City National Rochdale®
INVESTMENT MANAGEMENT

On the Radar

FAQs ON THE MARKETS AND ECONOMY APRIL 24, 2017

1. What are City National Rochdale's expectations for economic and investment outcomes in 2017?

We continue to overweight U.S. growth and dividend equities and to underweight investment-grade bonds.

With potential pro-growth policies, including tax cuts and stimulus spending likely in 2018, we see corporate profit growth improving over the next two years, supported by economic expansion.

Inflation from wage increases and stimulus spending may cause interest rates to rise moderately over the next 18 months. Depending on the specifics of tax cuts and spending increases, these may cause higher deficits.

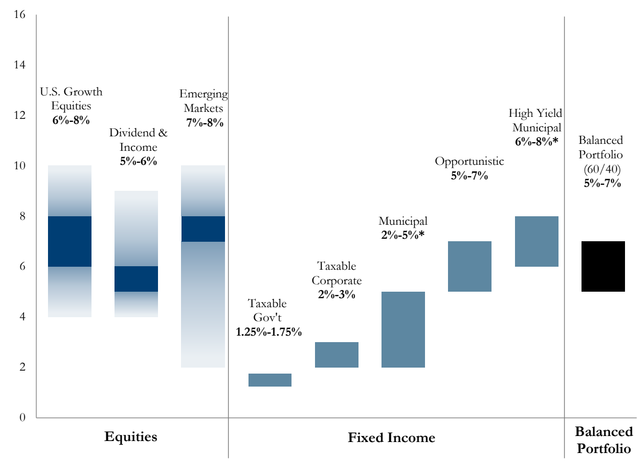
Surveys of consumer and business optimism have reached multi-year high levels while real economic growth in the U.S. and globally validate these surveys. We still expect only moderate growth.

Equity investors should benefit, while fixed income investors could experience downward bond value pressure as interest rates rise.

With an uncertain legislative process and U.S. fiscal proposals delayed, downward equity price volatility is likely until we know the outcome for tax changes, healthcare rules, and regulatory changes.

Forecasted Expected Returns (%) 12-Month Horizon

CLICK TO ENLARGE



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, March 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 is City National Rochdale's current view of the year-end federal funds rate?

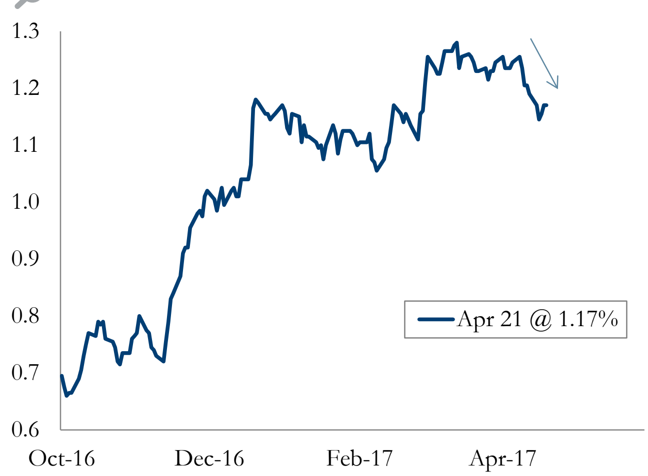
The Fed stated it would raise the federal funds rate three times in 2017, and it reiterated that view in March. We continue to believe it will raise rates two to three times this year. As the first expected rate hike occurred this past March, that leaves one or two remaining for 2017.

With the Fed's announcement to reduce the size of its balance sheet, which is a form of reducing monetary stimulus, the market is beginning to view the Fed as being less aggressive in its rate hikes (see chart).

As a result, the December federal funds futures has fallen 9 bps in the past few weeks.

