On the Radar

FAQs ON THE MARKETS AND ECONOMY OCTOBER 10, 2016

1. What expectations should investors have for portfolio returns?

Over the next year, we anticipate equity and fixed income returns to be below historical averages, tempered by the effects of global monetary policy and the influence of global economic growth.

U.S. equities remain near record highs, supported by a modest but improving corporate profit outlook. However, valuations – though not excessive – do appear "full & fair." This will likely limit upside potential in stocks to below historical average while volatility levels are expected to be at least normal, if not higher.

While our current overweight for growth and dividend equities has been rewarding for all clients, from a risk/return perspective we are carefully considering whether a reduction in our equity exposure going forward is warranted.

Nearly two years ago, we reduced European equity exposure in client portfolios to just 5%, which is significantly lower than the typical allocation of 10%-20% in a normal global asset allocation, thereby limiting clients' exposure to challenges now confronting Europe.

We continue to maintain our exposure in EM Asia, which is focused on healthy growing domestic consumption and new-economy businesses in the region.

In fixed income, we are maintaining our current positioning across government, IG, and HY bonds. While IG bonds appear fully valued and yields are historically low, potential uncertainty ahead reinforces core fixed income's role as a stabilizer in volatile markets.

Forecasted Expected Returns (%) 12-month Horizon

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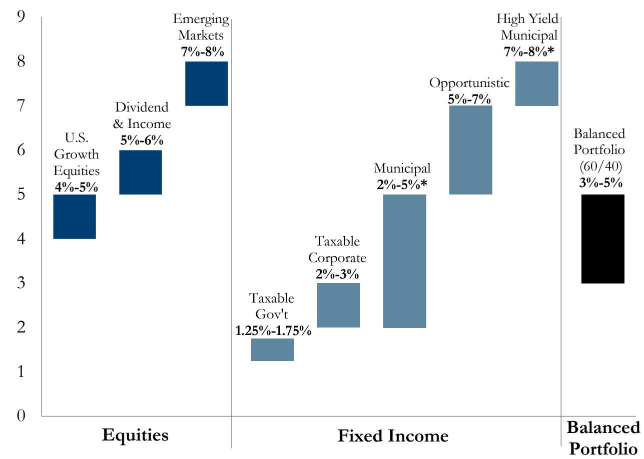

Source: City National Rochdale, September 2016
Forecasted expected returns represent City National Rochdale's opinion for these asset classes, are for illustrative purposes only, and do not represent client returns. The expected returns presented for these asset classes do not reflect any deductions 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.**

2. When will the Fed raise interest rates?

At its most recent meeting in September, the Fed forecasted one rate hike this year.

They have two remaining scheduled meetings this year, and as the next one concludes just six days before the U.S. general election in November, we do not think they will move then, as this could look like a political action.

The market appears to agree with this prediction *(see chart)*.

We believe the Fed will raise the federal funds rate at the December meeting, scheduled for December 13-14, assuming economic data continues to come in at the current pace and no international events shock the markets.

Implied Probability of a 25 bp Rate Hike

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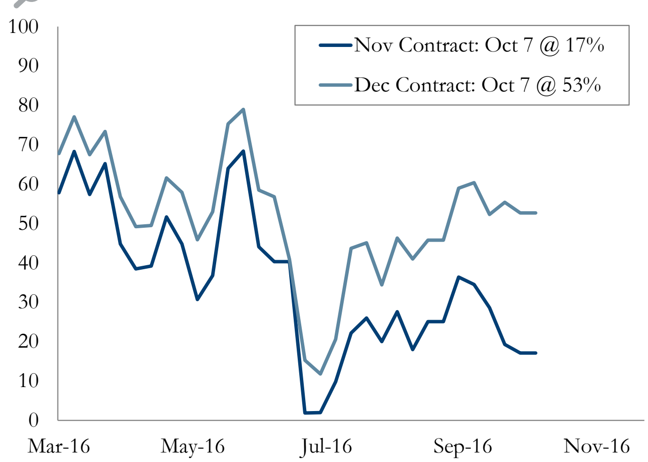

Source: Bloomberg, Chicago Board of Trade

3. The High Dividend and Income strategy has had quite a run in the past year. Is City National Rochdale concerned that the sector is overbought?

