City National Rochdale®
INVESTMENT MANAGEMENT

# On the Radar

**FAQs ON THE MARKETS AND ECONOMY** APRIL 23, 2018

## 1. Is City National Rochdale's outlook still positive for 2018?

Volatility spikes in the capital markets are not unusual even in the best of times. Our focus remains on the positive outlook for continued economic growth and improving corporate earnings.

Under these conditions, maintaining our mild pro-growth cyclical investment stance (with a preference toward equities over bonds) continues to be warranted.

However, the investment landscape is growing more challenging as investors adjust to a more typical late-stage expansion environment of higher inflation, rising interest rates and less accommodative monetary policy.

None of this means there are not more worthwhile gains ahead for investors, but it does highlight the value of active management and the need for investors to become more selective.

Beginning in 2017, both our equity and fixed income research teams have been making deliberate risk-mitigating portfolio decisions. These decisions have helped fortified client portfolios to weather the turbulence we are experiencing, while leaving them well positioned to take advantage of a still positive investment outlook.

### One-Year Forecasted Expected Returns (%)

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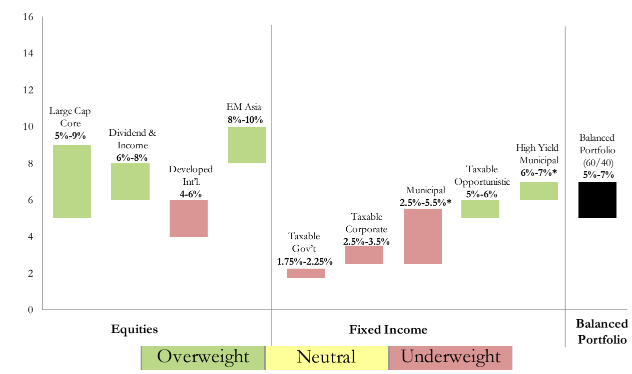


Source: City National Rochdale. As of April 2018.

Forecast 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. Did we learn anything from the release of the Fed minutes from their March meeting?

The Fed appears to be a little more hawkish than what was believed from their press conference following the meeting.

All members believe the economic outlook has strengthened in recent months (as noted with their increased projection of 2018 GDP growth to 2.7%, from the December projection of just 2.5%). This step up is due in part to the massive tax cut and stimulus spending.

This shift has several policy makers rethinking the possible path of future rates. The 2018 year-end federal funds contract has been on an upward trajectory for some time (chart) as economic data has been stronger than previously thought.

They continue to believe that inflation is well behaved and that the very low level of inflation we saw last year is fully in the rear-view mirror. Inflation, which is currently at 1.6% (Core-PCE), is expected to trend toward the Fed's target of 2.0% in the coming months.

### Federal Funds Futures Contract Yield December 2018 (%)

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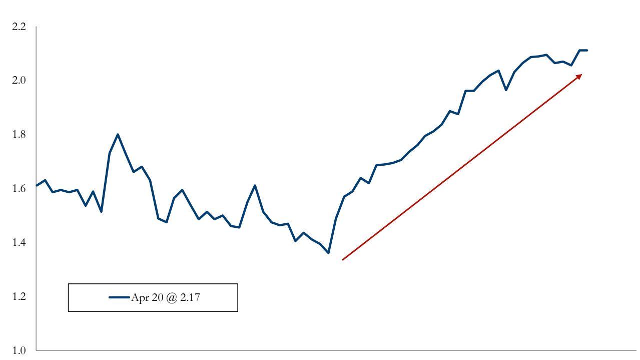


Source: Chicago Board of Trade. As of April 20, 2018.

### 3. Has consumption started to rebound following the winter slowdown?

Yes, retail sales jumped 0.6% in March, getting a boost from a 2.0% gain in vehicle sales.

The jump was welcome news following three consecutive months of declines (chart) and helped lift the annual rate to 4.5%.

Despite the jump in March, consumers slowed their spending in Q1. Part of that was due to the severe weather that struck much of the northern part of the country, and part of it is due to a "pay-back" following the strong buying in Q4 after the three hurricanes.

Many economists believe the strong March report sets the stage for a marked increase in Q2 spending. This is not much of a leap of faith; for several years we have seen weak consumption in Q1 and then a bounce back in Q2 and 3. Furthermore, for this year, many households will be enjoying a boost in disposable income due to the massive tax cut.

