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Wealth Management

DECEMBER 2017 IN REVIEW

October Update | As of December 31, 2017

Economy:

DECEMBER DATA POINT TO CONTINUED STEADY GROWTH

Economic Data

Economic reports released in December 2017, which mostly reflect economic activity in November, largely exceeded economists' consensus expectations and suggested continued steady growth in the U.S. economy. Data pointed to an economy that picked up some speed from the 2.2% average pace of growth during the current economic expansion. The Bloomberg-surveyed consensus estimate for fourth quarter gross domestic product (GDP) growth stood at 2.7% as of year-end, following the revised 3.2% GDP growth rate reported for the third quarter.

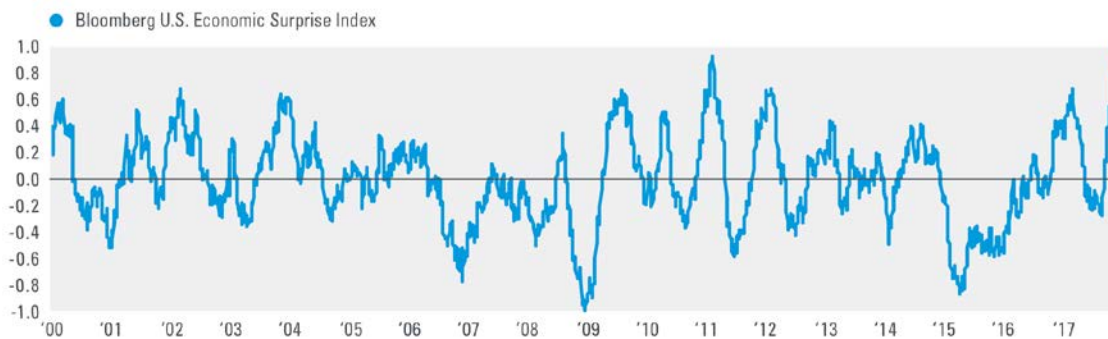
Measures of economic surprises relative to expectations continue to reflect an economy that is growing faster than economists' expectations. The Citi U.S. Economic Surprise Index, a standardized average of economic data compared to economists' expectations, rose to its highest level since 2007. Bloomberg's U.S.

Economic Surprise Index, which uses a longer moving average and therefore responds more slowly, rose to its highest level ever recorded in the 18-year history of the index. Expectations have remained fairly subdued due to the extended period of subpar growth over the past decade, skepticism toward the potential impact of the tax law, and hurricane disruptions.

Consumer-oriented reports were mostly positive in December. U.S. retail sales rose at their strongest pace during the holiday period since 2011. And although consumer spending in the third quarter GDP report only rose at a 2.2% annualized rate, it may accelerate in the fourth quarter. A solid 228,000 new jobs were created in November, nicely above expectations for the monthly payroll employment report. A survey of consumer confidence conducted by the University of Michigan for both current conditions and future expectations dipped slightly, as did the Conference Board's measure, though both remain elevated. Housing data mostly surprised to the upside, including new and existing home sales, while natural disasters supported housing construction.

Consumer inflation remained well contained, decelerating to 1.7% year over year excluding food and energy, though headline inflation rose 2.2% year over year, while producer inflation is showing some pipeline

ECONOMIC SURPRISES AT HISTORICAL HIGHS



Source: LPL Research, Bloomberg 12/31/17

Above 0 indicates economic data has been above consensus estimates, on average. Data are scaled and weighted by relative importance.

pressures building. The Federal Reserve's (Fed) preferred measure of inflation, the Personal Consumption Expenditures (PCE) Index, rose 1.8% year over year in November and 1.5% excluding food and energy.

Business investment picked up in the third quarter, increasing at a solid 10.8% annualized pace and driving the second straight quarter of 3.0% or more GDP growth. Manufacturing surveys for November, reported in December, remained quite strong. The ISM Manufacturing Index, at 58.2, met expectations and remained near the highs of the economic expansion despite dropping 0.5 points from the prior month. Regional surveys mostly showed strength, including those in Dallas, Chicago, and Philadelphia, although the Richmond and Kansas City regional surveys fell slightly short of expectations.

Indicators that tend to lead economic activity suggest steady growth appears likely to extend well into 2018. The Conference Board's Leading Economic Index (LEI), an aggregate of ten leading indicators, rose solidly in November, boosted by improving financial indicators, strong new manufacturing orders, and high consumer sentiment. The year-over-year change of 5.5% is the strongest since April 2015. Positive year-over-year growth has historically been associated with a low chance of a recession in the next year. Strength in leading indicators over the last six months in particular suggests the odds of a recession in the next year remain below the historical average.