While valuation is a concern and has led us to place the strategy on "reduction watch," we continue to maintain our overweight to dividend and income equities for now.

Going forward, we feel that more modest return expectations in the 5-6% range, as driven by yield (actual) and growth in yield (projected), are realistic. In a low yield environment, this expected return still looks favorable relative to other investments.

Slow but solid economic growth has benefited our high dividend stocks. What's more, the positive operating environment has led to an uptick in dividend growth, which we forecast will continue through 2017.

We believe our companies have strong cash flows, which should help them weather any potential economic softness ahead.

Focus on Dividend and Earnings Growth

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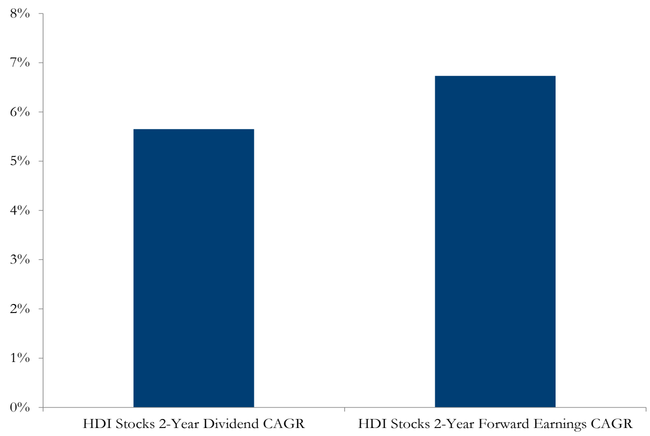

Source: FactSet (based on published analyst estimates), based on City National Rochdale HDI strategy universe of stocks, as of September 30, 2016.
The projected growth rate in earnings is the aggregate average of all the published sellside analysts as reported through FactSet.
CAGR: Compound annual growth rate

4. What is the outlook for U.S. manufacturing?

The September rebound in the ISM manufacturing index put it back into expansion territory and should help alleviate at least some anxiety regarding the health of the U.S. factory sector.

Encouragingly, most key components recorded robust gains, with leading indicators such as new orders pointing to continued progress *(see chart)*.

After months of contraction late last year, the index (and actual production) has recently shown signs of general improvement.

Regional Fed manufacturing surveys, while still weak, have also improved.

Since peaking in mid-2014, U.S. manufacturing has struggled to gain momentum. However, stabilization in the dollar, diminishing drag from energy sector investment, and resilient domestic demand should support better output in the coming months.

While it's unlikely that manufacturing will swing back to a position of strength anytime soon, a bottoming in the sector's slump would reduce a significant headwind to overall economic growth going forward.

ISM Manufacturing Index

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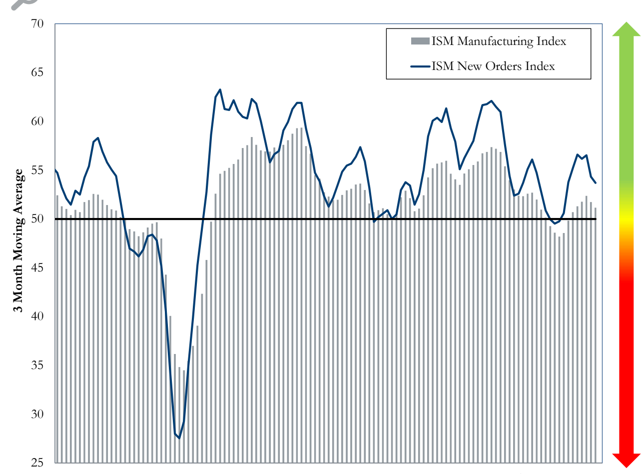

Source: Bloomberg, as of October 4, 2016
ISM: Institute for Supply Management

5. Where do things stand with Brexit?

On October 2, Prime Minister Theresa May announced that by March 2017, the British government will formally notify Brussels of its intention to leave the European Union (E.U.).

