City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

JANUARY 10, 2019

On the Radar

FAQS ON THE MARKETS AND ECONOMY

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

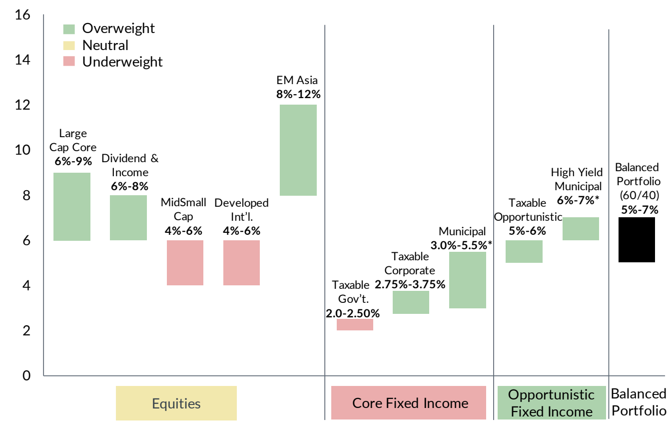
Although it can be difficult to remain calm in the midst of market action like we've seen over the past couple of months, our advice is to stay disciplined and invested. Given our positive assessment of the fundamental backdrop, we remain bullish on equities in general for 2019 and continue to see attractive 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 December 2018. 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

What is City National Rochdale's outlook for the Fed's monetary policy in 2019?

What is happening to the European economy?

Why have longer-term yields fallen so much?

What is City National Rochdale's outlook for the Fed's monetary policy in 2019?

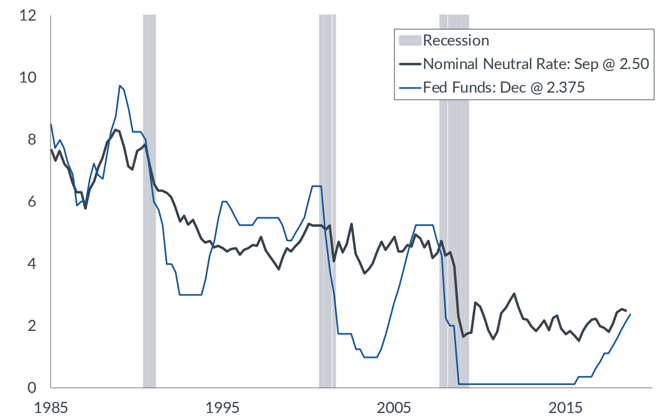
We expect the Fed to raise rates two times, for a total of 50 bps. This will bring the median federal funds level to 2.875%.

With the volatility of the stock market, the tightening of financial conditions, and inflation contained, the Fed may wait until June before hiking interest rates.

We believe the Fed will continue with its scheduled plan to reduce the size of its balance sheet, the reversing of quantitative easing. So far, it does not seem to have affected the yield curve.

We are looking forward to the increased transparency from the Fed. Starting with its upcoming January 30 meeting, the Fed will have a press conference following each FOMC meeting.

Nominal Neutral Rate & Federal Funds Rate (%)



Source: Federal Reserve Bank, Federal Reserve Bank of New York. As of December 2018.

What is happening to the European economy?

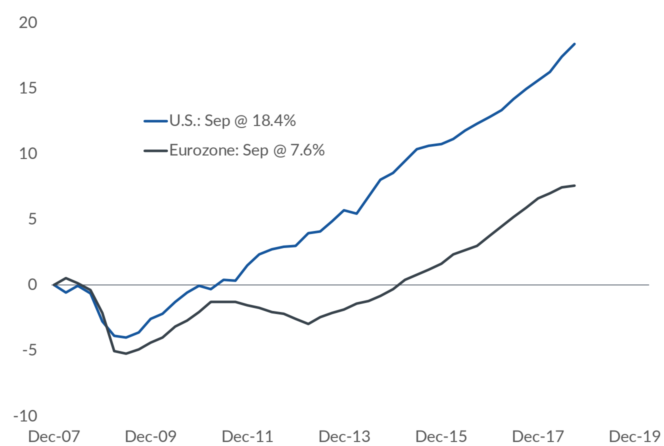
In general, it is standing on weak footing and faces many uncertainties in 2019. Europe's economic growth is anemic compared to the U.S. (chart). It is very sensitive to global growth and with the slowdown in global trade, economic growth is well below potential. This has helped to keep inflation at bay (CPI at just 1.6% and has averaged just 0.8% for the past five years), which is a problem for the ECB as it is reducing stimulus.

Although fiscal policy will likely stay slightly supportive this year or so, monetary stimulus is in its final innings (the Fed has already stopped QE). Brexit continues to be an important area of concern for Europe and the United Kingdom. The continued uncertainty of how it will be handled has kept investment down, helping to slow future economic growth.

There are some country-specific problems. Germany posted a negative Q3 GDP report. Although it is expected to bounce back in Q4, it just shows how low economic growth has been for the largest economy in Europe. Also, Italy continues to have a weak banking system and budget fights with the EC's governing body.

A recession is not expected in Europe, but economic growth is expected to stay well below potential.

Eurozone's GDP has been tepid compared to the U.S. (GDP indexed to start of U.S. recession)



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

Why have longer-term yields fallen so much?

The yield on the benchmark 10-year note hit a recent high of 3.24% back in early November and fell to 2.69% at year-end and has since fallen a little further to 2.66% as of this writing (chart).

There are a number of reasons for this move; here are some of the more important ones: oil prices have plummeted (down 37% from October high of $76/barrel) which has helped to bring down inflationary fears and is also viewed as a leading indicator of weaker global economic growth, uncertainty of the forward direction of the economy, slower economic growth in China (the world's second-largest economy), and increased buying in an asset allocation move away from the volatile stock market.

Interestingly, the drop in bond yields has improved financial conditions. The Goldman Sachs Financial Conditions Index, probably the best known of the various financial conditions indexes, attributes a 45% weighting to longer-term yields, so this movement has helped reverse the direction of this index.

Longer-Term Yields Have Been Falling
10-year Treasury Yield (%)

Source: Bloomberg. As of January 2019.

The labor report breathed some fresh air into the stock market, how strong was the report?

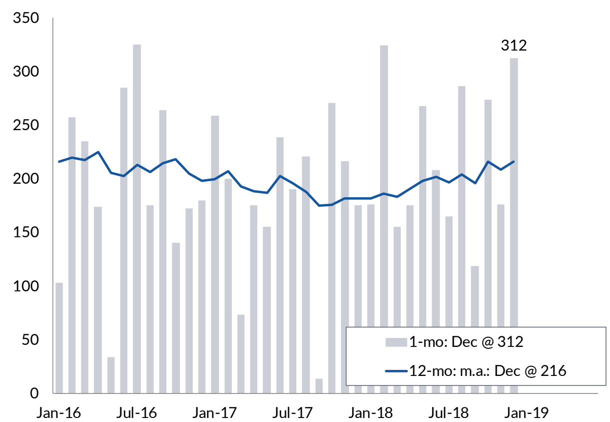
It was very strong. The December nonfarm payrolls jumped 312,000, which is about 100,000 more than the five-year average monthly gain. Furthermore, the two previous months were revised up by 58,000.

Despite more than nine years of economic expansion, the pace of hiring continues to improve. The 12-month average gain is 216,000, up from a recent low of 176,000 in October 2017 (chart).

Wages increased and now stand at 3.2% y-o-y, the highest level in nine years.

The unemployment rate did increase to 3.9%, from 3.7%, but for good reasons, as the participation rate increased by 0.2pp to 63.1%. This is calculated from a separate survey.

Monthly Change in Nonfarm Payrolls ('000)



Source: Bureau of Labor Statistics. As of December 2018.

Will the bull market continue in 2019?

Based on positive economic, earnings and valuation factors, we continue to believe the long-running bull market remains intact. While the recent declines in stock prices have been severe, it is important to remember that market corrections are also normal.

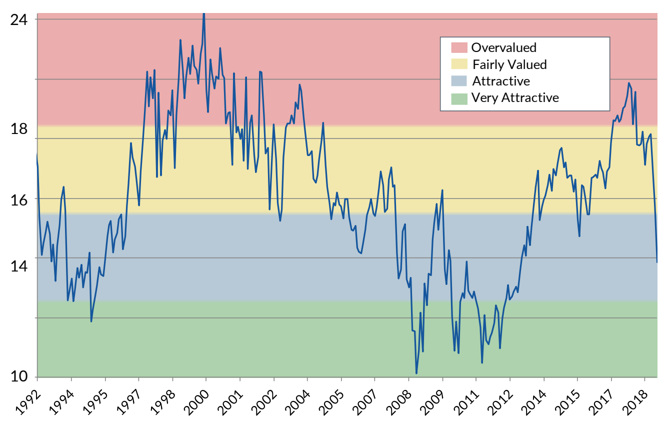
Equity markets appear to have found their footing in the first two weeks of the new year, with more dovish signals from the Fed and a resumption of trade negotiations with China.

However, we think it is too early to declare the correction over, and we suspect the repricing process may last several months until we get more clarity on these issues.

Another important development investors will closely be watching for is any change in the earnings outlook. With EPS season around the corner, though reported results should be fine, guidance for 2019 is likely to be conservative.

The silver lining in the recent market pullback is that valuations have become much more attractive. We believe the fundamental investment backdrop today is more favorable than short-term moves and headlines might suggest. It may take time, but we believe investors will eventually reconnect to the still positive outlook, and stock prices will begin climbing higher.

S&P 500 12-Month Forward P/E



Sources: Thomson Financial Baseline, S&P 500, FactSet. As of December 2018.

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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.

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.