

THE ECONOMY AT A GLANCE

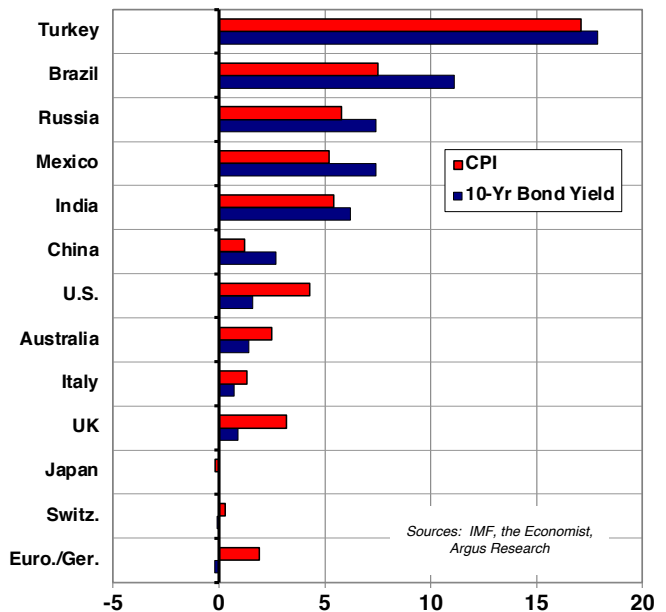
ECONOMIC HIGHLIGHTS

October 25, 2021
Vol. 88, No. 155

GLOBAL RATE TRENDS MIXED

Runaway inflation (at a 17% rate) has sent Turkish 10-year bond rates soaring toward 18%. A relatively high inflation rate of 5% is also propping up 10-year bond rates in India at 6.2%. But interest rates in much of the world are near all-time lows, as they are in the U.S. and the U.K., or are even outright negative, as in Japan, France, Germany, and Switzerland. In the U.S., we note that the Federal Reserve has taken numerous extraordinary steps to keep financial markets functioning, and we don't look for the Fed to raise short-term rates until later next year. At the same time, and for a couple of reasons, we do not expect the Fed to follow its European peers and establish negative interest rates in the U.S. First, the jury is out as to whether negative rates are actually helping economies recover. Second, money-market funds in the U.S. play an important role in the financial markets, and negative government bond yields would "break the buck." Our advice to fixed-income investors seeking yield is to consider ETFs specializing in inflation-indexed debt, securitized debt, or floating bonds.

GLOBAL INTEREST RATES & INFLATION (%)

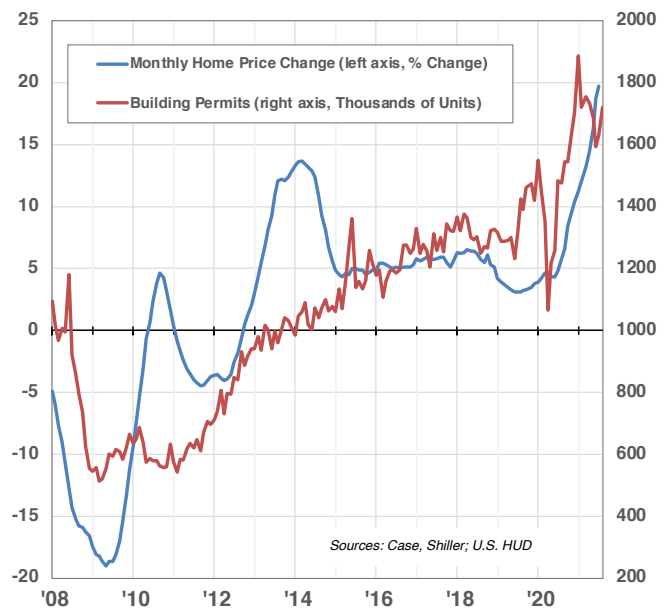


ECONOMIC HIGHLIGHTS (CONTINUED)

HOME PRICES SOARING

The U.S. housing market has been a positive contributor to the economic recovery from the pandemic, though some metrics have fallen from recent highs and we no longer expect housing to be a strong driver of above-trend GDP growth. The National Association of Realtors reported that existing home sales fell 2% in August from July, to a 5.88 million seasonally adjusted annual rate (still well above the 3.9 million rate in May 2020 but down from 6.7 million in October 2020). The Census Bureau reported that new single-family homes were selling at a 740,000 annualized rate in August — again, up from 582,000 during the depths of the pandemic, but down from 993,000 in January 2021. The story is similar in housing permits, a leading indicator for the industry. While most of these indicators have cooled, housing prices have not. The S&P/Case-Shiller National Home Price Index for July 2021 showed that prices rose 19.7% year-over-year (the strongest gain in 15 years). Inventories have risen along with prices. On the other side of the pandemic, we expect that demand for homes -- with yards between neighbors and plenty of space -- will be solid.

