City National Rochdale®
INVESTMENT MANAGEMENT

On the Radar

FAQs ON THE MARKETS AND ECONOMY MAY 2, 2016

1. Is the slowdown in Q1 GDP growth a cause for concern?

With the disappointing start to the year, it appears that GDP growth is on course for another underwhelming gain of around 2% this year.

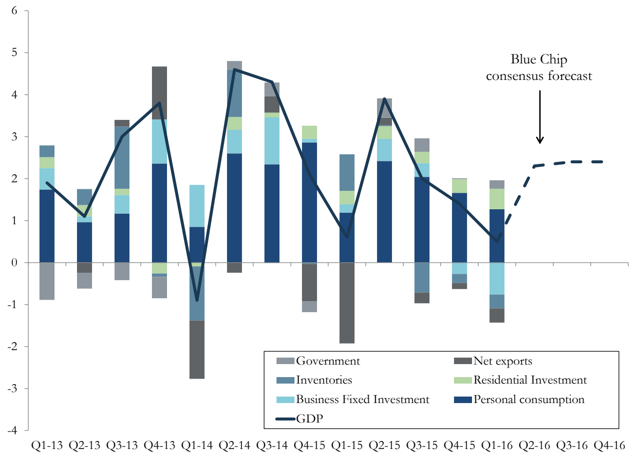
Still, we believe recession risk remains low and there are a number of reasons to be optimistic about prospects for U.S. economic growth in coming quarters.

Other measures of the economy, such as employment growth, have been much stronger than official GDP numbers, and both the manufacturing and services activity surveys have improved significantly in the past few months.

A moderation in consumer spending, soft investment, and negative contributions from trade and inventories were behind the slowdown in Q1 GDP.

While some of these headwinds will persist, household fundamentals remain strong and there is little reason to believe consumption growth will not rebound over the remainder of this year.

GDP & Sector Contributions (%)



Source: Bureau of Economic Analysis, as of March 31, 2016

2. What happened at the recent FOMC meeting?

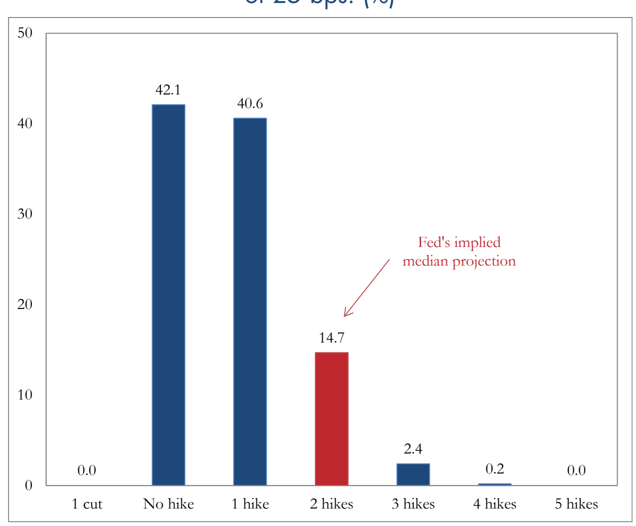
As universally expected, the Fed did not change monetary policy at their late-April meeting.

They decided to maintain the federal funds rate in the range of 0.25% to 0.50%. It has been at that level since this past December.

They downgraded their view of the domestic economy, noting that household spending had moderated despite continued improvement in the labor market, rising real incomes, and consumer sentiment that remains high.

The Fed did upgrade their view of global issues, no longer viewing the slowing global economy as a risk to the domestic economy. That said, they will continue to monitor it.

Implied Probability of the Number of 2016 Fed Hikes of 25 bps. (%)



Source: Federal Reserve Bank, Chicago Board of Trade, Bloomberg, as of April 29, 2016

3. What is behind the recent slowdown in corporate earnings?

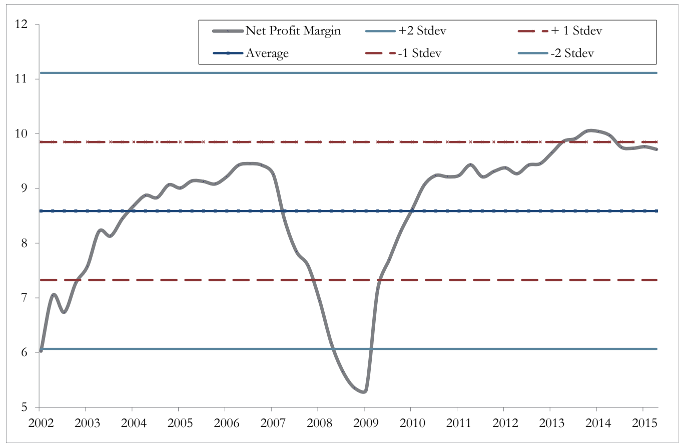
Declining energy sector profits have had the most negative effect on overall U.S. earnings growth in the last several quarters, while weaker global demand and the stronger dollar are also weighing on overseas sales for U.S. corporations.

More broadly, although corporate earnings growth is still expected to improve modestly in 2016, the profit cycle is showing signs of plateauing and forward earnings estimates continue to decline.

One of the keys to success of the current bull market has been the strong incremental profit margin expansion driven by revenues growth and a cost containment mentality of corporations.

However, with slowing global growth, rising wages in the U.S., and prospects for the dollar to remain strong, margin growth has slowed.

Net Profit Margin – S&P 500



Source: Factset

4. Is China growth bottoming?

We continue to believe the risks of an economic hard landing have been exaggerated.

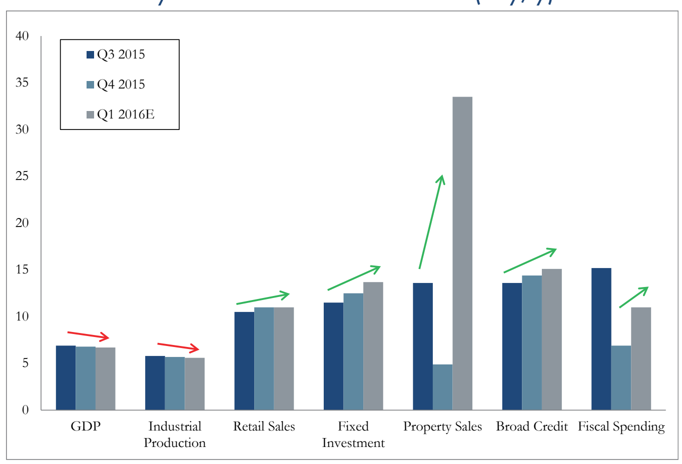
In fact, though there is no sign of a turnaround yet in either the official GDP figures or industrial production, a cyclical rebound in near-term growth does appear to be underway.

PMI survey data, both official and unofficial, have improved recently and evidence elsewhere points to a policy-driven pick-up in activity, supported in particular by property and infrastructure investment.

Rising middle class incomes and urbanization continue to drive growth in consumer, healthcare, and service industries as the economy transitions from low-end manufacturing.

Structural reform will take many years to bear fruit, but with both fiscal and monetary policy still being loosened, China's economy is likely to pick up somewhat in the months ahead.

Key China Economic Indicators (% y/y)



Source: Bloomberg, Peoples Bank of China, Capital Economic

5. Will the Puerto Rico Government Development Bank (GDB) default on its upcoming debt service payment?

The Puerto Rico GDB faces a $422 million debt service payment on May 2. They are expected to default.

Both S&P and Moody's have publicly stated their expectation of a May 2 default by Puerto Rico on some of its securities.

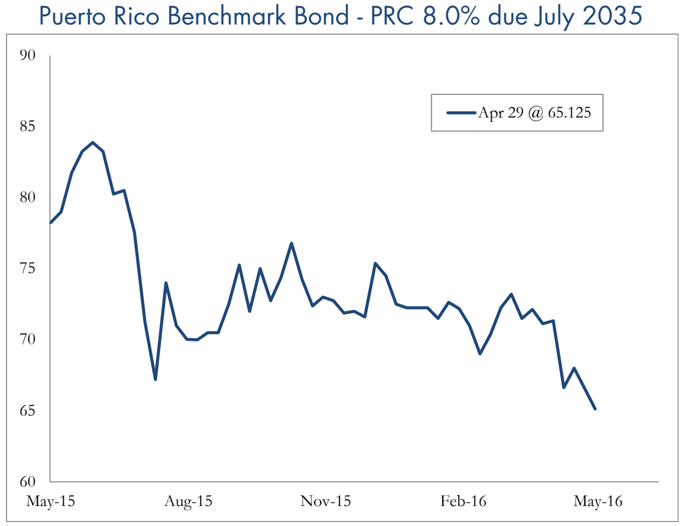
Federal legislation that would provide relief to Puerto Rico is still being debated in Washington D.C.

The proposed legislation includes the creation of a Federal control board with a mechanism to restructure debt. It is not a bailout.

Puerto Rico has a $2 billion debt payment due in July.

In any event, creditor litigation is likely to ensue.

Puerto Rico Benchmark Bond - PRC 8.0% due July 2035



Source: Bloomberg

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Past performance is no guarantee of future performance.

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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.