Central Banks

December was a busy month for global central banks which, collectively, continue to move gradually toward monetary policy normalization. The Fed's policy committee raised its target interest rate, the fed funds rate, by 0.25% on December 13, which was the fifth hike of the economic expansion in the last official meeting under Janet Yellen's leadership. The Fed also upgraded its 2018 and longer-term economic growth outlooks, while maintaining forward guidance for monetary policy. The Fed expects 2.5% GDP growth in 2018, up from its prior forecast of 2.1%, and is calling for three rate hikes in 2018 based on the average committee member forecast, the so-called "dot plots".

Turning to other central banks, the People's Bank of China followed the Fed with a small 0.05% rate hike a few hours after the Fed's decision on December 13. The following day, the Bank of England and European Central Bank (ECB) left rates and bond purchase plans unchanged. Like the Fed, the ECB upgraded its economic outlook. On December 21, the Bank of Japan

made no changes to its monetary policy but did make somewhat more hawkish statements that suggest a tapering plan may be forthcoming.



Global Equities: DECEMBER GAINS CAP OFF STELLAR 2017 FOR U.S. STOCKS

U.S.

The S&P 500 Index returned 1.1% in December, capping off an unprecedented year in which the index produced a positive total return during each of the 12 calendar months. The S&P 500 has risen now 9 straight months on a price basis and a record 14 straight months based on total returns. The Dow Jones Industrials rose 25% in 2017, or 28% on a total return basis, to finish the year with 9 straight monthly gains, while the Nasdaq, which returned 30% for the year, has been higher 13 of the past 14 months.

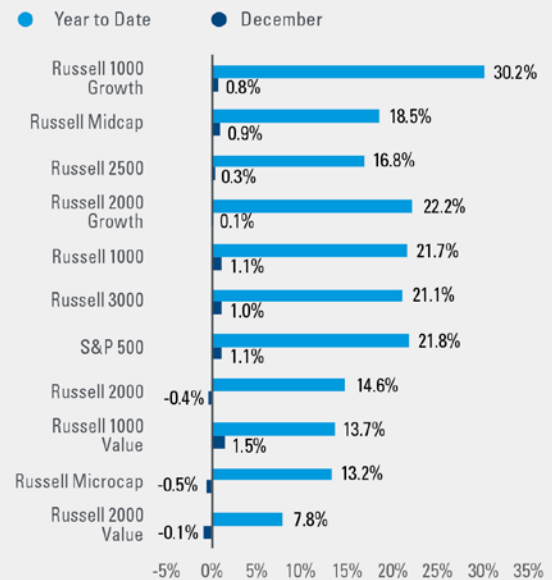
December is generally a seasonally positive month for the stock market. Add to that continued solid economic data in the United States and overseas plus passage of the new tax law, and you had the makings of a strong finish to 2017. Potential stumbling blocks proved manageable, as the flurry of global central bank meetings offered few surprises, a government shutdown was avoided, and the last needed votes for the tax bill in the Senate were secured. In the end, December looked like the rest of the year with stock market gains and little volatility amidst a generally favorable macroeconomic backdrop.

Sector leadership in December saw the 2017 laggards — telecommunications and energy — perform best with returns of 5.8% and 4.9%, respectively.

Telecommunications, a domestic sector that pays among the highest tax rates, got a boost from the tax law as well as the news from S&P that the sector will be expanded late in 2018 to include media and cable companies. The change may attract more interest from investors in the legacy telecommunication companies. Energy got a boost from higher oil prices as WTI crude oil rose more than 5% for the month. Still, both sectors ended the year with modest losses. Meanwhile, the income-oriented real estate and utilities sectors were the biggest laggards in December and both underperformed compared to the index in 2017.

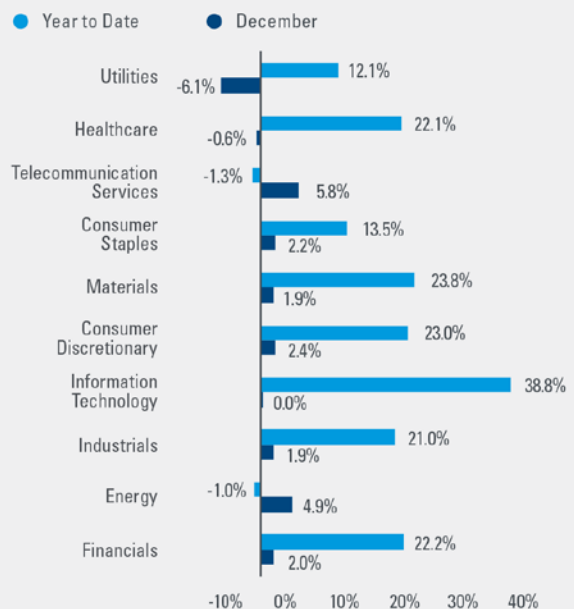
The technology sector, 2017's best S&P sector performer, slowed down in December and closed out the month unchanged. Technology's underperformance for the month helped the value style outpace growth, based on the Russell 3000 style indexes, as technology is the biggest growth sector. Value got a lift from gains in energy and telecommunications, while the value-

DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/17

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 12/31/17

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.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

heavy financials sector also outperformed in support of value. The modest value outperformance was not nearly enough, however, to reverse the 2017 trend, as the Russell 3000 Value Index returned just 13.2% for the year, well behind the growth index's 29.6% gain.

Small caps continued to struggle to keep up with large caps in December, despite the fact that smaller companies tend to pay higher tax rates and therefore generally benefit more from the reduction in corporate tax rates than large cap companies. Small caps returned a very respectable 14.7% in 2017, based on the Russell 2000 Index, but trailed the 21.7% return for the large cap Russell 1000 Index.

International

Developed international and emerging market (EM) equities both posted gains in December, based on the MSCI EAFE and EM Indexes, outpacing the more moderate returns for the S&P 500 in December. A weak U.S. dollar supported international equities in December, and throughout 2017, in addition to improved global economic growth and the strong rebound in international company earnings.

For international developed markets, the 1.6% return in December brought the 2017 return to an impressive 25.6%. Regionally, the Pacific produced the best return within the index for the month, while Europe was the top performing region for the year. At the country level, the best performers included Australia, Hong Kong, and the United Kingdom, despite an uneven start to Brexit negotiations with the European Union, while markets in France, Germany, and Japan underperformed.

The Fed rate hike in December did not slow EM down despite the sensitivity of many of the developing economies to U.S. monetary policy. The MSCI EM Index returned 3.6% in December, bringing the 2017 return to 37.8%, nearly doubling the performance of the S&P 500. Equity markets in Brazil, India, and South Africa outperformed, while those in China, Mexico, and Taiwan lagged.



Fixed Income: DESPITE TAX REFORM, YIELD CURVE FLATTENS WITH FED RATE HIKE

Treasury yields rose sharply in shorter maturities during December. The 2-year Treasury rose by 11 basis points (0.11%), while the 10- and 30-year Treasuries fell by 2 and 9 basis points (0.02% and 0.09%), respectively. Inflation expectations moved higher, however longer-term yields could not break to the upside. The Fed followed through with a rate hike during its December meeting, which pressed short-term rates higher. This led to a further flattening of the yield curve during the final month of the year.

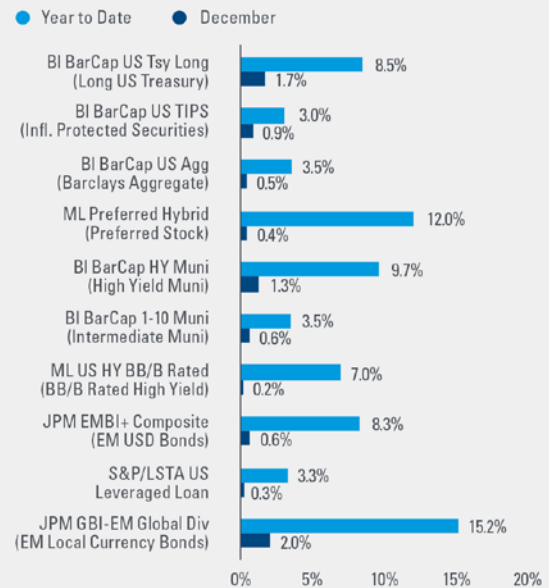
The muted nature of the move in longer-term yields translated to a solid month for high-quality fixed income. The broad Bloomberg Barclays U.S. Aggregate Bond Index returned 0.5% during the month, with Treasuries underperforming, returning 0.1% (Bloomberg Barclays U.S. Treasury Index). Mortgage-backed securities and investment-grade corporates returned 0.3% and 0.9%, respectively, outperforming Treasuries.

