City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

JUNE 18, 2018

On the Radar

FAQS ON THE MARKETS AND ECONOMY

Has City National Rochdale's outlook changed for 2018?

Based on our outlook for solid economic growth and improving corporate earnings, we remain bullish on equities in general and continue to see attractive prospects in the opportunistic fixed income class. Bear markets outside recessions are rare.

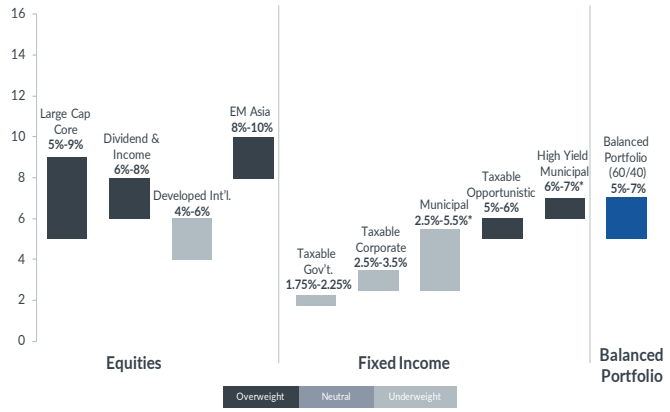
However, the investment landscape is growing more challenging as investors adjust to a more typical late-stage expansion environment of higher inflation, rising interest rates and less accommodative monetary policy.

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.

We actively manage portfolios to be aware of where we are in the cycle, to take advantage of opportunities as they arise and to be on alert if conditions deteriorate.

Recently, we have moved up in quality in both our fixed income and equity portfolios to prepare for the volatility we have been experiencing. At the same time, there are pockets of value in the market, and we seek to selectively take advantage of those opportunities.

One-Year Forecasted Returns (%)



Source: City National Rochdale. As of June 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.**

How tight is the job market?

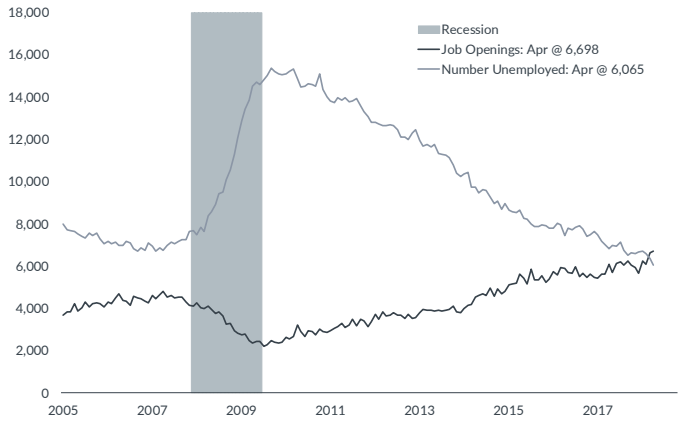
There are now more job openings than people looking for jobs (chart.) Although this data only goes back to the early 2000s, it is the first time this has happened.

With the unemployment rate at just 3.8%, this makes it difficult for employers who are looking to quickly fill positions.

Employers will need to change their approach to hiring. They may need to pay more, accept a lower level of education, or even look to those that have criminal records or substance abuse problems.

Another alternative is to automate more jobs. This can been seen at fast food restaurants where order-taking kiosks have replaced some employees.

Job Openings and Number of Unemployed ('000)



Source: Bureau of Labor Statistics. As of April 2018.

Is the surge in corporate leverage a concern?

The level of corporate leverage is sitting near its highest level in recent memory (see chart — darker line).

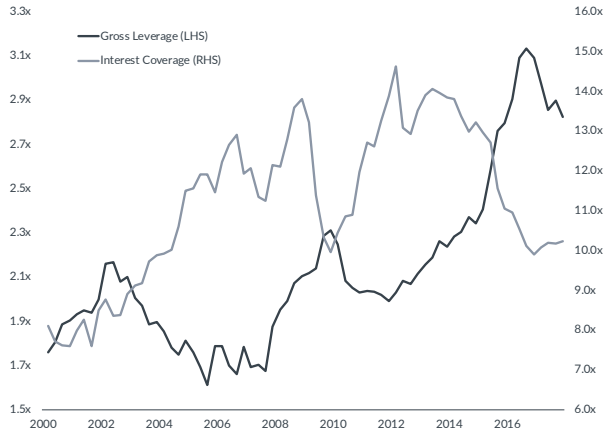
It has been brought on by low interest rates, high taxes for repatriating foreign earnings, heightened M&A activity and the rising popularity of share buybacks.

Although high, present financial conditions paint a much more sanguine picture for investment grade corporate credit. For example, operating earnings have kept companies' abilities to service debt in line with longer-term averages (blue-line chart).

Much of the corporate debt proceeds have been used to remunerate shareholders via increased & special dividends and share repurchases. A suspension of these policies would immediately free up cash flow and allow existing debt to simply mature vs. having to be refinanced.

