Montecito Bank & Trust®
Wealth Management

WEALTH OFFICE:
JEFF PITTMAN
EVP, DIRECTOR OF WEALTH MANAGEMENT
1106-E COAST VILLAGE ROAD
MONTECITO, CA 93108

THE ECONOMY AT A GLANCE

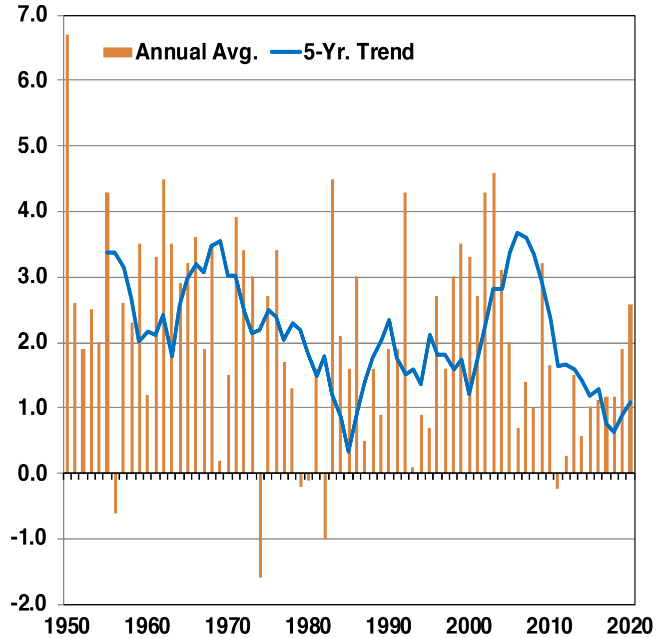
ECONOMIC HIGHLIGHTS

April 12, 2021
Vol. 88, No. 51

PRODUCTIVITY PICKS UP

Productivity is an important driver of long-term economic and income growth, and we keep a close watch on trends measured by the Labor Department. The post-war decades of the 1950s and 1960s were good years for productivity, which averaged 2.8% growth during this period of solid economic expansion. Productivity decelerated in the 1970s, before picking up again as the internet transformed the economy in the 1990s. Productivity dropped, though, after the Great Recession of 2007-2009, and many economists expect a slow recovery on the other side of the pandemic. But that does not have to be the case. Granted, low rates of interest and inflation during the previous decade imply that governments have been unable to spur investment. Yet governments are now spending to pull economies out of recession, and productivity rose in 2020 at the fastest rate in 10 years. In addition, complex productivity initiatives like artificial intelligence take time to register in an economy. As the global economy returns to normal, some things will change: more companies will digitize operations, provide opportunities for remote work, and accelerate automation. We expect these enhancements to result in productivity gains.

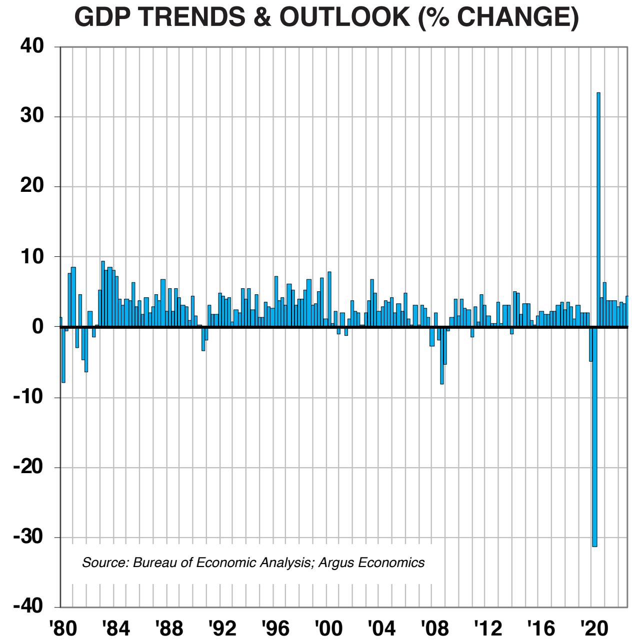
PRODUCTIVITY TRENDS (% CHANGE/YEAR)



Thomas Fisher, SVP / Chief Investment Officer ....(805) 560-3429 • tfisher@montecito.bank
Drew Brahos, SVP / Sr. Portfolio Manager ....(805) 979-4473 • dbrahos@montecito.bank
Kathleen Kalp, SVP / Sr. Portfolio Manager ....(805) 564-7327 • kkalp@montecito.bank
Rick Weber, VP / Portfolio Manager ....(805) 686-8620 • rweber@montecito.bank
Scott Estby, SVP / Sr. Portfolio Manager ....(805) 564-7303 • sestby@montecito.bank
Luca Romani, Investment Operations Manager ....(805) 560-3497 • lromani@montecito.bank

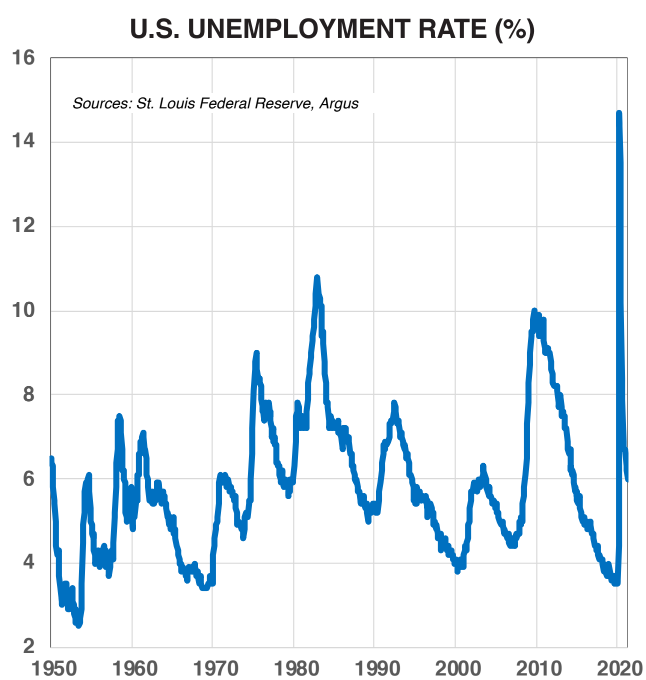
ANOTHER STRONG PAYROLLS GAIN

The U.S. economy added 916,000 jobs in March, ahead of expectations, and the unemployment rate dropped to 6.0%. The industry with the strongest employment growth was leisure/hospitality, while sectors such as public and private education, construction, manufacturing, and professional and business services also added jobs. The labor market continues to reflect the impact of the pandemic, with the shape and character of the workforce changing as the economy recovers. The current number of jobs is down 8.4 million from the pre-COVID level of February 2020. The labor force participation rate also remains low at 61.5%, below the historical average of 65%. Last month, 21% of employed persons teleworked because of the pandemic. The Labor Department recently reported that another 719,000 people filed initial unemployment claims, and the total of continuing claims was 4.0 million, down from 4.4 million a month earlier. Though trending in the right direction, this data indicates that the employment environment remains under stress. We expect the unemployment rate to remain above 5.0% -- and the Federal Reserve to keep interest rates low -- into 2022.



ARGUS AGAIN INCREASES GDP FORECASTS

Recent data indicates that economic conditions are improving, though serious risks remain. The primary driver of GDP over the next few quarters is likely to be public health, as the nation battles COVID-19. Right now, vaccinations are accelerating in the U.S. In addition, the employment environment is in better shape than it was nine months ago, though still far from a position of strength (as it had been prior to the pandemic), and consumer confidence is improving. We expect that rising confidence will lead to continued growth in consumer spending. Auto sales have recovered, and the housing market remains strong, even as interest rates tick higher. Businesses are again expanding. Rolling all the data up, our GDP model now calls for a 1.6% increase in absolute GDP in 1Q21 from 4Q20, which translates to an annualized gain of 6.0%. We expect further absolute improvement in subsequent quarters. On an annual basis, we look for overall GDP growth of approximately 4.4% in 2021 and 3.6% in 2022. Our estimates are consistent with consensus forecasts and the outlook from the Federal Reserve, which calls for growth of 4%-6% in 2021.

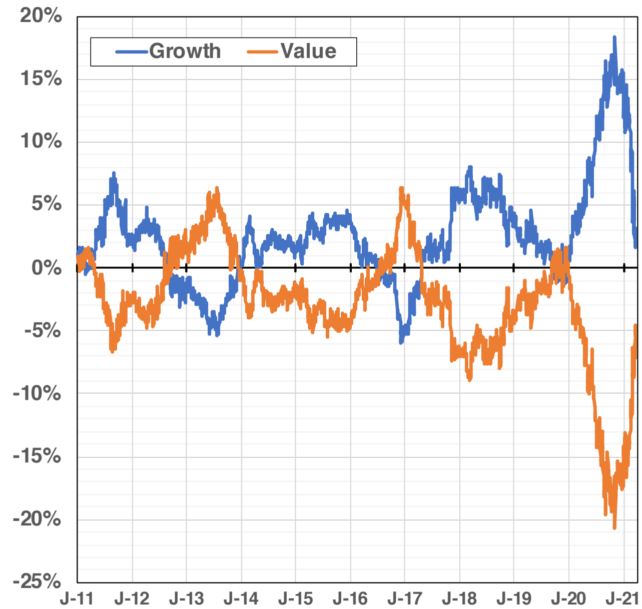


FINANCIAL MARKET HIGHLIGHTS

TRACKING GROWTH & VALUE

Have we entered a value market? Value managers surely hope so. One way to determine the direction of growth or value markets is to use the trailing returns of recognized growth or value indicators and plot net change by netting out the market return. In our chart, we use rolling 12-month trailing returns for the S&P 500 growth ETF (SPYG) and the S&P 500 value ETF (SPYV), netting out the returns of SPY, the SPDR S&P 500 ETF. The plotted net performance on the right of the chart shows a distinct reversal in direction as momentum shifts to value. To determine the classification of growth or value stocks in the Argus Universe of Coverage, we use one simple factor: price/sales (P/S), with higher P/S readings representing growth and lower readings representing value. The current S&P 500 P/S ratio is 2.6. If we use this as the dividing line for our universe, we find that 223 Argus-covered stocks currently fall into the value category and 278 into the growth category. Digging deeper into value, we find the largest sector exposures in Consumer Discretionary (23%), Industrials (15%) and Financials (12%). Argus reviews the P/S cutoff quarterly for current market fundamentals.

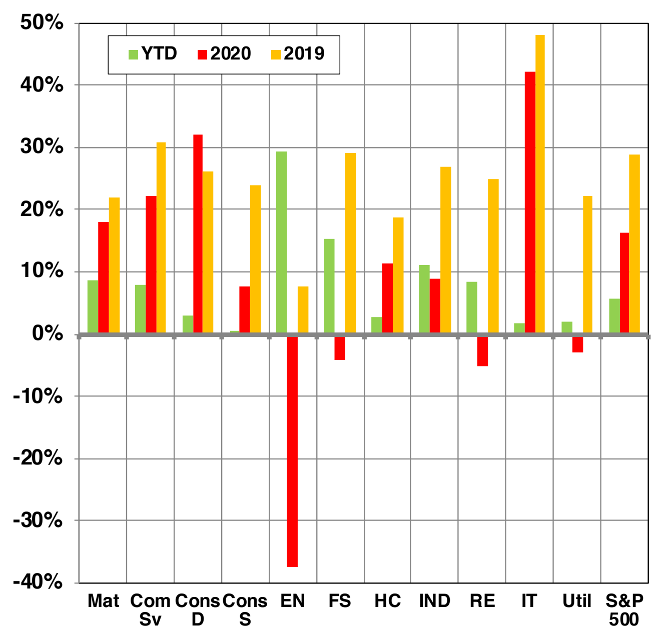
GROWTH VS VALUE (% CHANGE)



LEADERS & LAGGARDS IN 1Q21

Breadth has been impressive so far this year, and every sector turned in a positive performance in 1Q21 -- though last year's laggards were generally the leaders. Take Energy, for example. The sector fell 37% in 2020 and lagged the market in 2019. This year, Energy is the leading sector, with a gain of 29%. The Financial Services sector also turned things around in 1Q, rebounding from a 4% slide in 2020 to a 15% advance so far in 2021. Other market-beating sectors in 2021 include Industrial (+11%, after underperforming the market last year), Materials (+9%), Real Estate (+8%) and Communication Services (+8%). The turnaround in sector performance hints at a shift in the market toward value investing and away from growth investing. Indeed, the three primary growth sectors -- Technology, Healthcare and Consumer Discretionary -- are barely in the black in 2021. Our sector Over-Weights reflect a blend of growth and value, and include Technology, Healthcare, Industrials, Financial Services and Communication Services.

SECTOR PERFORMANCE (CHANGE PER PERIOD)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Apr	Consumer Price Index	March	0.4%	0.4%	0.5%	NA
	CPI ex-Food & Energy	March	0.1%	0.2%	0.2%	NA
14-Apr	Import Price Index	March	1.3%	1.3%	1.1%	NA
15-Apr	Retail Sales	March	-3.0%	4.5%	4.3%	NA
	Retail Sales ex-Autos	March	-2.7%	3.3%	3.2%	NA
	Business Inventories	February	0.3%	0.5%	0.5%	NA
	Industrial Production	March	-2.2%	3.0%	2.5%	NA
	Capacity Utilization	March	73.8%	75.0%	75.6%	NA
16-Apr	Housing Starts	March	1421 K	1600 K	1606 K	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Apr	Durable Goods Orders	March	-1.2%	NA	NA	NA
27-Apr	Consumer Confidence	April	109.7	NA	NA	NA
29-Apr	Real GDP	1Q	4.3%	NA	NA	NA
	GDP Price Index	1Q	2.0%	NA	NA	NA
30-Apr	Personal Income	March	-7.1%	NA	NA	NA
	Personal Spending	March	-1.0%	NA	NA	NA