Economically sensitive sectors of fixed income were boosted by the passage of tax reform legislation. Municipal bonds were also impacted by tax reform, as headlines about the potential for some areas of the market to lose tax benefits led to a late-year surge in issuance. The Bloomberg Barclays Municipal Bond Index posted a full-month return of 1.1% as market participants chose to look past heightened December issuance, and focus on the fact that reform could lead to lower supply in the municipal market in the future.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

FIXED INCOME PERFORMANCE



U.S. TREASURY YIELDS

Security	11/30/17	12/31/17	Change in Yield
3 Month	1.27	1.39	0.12
2 Year	1.78	1.89	0.11
5 Year	2.14	2.20	0.06
10 Year	2.42	2.40	-0.02
30 Year	2.83	2.74	-0.09

AAA MUNICIPAL YIELDS

Security	11/30/17	12/31/17	Change in Yield
2 Year	1.32	1.32	0.00
5 Year	1.62	1.58	-0.04
10 Year	2.21	2.10	-0.11
20 Year	2.79	2.64	-0.15
30 Year	2.95	2.76	-0.19

Source: LPL Research, Bloomberg, FactSet 12/31/17

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

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.

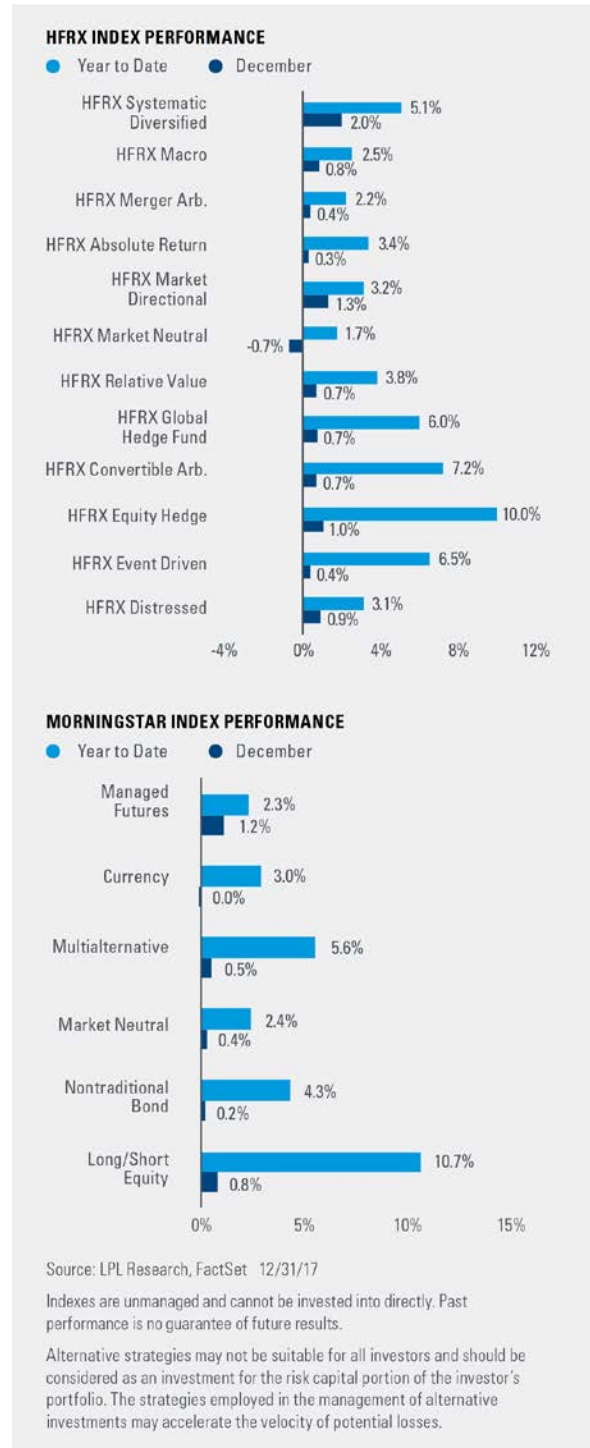
Alternatives:

ALTERNATIVE STRATEGIES END 2017 ON STRONG NOTE

Long/short equity strategies finished the year strong, as the HFRX Equity Hedge Index gained 1.0%. This was in line with the S&P 500's monthly return; however, long/short equity strategies were able to do so with less than half of the net market exposure. For 2017, the HFRX Equity Hedge gained 10.0%, outperforming all other alternative investment categories. Gains were predominantly driven from their overweight to large cap growth holdings, specifically within the information technology and consumer discretionary sectors. On the short side, significant alpha generation was challenging given the broad market rally; however, select managers were able to add additional value from idiosyncratic weakness in the retail and energy space. The HFRX Equity Market Neutral Index declined 0.7% during the month and only gained 1.7% on the year. Many strategies within the category have a long bias to value stocks, while being short growth firms, an approach that was a broad headwind to overall returns this year.

