City National Rochdale®
INVESTMENT MANAGEMENT

On the Radar

FAQs ON THE MARKETS AND ECONOMY JANUARY 30, 2017

1. What are City National Rochdale's expectations for portfolio returns in 2017?

Given the potential pro-growth policies of a Trump administration, we see corporate profit growth improving over the next two years, supported by a longer economic expansion. Inflation from faster wage increases may cause interest rates to rise further. Federal spending may increase, and lower tax revenues may lead to higher annual deficits in the next few years.

Most likely, equity investors will primarily benefit in 2017, while fixed income investors will likely experience downward bond value pressure as interest rates rise.

Surveys of consumer and business optimism have reached multi-year high levels. Historically, when business executives and consumers feel better, spending increases. However, with investors making so many assumptions, it would not be surprising to see some downward equity price volatility as the legislative process takes hold.

Since timing equity markets to avoid short-term volatility is not realistic, we will continue to overweight U.S. growth and dividend equities and watch carefully for the longer-term benefits of Trump's potential policies to materialize.

Our confidence in a longer economic cycle and improving corporate profits supports our preference towards equities over bonds. **We are no longer on reduction watch for equities.**

Forecasted Expected Returns (%) 12-month Horizon

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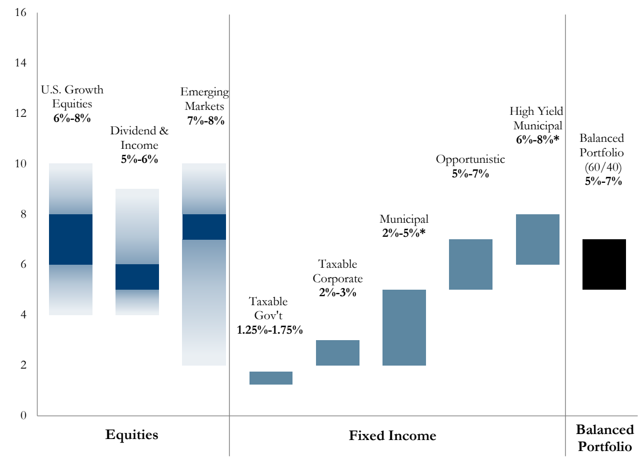

The range of outcomes upward and downward reflect what could go right and what could go wrong during the new Trump administration

Source: City National Rochdale, January 2017
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. What caused Q4 GDP growth to slow down?

GDP decelerated from 3.5% in Q3 to a modest 1.9% in Q4. For some perspective, Q3 was the strongest quarterly growth rate in two years (it got a boost from a surge in soybean exports). A reversal of exports helped knock 1.7% off the Q4 growth rate.

However, consumption, which is about two-thirds of GDP, contributed 1.7% to the GDP number. Consumption is supported by solid job growth, increased household wealth, higher confidence, and improving compensation.

Investment rose on gains in business investment, intellectual capital spending, along with residential investment (housing) which rose sharply (10.2%), following two quarters of declines.

Contribution to GDP (Q4, %)

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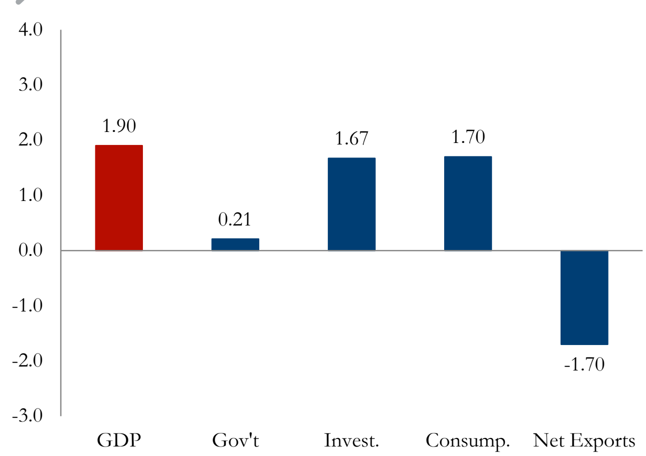

Source: Bloomberg, Chicago Board of Trade, as of January 27, 2017

3. Has the global economic outlook improved?

Recent data suggests that the global economy is entering 2017 with better economic momentum.

Broad indicators of manufacturing activity have been in expansionary territory and rising since early last summer. The global oil rig count, railcar loadings, the Baltic Dry Index, and the GSCI Commodities Index have also moved higher, indicating improving economic growth.

Much of the rise in performance stems from improvements in several large emerging market economies that were exceptionally stressed in 2016.

Despite these recent improvements, ongoing political, policy, and economic uncertainties around the world, as well as continuing structural challenges in several advanced economies, will likely keep overall global economic growth prospects modest over the coming year.

Markit Global Manufacturing Purchasing Managers Index

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Source: Markit, as of December 2016

4. What is the 2017 outlook for U.S. equities?

We believe the U.S. secular bull market will continue through 2017, though with higher volatility and perhaps somewhat more modest returns.

Market enthusiasm over near-term growth prospects appear warranted to a degree, so long as the President does not follow through on his more extreme anti-trade campaign rhetoric.

The new administration's proposals for substantial fiscal stimulus are largely designed around bringing forward economic activity, which is constructive for stocks over bonds.

A likely reduction in the corporate tax rate, in particular, should help boost an already improving corporate earnings environment. Under these assumptions, we have raised our 2017 S&P 500 EPS forecast from $130 to $134.

Although we believe valuations are already full, against a new reflationary outlook, equity prices may also benefit from further modest multiple expansion.

