also rallying strongly. Last year's historic sell-off was driven by concerns over rising trade tensions and fears that higher interest rates could hurt the U.S. economy, along with broader worries about a slowdown in the global economy and corporate profits. So what has changed?

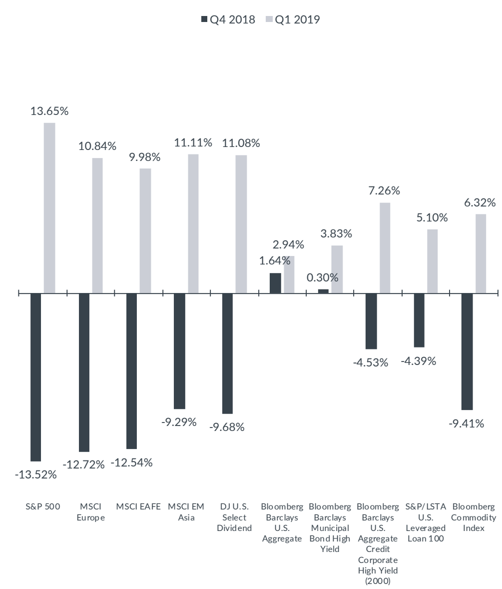
For one thing, **we think investor sentiment likely overshot to the downside when markets teetered on the edge of bear territory back in December**. Investors' expectations simply fell faster than the economic backdrop suggested. But the new year has also brought with it a new wave of optimism. Recent developments in U.S.-Chinese negotiations have raised confidence that a more damaging trade war will be avoided. Meanwhile, early signs of a bottoming in the global economy have helped investors look through the current weak patch in corporate earnings growth.

Perhaps most importantly, though, has been the shot of adrenaline delivered to markets by the Fed's pause in monetary policy normalization. Despite essentially full employment, with inflation remaining stubbornly below target, **policymakers have signaled they are now focused on the risk of overtightening and ending the expansion prematurely**. Higher interest rates are feared by equity investors because they raise borrowing costs, reduce profits and make fixed income more attractive relative to stocks. They also draw capital into the U.S., strengthening the dollar, which makes it tougher for U.S. exporters to compete and for emerging market companies to repay dollar-denominated debts.

We're not surprised by the recovery in markets. For us, the rally has been an appropriate rebound in sentiment from December's overly pessimistic outlook. As we have seen several times before in this cycle, **markets eventually reconnect to positive fundamentals**. But we doubt the pace of recent gains will be sustained. Risks and tailwinds have grown more balanced, but expectations on monetary policy have

- Volatile markets require a strong investment process
- Equity prices ultimately reflect fundamentals
- Global economy shows early signs of bottoming

Markets Rebound in Q1
(Asset Class Returns)



Source: FactSet, as of 3/29/2019.

now been priced into the market, which could be a source of further volatility ahead.

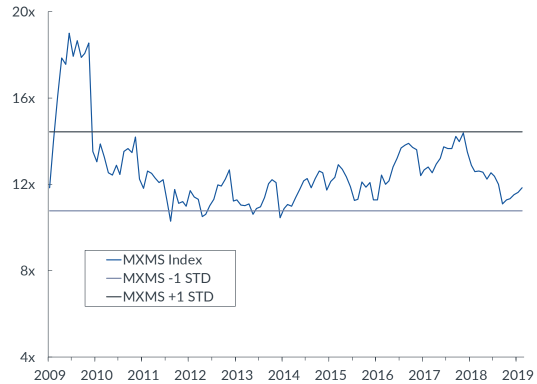
Will the Fed be as dovish as expected, even if the tight labor market causes a sudden, unexpected flare-up in inflation? Much of the rally this year has been built on market expectations that policymakers are done raising interest rates over the next few years. In fact, the next move now expected by the bond market is a rate cut. Likewise, while President Trump has signaled that he is generally pleased with the progress of trade negotiations with China, little tangible evidence of an impending deal has emerged. And even if a lasting truce can be reached, there is no guarantee that the U.S. administration won't turn more confrontational with other trade partners in areas such as autos or border security.

The first quarter was a good reminder of the importance of having a rigorous investment process that can protect client portfolios and prevent overreacting when markets grow turbulent. Good periods often follow bad, when underlying fundamentals remain positive. With late business cycle conditions of slower growth and higher volatility in mind, our equity and fixed income research teams have worked proactively to fortify client portfolios against periods when uncertainty dominates, as was the case in December, while also leaving them well positioned to take advantage of an improving investment environment, as has been the case recently.

