City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

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On the Radar

FAQS ON THE MARKETS AND ECONOMY

Will the escalation in the U.S. –China trade dispute derail the bull market?

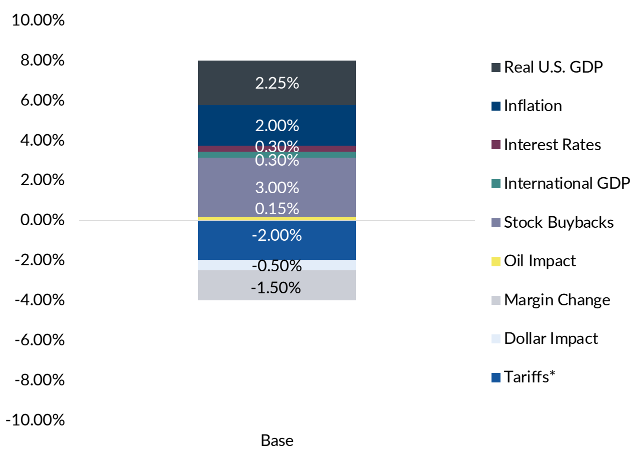
While it has been our opinion that investors have recently been too confident over progress in trade negotiations, given the strength of recovery from last year's correction, we have also warned that consolidation period or pullback in stock prices would be normal. Still, we do not expect a retest of December's lows. Market declines so far have been modest, and we believe investors to some degree have become desensitized to trade tensions.

Importantly, underlying fundamentals remain positive which should eventually lead to higher stock prices. The U.S. economy is relatively insulated from trade-related impacts and recession risk remains low. Meanwhile, equity valuations are a bit more attractive now.

Our base case expectation for modest but healthy profit growth has also incorporated worst case assumptions of further escalation in tensions with China, and our portfolios have stayed away from export-sensitive sectors of the economy, as well as global regions like Europe that are more exposed to trade disruptions.

Since both sides have incentives to want an agreement, a potential deal between the U.S. and China later this year is still a good possibility. In the near term, though, more twists and turns can be expected and investors should brace for further volatility.

City National Rochdale 2019 S&P 500 EPS Forecast



* Tariffs include all imposed, pending, and threatened tariffs.
Source: City National Rochdale estimates. As of May 2019.

KEY QUESTIONS

Has the tariff conflict altered your view of what the Fed will do this year?

Are rising trade tensions with China a threat to the U.S. economy?

What do rising trade tensions mean for EM Asia equities?

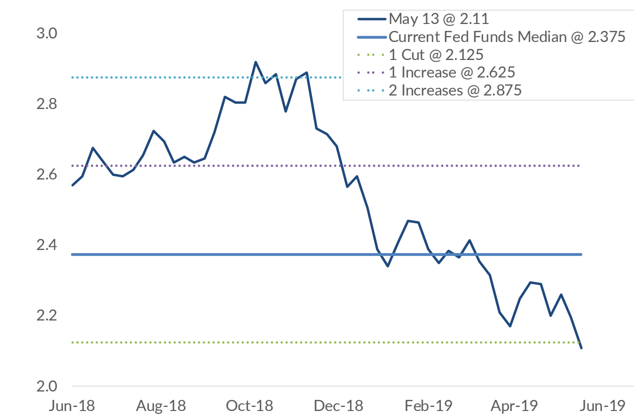
Has the tariff conflict altered your view of what the Fed will do this year?

We continue to believe the Fed is on hold for the remainder of the year. But the escalation of trade tensions has increased some economic risks.

There are several scenarios. The simplest would be a trade deal gets struck within a few months and the tariffs are withdrawn. In this case, the impact on the economy might not be noticed. If the current tariffs stay in place, inflation is sure to rise. The estimates seem to be up an additional 0.2% to 0.4% on an annual basis, depending if other tariffs, which have been threatened, are put in place.

This of course will eat into disposable income and will probably affect consumer confidence, which may alter the consumption habits of many households. The federal funds futures market rallied on the implementation of the tariffs and China's response. It had already started to price in an easing this year due to low inflationary pressures, but now fully price in a cut due to weaker growth expectations.

Federal Funds Futures Contract Yield of December 2019 Contract (%)



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

Are rising trade tensions with China a threat to the U.S. economy?

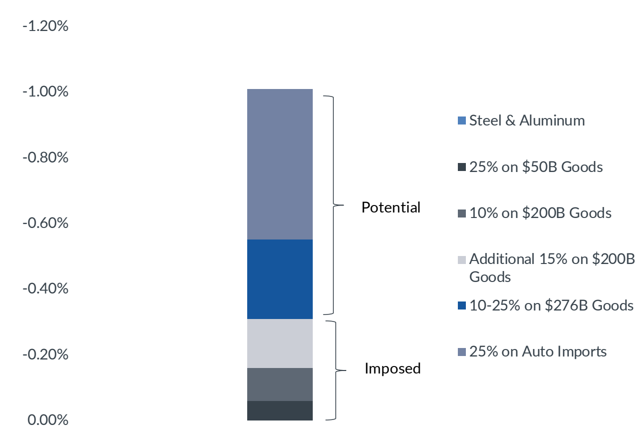
Each escalation in trade tensions with China has incrementally weakened the U.S. economic outlook somewhat, but not enough, we believe, to derail the expansion.

Importantly, the U.S. economy is fairly isolated from these pressures, relying primarily on a healthy consumer sector and domestic demand for growth. Exports make up only about 12% of the U.S. economy, and trade with China specifically accounts for only 1% of GDP.

Even if the Trump administration goes forward with its plan to target the remaining approx. $300b of imported Chinese goods, and China retaliates further, the impact should be manageable.

Including the indirect effects of higher prices and reduced confidence, most estimates are that U.S. GDP would be reduced by about 0.4%. For now, a bigger concern is whether or not the U.S. administration begins to turn its attention towards other major trading partners like Japan and Europe, and starts targeting the auto sector.

Estimated Impact of Tariffs on U.S. GDP



Source: WTO. As of 2018.

What do rising trade tensions mean for EM Asia equities?

Although trade concerns may keep markets volatile in the near term, we believe fundamentals remain supportive and indicate we could be poised to begin another cycle of outperformance.

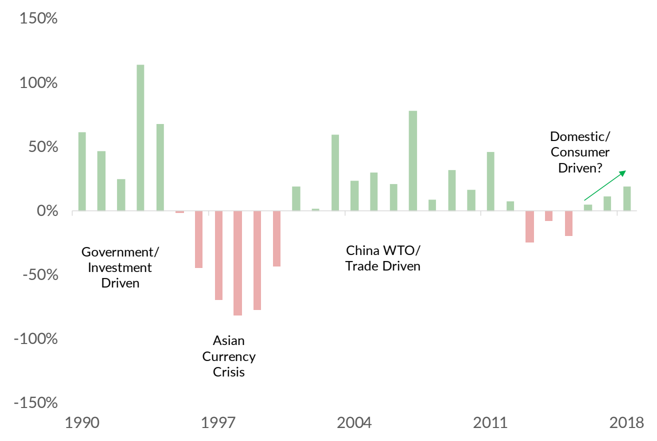
In our analysis, the fallout from U.S.-China tensions on EM Asia economies and corporate profitability is lower than commonly understood. The region's strong growth outlook is increasingly more consumer and less export driven.

About 60% of China's GDP, for instance, is now value-added services and consumption, and U.S. exports account for only 3.6% of GDP (down from 7.3% in 2006). In other emerging Asia economies, the negative trade impact should also be relatively small. In fact, some of these economies have received an offsetting boost as U.S. demand has shifted away from China toward alternative suppliers.

Recently, we have seen early signs of improvement in the region's economic data, and most governments have loosened policy over the past year to help offset the drag from weaker export demand. The worsening of the trade war and the strong fiscal position of most countries increases the likelihood policy could be loosened further.

For investors, EM Asia boasts a superior earnings growth profile, particularly vs. other non-U.S. developed markets. Valuations also look more attractive, both historically and relative to other geographies. Our focus continues to be on sectors and companies that should benefit from domestic structural drivers of demand rather than those exposed to trade headwinds.

MSCI EM ASIA vs. MSCI EAFE 3-Year Total Returns



Source: MSCI. As of April 2019.

What factors are driving strong municipal market returns year-to-date?

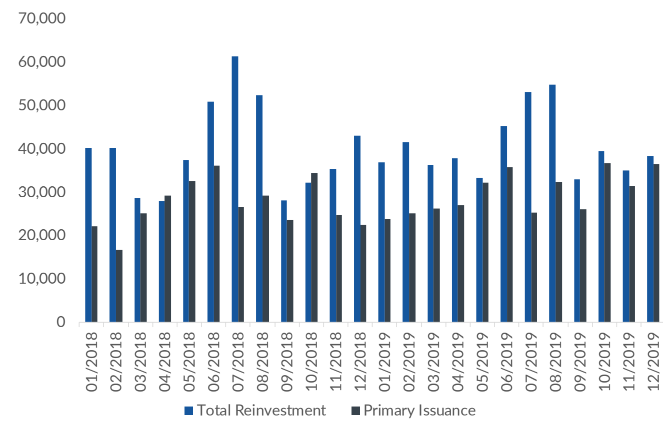
Investment grade and high yield municipal bond performance year-to-date is exceptional with the Bloomberg Barclays family of indices posting returns of 3.83% and 4.95% for these market segments, respectively.

A more dovish tone by the Fed coupled with contained inflation data has bolstered investor demand for municipal bonds. Nominal yields have fallen across the curve and compressed valuations of municipal bonds to near-record low levels. For example, a key barometer of municipal attractiveness is the ratio comparing the yield on a 10-year benchmark municipal bond to a comparable duration-matched Treasury. To begin the year, this 10-year ratio was about 85%, but today this gauge has declined to less than 75%. Stretched valuations warrant caution, but the positively sloped municipal curve still provides an opportunity to accrue income.

Underscoring the voracious appetite for bonds is the amount of capital flowing into mutual fund complexes. Since the beginning of the year, net inflows have surpassed $32 billion. The consistent flow of money coming into the market is likely a confluence of Fed policy, in-state demand from taxpayers affected by the limit on state and local tax deductions (SALT), and stable credit quality.

Restrained supply in the market has failed to keep pace with available investment cash flows when including the impact of coupon payments, maturities, and redemptions (see graph). Over the past year, about $60 billion in municipal bond debt outstanding was removed from the market, according to Fed data. The net negative impact of supply is likely to persist this year, helping support municipal bond prices.

Municipal Market Net Supply



**Total reinvestment includes maturities, redemptions, calls, and coupon payments.
The difference between total reinvestment and primary issuance is excess reinvestment or the amount above new supply.

Source: Bloomberg, IPREO, Piper Jaffray. As of May 2019.

Important Disclosures

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

There are inherent risks with fixed income investing. These may include, but are not limited to, interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond risks. 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.

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.

Investments in the municipal securities of a particular state or territory may be subject to the risk that changes in the economic conditions of that state or territory will negatively impact performance. These events may include severe financial difficulties and continued budget deficits, economic or political policy changes, tax base erosion, state constitutional limits on tax increases, and changes in the credit ratings.

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.