Federal Funds Futures Contract: Dec-2017 (%)

CLICK TO ENLARGE



Source: Chicago Board of Trade. As of April 21, 2017

3. How has the UK's economy performed since the Brexit vote, and what is expected in the future?

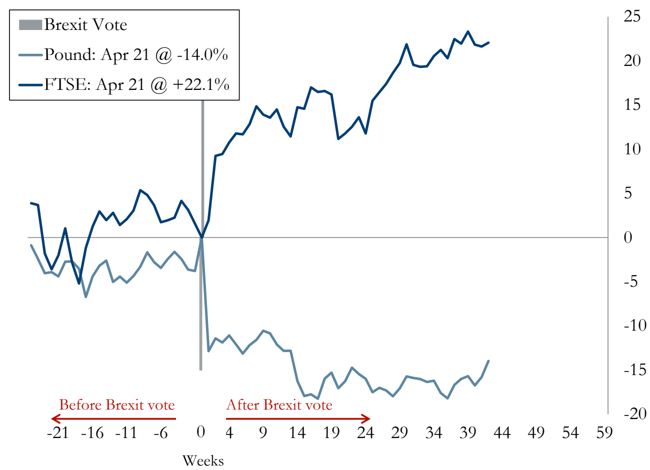
Since the Brexit vote, the UK economy has continued on a moderate growth path. Fourth-quarter growth was 2.4% (annual rate), and 2016 came in at 2.0%. The weakness in the pound sterling (down 14% since the vote) has made British exports more competitive, helping to improve corporate profitability, which has helped to push up stock prices (see chart).

The UK has two important issues ahead: separation from the European Union and setting up trade agreements with all its trading partners. On March 29, Prime Minister Theresa May triggered Article 50 of the Treaty on European Union, formally starting a two-year withdrawal process. Then, on April 17, she made a surprise announcement by calling for a snap general election to be held on June 8. This action appears to be driven by the desire to gain a stronger national and parliamentary mandate before Brexit negotiations begin in earnest.

In terms of the potential impact, the election announcement may create some additional uncertainty in the short term, and there may be concerns that a stronger mandate will increase the chances of a "harder" form of Brexit.

UK Indicators (Indexed as of Brexit Vote)

CLICK TO ENLARGE



Source: Bloomberg, The Financial Times. As of April 21, 2017

4. Why is the yield of the 10-year treasury falling recently?

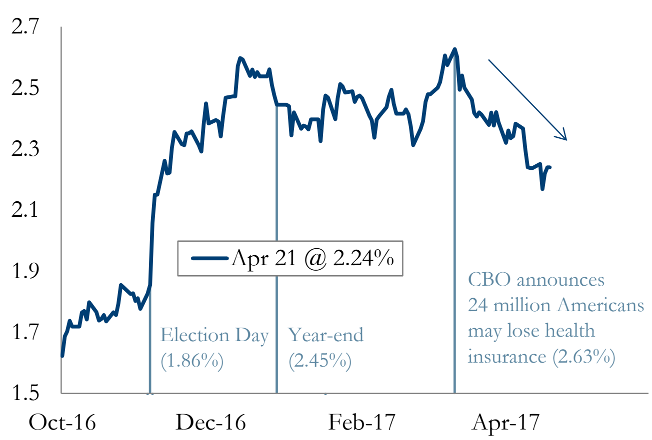
Following the election of Donald Trump, the yield of the 10-year treasury quickly jumped 74 bps due to expectations for a highly energized economy and probability of higher inflation. However, the economic excitement around the "Trump Bump" seems to be fading.

The failed attempt to replace Obamacare has many wondering if the administration has the ability to pass tax reform or other economically positive agenda items. There are a few additional reasons, including:

- A drop in inflationary expectations
- Flight to quality due to issues in North Korea
- Re-emergence of UK Brexit concerns
- Easing being implemented by many central banks

10-Year Treasury Yield

CLICK TO ENLARGE



Source: Bloomberg. As of April 21, 2017

5. Is the outlook for global growth getting better?

The synchronized global upturn that began in late 2016 has continued in the early months of this year, with business surveys and hard data on industrial output in advanced economies showing further improvement. At the same time, the recovery in emerging economies appears to be broadening out, with higher prices helping major commodity exporters, including Brazil and Russia, return to growth. Particularly encouraging has been the pickup, after years of stagnation, in world trade volumes. For the moment, the threat of protectionism seems to have faded.

