On the Radar

FAQs ON THE MARKETS AND ECONOMY MAY 8, 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 to underweight investment-grade bonds.

With potential pro-growth policies, including tax cuts and stimulus spending likely in 2018, we see corporate profit growth improving over the next two years, supported by economic expansion.

Inflation from wage increases and stimulus spending may cause interest rates to rise moderately over the next 18 months. Depending on the specifics of tax cuts and spending increases, these may cause higher deficits.

Surveys show consumer and business optimism has reached multiyear-high levels while real economic growth in the U.S. and globally validates these surveys. We still expect only moderate growth.

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

With an uncertain legislative process and U.S. fiscal proposals delayed, downward equity price volatility is likely until we know the outcome for tax changes, healthcare rules, and regulatory changes.

Forecasted Expected Returns (%), 12-Month Horizon

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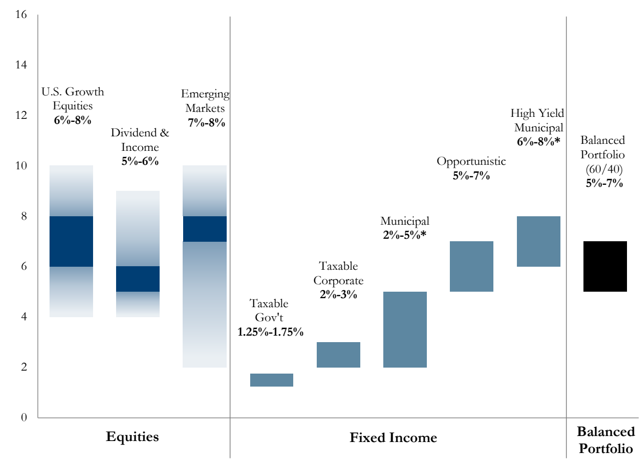

The range of outcomes upward and downward reflects what could go right and what could go wrong during the new Trump administration.

Source: City National Rochdale, March 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. What did Fed policymakers decide at the May meeting?

The Fed decided to hold short-term interest rates unchanged, which is exactly what was expected.

It left open the possibility of a 25 bps rate hike at the upcoming June meeting, which the market fully expects to happen (see chart).

The tone of its post-meeting statement reflected the slowing of economic growth in the first quarter (GDP at 0.7%) and the easing of inflation.

Also as expected, the Fed made no comment about adjustments to its balance sheet, which means we are not clear as to when the liquidity being pumped into the bond markets from the Fed's buying activity will start to slow. When liquidity does start to slow, it will lead to new impacts on the investment grade bond market. We remain alert to such changes in behaviors, which are not entirely predictable.

Implied Probability of a 25 bps Rate Hike in June (%)

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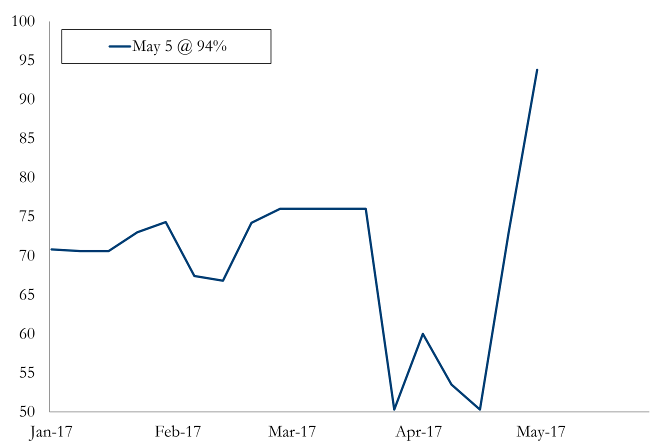

Source: Chicago Board of Trade, Bloomberg. As of May 5, 2017

3. What are the takeaways from the May 7 presidential election in France?

Macron's larger than expected win in the French presidential run-off means he will likely receive a clearer mandate and greater backing to steer the country toward helping support and expand the EU/Eurozone.

Coming after elections in Austria and the Netherlands, his victory also serves as another check against the recent global rise of populism and turn against globalization. With Le Pen tail risk out of the way, the Eurozone does not face significant political risk again before the elections in Italy early next year.

Global markets have soared since Macron emerged as the front-runner in the first round of voting on April 23 and should likely be further buoyed, at least in the near term, as the risk of an EU breakup abates for now. Still, the results showed that voters are rather deeply divided on many issues, including participation in the EU and euro. It is highly unlikely that anti-euro voices, such as Le Pen and her National Front party, will just go away.

French parliamentary elections at the end of June will be the first test of Macron's presidential authority, and it is uncertain whether the new administration will be able to work with an austerity-focused German government to stimulate growth measures.

The focus in Europe will now turn to Germany's federal election in September and ongoing Brexit negotiations. With a pro-European French president now in place, the EU will have a strengthened hand as talks with Britain develop.

France CAC 40

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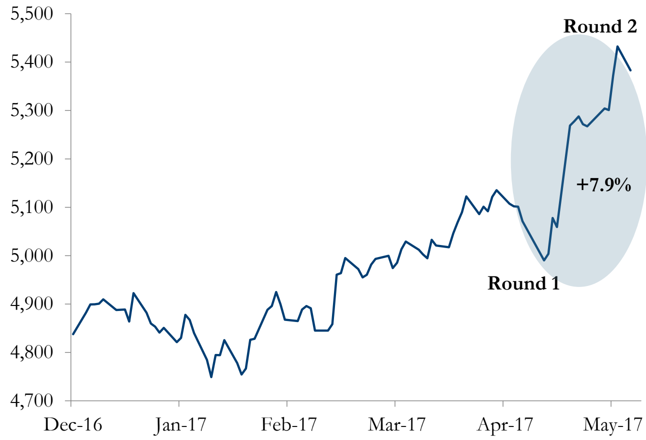

Source: Bloomberg. As of May 8, 2017

4. The Puerto Rico Oversight Board initiated proceedings for court-supervised debt restructuring. Was this expected, and will there be a market impact?

