City National Rochdale®
INVESTMENT MANAGEMENT

Market Perspectives

ONE IS A LONELY NUMBER

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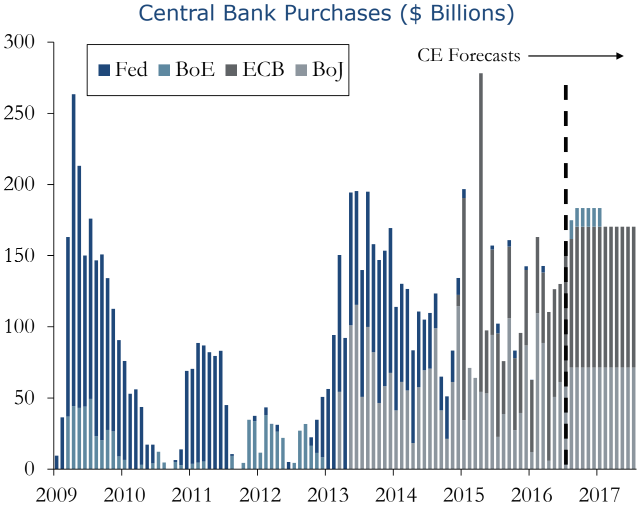
Among the four advanced economies and major central banks globally, the central bank of the United States (the Federal Reserve System) is likely to be the only one trying to raise rates in the coming quarters. Not only are the United Kingdom, European, and Japan central banks currently in easing mode, but the amount of the monetary stimulus will be substantial. Post-Brexit, the UK's economy is likely to soften and the UK central bank has already begun quantitative easing (QE) and other monetary stimulus programs. The European central bank has a QE program already in effect and is communicating it will continue the program through the rest of this year and into 2017. Elsewhere in the developed world, the Japanese central bank has been flooding its economy with money, recently announcing a stimulus package of more than 38 trillion yen ($265 billion USD), with 3.7 trillion coming directly from national and local governments. The magnitude of such a package is alarming; it is equal to the United States' despite Japan being one-quarter of our country's size.

Central Bank Purchases ($ Billions)



Source: Thomson Datastream

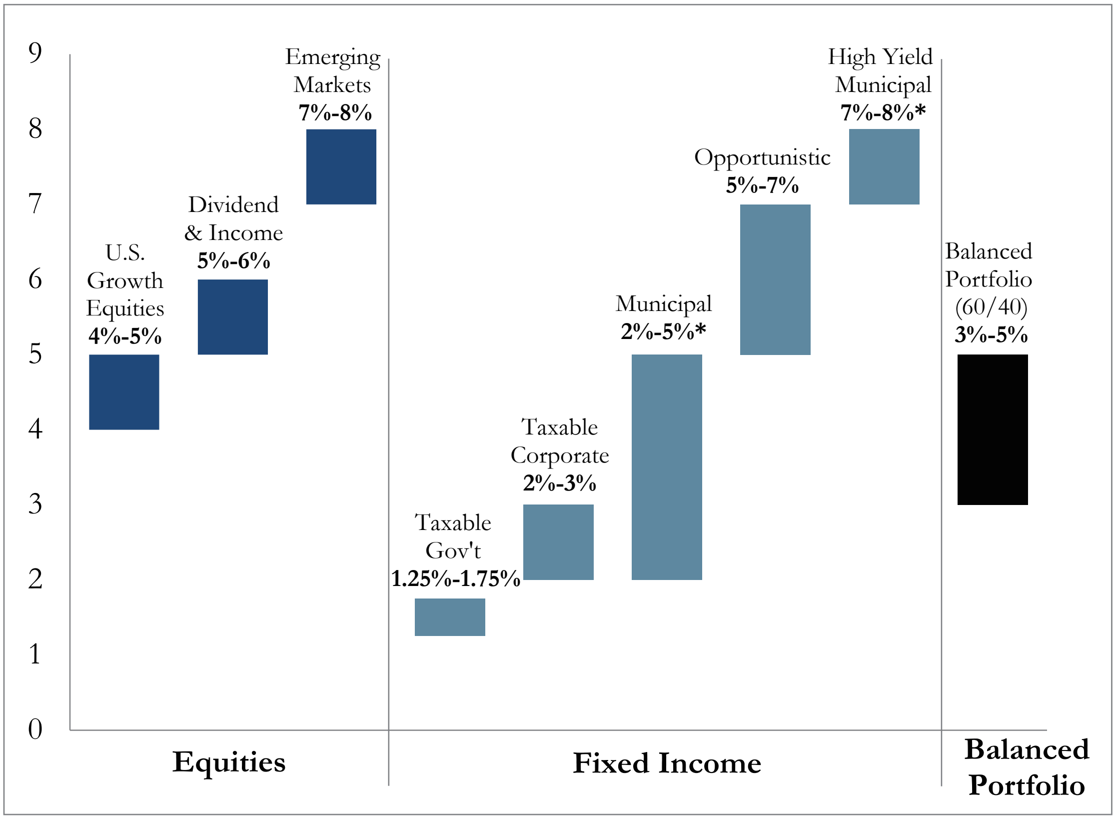
The U.S. central bank is the only one among the four major economies likely to raise interest rates any time soon.

What does this mean for the markets? All of this monetary easing typically prompts investors in affected areas to seek better-yielding bond investments than their home country offers and, for equities, seek out stronger regions for economic growth. The United States fits both criteria. Proof of this can be found in the recent flow of money into U.S. equity markets driving them to all-time highs, as well as U.S. government bonds, like the 10-year, reaching near all-time record low yields. It is important to note, however, that if the Fed initiates a rate increase, we would not be surprised to see a period of increased market volatility and a drop in equity prices. However, as has been the case in each of the prior periods leading up to a rate increase by the Fed, after the market dips and provided the economy remains in a growth phase, we would expect equities to recover and trend higher.

Setting the right return expectations for both stocks and bonds is paramount for investors and we do anticipate returns below historical averages over the next year, tempered by monetary policy and the influence of global economies. As U.S. monetary policy likely diverges from the other advanced economies, we expect to see an impact on both stocks and bonds not seen for over eight years. As a result, our portfolio management and research teams have calibrated our expectations for portfolio returns — in both stocks and bonds — accordingly.

Non-deposit Investment Products: ▪ are not FDIC insured ▪ are not Bank guaranteed ▪ may lose value

Forecasted Expected Returns (%) 12-month Horizon



Source: City National Rochdale. As of June 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.

***Forecasted expected returns for HY Municipal and Municipal FI represent the taxable equivalent return at a 43.40% tax rate.**

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