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THE ECONOMY AT A GLANCE

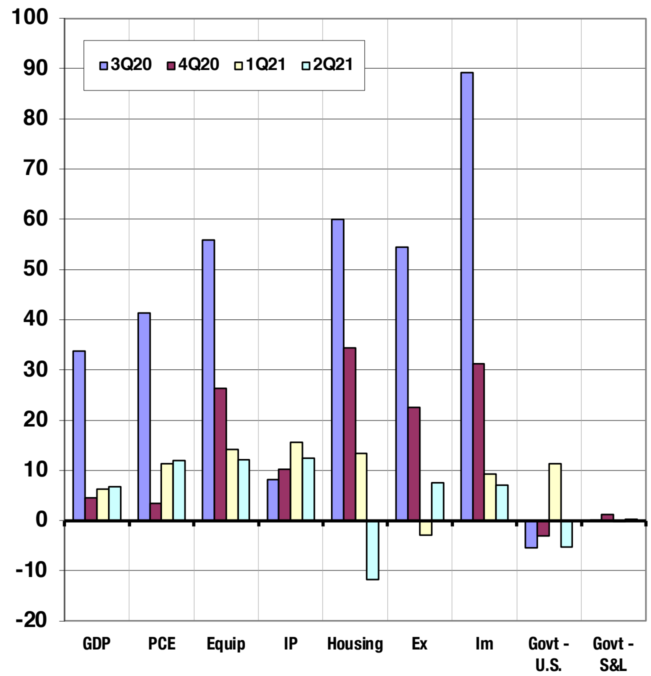
ECONOMIC HIGHLIGHTS

October 11, 2021
Vol. 88, No. 143

FINAL 2Q GDP READING: +6.7%

The U.S. Department of Commerce announced that its third estimate of 2Q21 GDP growth was 6.7%. This was in line with the consensus outlook and represents a robust recovery. The GDP report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, rose at a 6.1% pace, well ahead the Federal Reserve's inflation target of 2.0%, though the Fed has said that it will allow inflation to run hot for a while before raising short-term interest rates. Looking ahead, we expect above-trend GDP growth for the next few quarters. But there may be bumps along the way, including the impact of the Delta variant on jobs and consumer spending, as well as supply-chain bottlenecks. First-time unemployment claims fell last week to 326,000, according to the Labor Department. The four-week average of continuing claims (the chronically unemployed) was 2.7 million, down slightly from the prior week. The reading was well below the pandemic highs of more than 20 million in May 2020 (but still substantially higher than the 1.7 million reading in February 2020, before the pandemic struck).

GDP GROWTH DRIVERS (%)



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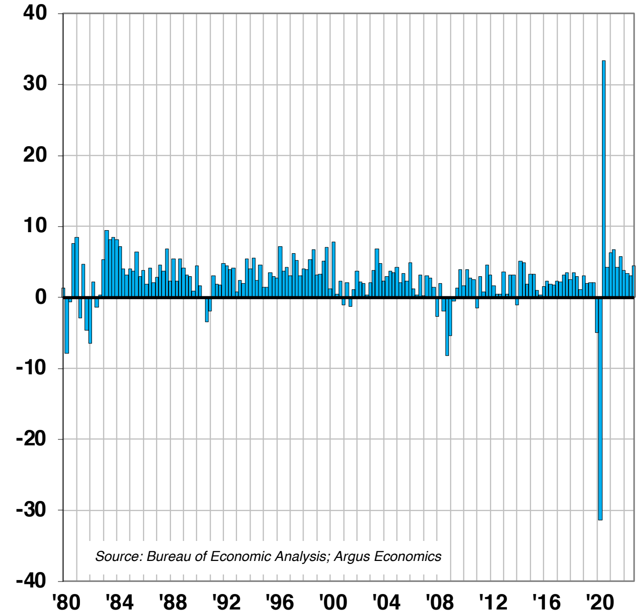
ANOTHER REDUCTION IN OUR 3Q GDP FORECAST

Recent data indicates that the economy is expanding, though some white-hot growth rates in certain sectors are starting to cool. The primary driver of GDP over the next few quarters is likely to be the rate of recovery from the pandemic. Trends here have been slightly more positive in recent weeks, as the fourth wave of the pandemic (the Delta variant) may be past its peak. The domestic employment environment is in better shape than it was a year ago, though still far from full strength -- and it has weakened recently due to the variant. Auto sales have recovered, but inventories are low due to bottlenecks. And the housing market, which had been strong in 1H21, is starting to cool as house prices soar. Rolling all the data up, and taking into account COVID cases as well as emerging supply-chain issues and inventory levels, our model now calls for a 4.2% increase in GDP in 3Q21. We expect better growth in 4Q, too, before rates fall more sharply in 2022. On an annual basis, we look for overall GDP growth of approximately 5.8% in 2021 and 3.7% in 2022. Our estimates are consistent with consensus forecasts and the outlook from the Federal Reserve, which call for growth of 4%-6% in 2021. The GDPNow Forecast from the Federal Reserve Bank of Atlanta is 3.2% for 3Q21.

