

ECONOMY: U.S. GROWTH SLOWS AS ECONOMIC SECTORS FOLLOW DIVERGING PATHS

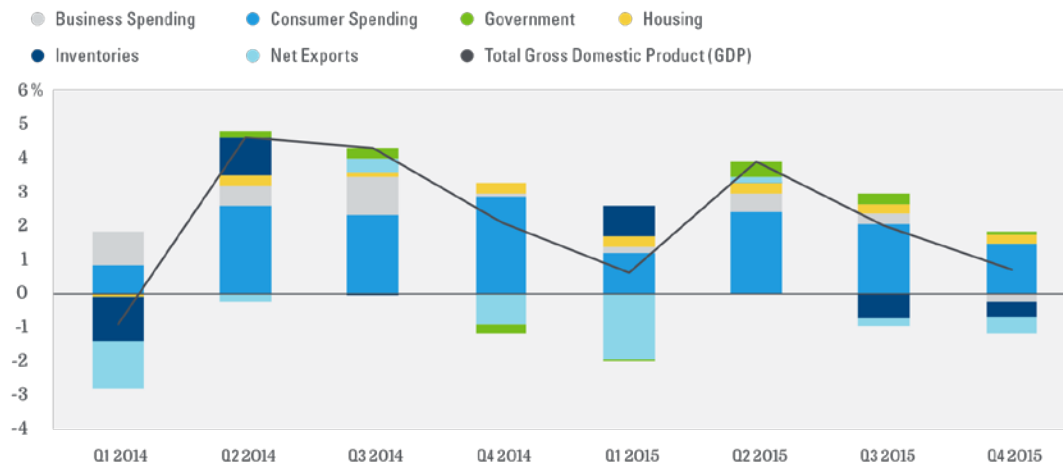
Economic Data

U.S. economic data released in January, which largely capture economic activity in December, continued to suggest a below-trend pace of growth in the U.S. Despite lackluster gross domestic product (GDP) growth in the fourth quarter of 2015, there is little evidence that the U.S. is in a recession and, based on historical data, the Conference Board's Leading Economic Index (LEI) puts the probability of a recession in the next year at 10–15%. The overall story for the U.S. economy continues to be about diverging paths between consumer activity and services sector expansion, on the one hand, and a struggling manufacturing and export sector, on the

other. Because services make up 80–90% of U.S. business activity and consumer spending accounts for about two-thirds of U.S. GDP, strength in these areas continues to carry overall U.S. economic growth forward, despite headwinds from weakening capital expenditures due to low oil prices and falling international demand for U.S. goods due largely to a strong dollar.

The initial estimate of fourth quarter 2015 GDP growth showed the economy had expanded at a disappointing 0.7% annualized pace during the quarter, slightly missing expectations. Weakness was most pronounced in the business sector, with business investment spending contributing negatively to GDP growth for the first time since the third quarter of 2012. Spending on inventories, which tends to be cyclical, also made a negative

CONTRIBUTION TO GDP BY ECONOMIC SECTOR



Source: LPL Research, Bureau of Economic Analysis 1/31/15

contribution, while the contribution from net exports further deteriorated. Although consumer spending's contribution to GDP growth slowed, real consumer spending grew at a frustrating but still healthy annualized rate of 2.2%, while the contribution from home construction remained steady.

January releases provided continued confirmation of a favorable consumer environment. Non-farm payroll growth for December handily topped consensus expectations of 200,000, coming in at 292,000, with a sizable upward revision to November's data. Housing-related data also looked strong, with new home sales, used home sales, and permits all topping expectations, although housing starts missed. And despite January's market volatility, consumer sentiment in January rose, also topping expectations. Consumer spending, however, disappointed; retail sales ex-auto and gas came in flat as consumers continued to be more inclined to save rather than spend the windfall from low energy prices.

Looking at the business environment, services sector activity measures from the Institute for Supply Management (ISM) and Markit continued to show expansion in December. In addition, the National Federation of Independent Business (NFIB) survey of small businesses, which tend to be less exposed to international markets, showed small business optimism strengthened in December. But the manufacturing sector continued to struggle. The ISM Manufacturing Purchasing Managers' Index (PMI) for December declined and remained at a level indicating contraction. Preliminary December data for shipments of non-defense capital goods ex-aircraft, which feed directly through to GDP as capital expenditures, contracted 0.2%; while orders, a more forward-looking data point, fell sharply.

Central Banks

The gap between U.S. monetary policy and that of most other major central banks widened in January. The Federal Reserve (Fed) maintained its policy path while the Bank of Japan surprised markets by lowering its benchmark rate to below zero. The European Central Bank (ECB) took no action in January, but ECB President Mario Draghi gestured toward the possibility of further easing in March. Outside of the U.S., the only G20 major economies currently hiking rates are emerging market economies: South Africa and Brazil (to counter inflation), and Mexico (to counter currency devaluation).

The Fed's policy arm, the Federal Open Market Committee (FOMC), made no policy change at its January meeting following its decision to raise the target fed funds rate for the first time in nine years at its December 2015 meeting. The most noteworthy change in the FOMC policy statement was the removal of the line, "The Committee sees the risks to the outlook for both economic activity and the labor market as balanced," signaling increased uncertainty. The Fed modestly upgraded its assessment of the labor market, took a mixed view of inflation expectations (consumer inflation expectations holding their ground, market-based expectations declining), and continued to say that future rate hikes will be data dependent and that it is not ready to let its balance sheet shrink anytime soon.

CONSUMERS HAVE USED ENERGY SAVINGS TO STRENGTHEN THEIR BALANCE SHEETS



Source: LPL Research, Federal Reserve 1/31/15

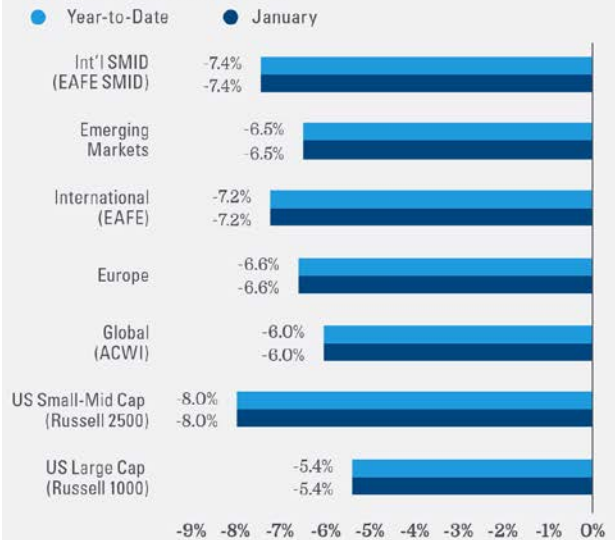
GLOBAL EQUITIES: DOMESTIC EQUITIES FALL IN JANUARY AS UNCERTAINTY DRIVES SENTIMENT LOWER

U.S.

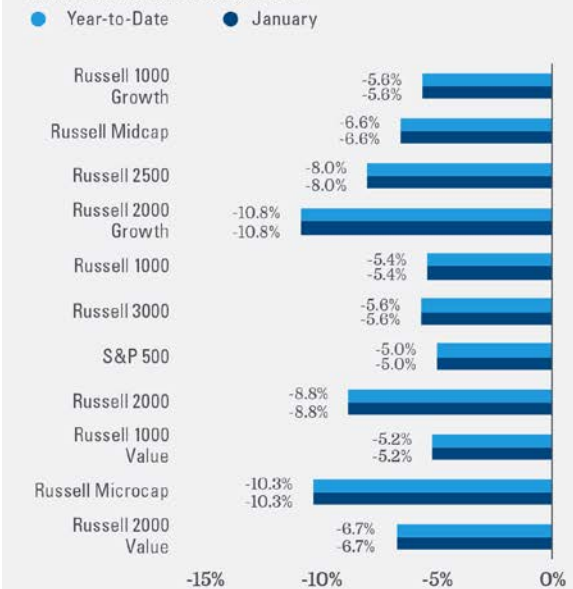
Domestic equity markets struggled to find their footing in January, posting a second consecutive monthly decline. The S&P 500 finished the month with a total return of -5.0%, after rallying into the end of the month from a peak decline of -9% on a closing basis. Contributing to the month-end rally was a surprise move by the Bank of Japan to introduce a negative interest rate regime to further its fight against deflationary forces. January included three weeks of earnings reports, with nearly 40% of the S&P 500 reporting. In total, reported earnings growth was -3.2%, as the energy and materials sectors continued to struggle with supply imbalances and slowing global growth. Beyond these problem sectors, the results were mixed, as the industrials and technology sectors saw negative earnings growth, while telecommunications, consumer discretionary, utilities, healthcare, financials, and consumer staples were all able to grow earnings on a year-over-year basis. Beyond the actual results, forward guidance has also been an incremental drag as management teams look to manage expectations for full-year 2016 guidance.