We continue to favor high-quality U.S. growth and dividend equities over other developed markets such as Europe, which has weaker growth prospects and high political risk. We also like emerging market Asia equities. Policy across the region is turning more supportive this year through fiscal and monetary stimulus, and valuations — even after this year's rally — are still attractive, both on a historical basis and relative to other regions (see chart). Longer term, the investment case remains particularly compelling (see article: "When It Comes to Diversification, Don't Be Naïve"). In fixed income, we also continue to see opportunities in a number of select global credit sectors, including U.S. Muni HY, emerging market debt (see article: "Emerging Market Corporate Credit: An Overlooked Opportunity"), and senior bank loans and their CLO cousins. These sectors will likely lead fixed income returns in 2019 and serve as a valuable diversifier to other risk assets.

As investors celebrate the 10-year anniversary of the bull market, we seem set to return to the defining backdrop of this cycle: low rates, slow growth and an occasional bout of volatility. The long-running expansion is now in its later stages, and uncertainty tied to Fed actions, politics, trade and sluggish global demand will likely keep markets susceptible to swings in sentiment. However, economic fundamentals remain healthy and growth, while moderating, looks sustainable. Since the Second World War, all but two bear markets have been accompanied by a recession. We think corporate profits and stock prices can continue to rise higher in such an environment, but we also believe clients should prepare for a slower, bumpier climb.

MSCI Emerging Markets Asia Index
Forward 12-Month P/E



Source: MSCI, as of 4/2019.

Consumer Confidence Rebounds After Winter Decline

By Paul Single

While the U.S. economy appears to be holding its own, gauging its health accurately has been more difficult this year because of the 35-day government shutdown that delayed the release of many of the important reports we monitor. Those reports, due out at the end of April, will shed more light on the situation.

What we know for sure is that the shutdown, along with the stock market selloff in the final quarter of 2018, had a significant negative effect on consumer confidence.

Fortunately, the March data shows that confidence has since rebounded and is now above the level prior to the shutdown (see chart).

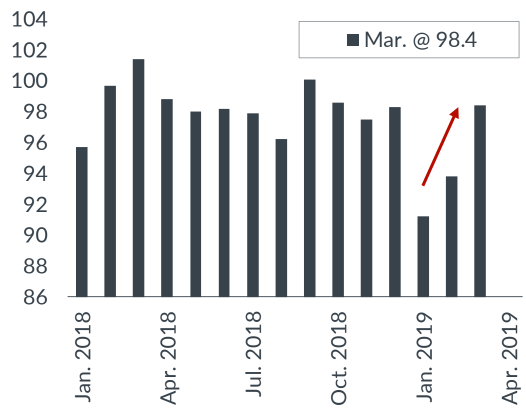
Nonetheless, **lower confidence, along with extremely cold winter weather, greatly affected consumer spending**. Retail sales fell 1.6% in December, their largest decline in almost 10 years, recovered somewhat in January and then dropped again in February. Aggregate retail sales now stand about 1.0% below the November peak (see chart).

Knowing that economic data would be negatively skewed by these events may be one reason why the Fed announced in January that it would be "patient" in regards to future changes in monetary policy. Since then, **the Fed has doubled down on its dovish approach to managing the economy**, recently announcing it would not increase interest rates this year, a change from its December projection of two quarter-point hikes in 2019.

Inflation continues to run below the Fed's target of 2.0%. It currently stands at 1.8% and has averaged just 1.6% since the economic expansion began in 2009. With interest rate hikes on hold, **the Fed is betting that households will increase spending and businesses will expand their operations without fear of the Fed tightening monetary policy too much**. This should help drive economic growth and put a little upward pressure on inflation. Combine that with low unemployment, strong confidence, high household wealth and low household leverage, and we believe growth this year will be between 2.0% and 2.5%, about the same as throughout this expansion.

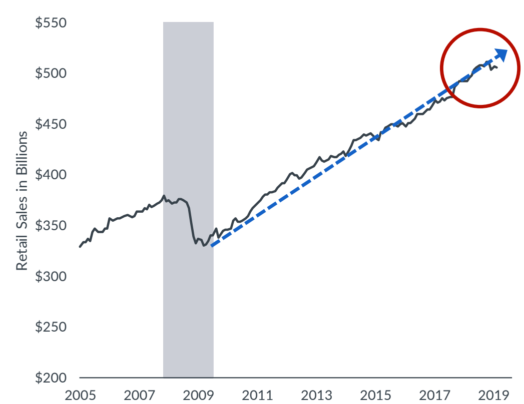
- Economic fundamentals encouraging for 2019 growth
- Fed's dovish stance should spur spending, investment
- Government shutdown, cold weather hurt Q1 performance

Sentiment Bouncing Back Upward
(University of Michigan Consumer Sentiment Index)



Source: University of Michigan, as of 3/2019.

Retail Sales Have Taken a Recent Dip



Source: U.S. Census Bureau, as of 2/2019.

When It Comes to Diversification, Don't Be Naïve

By Matthew Peron and Tom Galvin

Over the last 30 years, investors have enjoyed a long run of exceptional returns. Supported by extraordinarily healthy business conditions and profit growth, real total returns for global equities in the U.S. and Western Europe have averaged 1.5 and 2.2 percentage points, respectively, above each region's historical averages. But **the global economic landscape is likely to look quite different over the next decade**, and those expecting a continuation of this golden age of equity investing may be in for an unpleasant surprise. For advanced economies, major trends supporting economic growth are diminishing or even declining. Labor forces are rapidly aging, productivity gains have stalled and government debt loads are fast approaching levels that significantly curb potential growth. In fact, **for many regions and countries, long-term GDP forecasts are at record lows.**

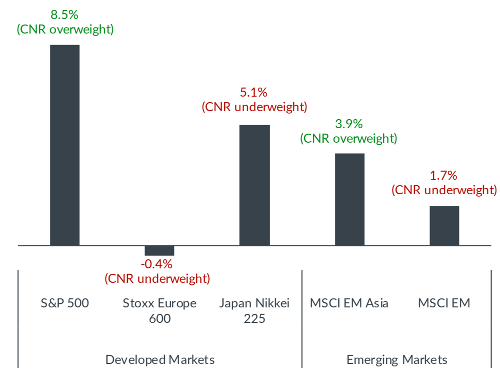
The implications for equity investors are significant. Many factors impact equity prices, but long-term stock returns tend to reflect the cash flows (earnings and dividends) generated by companies, which in turn are ultimately driven by economic growth. The link between slower secular growth and subpar equity returns is already apparent in European economies. Over the past five years, City National Rochdale clients have significantly benefited from our bias toward domestic equities (see chart). But **as we look forward, we see that even the U.S. is not immune to global trends**. The Fed now has a 1.9% long-term trend growth estimate for the U.S., down from more than 3% in 2000.

After asset allocation, the most important decision in portfolio construction is where to invest regionally, and with the outlook for growth muted in the U.S. and elsewhere, we find our heads increasingly turning east. **Emerging Asian equities represent some of the best long-term value we see across the global capital markets** (see chart). Asia boasts superior demographics, higher savings and investment rates, and rapidly rising urbanization and per capita income. It has a consumer economy that will accelerate as a result of the growing middle class. All this should lead to higher earnings growth.

One key element of investment success is a long-term perspective. With it, investors can assess the impact of fundamental, economic and demographic changes. They can then allocate their portfolios more effectively, focusing on attaining the returns necessary over an extended time horizon to meet their investment objectives. The "free lunch" of naïve diversification is over. However, higher returns and diversification are still possible with a targeted, intelligent approach to global equity investing.

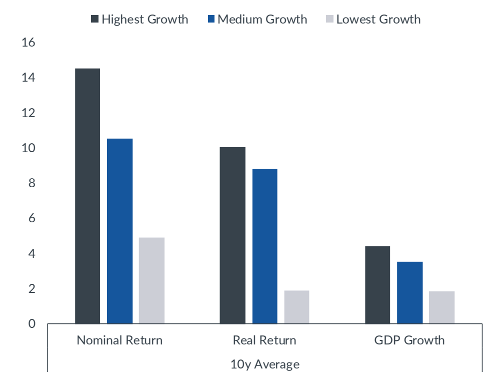
- Developed economies' growth may have peaked
- Regional diversification important for investors
- Future economic trends favor emerging Asian equities

Regional Exposures Can Add Alpha to Equity Allocation



Sources: MSCI, Factset, as of 12/31/2018.

Average Equity Returns by GDP Growth (Non-overlapping Periods from 1901 to 2016)



Sources: Dimson-Marsh-Staunton Dataset, Reinhart and Rogoff, Penn World Table, Norges Bank, as of 10/2018.

Emerging Market Corporate Credit: An Overlooked Opportunity

By Thomas H. Ehrlein

Investors faced a number of challenges in 2018, with volatility extending across stocks and bonds in various markets. One area of potential opportunity following that volatility is emerging market corporate credit—debt issued by companies in developing economies.

Emerging market bond prices fell dramatically last year, increasing their yields, on uncertainties that included concerns about global economic growth, trade disputes, central bank tightening, and negative developments and currency crises in several emerging markets, such as Argentina and Turkey. We saw this as creating an opportunity, because we believed the underlying fundamentals were strong. The Fed's recent decision to pause its tightening policies, as well as technical imbalances that help ease the debt burden on foreign borrowers, also bode well for emerging markets.

As the chart shows, emerging market corporate high yield bonds began 2018 with yields similar to U.S. high yield bonds, but **emerging market bonds now trade with significantly higher yields, despite a slight recovery in the first quarter of 2019**.