Retail Sales, (% chg., m-o-m, y-o-y)

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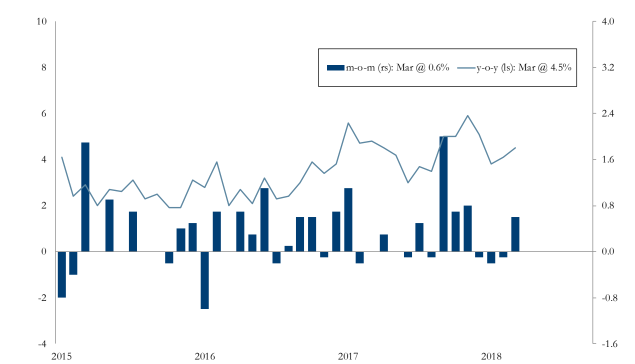


Source: U.S. Economic Census. As of March 2018.

### 4. Why is LIBOR going away?

LIBOR (London Inter Bank Overnight Rate) is one of the most important interest rate benchmarks in the world, as it underpins trillions of dollars' worth of financial products. For many consumers, most consumer loans (credit cards, auto loans, home loans, etc.) are based on LIBOR.

By definition, it is the average interest rate of short-term loans of the leading banks in London. It has been around since the 1980s and provided a uniform rate for the growing number of financial products that were being developed for global customers (it is now tied to $350 trillion in financial products).

But it is being eliminated due to the liability following the 2008 scandal, when there was a manipulation of the rate that has led to billions of dollars in fines. It is expected to cease to exist in the coming years and will be replaced with SOFR (Secured Overnight Finance Rate).

SOFR is published by the Federal Reserve and is a broad measure of the cost of borrowing cash overnight that is collateralized by treasury securities (chart).

LIBOR & SOFR (%)

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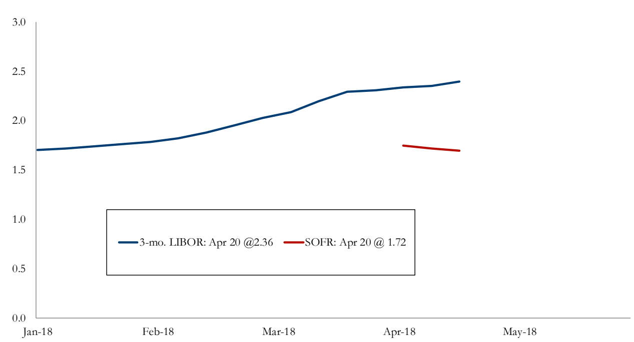


Source: Bloomberg Barclays Index. As of April 20, 2018

### 5. Why does City National Rochdale continue to be positive on U.S. equities?

Our overweight in U.S. equities continues to be grounded in the strong outlook for corporate earnings growth. History has shown that profits tend to be the most influential driver of stock prices over time.

Lost in the turmoil of recent headlines and market volatility has been the resurgence in corporate profitability over the past year and a half.

According to FactSet, Q1 earnings for the S&P 500 are expected to increase 17.1%, the best growth rate in six years.

The upturn in corporate profitability has been driven by strengthening global demand and the weaker dollar, as well as improving economic growth domestically.

Recently enacted tax cuts are also now providing a significant further boost to corporate earnings. Overall, we estimate that earnings per share for the S&P 500 will rise 13-15% in 2018.

S&P 500 EPS Growth Rates (Y/Y)

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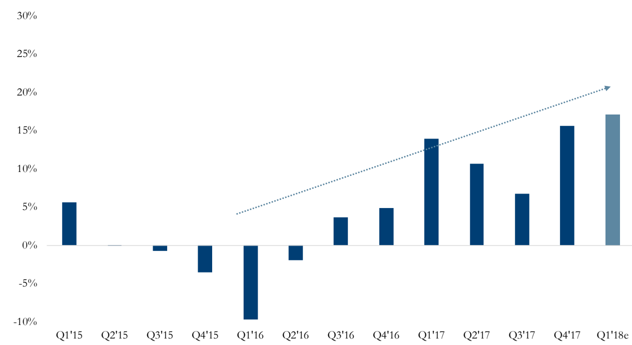


Source: FactSet. As of April 2018.

## Index Definitions

The Standard & 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.

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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.

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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.

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Indices are unmanaged and one cannot invest directly in an index. Index returns do not reflect a deduction for fees or expenses.

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.