The IMF now forecasts global GDP will rise to 3.5% this year and 3.6% next year. This would be the first time growth has been at or above the 20-year average since 2011. However, uncertainty and structural challenges remain. It remains unclear what approach the Trump administration will take on a range of important tax and trade issues. Similarly, the UK government must manage the Brexit process. In addition, several upcoming European general elections feature high-polling populist parties that advocate major changes in economic policy.

Nevertheless, the positive trends underlying the global cyclical upturn that's under way do appear entrenched and supportive of the recent recovery in corporate earnings.

Global PMIs Have Improved Substantially

CLICK TO ENLARGE

Global PMIs				
Region	Mar-17	Feb-17	6 Months Ago	1 Year Ago
Global	53.0	52.9	50.7	50.0
U.S.	57.2	57.7	49.4	49.7
Canada	55.5	54.7	51.1	49.4
Japan	52.6	53.3	49.5	50.1
UK	54.2	54.6	53.4	50.9
Eurozone	56.2	55.4	51.7	51.2
France	53.3	52.2	48.3	50.2
Germany	58.3	56.8	53.6	50.5
Italy	55.7	55.0	49.8	52.2
Spain	53.9	54.8	51.0	54.1
China	51.2	51.7	50.1	49.7

Expanding | Neutral | Contracting

Source: City National Rochdale. As of April 21, 2017

6. Will the failure to pass tax cuts in 2017 affect City National Rochdale's earnings outlook?

The chances of tax cuts being delayed until 2018 are increasing, and political realities have led us to reduce the probability of any reforms being enacted this year to 50%. As a result, we are no longer assuming $4 of expected corporate tax cuts in our earnings forecast for 2017 and have lowered our base case EPS estimate to $130 from $134.

With our reduced 2017 earnings outlook, markets now appear a bit overvalued, and the possibility of a near-term market correction has increased.

Nevertheless we believe fundamentals continue to be constructive longer term and would view any pullback in stock prices as a buying opportunity.

The underlying EPS growth rate is improving, and our focus remains on 2018, when we expect the largest real economic impact from policy changes to occur.

Expected Returns

CLICK TO ENLARGE

Calendar 2017		12-Month Fwd. P/E							
CNR Estimate	Y/Y Change	15.5	16	16.5	17	17.5	18	18.5	19
		Expected Total Return*							
$128.00	4.1%	-14%	-11%	-9%	-6%	3%	0%	2%	5%
$130.00	5.7%	-13%	-10%	**-7%**	**-4%**	**-2%**	**1%**	4%	7%
$132.00	7.3%	-11%	-9%	-6%	-3%	0%	3%	5%	8%
$134.00	8.9%	-10%	-7%	-4%	-2%	1%	4%	7%	10%
		S&P 500 Index Level*							
$128.00	4.1%	1984	2048	2112	2176	2240	2304	2368	2432
$130.00	5.7%	2015	2080	**2145**	**2210**	**2275**	**2340**	2405	2470
$132.00	7.3%	2046	2112	2178	2244	2310	2376	2442	2508
$134.00	8.9%	2077	2144	2211	2278	2345	2412	2479	2546

25%	Downside Risk
50%	Base Case
25%	Upside Potential

Source: City National Rochdale
*As of March 31, 2017

Important Disclosures

The information presented does not involve the rendering of personalized investment, financial, legal, or tax advice. This presentation is not an offer to buy or sell, or a solicitation of any offer to buy or sell any of the securities mentioned herein.

Certain statements contained herein may constitute projections, forecasts, and other forward-looking statements, which do not reflect actual results and are based primarily upon a hypothetical set of assumptions applied to certain historical financial information. Certain information has been provided by third-party sources, and although believed to be reliable, it has not been independently verified, and its accuracy or completeness cannot be guaranteed.

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.

Floating rate loan securities generally trade in the secondary market and may have irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The value of collateral, if any, securing a floating rate loan can decline, may be insufficient to meet the issuer's obligations in the event of non-payment of scheduled interest or principal or may be difficult to readily liquidate.

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 Standard and Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.