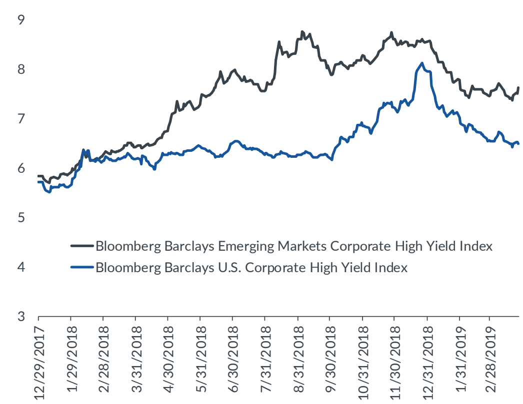
While emerging market corporate high yield bonds offer higher yields relative to their U.S. counterparts, the underlying fundamentals of emerging markets remain strong, particularly over the longer term. As the chart shows, **emerging market economies tend to be significantly less indebted than developed market economies, and emerging markets are also growing faster.**

Defaults in emerging market high yield continue to be low — lower than U.S. high yield issuers. We believe this is mostly because corporations located in EM regions are judged based on geography rather than fundamentals. This is known as the "sovereign ceiling," where EM corporate issuers are not usually rated better than their corresponding government bonds.

We see an opportunity to take advantage of price and yield developments in the market and capitalize on the relatively high yields in emerging market corporate debt. **Emerging markets offer favorable fundamentals and a more robust growth outlook relative to developed markets**, and the current yields present an attractive entry point in this context.

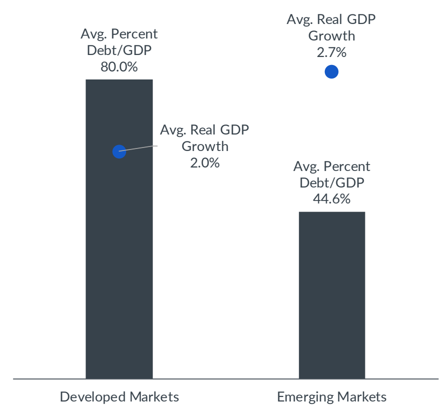
- Decline in EM bond prices creates opportunity
- Strong fundamentals outweigh uncertainties
- EM bond yields attractive relative to U.S. peers

U.S. and EM Corporate High Yield: Yield to Worst



Source: Bloomberg, as of 3/2019.

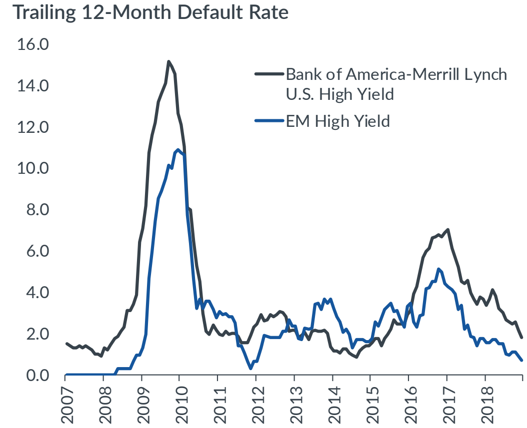
Debt/GDP and Real GDP Growth



Source: Bloomberg, as of 3/2019.

Average real GDP growth is the average of year-over-year real GDP growth of emerging market economies through Q3 2018.

Trailing 12-Month Default Rate



Sources: Bank of America, Ashmore, as of 12/2018.

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.

MSCI Emerging Markets Asia Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Asian emerging markets.

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 MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of September 2002, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The Dow Jones Select Dividend Index seeks to represent the top 100 U.S. stocks by dividend yield. The index is derived from the Dow Jones U.S. Index and generally consists of 100 dividend-paying stocks that have five-year non-negative Dividend Growth, five-year Dividend Payout Ratio of 60% or less, and three-month average daily trading volume of at least 200,000 shares.

The Barclays Aggregate Bond Index is composed of U.S. government, mortgage-backed, asset-backed, and corporate fixed income securities with maturities of one year or more.

The Barclays High Yield Municipal Index covers the high yield portion of the U.S.-dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

The Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged, U.S.-dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million.

S&P Leveraged Loan Indexes (S&P LL indexes) are capitalization-weighted syndicated loan indexes based upon market weightings, spreads, and interest payments. The S&P/LSTA Leveraged Loan 100 Index (LL100) dates back to 2002 and is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria. Its ticker on Bloomberg is SPBDLLB.

The Bloomberg Commodity Total Return Index, formerly known as Dow Jones-UBS Commodity Index Total Return (DJUBSTR), is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury Bills.

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

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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.