Sector performance largely reflected poor investor sentiment as value outperformed growth, and large caps continued their outperformance relative to small caps. Sectors traditionally perceived as defensive also outperformed their cyclical counterparts on balance as the telecommunications, utilities, and consumer staples posted strong relative and positive absolute performance during the month. The remaining seven GICS sectors were down in absolute terms, with only energy and technology managing to beat the market. Materials was the worst performing sector due to global growth sensitivity. The energy sector managed to decouple a bit from the broader equity market during the month, outperforming by nearly 200 basis points (2%). This outperformance was driven primarily by a large 27% rally in the price of oil in the last two weeks of the month from its low of \$26.55.

GLOBAL INDEX PERFORMANCE



DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 01/31/16

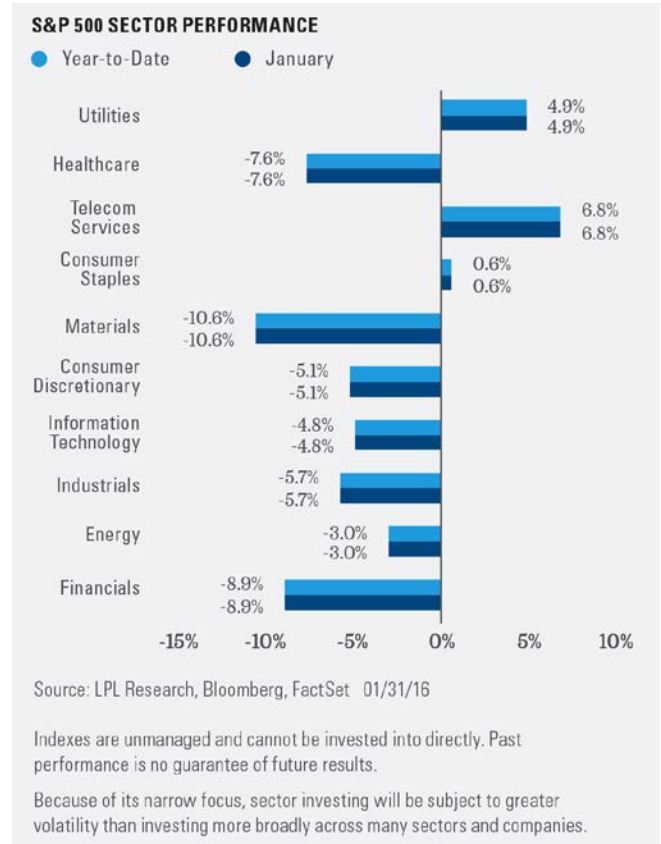
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

International

International stocks, as represented by the MSCI EAFE Index (foreign developed) and MSCI Emerging Markets Index, both posted losses in January and continued their underperformance relative to the S&P 500 on a trailing one-year and three-year basis. European stocks opened the month with poor performance, but outperformed domestic equities into the end of the month as ECB President Mario Draghi surprised investors with a pledge to “review and possibly reconsider” stimulus at the central bank’s March meeting. Japanese equities were down on the month but did end the final trading day of the month on a strong note as authorities surprised the market with a move to a negative interest rate policy. Emerging market declines were broad based, with weak commodity prices continuing to provide a significant headwind. However, performance off the lows in the final days of the month did outpace domestic equities, as the market discounted the likelihood of further rate hikes by the Fed and oil prices posed a significant rally.



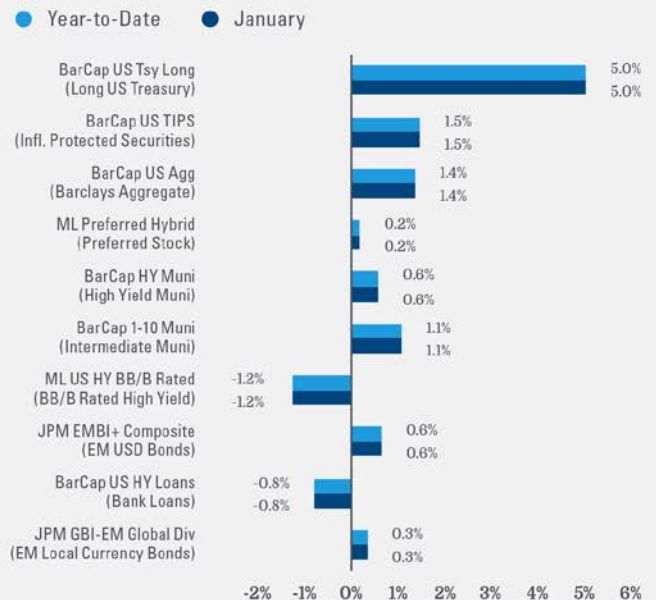
FIXED INCOME: YIELD DECLINE ON FALLING GROWTH AND INFLATION EXPECTATIONS

Bond yields fell across the majority of the maturity spectrum during January, in response to weaker global growth expectations and low inflation expectations. The move lower in yields reversed all of the increase that occurred in Q4 2015 ahead of the FOMC meeting in December, during which the Fed raised interest rates.

The flattening yield curve and overall decline in interest rates was a greater tailwind for long-term bonds relative to short-term bonds. Among sectors, high-quality bonds benefited most and the Barclays U.S. Aggregate Index returned 1.4% during the month. Economically sensitive sectors continued to be hurt by an aversion to lower-quality bonds and concerns about defaults in the energy sector amid progressively lower oil prices (oil fell another 9% during January). High-yield returned -1.2% during January and bank loans returned -0.8%. Continued central bank intervention abroad helped European government rates decline further, pushing foreign hedged bonds to a strong 2.0% return for the month.

Municipal bonds underperformed Treasuries during January, as is typical in falling interest rate environments, but recorded a very strong month nonetheless. The Barclays 7 Year (6-8) Municipal Index returned 1.4% during the month, driven by general high-quality bond strength, but also by good seasonality in January, as many municipal investors have cash to put to work as a result of coupon payments and maturing issues.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	12/31/15	01/31/16	Change in Yield
3 Month	0.16	0.33	0.17
2 Year	1.06	0.76	-0.30
5 Year	1.76	1.33	-0.43
10 Year	2.27	1.94	-0.33
30 Year	3.01	2.75	-0.26

AAA MUNICIPAL YIELDS

Security	12/31/15	01/31/16	Change in Yield
2 Year	0.75	0.70	-0.05
5 Year	1.41	1.24	-0.17
10 Year	2.30	2.12	-0.18
20 Year	3.75	3.58	-0.17
30 Year	4.42	4.29	-0.13

Source: LPL Research, Bloomberg, FactSet 01/31/16

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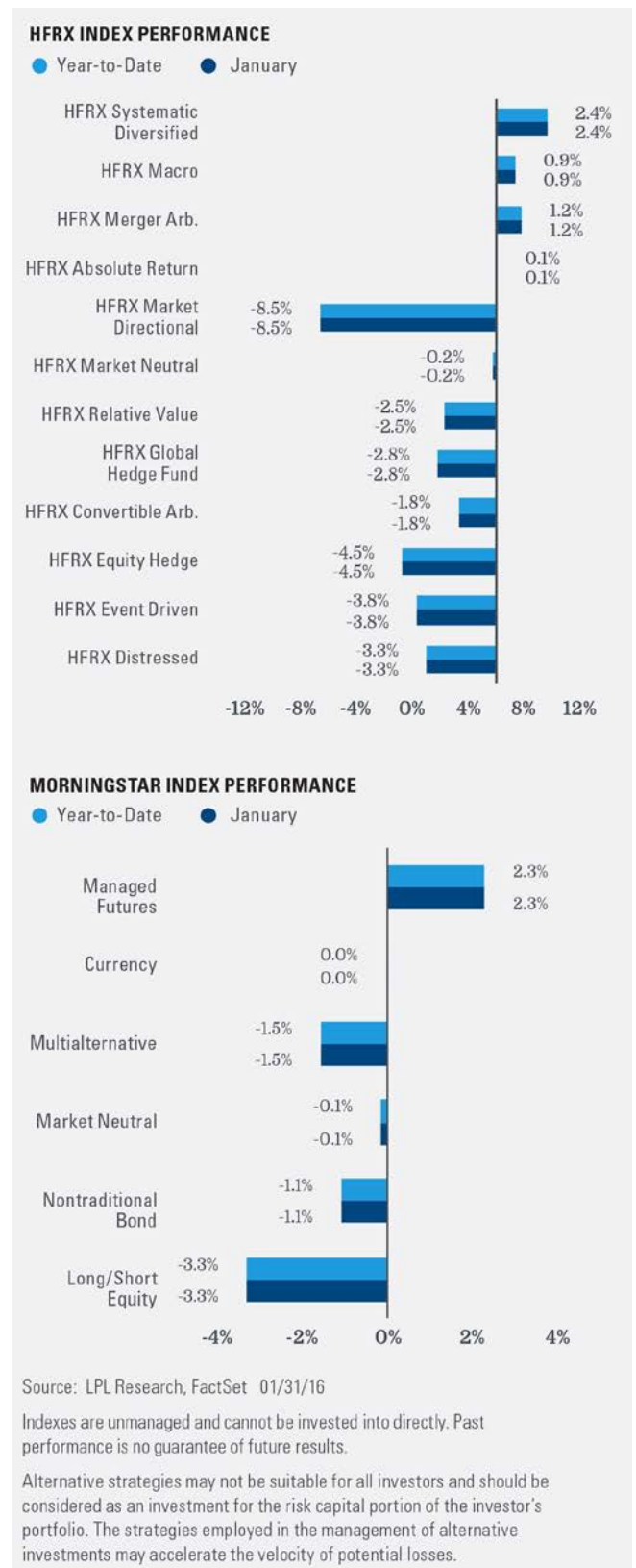
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

ALTERNATIVES: MANAGED FUTURES DELIVER

There was a significant range in January performance across the alternative investment universe, as the S&P 500 (down 5.0%) encountered the largest decline to start a year since 2009. Macro related strategies led gains, with the HFRX Macro/CTA Index gaining 0.9%, while the HFRX Systematic Diversified Index gained 2.4%. On the downside, long/short managers, as represented by the HFRX Equity Hedge Index, were down 4.5%. A preference for more cyclical sectors such as consumer discretionary and technology acted as a headwind, as only more defensive sectors were able to weather the sell-off. Long/short strategies held up well during the first half of the month, providing strong downside protection. However, during the rally in the last week of trading, many managers were too conservatively positioned to keep pace with the broader equity market gains.

Systematic macro managers gained from long credit exposure, specifically in Treasuries and German bunds, while short equity contracts across the globe also provided positive returns. Further, the continued downtrend in oil prices was another positive contribution. Overall, performance for managed futures in January was a perfect example of the diversification benefit they may provide during bouts of market turmoil. Equity market neutral managers also continued to perform well, with a decline of only 0.2% and a gain of 4.8% over the past year, which leads gains in all alternative and traditional benchmarks. Managers in the distressed space continue to underperform (HFRX Event Driven Distressed Securities down 3.3%). Several strategists have acknowledged entering energy-related trades too early in the cycle, while others continue to build cash levels, with the expectation to deploy after stabilization in energy prices.



SAFE-HAVEN REAL ASSETS OUTPERFORM IN JANUARY

As global markets were roiled by volatility, the month of January provided mixed returns for real assets, with those exhibiting safe-haven characteristics posting strong performance. The Bloomberg Commodity Index fell 1.7% in January, while the U.S. dollar ended marginally up, and the 10-year Treasury yield fell greater than 40 basis points (0.4%) in a flight to quality rally. The S&P 500 ended a volatile month down 5.0%. Gold and silver benefited in their capacities as safe havens, returning 5.3% and 3.2% respectively.

MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) traded down sympathetically with oil, as has been the case in many instances since late 2014. The Alerian MLP Index fell 11.1% in January, in what ended as the worst month for the asset class since the financial crisis. On a positive note, the final two weeks of the month did see positive returns. The primary driver of returns in January was oil, as fundamental news in the sector could be construed as positive. As earnings season has progressed, many companies are appeasing investors by lowering their capital expenditure budgets and “high grading” project backlogs. This should afford management teams the luxury of not being required to tap the capital markets to fund growth in an inhospitable capital raising environment. With respect to fourth quarter distribution announcements (which are almost complete), 30 companies have increased distributions quarter over quarter, 50 have held distributions flat, and 8 have cut distributions.

Global listed infrastructure, as measured by the S&P Global Infrastructure Index, returned -0.8% for the month. The index was dragged down by outsized negative returns from the Asian component (S&P Asia Infrastructure Index down 6.1%).

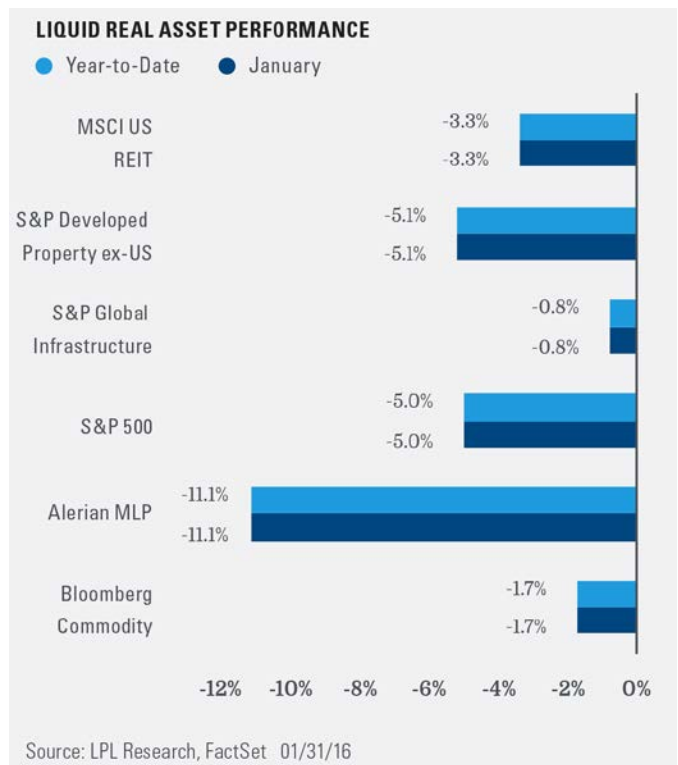
REITs

Even as interest rates fell in January, real estate investment trusts (REIT) ended solidly in negative territory. The MSCI U.S. REIT Index finished the month down 3.5%. Outperforming sub-sectors were specialized

and retail REITs, while office, industrial, and diversified REITs were laggards.

Commodities

Commodities continued their negative momentum from 2015 and ended the month down 1.7% as measured by the Bloomberg Commodity Index. As has seemed to be the case in most recent months, oil was the primary culprit for the index’s decline. WTI crude oil ended the month down 9.2% while Brent crude returned -3.5%. Weakness in China and the subsequent fears of global growth declining undoubtedly contributed to the collapse in prices. The market is still waiting for material production decreases, as U.S. production has only declined to 9.3 million barrels per day from a peak in April 2015 of 9.7 million barrels per day. Rumors of Saudi Arabia and Russia working together to strike a deal on cutting production helped raise prices near the end of the month but never materialized.



Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

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