City National Rochdale®
INVESTMENT MANAGEMENT

On the Radar

FAQs ON THE MARKETS AND ECONOMY JUNE 29, 2016

1. What is Brexit and how will it affect Britain's economy?

Brexit was a referendum vote in the United Kingdom to determine if it will stay in the European Union or not.

In a surprise to the world, they voted to leave the European Union after more than 40 years of being a member.

Once the UK formally notifies the EU of their intent to leave, they have a two-year period to get it done.

The UK will need to renegotiate trade agreements with all of its trade partners that trade through the EU.

The uncertainty of what the new terms might be will likely depress investment spending and maybe more.

That uncertainty has caused the value of the pound to fall significantly.

British Pound

Source: Bloomberg

2. What are the economic implications of Brexit?

Overall, we expect a somewhat slower rate of global growth and an environment of increased uncertainty.

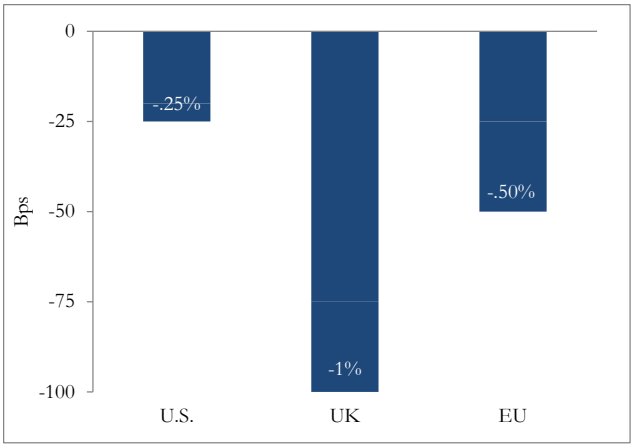
Moreover, the implications of Brexit are broadly negative to varying degrees, though there may be some offsetting benefits for the global economy, including looser monetary conditions.

The adverse effects of Brexit will likely be most felt by the UK itself and other European economies. Political consequences could turn out to be far more significant with questions emerging surrounding the long-term viability of the EU.

For the rest of the world, the consequences appear much less significant, and we anticipate the overall reduction in growth to be relatively modest.

In the U.S., weakness is likely to be primarily imported through two channels: 1) a declining stock market, which could lower sentiment, and 2) a strengthening dollar, which will lower exports, decrease export-related employment, and create the potential for lower inflation.

Estimated Maximum GDP Reduction



Source: City National Rochdale, June 27, 2016

3. How does Brexit affect your portfolio strategy?

Over a year ago, City National Rochdale reduced European equity exposure in client portfolios to just 5%, significantly less than the typical allocation of 10%-20% in a normal global asset allocation universe. This prescient investment decision means our clients have not been exposed to the same extent of volatility as investors who have a more normal allocation to European equities.

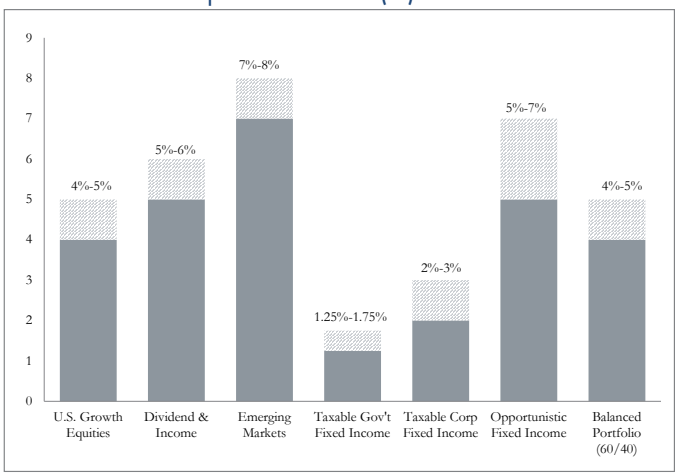
As of yet, we have not made any further significant changes to our portfolio positioning. However, we are carefully evaluating risks and the relative attractiveness of particular asset classes in light of recent developments.

For U.S. equities, we are considering whether the volatile and uncertain times ahead warrant a reduction in our modest overweight to growth stocks. Our current position in U.S. high dividend stocks is likely to be maintained.

