City National Rochdale®
INVESTMENT MANAGEMENT

On the Radar

FAQs ON THE MARKETS AND ECONOMY MARCH 13, 2017

1. What are City National Rochdale's expectations for economic and investment outcomes in 2017?

We continue to overweight U.S. growth and dividend equities and underweight bonds.

Given the potential pro-growth policies, including tax cuts and stimulus spending, we see corporate profit growth likely improving over the next two years, supported by a longer economic expansion.

Inflation from faster wage increases may cause interest rates to rise moderately. Depending on the specifics of tax cuts and spending increases, they may cause higher deficits.

Surveys of consumer and business optimism have reached multi-year high levels, which real economic growth in the U.S. and globally validate.

Equity investors should benefit, while fixed income investors will likely experience downward bond value pressure as interest rates rise.

However, as the legislative process elongates and new expected U.S. fiscal proposals are delayed, downward equity price volatility is possible.

Forecasted Expected Returns (%) 12-month Horizon

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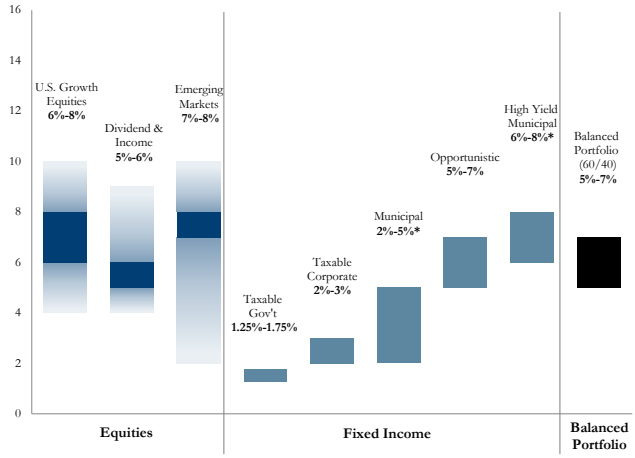

The range of outcomes upward and downward reflect what could go right and what could go wrong during the new Trump administration

Source: City National Rochdale, February 2017
Forecasted 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.**

2. Is the economic outlook improving?

The U.S. economy continues to show signs of health and modest new momentum.

While some recent activity data has disappointed, a wide range of survey measures, which are a better gauge of future growth, have moved up markedly over the past few months to near post-recession highs.

However, the backbone of the expansion continues to be the strength of the labor market. Over 16 million jobs have been created since 2010, with the economy adding another 475,000 in just the first two months of this year.

The silver lining of moderate economic growth has been the absence of the typical imbalances and pressure points that accumulate in the advanced stages of a business cycle.

Indeed, with the likelihood of a significant fiscal stimulus being enacted over the next few quarters, near-term recession risk is as low as it has been for several years.

Nonfarm Payrolls (Thousands)

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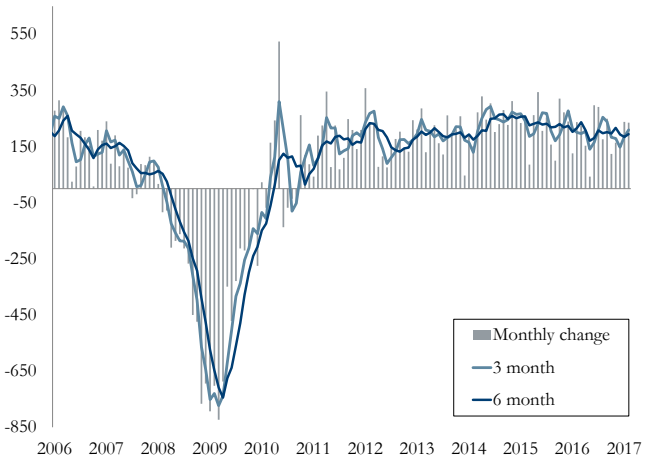


Source: U.S. Bureau of Labor Statistics, as of March 10, 2017

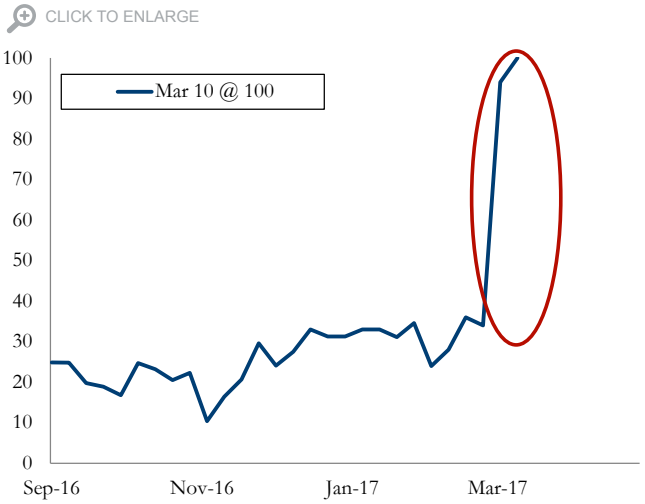
3. Will the Fed raise the federal funds rate at its meeting this week?

City National Rochdale expects two to three increases this year, starting in March.

The consequences of these hikes may cause downward price volatility on short- and intermediate-term fixed income.

Equities should continue to benefit from economic growth, rising profits, and better global demand.