City National Rochdale core portfolios are skewed toward higher-quality names and do not have exposure to the riskier "junk" credits that this leverage phenomenon will likely hit the hardest.

U.S. Investment Grade Credit Metrics - ex. Financials



Source: JP Morgan. As of December 2017.

What happened at the recent FOMC meeting?

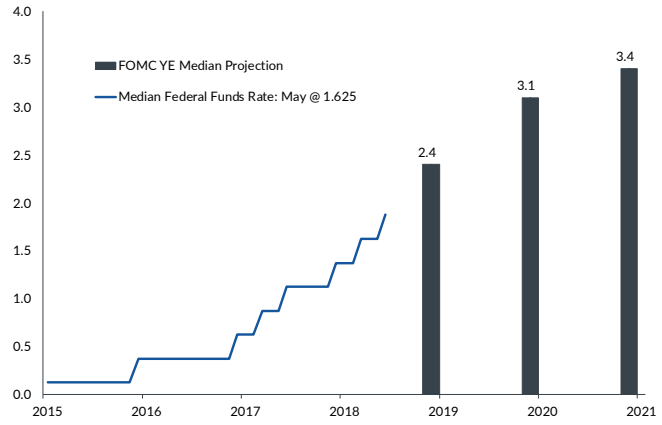
The Fed increased the median federal funds rate to 1.875%, which was widely expected and marks the seventh increase in this cycle.

The median estimate for future rate increases moves up by one and now totals four hikes for this year (two have already been done). The previous projection was for a total of three hikes in 2018.

Since January, City National Rochdale has projected a total of four increases this year. The Fed has a more bullish view for the remainder of this year, compared to their past projections, which were released in March. GDP will be stronger; it was revised upward from 2.7% to 2.8%. Inflation (Core PCE) will also be stronger, moving up from 1.9% to 2.0%.

The unemployment rate will be a little lower; the projection has moved down from 3.8% to 3.6%. Overall, the statement was viewed as more hawkish than the markets anticipated.

Federal Funds Rate & FOMC Projections (%)



Source: Federal Reserve. As of June 2018.

Is productivity growth finally rebounding, and what could that mean for the economy?

While productivity growth remains near its lowest level since the early 1980s, the latest data indicate that the trend is showing some improvement.

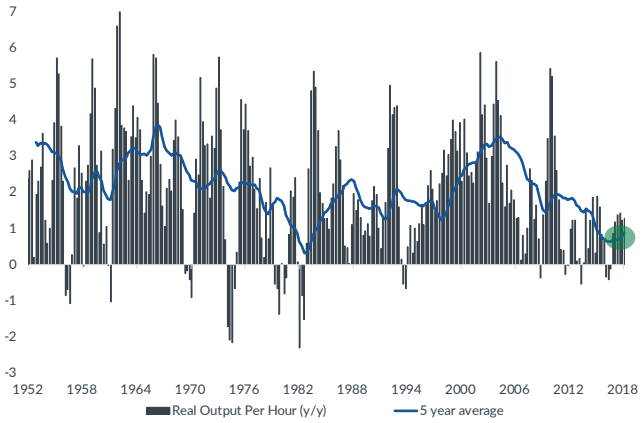
Part of the reason behind the slowdown in productivity over this expansion has likely been due to fading impact of the turn of the century IT revolution, as output per worker has been trending lower since it peaked at more than 3% in the early 2000s.

Another reason has been a sustained shift down in business investment. From 2001-2013, the trend in capital stock formation fell from 4% to 1%.

It's still early, but there are indications that the recent pickup in business investment, as well as the diffusion of new technologies, are now finally beginning to translate into stronger output per worker.

If so, there are several positive implications including: stronger potential GDP growth, reduced inflation pressures and higher corporate profit margins — all of which could help extend the economic expansion and the equity bull market.

Productivity Growth



Source: Federal Reserve. As of January 2018.

Is the Eurozone's recovery in trouble?

Fears that the ongoing Eurozone's recovery is faltering seem overdone. Weakness in Q1 related partly to temporary factors, and the outlook for domestic spending still looks positive, with firms' employment intentions and consumer confidence at high levels and bank lending growth rising.

While timelier survey measures of activity in the manufacturing sector have softened this year, they also continue to point to modest rates of growth ahead.

But the long-term outlook is still not very bright. Rebalancing is incomplete, labor market reform has a long way to go and existing backstops are not strong enough to prevent another crisis.

Though there is a sense of relief that some form of political stability has resumed for now, recent events in Italy are a stark reminder of how quickly things can unravel in Europe and the continuing risks regarding the future of the EU.

Our underweight to European equities reflects these relatively poorer long-term growth prospects, political risks, and secular headwinds.

Eurozone Manufacturing Purchasing Managers Index

Source: Factset. As of June 2018.

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 include, but are not limited to, stock market, manager, or investment style risks. 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 may include, but are not limited to, interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond risks. 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 incomebearing 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.

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.

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.

The Markit Eurozone Composite PMI is based on original survey data collected from a representative panel of around 5,000 manufacturing and services firms. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland.