City National Rochdale®

AN RBC/CITY NATIONAL COMPANY

NOVEMBER 4, 2019

On the Radar

FAQS ON THE MARKETS AND ECONOMY

What is the outlook for the global economy?

Amid elevated geopolitical uncertainty and signs that higher tariffs are weighing on international trade, global momentum has continued to weaken.

For the fourth time in the last year, the IMF has cut its forecast for global growth in 2019. The world economy is now expected to expand at just 3.0% — the lowest rate since the financial crisis — before picking up to 3.4% in 2020.

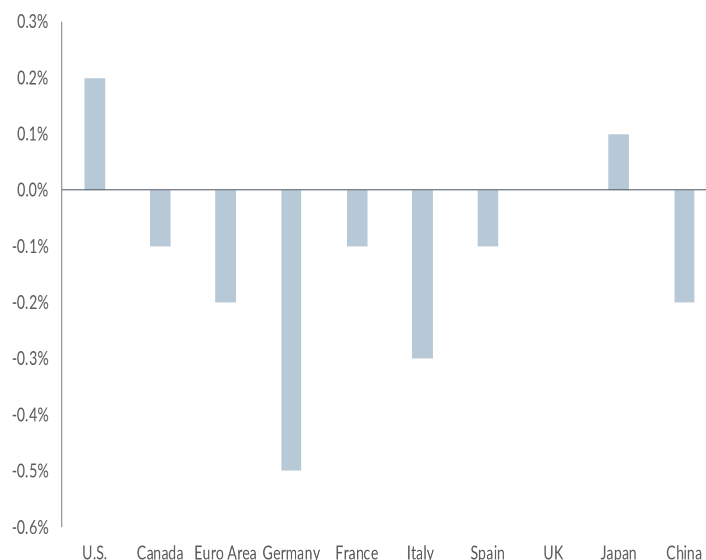
However, the projected pick-up in growth next year is precarious, relying on authorities reaching an agreement over Brexit, as well as progress in resolving U.S.-China trade differences and other policy issues.

Much of this can be attributed to weakened conditions in many advanced economies, particularly in Europe, where higher exposures to international trade are weighing on already poor growth prospects.

In contrast, the U.S. is one of a handful of economies with a rosier outlook for 2020 than when the IMF last compiled its forecasts in July.

Our portfolio positioning, with a material underweight to European equities and other developed markets outside the U.S., reflects this reality.

Changes in the IMF's 2020 GDP Growth Forecasts Since July



Source: IMF as of October 2019.

KEY QUESTIONS

Will the Fed lower interest rates again this year?

Is the federal government going to get the federal debt under control?

What did we learn from the GDP report?

Does earnings season change our view on stocks?

Investment management services provided by City National Bank through its wholly owned subsidiary City National Rochdale, LLC, a registered investment advisor.

Non-deposit Investment Products: ■ are not FDIC insured ■ are not Bank guaranteed ■ may lose value

Will the Fed lower interest rates again this year?

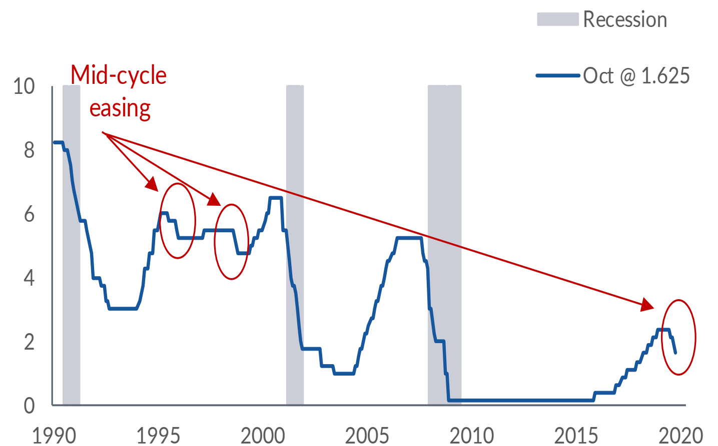
It doesn't look like the Fed will cut rates at the final meeting in December. They are signaling a breather.

The Fed cut the federal funds rate three times in three consecutive meetings, lowering the rate by a cumulative 75 bps to 1.625%.

The Fed likens these three cuts to taking out insurance. Although the economy is in good shape (unemployment rate at 50-year lows, inflation is moderate, stocks near record highs, etc.), the Fed is trying to insulate it from the slowdown in business investment and the global economic slowdown brought on by the trade war.

The Fed has been clear in stating this is not the beginning of a sustained easing cycle. Instead, this is a mini-easing cycle. Back in the 1990s on two separate occasions, the Fed eased 75 bps, both of which were credited with prolonging that period of economic growth.

Median Federal Funds Rate (%)



Source: Federal Reserve Bank as of October 2019.

Is the federal government going to get the federal debt under control?

It doesn't look like the deficit will shrink in the near term. In fact, the deficit has been growing for the past four years and is expected to widen over the next few years.

The federal government's fiscal year just ended on September 30, and the deficit was $984 billion. If it were not for the newly enacted tariffs, which brought in $70 billion, the deficit would have been over $1 trillion.

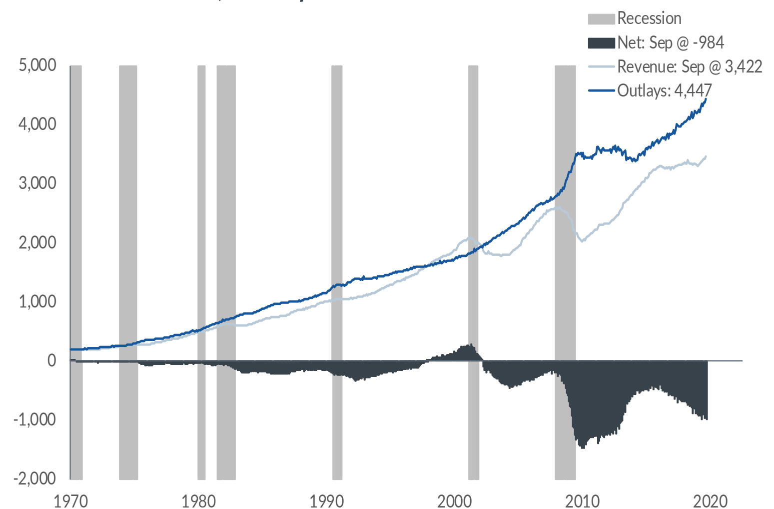
This is an increase of 26% from last year and places the deficit at the largest level in seven years.

It is unusual for a deficit to grow in a peacetime economic expansion (chart) because expenditure for social programs, like unemployment insurance, decreases and tax revenues often grow.

Congress has lost focus on the deficit. They have nearly abandoned measures enacted in 2011 that help reduce the deficit by 50%.

Massive tax cuts have been put in place and spending has increased.

Federal Revenues, Outlays and Annual Debt



Source: U.S. Treasury as of September 2019.

Non-deposit Investment Products: ▪ are not FDIC insured ▪ are not Bank guaranteed ▪ may lose value

What did we learn from the GDP report?

The economy grew solidly in Q3, increasing 1.9%, just slightly under Q2's 2.0%. The year-over-year change in GDP stands at 1.9%, below the expansion average of 2.3%.

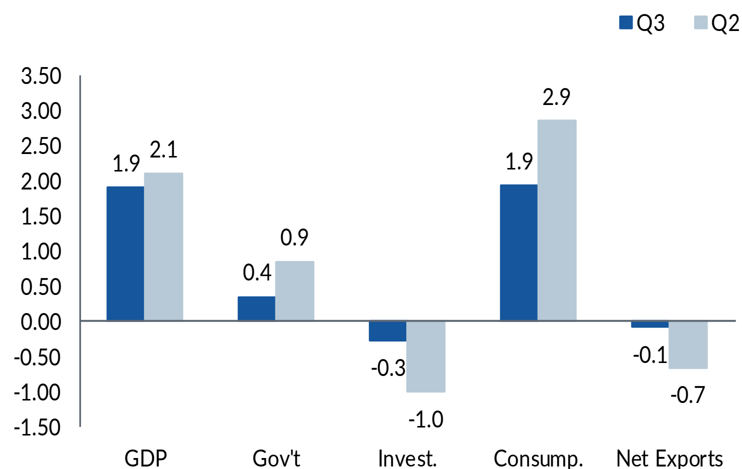
Consumer spending, which accounts for more than two-thirds of GDP, grew 2.9%, about the same pace as the first half of this year.

The resolute consumer along with government spending, exports and residential investment were all positive contributors to growth. For residential investment (housing), it was in the positive category for the first time since the end of 2017. It seems to have received a boost from lower interest rates.

All those strengths more than offset declines in business investment ,which fell 3.0%, after declining 1.0% in Q2. This decline is due heavily to trade tensions, cheaper oil and design problems at Boeing.

All this data demonstrates the sturdiness of the economy, especially the domestic facing portion. But the pace of growth has moderated to a level slightly below the expansion average.

Contribution to GDP (%)



Source: Bureau of Economic Analysis as of October 2019.

Does earnings season change our view on stocks?

Earnings season does not change our view on stocks. We remain neutral in stocks overall as part of our late-cycle play book. Results from companies confirmed our view that the economy is slowing but still growing.

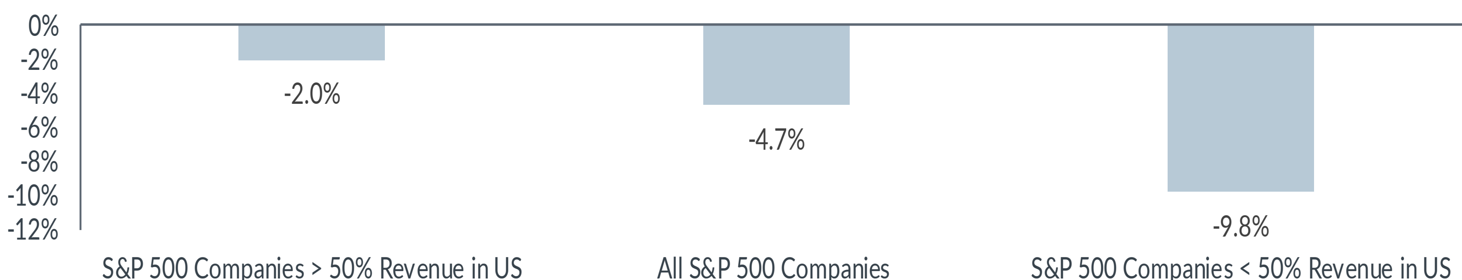
While headline results have been better than feared, consensus estimates for this year and next continue to decline.

EPS season is also a tale of two cities. Positive results have been produced by consumer-focused areas such as housing, tech purchases that are strategically important and health care equipment and services. Negative results are evident in companies exposed to global trade, high-ticket capital goods and energy related.

Although recent optimism on trade tensions and Fed policy have eased investor concerns about an imminent recession, we remain watchful on risks from the macro environment.

We believe the bull market will continue but that stock prices ahead will move up more in line with modest earnings growth. Our focus remains on quality companies with earning visibility and dividend growth, especially those in the U.S. and EM Asia.

Q3 S&P 500 Earnings Growth by Revenue Source



Source: Factset as of October 2019.

Non-deposit Investment Products: ▪ are not FDIC insured ▪ are not Bank guaranteed ▪ may lose value

What is City National Rochdale's investment outlook?

Given our continued positive assessment of the fundamental backdrop, we remain positive on U.S. equities in general and continue to see attractive prospects in the opportunistic fixed income class.

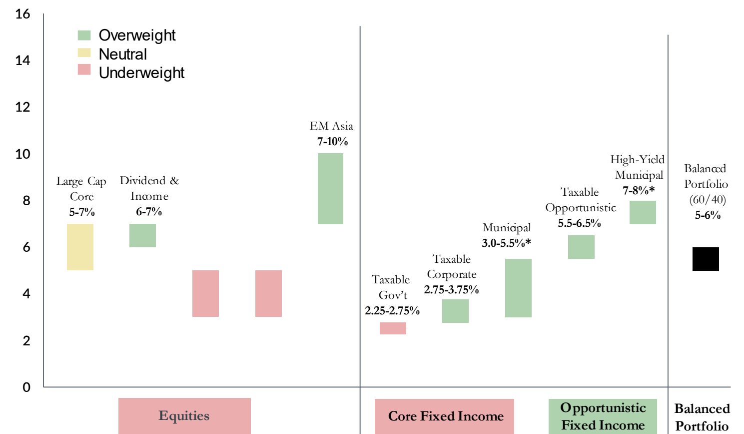
Still, downside risks have increased somewhat and the investment landscape is growing more challenging.

Late-cycle conditions of slowing growth and greater vulnerability to policy missteps will require investors to change their approach and be more selective in their portfolios.

None of this means there are not more opportunities ahead for investors, but gains are likely to be more muted. At the same time, concerns over global growth, trade tensions and the path of interest rates mean markets will likely continue to be subject to periodic swings in sentiment and potential pullbacks.

Our equity and fixed income research teams have made deliberate risk-mitigating changes to help fortify client portfolios against the type of market turbulence we have recently experienced, while leaving them well-positioned to take advantage of opportunities that present themselves.

One-Year Forecasted Returns (%)



Source: City National Rochdale as of September 2019. 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.

Non-deposit Investment Products: ■ are not FDIC insured ■ are not Bank guaranteed ■ may lose value

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 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.

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 & 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.

Non-deposit Investment Products: ▪ are not FDIC insured ▪ are not Bank guaranteed ▪ may lose value