Implied Probability of a 25 bps rate hike in March (%)



Source: Chicago Board of Trade, Bloomberg

4. Given the expected tightening move by the Fed, have yields on liquidity accounts moved up?

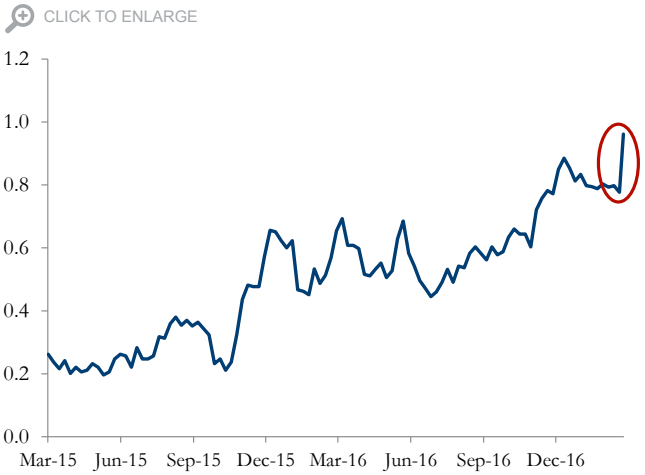
Yes, the 12-month U.S. Treasury bill rate is now at 1.02%, while at the beginning of the year, it was 0.81%.

Furthermore, with the increasing probability that the Fed will be able to follow through on its plans to hike interest rates three times this year, the yield curve in this sector of the market has steepened, offering higher yields for longer maturities.

A taxable account with an 18-month maturity is yielding 1.40%. A national muni account with an 18-month maturity would have a taxable equivalent yield of around 1.30%. Portfolios for residents of California, New York State, or New York City would have taxable equivalent yields of around 1.70%, 1.55% and 1.65% respectively.

City National Rochdale's Liquidity Management strategies are customized to meet each client's specific needs while taking into account our expectation of increasing interest rates. Accordingly, we utilize floating rate structures and credit products that allow clients to benefit from higher interest rates.

U.S. 12-Month Treasury Bill (%)



Source: Bloomberg, March 1, 2017

5. What are the reasons behind City National Rochdale's equity underweight to Europe?

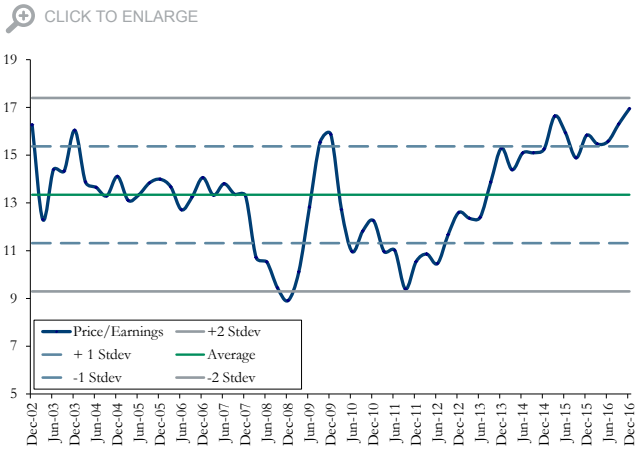
European equities have lagged significantly over the last five years, and City National Rochdale clients have benefited from our ongoing underweight.

Although recent European economic data has marginally improved, we believe long-term growth prospects remain poor due to unresolved structural issues (i.e. low productivity growth, unfavorable demographic trends, onerous regulatory environment, and high debt levels).

As a result, Euro company earnings growth will likely remain slow. While valuations are somewhat more attractive than the U.S., we believe they are not necessarily cheap on a historical basis.

In the near term, political uncertainty in several countries increases the risk of significant volatility.

Forward Price / Earnings - MSCI Europe



Source: MSCI, as of December 31, 2016

6. Have U.S. stocks become overbought?

The market has rallied 12% since the election and has taken the S&P 500 closer to the upper range of fair value.

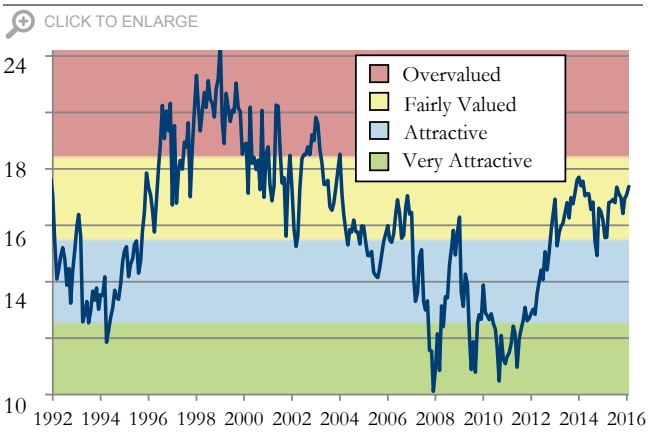
Although valuations are not a significant influence on one-year performance, combined with the prospect of a delay in tax reductions, we are advising a slower pace of new stock purchases.

Until we get greater detail on the composition and timing of new fiscal proposals, a pullback in the stock market is to be expected, and we believe a better buying opportunity is ahead.

As long as tax reform is implemented this year or next, we continue to expect moderately better equity returns over the next 12 months.

The underlying EPS growth rate is improving and as investors focus turns to 2018, when we expect the largest real economic impact from policy changes to occur, equity prices should benefit.

S&P 500 12 Month Forward P/E



Source: Thomson Financial Baseline, S&P 500, FactSet
As of January 31, 2017

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 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.

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.

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.

Floating rate loan securities generally trade in the secondary market and may have irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The value of collateral, if any, securing a floating rate loan can decline, may be insufficient to meet the issuer's obligations in the event of non-payment of scheduled interest or principal or may be difficult to readily liquidate.

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.

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 and 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.