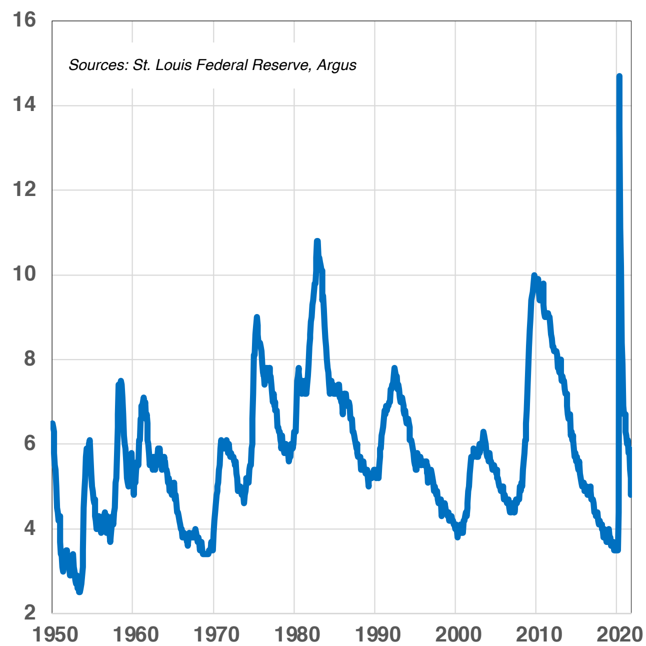
GDP TRENDS & OUTLOOK (% CHANGE)



JOBS GROWTH REMAINS SLOW IN SEPTEMBER

The U.S. economy added 194,000 jobs in September, below the consensus call of 500,000 and the Argus forecast of 300,000. The report is a sign that the nation's health -- reflecting the spread of the Delta variant -- continues to have a negative impact on the economic recovery. In better news, the unemployment rate dropped four-tenths of a percent to 4.8%. As well, the change in total nonfarm payroll employment for August was revised up by 131,000, from 235,000 to 366,000. All told, nonfarm employment has risen by 17 million since April 2020 but is down by 5.7 million, or 3.2%, from its pre-pandemic level in February 2020. In September, job gains occurred in leisure and hospitality, professional and business services, and retail. Fewer teachers were hired in September, which likely had a one-time impact on the final count. We expect to see a bigger impact on hiring from the declining number of COVID-19 cases (the seven-day average is now 100K compared to 150K a month ago) and anticipate an improvement in hiring trends heading into the holiday season.

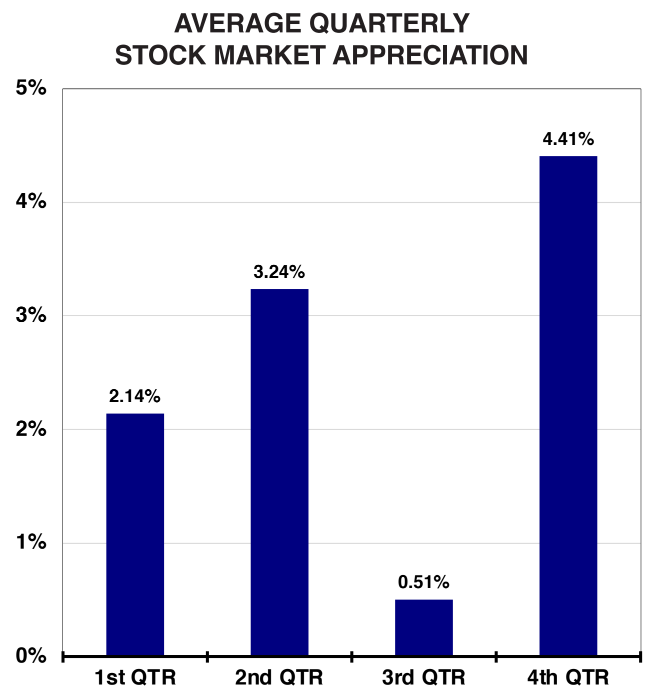
U.S. UNEMPLOYMENT RATE (%)