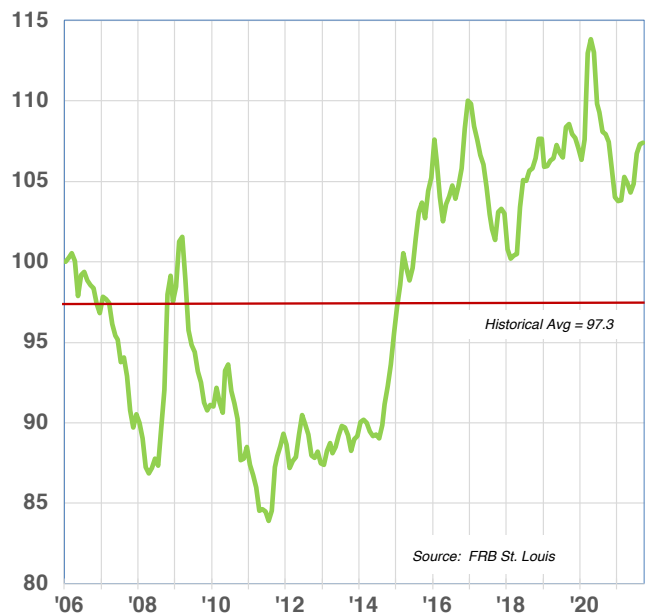
HOUSING MARKET TRENDS



DOLLAR DOWN FROM PEAK

The dollar spiked early in the pandemic, as global investors flocked to the security of assets denominated in greenbacks. After peaking in April 2020, the greenback declined but then ticked higher once again. Yet it remains well below its peak. Currently, on a real trade-weighted basis, the dollar is 10% above its average valuation over the past 20 years, but down from a 17% overvaluation at the April 2020 peak. The full valuation of the dollar reflects several factors, but primarily the relative strength of the U.S. economy and global investor confidence in the U.S. Federal Reserve and Department of Treasury. We anticipate a trading range near current levels for the greenback for the balance of the year and into 1H22. That's because we think U.S. GDP will start to cool from the white-hot rates of 1H21. While Congress has been aggressive with fiscal stimulus, traders may become wary of the high level of U.S. debt relative to GDP. Lastly, the lofty current valuation of the greenback implies that other currencies -- and even gold or other commodities -- are possibly undervalued, and traders can be expected to bid up those values over time.

U.S. DOLLAR TREND REAL TRADE-WEIGHTED U.S. DOLLAR INDEX

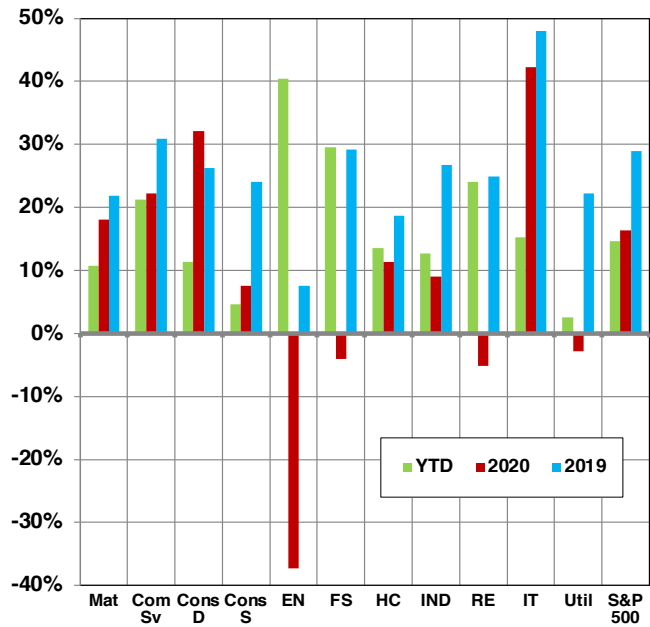


FINANCIAL MARKET HIGHLIGHTS

SECTOR LEADERS & LAGGARDS THROUGH 3Q21

Despite a recent selloff, equity market breadth has been impressive thus far this year. Every sector has turned in a positive performance through 3Q21 (though last year's laggards are generally the leaders). Take Energy, for example. The sector fell 37% in 2020 and lagged the market in 2019. This year? A different story. Energy is the leading sector, with a gain of 40%. The Financial Services sector has also turned things around in 2021, rebounding from a 4% slide in 2020 with a 30% advance so far this year. One more example is Real Estate, which dropped 5% in 2020 but is up 24% in 2021. Other market-beating sectors this year include Communication Services (+21%) and Information Technology (+15%). The turnaround in sector performance hints at a shift in the market toward value investing and away from growth. Our Sector Over-Weights reflect a blend of growth and value, and include Information Technology, Healthcare, Industrials, Financial Services, and Materials. Our Under-Weights include Consumer Discretionary and Consumer Staples.

SECTOR PERFORMANCE (CHANGE PER PERIOD)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Oct	New Home Sales	September	740000	745000	758000	NA
	Consumer Confidence	October	109.3	110.0	109.8	NA
27-Oct	Wholesale Inventories	September	1.2%	1.5%	1.0%	NA
	Durable Goods Orders	September	1.8%	0.5%	-0.5%	NA
28-Oct	Real GDP	3Q	6.7%	4.2%	3.0%	NA
	GDP Price Index	3Q	6.1%	4.5%	5.3%	NA
29-Oct	Personal Income	September	0.2%	0.1%	-0.3%	NA
	Personal Spending	September	0.8%	0.6%	0.5%	NA
	U. of Michigan Sentiment	September	72.8	71.5	71.5	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Nov	PPI Final Demand	October	0.5%	NA	NA	NA
	PPI ex-Food & Energy	October	0.2%	NA	NA	NA
10-Nov	Consumer Price Index	October	0.4%	NA	NA	NA
	CPI ex-Food & Energy	October	0.2%	NA	NA	NA

This information is not meant as a guide to investing, or as a source of specific investment recommendations, and Montecito Bank & Trust make no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's investment objectives. The information is general in nature and is not intended to be, and should not be construed as, legal or tax advice. In addition, the information is subject to change and, although based upon information that Montecito Bank & Trust consider reliable, is not guaranteed as to accuracy or completeness. Montecito Bank & Trust make no warranties with regard to the information or results obtained by its use and disclaims any liability arising out of your use of, or reliance on, the information. Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. This report is not an offer to sell or a solicitation of an offer to buy any security. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.