The inability of Puerto Rico and its creditors to agree on an equitable workout of certain types of debt obligations caused a federal district court to facilitate its financial restructuring. We expected this outcome, and the market is not surprised Puerto Rico has decided to file for bankruptcy.

The insurmountable challenges that confront Puerto Rico are not systemic to the broader municipal market, in our view. The uniqueness of Puerto Rico should not cause a material impact or contagion.

Puerto Rico is speculative grade and the City National Rochdale fixed income team does not own its bonds in our investment grade portfolios or our HY municipal fund. The fund has a negligible (less than one half of a percent) legacy exposure to the island's water and sewer utility, which is currently not a part of the court-supervised proceedings.

In summary, the Puerto Rico situation was not a surprise and has no real consequence to the broader municipal market.

Puerto Rico Commonwealth: 8.00% Due 7/1/2034 (Px)

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Source: Bloomberg. As of May 5, 2017

5. Is the slowdown in Q1 U.S. GDP growth a cause for concern?

No, weakness in first quarter GDP has not been uncommon in recent years, with average growth well below that of other quarters. 2017's slow start appears largely due to some familiar forces, such as unusual weather patterns, rather than any problem with the economy's fundamentals.

Moreover, underlying details of the recent GDP report generally support our outlook for a more broadly based increase in domestic demand to underpin activity this year.

Much of the moderation in overall growth reflected a slowdown in consumer spending that looks likely to reverse given the many factors supporting households (including wage growth and rising confidence), as well as the transitory nature of the dip in Q1 utilities spending.

Meanwhile, better corporate profits are supporting better business investment. We also see consumer confidence driving increases from the housing sector making for the best gain in private fixed investment since 2012.

Given improved business sentiment and less drag from the energy sector, we think the pickup in investment spending can be sustained (though perhaps not at Q1's impressive pace).

GDP (Average Quarterly Change, 2010–2016)

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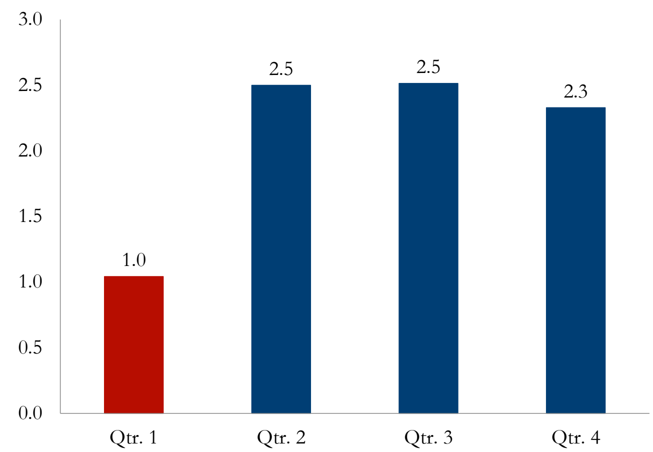

Source: Bureau of Economic Analysis

6. How are Q1 earnings shaping up?

S&P 500 earnings are on track to grow 12.5%, the highest year-over-year increase since Q3 2011. This would represent the third consecutive quarter that U.S. corporations have posted positive earnings growth, after enduring four successive quarterly declines.

The expectations bar was set fairly high heading into this reporting season, but for the most part companies have been exceeding those elevated expectations.

Earnings growth is being driven by solid domestic economic fundamentals, as well as a renewed upturn in global demand.

We have seen fewer headwinds from dollar strength and tax benefits from newly enacted accounting measures related to stock compensation.

With equity markets near record levels and growing uncertainty about the timing and scale of potential pro-growth policy changes, we believe that fuel for the bull market will continue to come from improving earnings.

S&P 500 Quarterly Earnings Growth (Y-o-Y %)

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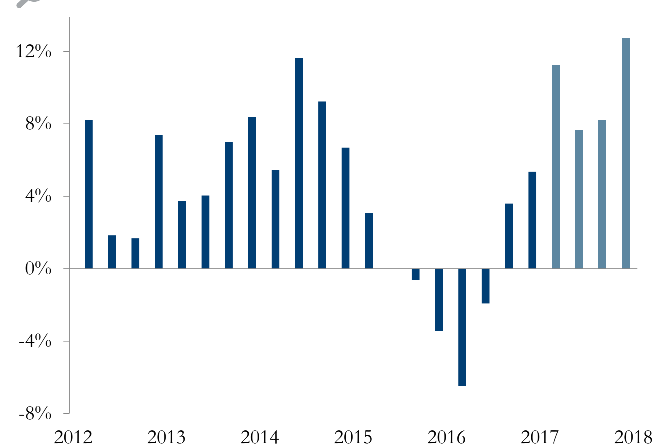

Source: Bloomberg

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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.

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 nonpayment 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.

The Financial Times Stock Exchange 100 share index (FTSE 100) is an average of share prices in the 100 largest, most actively traded companies on the London Stock Exchange. It measures the performance of the shares of the 100 largest companies listed on the London Stock Exchange, sometimes referred to as the LSE. It measures the daily share price performance of those 100 firms.