City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

FEBRUARY 4, 2019

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Has the Fed become more dovish on their view of future rate hikes?

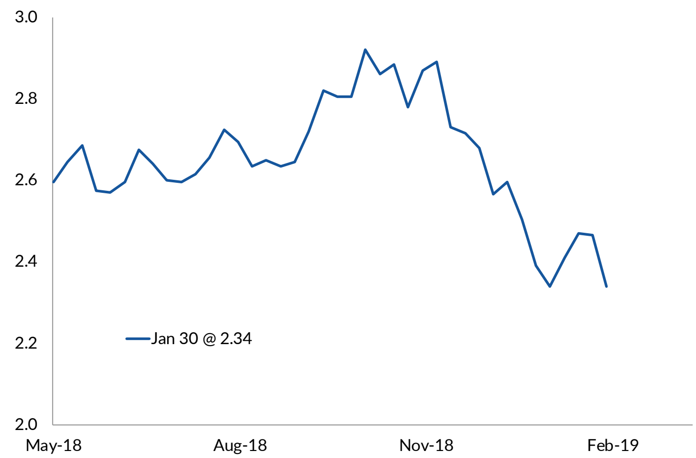
Yes. Since Q4's steep slide in stocks, senior Fed policy makers have been taking back some of their hawkish statements from last year.

In December, they reduced the number of projected rate hikes in 2019 to two, from three. In the press release from the January FOMC meeting, they dropped the language of "further gradual hikes" and replaced it with language stating they will be "patient" with the decision to raise interest rates in the future.

At the press conference following this meeting, Chair Powell argued that the case for rate hikes has "weakened somewhat" in recent months because inflation remains subdued and the risks posed by financial imbalances have receded.

With this dovish pivot over the past few months, equity prices have started to recover from their Q4 drubbing. January's stock market was the best in about 30 years. Corporate credit spreads have also narrowed.

Federal Funds Futures Contract Yield December 2019 (%)



Source: Chicago Board of Trade. As of January 2019.

KEY QUESTIONS

What is happening with Europe's economy?

Will the bull market continue in 2019?

What is happening to corporate spreads?

What is happening with Europe's economy?

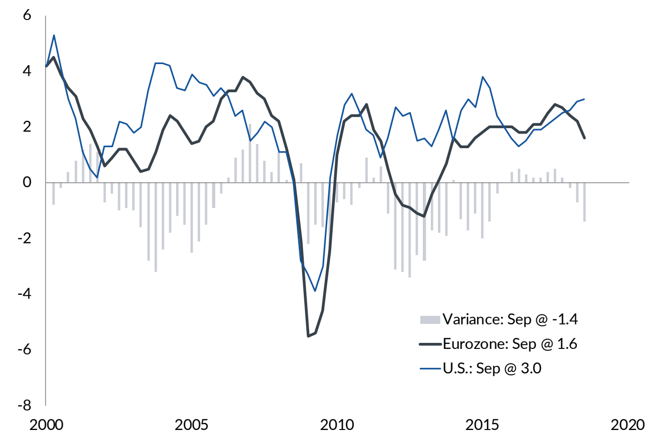
Since the end of the global financial crisis, economic growth in the eurozone has been plagued with problems and has consequentially had a pace of economic growth that has been slower than what has been seen in the United States.

Then, in 2016, with many of their problems behind them (like the Greek sovereign debt crisis) and led by stronger consumption, growth started to pick up. For eight consecutive quarters, the pace of economic growth was faster than the U.S.'s (chart).

But growth has stumbled again, and growth decelerated in 2018. The yearly change in GDP currently stands at 1.6%, about half the 3.0% growth rate in the U.S. Much of the weakness has been attributed to slower manufacturing, due in part to global trade tensions and uncertainty with Brexit.

All of this appears to be a slowdown, not collapse, in economic growth. On the positive side, their unemployment rate is at the lowest level in about a decade and wages are relatively strong at 2.5%, above the inflation rate of 1.6%.

GDP (% chng, y-o-y)



Source: Bureau of Economic Analysis, Eurostat. As of September 2018.

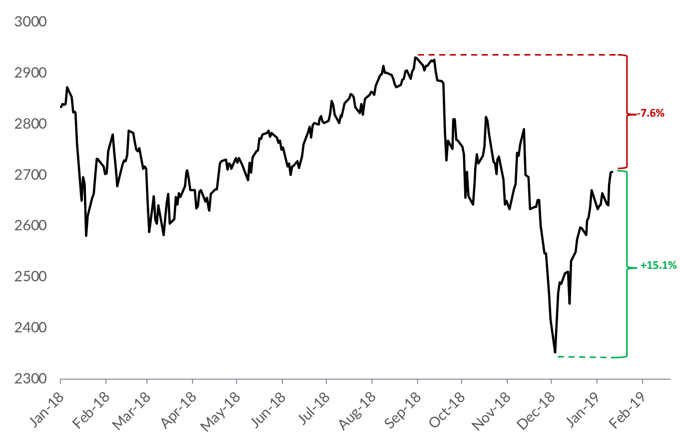
Will the bull market continue in 2019?

Equity markets appear to have found their footing over the first month of the New Year, with the S&P 500 up 15.1% from the December low. Although the damage from the recent correction has not been fully repaired -- the market is still 7.6% below last year's high – the pendulum of sentiment appears to have swung back to a more balanced position.

A dovish turn by the Fed and a resumption of trade negotiations with China have improved investor sentiment, while earnings and corporate guidance released so far have been better than feared. Nearly a quarter of S&P 500 companies have now reported results, with profits rising more than 13% in the recent quarter. Consensus earnings estimates for 2019 have come down a bit, but still forecast better than 6% growth this year.

The early-year rebound in the market is encouraging. It indicates a wider investor focus that includes ongoing political risks in addition to the still favorable fundamentals, which is an environment in which the market can perform reasonably well. While this likely won't prevent ongoing market swings in the months ahead, it should allow for the long-running bull market to continue over the foreseeable future.

S&P 500



Sources: FactSet. As of February 2019.

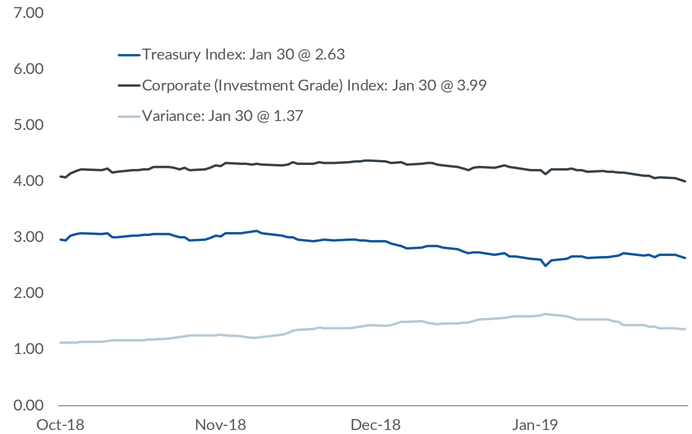
What is happening to corporate spreads?

During Q4 of last year, credit spreads were widening, indicating the possibility of slower economic growth on the horizon; this move paralleled the drop in equity prices.

There were multiple concerns that forced the widening: slowing economic growth, future Fed policy that was viewed as too restrictive, softening in the manufacturing sector, trade dispute with China, the upcoming earnings season and a handful of technical factors.

Even with those outstanding issues, it was surprising to see the widening since not much had changed in the underlying economy. However, slightly dovish comments from Fed policy makers at the end of last year followed by even more dovish statements this year have helped change the market's outlook, and spreads have been narrowing again (chart: the change is subtle; remember these are high -quality bonds, not stocks).

Yields Spread Beginning to Narrow (Yields of Corporate and Treasury Bonds)



Source: Bloomberg Barclays Index. As of January 2019.