EPS Building Blocks

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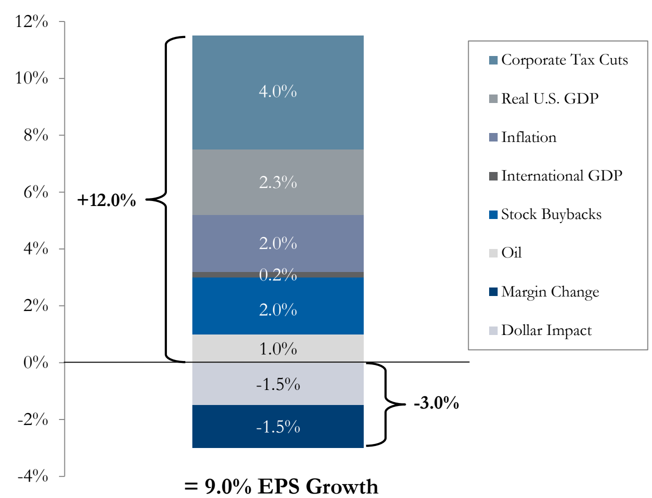

Source: City National Rochdale projections, January 2017

5. What do Federal Reserve Chair Janet Yellen's recent statements suggest?

There seems to be a more hawkish tone coming from the Fed in recent months.

In a speech last week, Yellen stated that allowing the economy to run "hot" would be risky and unwise, which is a reversal of what she suggested this past October.

Running a "hot" economy can lead to higher inflation expectations and the possibility of overleverage, which can lead to a bubble. Down the road, this could potentially force the Fed to raise the federal funds rate faster than they planned, risking the economy's growth.

Forecasting Q4 2017 Federal Funds Rate (%)

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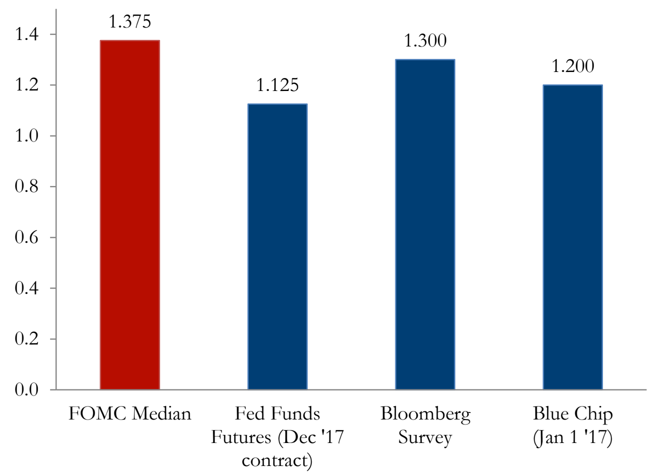

Source: Bloomberg, Chicago Board of Trade, as of January 27, 2017

6. For those concerned about inflation, are TIPS attractive now?

TIPS, or Treasury Inflation Protected Securities, are obligations of the U.S. Treasury whose value is tied to inflation. As a result, many investors favor them over nominal Treasuries when they believe that inflation will increase.

Since the election, concerns about potentially inflationary policies from the Trump Administration, particularly in the area of trade, have driven an increase in inflation expectations and, as a result, the valuation of TIPS.

Policy uncertainty remains. At this point, we don't know if the threat of tariffs is a negotiating tactic or a preview of actual policy. There are also countervailing forces, like excess capacity and a strong dollar, which could keep inflation restrained.

Given all of this, we believe current valuations appear reasonable – not particularly cheap or rich. Having said that, TIPS are a prudent hedge against an unexpected increase in inflation. However, downsides to TIPS are tax inefficiency and lower coupons.

U.S. Breakeven 10 year Index

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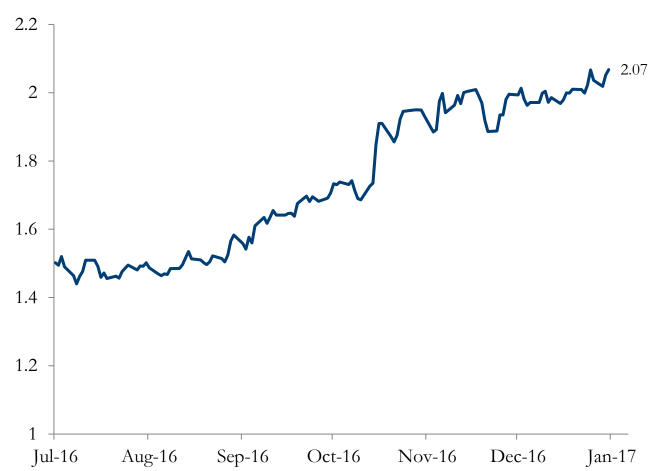

Source: Bloomberg, as of January 25, 2017

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Any opinions, projections, forecasts, and forward-looking statements presented herein are valid as of the date of this document and are subject to change.

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. This risk is heightened with investments in longer duration fixed-income securities and during periods when prevailing interest rates are low or negative.

Investments in below-investment-grade debt securities which are usually called "high-yield" or "junk bonds," are typically in weaker financial health and such securities can be harder to value and sell and their prices can be more volatile than more highly rated securities. While these securities generally have higher rates of interest, they also involve greater risk of default than do securities of a higher-quality rating.

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.

Although inflation-indexed bonds seek to provide inflation protection, their prices may decline when interest rates rise and vice versa. Interest payments on inflation-protected debt securities can be unpredictable.

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

Markit Global Manufacturing Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

The Baltic Dry Index (BDI) is an economic indicator issued daily by the London-based Baltic Exchange. Not restricted to Baltic Sea countries, the index provides "an assessment" of the price of moving the major raw materials by sea.

The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange.

U.S. Breakeven 10 year Index The breakeven inflation rate represents a measure of expected inflation derived from 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities