City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

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Special Bulletin

STILL IN THE REALM OF A NORMAL CORRECTION

Equity markets sold off, as recent commentary by Federal Reserve Chairman Jerome Powell and expectations for two hikes did little to address the fears the market has, namely that the Fed will make a policy mistake by raising rates too much, further invert the yield curve, and trigger a recession.

The Fed is looking at the real economy, not the market. It believes that, like in 2015-16 (and 1986 and 1998), the market may be overreacting to the slowdown.

We agree with the Fed. While some indicators are slowing, we do not see recession in the near term, which is what would cause us to pare back equity exposure even further. When the market's multiple declined by an amount like we've just seen (19%), in 15 out of 20 instances it recovered in the next year. Most of our economic indicators (the City National Rochdale Speedometers[SM]) are green, especially those relating to the consumer, and we expect them to stay that way for some time. However, we believe the market needs to

S&P 500 1968-2018	% Decline	Duration in Days
Correction Average	16%	134
Correction Median	14%	70
Bear Market Average	42%	542
Bear Market Median	42%	570
% Corrections that turn into Bear Markets		21%

This table does not include the current correction (-16.9%), which is line with historical average and, at 91 days, is still shorter so far than the historical duration.

Correction equals a decline in the S&P 500 of -10% to -20% from peak. Bear Market equals a decline of more than 20%. Duration equals how long it took for that correction to find a bottom.

Source: FactSet

KEY POINTS

The Fed is looking at the real economy, not the market, and believes that the market may be overreacting to the slowdown.

We agree with the Fed and do not see a recession in the near term.

We believe the market needs to adjust to this new regime, and our positioning considers this.

We have been underweight non-U.S. markets, which have taken the brunt of the damage this year.

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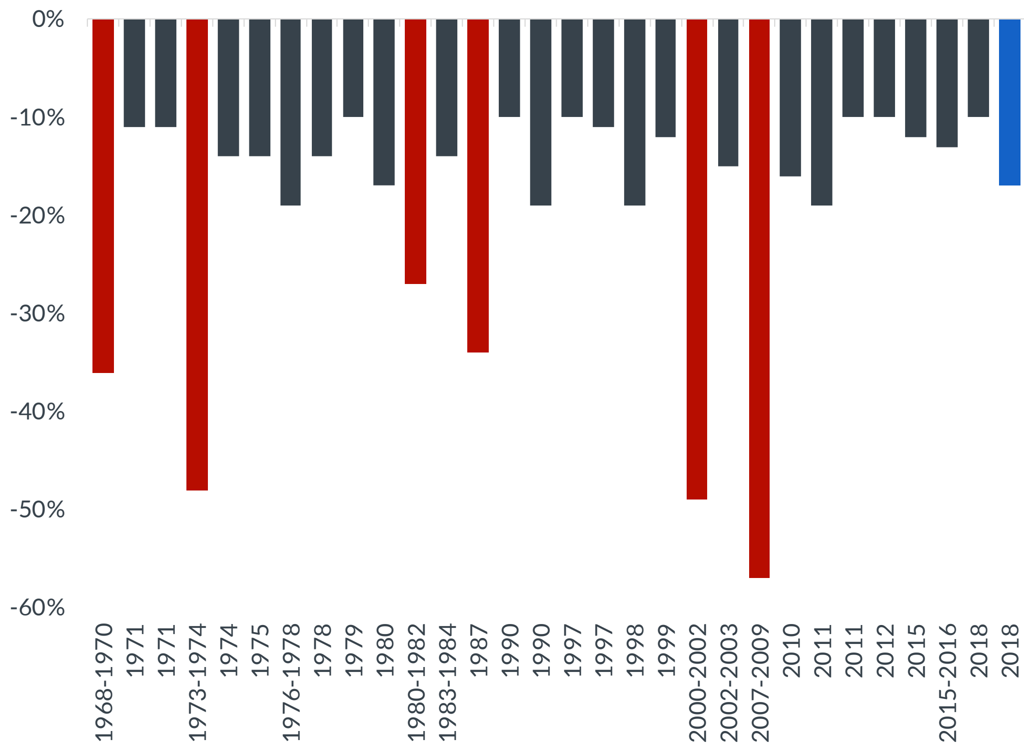
adjust further to this new regime, so we do not see this as a place to add to risk just yet.

Importantly, our positioning considers this with a significant allocation to High Dividend and Income equity, which tends to do well in a slowing economy and lower rate backdrop. In addition, our Large Cap Core equity positioning has a high quality bias and is outperforming. We have been underweight non-U.S. markets, which have taken the brunt of the damage this year.

As a result, we counsel staying the course. Please reach out if we can be of any assistance.

The Vast Majority of Corrections Are Relatively Short-Lived and Don't Turn into Bear Markets



Source: FactSet

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.

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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