FINANCIAL MARKET HIGHLIGHTS

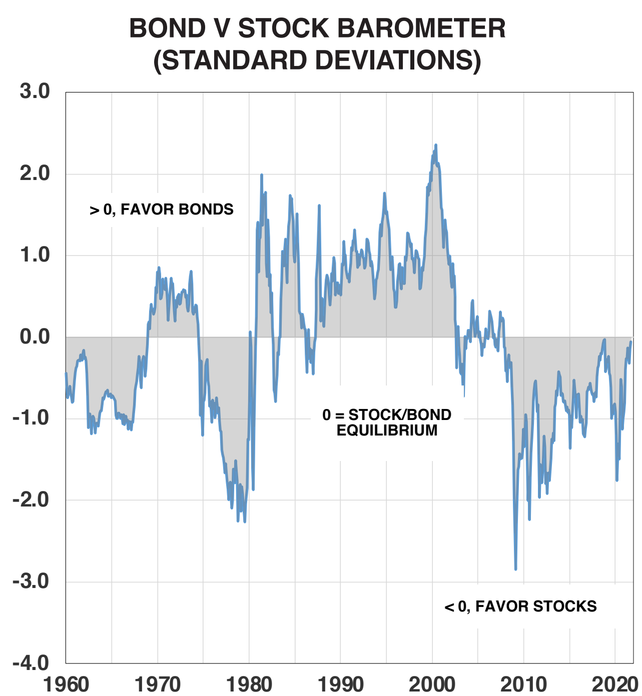
4Q TYPICALLY POSITIVE FOR STOCKS

We have analyzed data on S&P 500 performance from 1980 to 2020. By our calculations, the fourth quarter has generated average gains of 4.4%, compared to gains of 2.1%, 3.2%, and 0.5% for 1Q, 2Q, and 3Q, respectively. And the fourth quarter is consistent as well, with a "win percentage" of 80%. That means that stock returns are positive in 4Q four years out of five, compared to winning percentages of 66% in 1Q, 66% in 2Q, and 64% in 3Q. To be sure, the 4Q has had its share of clunkers. In 1987, which included Black Friday, stocks fell 23%; while in 2008 they sold off 18% after the collapse of Lehman Brothers and as the U.S. economy plunged into a deep recession. In 2018, stocks slid 14% in the final quarter, when trade wars intensified and the Fed raised rates. This time around, it is not unreasonable to expect volatility, given high stock valuations, the pandemic, inflation trends, and Federal Reserve uncertainty. We recommend that clients focus on quality companies with clean balance sheets and experienced management teams.



STOCKS, BONDS FAIR VS. EACH OTHER

Our Bond Stock asset-allocation model indicates that stocks and bonds -- both of which are overvalued against their own metrics -- are near fair value against each other. The model takes into account current levels and forecasts of short-term and long-term fixed-income yields, inflation, stock prices, GDP, and corporate earnings. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest deviation for stocks of 0.15 sigma, with a standard deviation of 1.0. The current valuation level is 0.06 sigma discount for stocks. The model has done a generally good job of highlighting asset class value. Stocks were very attractive compared to bonds in the late 1970s, when benchmark Treasury rates were in the high teens before heading lower over decades. The model indicated that stocks were at a sharp premium to fair value compared to bonds prior to the "dot-com" crash of 2001 and prior to the Great Recession in 2007-2009. Starting in 2009, the model favored stocks over bonds -- another good call. The market can manage with premiums and discounts for extended periods. But current high valuations on stocks leave little room for disappointment. Our recommended asset-allocation model for moderate accounts is 70% growth assets, including equities; and 30% fixed income, with 200 basis points of the bond allocation in cash.



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Oct	Consumer Price Index	September	0.3%	0.3%	0.3%	NA
	CPI ex-Food & Energy	September	0.1%	0.2%	0.2%	NA
	PPI Final Demand	September	0.7%	0.4%	0.5%	NA
	PPI ex-Food & Energy	September	0.6%	0.4%	0.5%	NA
15-Oct	Retail Sales	September	0.7%	-0.1%	-0.1%	NA
	Retail Sales; ex-autos	September	1.8%	0.5%	0.3%	NA
	Business Inventories	August	0.5%	0.8%	0.7%	NA
	Import Price Index	September	-0.3%	0.5%	0.6%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Oct	New Home Sales	September	740000	NA	NA	NA
	Consumer Confidence	October	109.3	NA	NA	NA
27-Oct	Wholesale Inventories	September	1.2%	NA	NA	NA
	Durable Goods Orders	September	1.8%	NA	NA	NA
28-Oct	Real GDP	3Q	6.7%	NA	NA	NA
	GDP Price Index	3Q	6.1%	NA	NA	NA
29-Oct	Personal Income	September	0.2%	NA	NA	NA
	Personal Spending	September	0.8%	NA	NA	NA
	U. of Michigan Sentiment	September	72.8	NA	NA	NA