With our exposure in EM Asia focused on domestic consumption and new-economy businesses, we do not see any material impact on our portfolio EPS at this point.

In fixed income, we will maintain our current positioning across government, investment grade, and high yield bonds. Weaker macroeconomic fundamentals, relative to equities, is better for fixed income assets, but requires careful monitoring of credit quality.

Forecasted Expected Returns (%) 12-month Horizon



Source: City National Rochdale, June 28 2016

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.

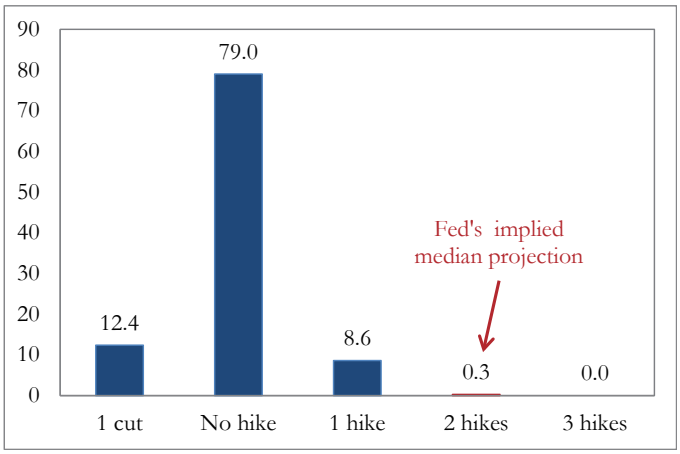
4. Did the Brexit vote alter your outlook for a Fed tightening this summer?

Yes. There was a small chance that the Fed would tighten at one of their summer meetings; now we believe that chance is gone.

The Brexit vote has created the potential for slowing economic growth in many countries, a secondary concern for the Fed.

The strengthening dollar, as a result of the flight to quality away from the UK, should hold inflation down.

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



Source: Federal Reserve Bank, Chicago Board of Trade, Bloomberg

5. Will U.S. economic growth rebound in the second quarter?

Although the disappointing start to the year added to the sense of unease over the strength of the current expansion, early indications are that growth is rebounding at a solid rate in the second quarter and we continue to believe the risk of recession remains low.

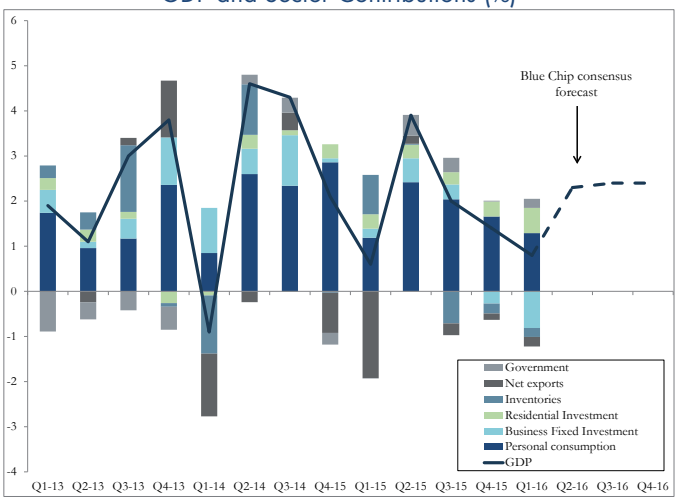
Better retail sales, home building, and industrial production data, along with a turnaround in forward-looking business activity indices, all suggest domestic demand is again gaining traction.

Most encouraging is what appears to be a pickup in real consumer spending, which is on track to increase at a 3% annual rate in the second quarter, versus about 2% in the first quarter.

Looking ahead, we expect the drag from energy investment and the stronger dollar to continue to weigh on the economy.

However, low gas prices, solid job growth, and improving income gains should help the consumer continue to carry the economy forward.

GDP and Sector Contributions (%)



Source: Bureau of Economic Analysis, Q1 2016

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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.

High yield bonds offer a higher yield and carry a greater risk of loss of principal and interest and an increased risk of default or downgrade than investment grade securities.

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.

Investments in commodities can be very volatile and direct investment in these markets can be very risky, especially for inexperienced investors.

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.