What is the impact of the U.S. government shutdown on the economy?

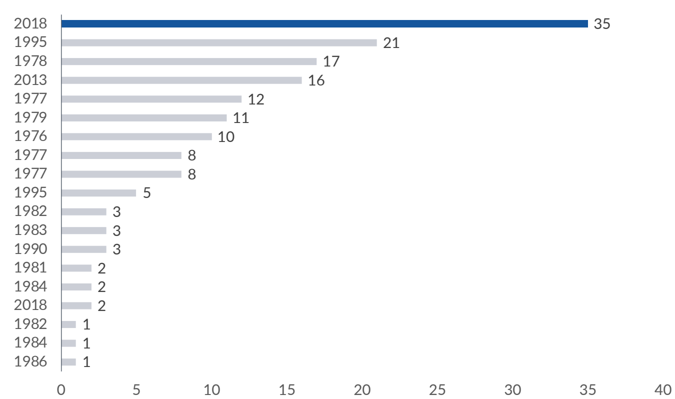
Congress and the president have reached a deal to temporarily reopen the government until February 15, halting the longest shutdown in U.S. history at 35 days. The three-week extension could provide time for a more permanent deal to be reached, but given the current political divide, that outcome is far from guaranteed.

While the personal impact many suffered from the shutdown should not be overlooked, the impact to the overall economy has likely been minimal. The CBO estimates the shutdown shaved 0.1% off real GDP growth in Q4 and 0.2% in Q1. Most of that growth will be recovered, though some will be lost permanently.

The bigger concern we think is that the recent impasse may serve as a prelude for much bigger fights on more economically important issues down the road. An agreement on the debt ceiling must be reached in March and, even more importantly a decision must be made on whether to lift budget caps in October.

Failure to do so will cause a large step-down in government expenditures, which has been adding roughly half a percentage point to GDP growth over the past year.

Length (Days) of U.S. Government Shutdowns Since 1976



Sources: Congressional Research Service. As of January 2019.

What is City National Rochdale's investment outlook for 2019?

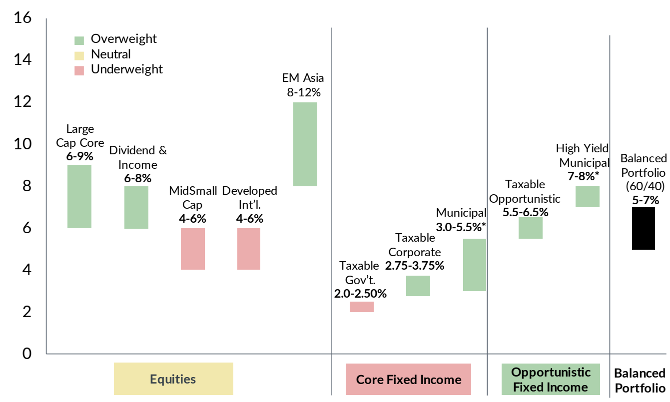
Although it can be difficult to remain calm in the midst of market action like we've seen over the past couple of months, our advice is to stay disciplined and invested. Given our positive assessment of the fundamental backdrop, we remain bullish on equities in general for 2019 and continue to see attractive prospects in the opportunistic fixed-income class.

Still, patience and discipline will be more important than ever. The investment landscape has grown more challenging as investors adjust to more typical late-stage conditions of higher inflation, rising interest rates and less accommodative monetary policy.

Meanwhile, concerns over slowing global growth, trade tensions and other geopolitical risks mean that markets likely will continue to be subject to periodic swings in sentiment and potential pullbacks. Both our equity and fixed income research teams have made deliberate risk-mitigating portfolio changes over the past year with the recent type of volatility in mind.

These decisions have helped fortify client portfolios to weather the turbulence we are experiencing, while leaving them well-positioned to take advantage of opportunities ahead should they present themselves.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of January 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.

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

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.