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Special Bulletin

POTENTIAL IMPLICATIONS OF THE U.S. PRESIDENTIAL ELECTION

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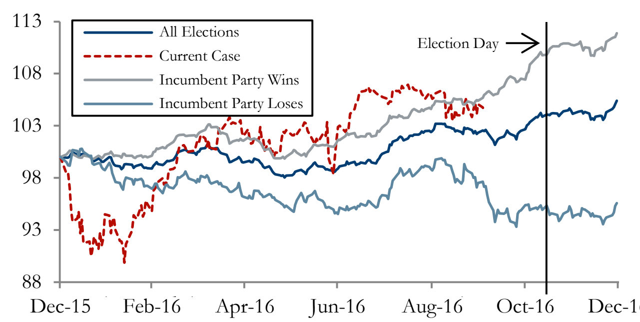
By Garrett D'Alessandro, CFA, CAIA, AIF®
Chief Executive Officer & Chief Investment Officer

- **Polls indicate a likely Clinton presidency and a split Congress.**
- **Clinton's proposed policies would likely be stock and bond market neutral, as compared to Trump's, which may lead to significant uncertainty.**
- **We believe that stock and bond market fundamental factors, such as company earnings growth, Fed decisions, and job creation, are what will really matter in 2017.**

Dow Industrials - Election Year Cycle



Source: Ned Davis Research as of 10/4/2016, Standard and Poor's Dow Jones Indices. All indices equal-weighted and geometric.

The 2016 U.S. presidential race is top of mind for investors as Election Day draws closer. Currently, both political polls and market sentiment point to a likely Clinton presidency. Equities have historically gained during presidential election years when the incumbent party won but ended modestly lower when the challenger succeeded. Presently, the Dow Jones Industrial Average performance is tracking to an incumbent party victory (see chart).

FINANCIAL MARKET IMPACT

A Clinton win would be the least consequential for stock and bond markets. Given her fiscal proposals and the fact that she's known to all the world's major investors, her election would lead to only a modest risk of negative volatility for both the U.S. dollar and Treasury bills.

Trump's election, however, may lead to negative volatility, which could impact the U.S. dollar or U.S. bonds. His proposed new policies, compared to Clinton's, would likely have a negative impact on U.S. multinational profits and consequently S&P 500 companies' stock prices. A Trump victory could also lead to unpredictable outcomes, such as the Chinese reducing their extensive holdings of Treasury securities. His massive tax cuts, if implemented, would widen the deficit and boost Treasury issuance.

More relevant to our view is what the Fed decides to do with respect to interest rates. If Trump wins, it would potentially be dealing with a more volatile dollar, which would likely drive its decisions. In addition, the makeup of the Fed depends on the election outcome. While Clinton is expected to reappoint Janet Yellen as chair of the Federal Reserve in 2018, with no change in policy direction, Trump indicates that he would seek a new chair. He has also indicated that he might curtail Fed policy flexibility, but political rhetoric and reality are not the same. Assuming the polls are correct, though, the Fed's decision on whether to raise rates—which is expected to occur during their December meeting—is more important than the current political race.

In summary, a likely Clinton win means that economic fundamentals will matter most, given no significant change in policies.

TAX IMPLICATIONS

Clinton's proposed tax policies—including imposing the 30% "Buffet Rule" on incomes over $1 million and adding a 4% surtax on incomes greater than $5 million—would have an estimated immediate, cumulative impact of $1.5 trillion in increased tax revenue, paid for entirely by the highest income earners.

Trump's proposed tax policies—including significant tax cuts, the elimination of estate tax, and the repeal of the net investment tax—would lower taxes by about $4.5 trillion. His corporate tax proposals specifically, including cutting the corporate tax rate to 15%, would have the immediate cumulative effect of costing the government $3 trillion in tax revenue. These substantial changes are not supported by the majority of economists, however, and are not appropriate given current federal deficit levels.

With regard to capital gains, Trump's proposal to lower the top income tax rate to 33% would reduce the cost of selling positions held less than one year, which are taxed as regular income. In addition, his intended repeal of the Affordable Care Act would end its 3.8% tax on non-wage income, effectively lowering both the short- and long-term capital gains rates.

Clinton is proposing six different tax rates. For taxpayers in the top bracket, investments held less than two years would face the maximum tax rate of 43.4%, including the Affordable Care Act's 3.8% investment tax. Beyond that, the rate would gradually fall depending on the number of years the investment is held, with the lowest rate, 23.8%, applying only after six years.

However, Congress is unlikely to pass either candidate's proposed tax policies.

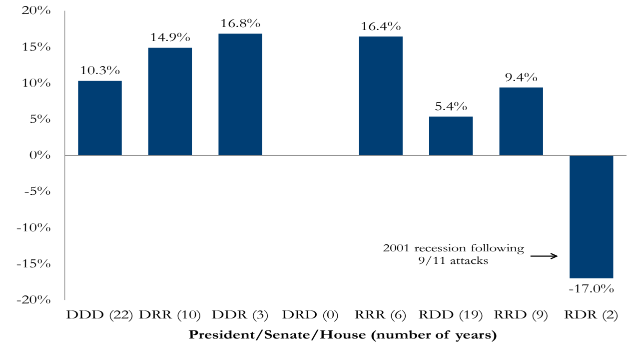
OUR VIEW

Polls indicate a Clinton victory, which is expected to be stock and bond market neutral and would effectively mean a continuation of recent policy direction. More relevant is the political reality that either candidate's ability to drive policy changes depends on Congressional outcomes.

The Senate race appears to be leaning toward a Democratic majority, while the House of Representatives is expected to remain Republican. A split Congress under a Clinton presidency would likely mean no meaningful changes in fiscal policy that would alter the current fundamental trajectory of the economy or corporate earnings.

Uncertainty around the election is dampening business and consumer confidence, which is slowing some economic activity. Overall, however, we believe that company earnings growth in the year ahead will be about 4-5%. Post-election,

Annual S&P 500 Returns by Political Party Control (1945-2015)



Source: FactSet, U.S. House of Representatives, U.S. Senate as of 2015. Index returns include the reinvestment of dividend.

we believe that political uncertainty will be removed, and that businesses and consumers will return to normal patterns of spending through year-end and heading into 2017, which means the U.S. economy should grow 2.00-2.25%.

In the long run, equities have typically performed well regardless of any particular combination of political party control of government, as the drive to grow earnings and pay dividends is much more influential to companies than politics. Low current yields on government bonds and the actions of the Fed will likely have more influence on fixed income returns than the next president. While elections can cause volatility, we believe that the economy, interest rates, and valuation levels matter far more for stocks and bonds. Based on our outlook for these factors, our investment position remains moderately optimistic.

We believe that Fed increases in interest rates are likely. Based on historical patterns, we expect some initial negative volatility. However, as long as our view is that company earnings will grow 4-5%, we will remain committed to equities. The level of valuation will drive the extent of this commitment.

Once the election results are in, we will be able to provide more insights into the potential financial impact of the new president's proposed policies in a post-election bulletin.

Index Definitions

Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

The Standard & Poor's (S&P) 500 Index represents 500 large U.S. companies. The comparative market index is not directly investable and is not adjusted to reflect expenses that the SEC requires to be reflected in the fund's performance.

Important Disclosures