The HFRX Event Driven category gained 0.4% during the month and 6.5% for the year. Performance at the subcategory level was dispersed, with distressed strategies gaining 0.9%, while merger arbitrage managers returned 0.4%. The outlook within the event-driven space still appears promising, as tax reform and a more accommodative regulatory environment should improve the overall investment opportunity set.

Managed future strategies also finished the year on a positive note, with the HFRX Systematic Diversified CTA Index returning 2.0%. Strength across global equity markets continued to drive performance. For the year, the index gained 5.1%, the best annual performance since the category delivered a 6.0% return in 2010.



REAL ASSETS: STRONG MOTIF FOR MLPs, INTERNATIONAL REAL ESTATE, AND COMMODITIES

December was mixed for liquid real assets, as master limited partnerships (MLP), international real estate, and commodities produced solid gains, and global infrastructure and domestic real estate lost ground. Investors generally favored more economically sensitive investments over defensive, yield-oriented choices.

MLPs

MLPs rebounded in December amid rising oil prices and easing year-end tax loss selling. December's 4.7% advance brought the 2017 loss for the Alerian MLP Index to 6.5%. Slowing distribution growth prospects, broad energy sector weakness, and tax policy uncertainty hurt the group in 2017, although rich yields and tax policy clarity may have helped market participants regain confidence as the year ended.

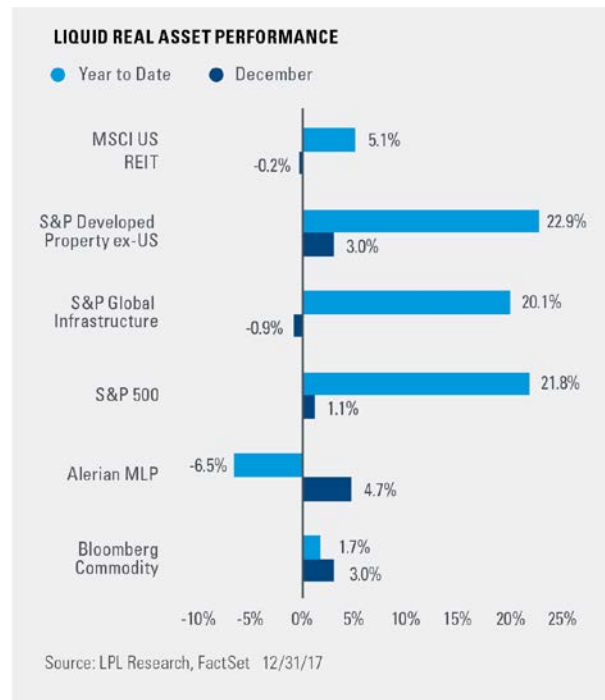
REITs & Global Listed Infrastructure

December was a strong quarter for international real estate, as the S&P Developed Property ex.-U.S. Index returned 3.0%. The domestic story was very different, with the U.S.-based MSCI REIT Index down 0.2% for the month, as the market appeared to favor more economically sensitive investments and bigger beneficiaries of tax reform. At the subsector level, residential, industrial, and healthcare REITs suffered declines, while retail and office produced gains. Domestic and international real estate returned 5.1% and 22.9% in 2017, respectively, as more attractive valuations and currency translation supported overseas real estate.

The S&P Global Infrastructure Index generated negative returns (-0.9%) in December and underperformed global equities. The index's energy holdings generated positive returns for the month; however, they were offset by declines in the industrials and utilities subcomponents, which make up the majority of the index.

Commodities

The Bloomberg Commodity Index rose 3% in December amid strong performance in energy and



metals. December's gains brought the index's 2017 performance into positive territory (1.7%), though far behind the global equities benchmark. During the month, gains in industrial and precious metals contributed positively to the index due to an increase in global demand and continued U.S. dollar weakness — in 2017 the dollar suffered its biggest annual loss since 2003. Higher oil prices amid strong global demand, global supply disruptions, and a weak U.S. dollar helped drive gasoline higher, although natural gas prices fell slightly. Within agriculture, gains in cotton and lean hogs helped offset some of the losses in the grains; notably, soybeans and corn.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

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