Once the formal announcement is made, the U.K. and the E.U. will start a two-year process in which the two will negotiate the terms of Britain's exit and make plans for new bilateral relations. Between now and March 2017, May's cabinet will spend their time coming up with a coherent negotiating strategy.

One strong selling point of Brexit was the U.K.'s ability to have full control of its immigration policies. Because of this, PM May rejected the agreement that Norway and Switzerland have, which allows the two non-member countries to have access to the E.U. market in part because they accept E.U. workers.

As of September 30, the pound had already fallen to the lowest level since 1985 *(see chart)*.

British Pound

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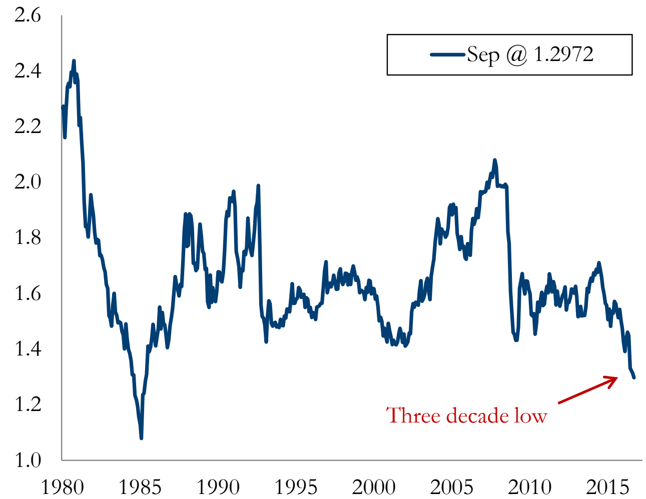

Source: Bloomberg, as of September 30, 2016

6. How severe are state unfunded pension liabilities?

The trend of liabilities has outpaced asset growth over the past 15 years due largely to a combination of two financial market downturns, inadequate contributions, and aging plan demographics.

According to The Pew Charitable Trusts, in 2014 the funding gap for the 50 states was almost $1 trillion, up from zero in 2001. The best and worst funded plans are:

- Best funded status: South Dakota (107%), Oregon (104%), and Wisconsin (103%).
- Worst funded status: Illinois (40%), Kentucky (40%), and New Jersey (43%).

Keep in mind that pension plan funding is subject to substantial interpretation and varies widely between states. Trying to solve this problem is a political, social, and mathematical quagmire.

Pension underfunding has the potential to affect the credit quality of some municipal bonds. It is something that City National Rochdale follows very closely and will analyze more fully in an upcoming webinar and white paper on the topic.

Pension Fund Gap ($, billions)

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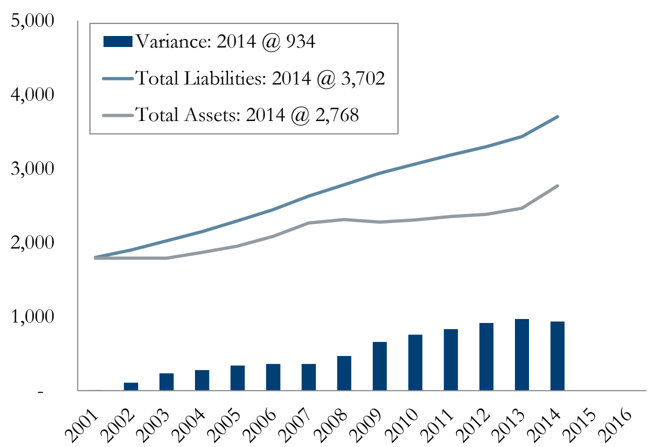

Source: The Pew Charitable Trusts

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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.

An investment in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in money market funds.

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.

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 ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys.