

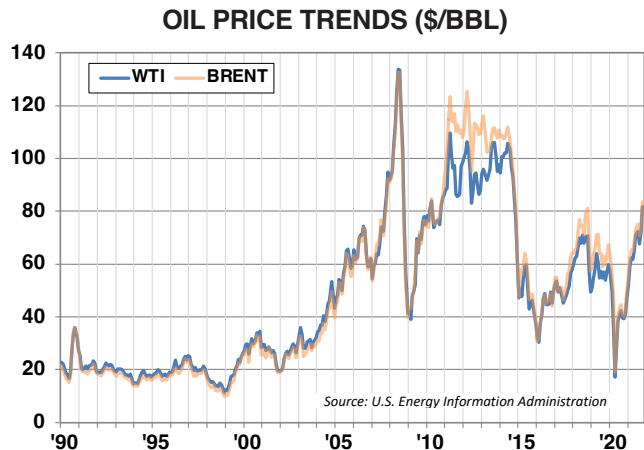
# THE ECONOMY AT A GLANCE

## ECONOMIC HIGHLIGHTS

December 6, 2021  
Vol. 88, No. 175

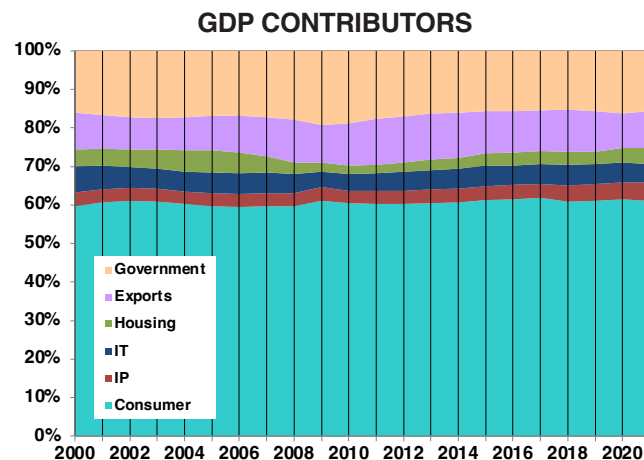
### ARGUS ADJUSTS 2021 OIL FORECAST

Our forecast for the average price of a barrel of West Texas Intermediate crude oil in 2021 is now \$70, up from \$65. We project a trading range of \$50-\$85 for the year. Our estimates assume that OPEC and OPEC+ members continue to coordinate on production, and that global economic activity gradually improves. At the same time, our target takes into account the long-term downward pressure on crude prices as “peak oil” approaches. Our investment rating on the Energy sector is Market-Weight. The U.S. rig-count trend remains supportive but energy companies may be forced to cut production due to the increased use of electric vehicles.



### GDP SEGMENTS RECOVER AT DIFFERENT RATES

The Commerce Department announced that 3Q21 GDP rose at a 2.1% rate, up one-tenth of a percent from the advance estimate. Personal consumption expenditures grew at a 1.7% pace and represented 61% of core demand. Capital spending on equipment declined 2% and accounted for 5% of total GDP, while capital spending on intellectual property (IP) rose 9% and accounted for a high 5% of total GDP. Exports remained under pressure and accounted for 10% of total demand, as did government spending, which accounted for 15.6%. As U.S. GDP recovers from the impact of the pandemic, we expect that the pace of recovery will vary by sector. We look for consumer spending and capital spending on IP to be among the leading contributors.



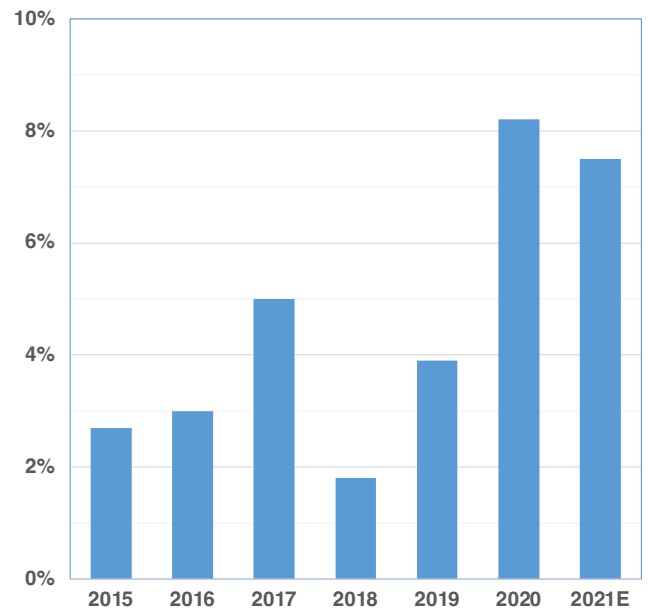
Thomas Fisher, SVP / Chief Investment Officer .....(805) 560-3429 • tfisher@montecito.bank  
Drew Brahos, SVP / Sr. Portfolio Manager .....(805) 979-4473 • dbrahos@montecito.bank  
Kathleen Kalp, SVP / Sr. Portfolio Manager .....(805) 564-7327 • kkalp@montecito.bank  
Rick Weber, VP / Portfolio Manager .....(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

## ECONOMIC HIGHLIGHTS (CONTINUED)

### ARGUS RESEARCH HOLIDAY SALES FORECAST: 7.5%

Argus Senior Retail Analyst Christopher Graja, CFA, is forecasting robust retail sales for the current holiday season. His forecast calls for 7.5% year-over-year growth, which would be the second-highest growth rate in the past 20 years. This forecast is on the same basis as that of the National Retail Federation (for November and December, and excluding auto dealers, gas stations, and restaurants). Our subcomponent forecasts are General Merchandise, +7%; Nonstore, +8.5%; and Food & Beverage (mostly grocery stores), +4%. We think that some sales were pulled forward to October, as consumers began shopping early due to supply-chain concerns. In the current holiday season, we expect to see consumers shopping at fewer retailers. That should help Amazon, Walmart, Home Depot, Lowe's, Costco, and Target. These companies did well during the worst phase of the pandemic and are reinvesting profits to improve efficiency and gain market share. In addition, their clout with suppliers and shipping partners helps them to navigate supply-chain problems.

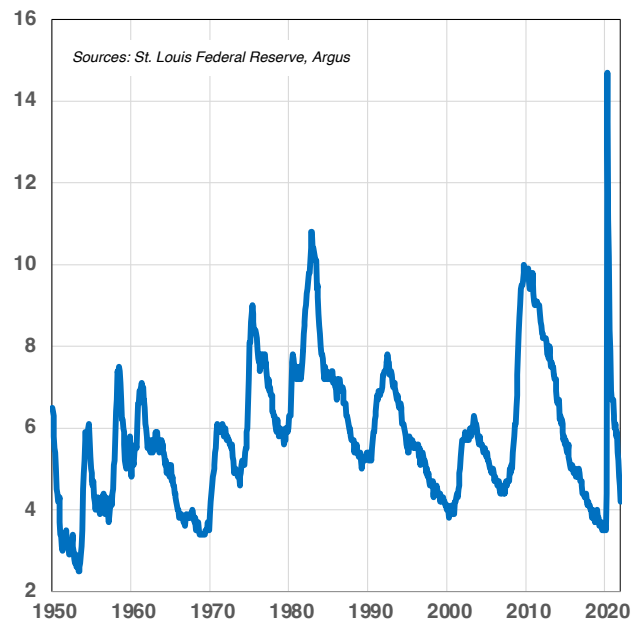
### HOLIDAY RETAIL SALES FORECAST (GROWTH Y/Y)



### JOBS GROWTH STALLS IN NOVEMBER

The U.S. economy added 210,000 jobs in November, well below the 546,000 jobs created in October and the consensus forecast of 550,000 jobs. The unemployment rate dropped four-tenths of a percent to 4.2%. The number of unemployed persons fell to 6.9 million in October—still about 20% above pre-pandemic levels. Average hourly earnings rose \$0.08 month-to-month and 4.8% from the prior year. Revisions for September and October added another 82,000 jobs. In November, job gains occurred in professional and business services, transportation and warehousing, construction, and manufacturing. Retail was lower. The report surprised Wall Street, which had expected continued growth as the impact of the Delta variant faded. In the coming months, employment growth may also be suppressed by the new Omicron variant.

### U.S. UNEMPLOYMENT RATE (%)

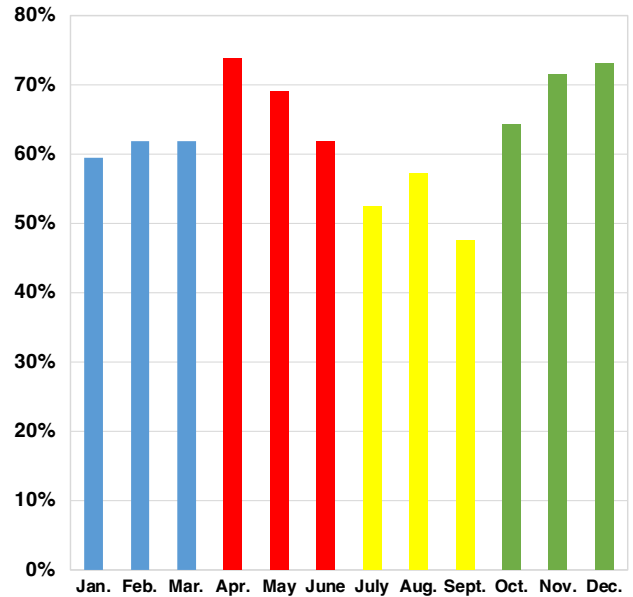


# FINANCIAL MARKET HIGHLIGHTS

## DECEMBER USUALLY A WINNER

Since 1980, December has one of the highest batting averages (or winning percentages for stock-market performance) of any month. Stocks rise in December 73% of the time, compared to an average of 63% for all other months. The other top months for stocks are April (74%) and November (71%, after factoring in a 0.8% decline in 2021). On average in December, stocks have risen 1.3%. The best Decembers have been 1991 (+11.2%), 1987 (+7.3%), 2010 (+6.5%), 1999 (+5.8%), and 1998 (+5.6%). There have been clunkers: 1980 (-3.4%), 1981 (-3.0%), 1986 (-2.8%), and 2018 (-9.2%). The month usually starts fast, as nonfarm payrolls are reported and IPOs are launched before the holidays. The Fed will be meeting in the month and is expected to keep rates steady. However, the Omicron variant has resulted in increased economic uncertainty. Selloffs may present opportunities for generating tax losses or for buying quality stocks on sale.

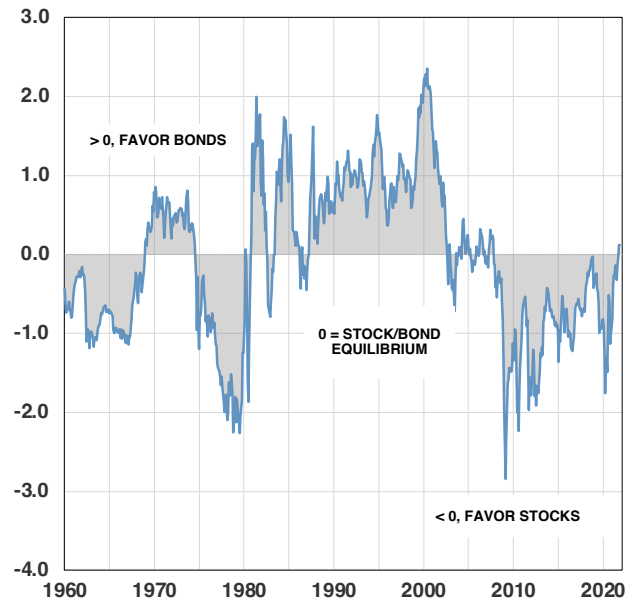
MONTHLY BATTING AVERAGES  
% CHANGE IN S&P 500



## STOCKS, BONDS REMAIN OVERVALUED

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. Our 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 premium for stocks of 0.15 sigma, with a standard deviation of 1.0. The current valuation level is a 0.12 sigma premium for stocks. Generally, the model has done a 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 consistently lower. 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 at a premium prior to the Great Recession. In 2009, the model favored stocks over bonds – another good call. Markets can manage with premiums and discounts for extended periods. But the high valuations on stocks (currently about 50% above fair value) leave little room for disappointment. Our current recommended asset allocation model for moderate accounts is 70% growth assets, including 65% equities and 5% alternatives; and 30% fixed income, with 200 basis points of the bond allocation in cash.

BOND V STOCK BAROMETER  
(STANDARD DEVIATIONS)



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Dec	Trade Balance	September	-\$80.9Bln.	-\$75.0 Bln.	-\$66.7 Bln.	NA
	Non-farm Productivity	3Q	-5.0%	-5.0%	-4.9%	NA
	Unit Labor Costs	3Q	8.3%	8.5%	9.2%	NA
10-Dec	Consumer Price Index	November	0.9%	0.5%	0.7%	NA
	CPI ex-Food & Energy	November	0.6%	0.4%	0.5%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Dec	Leading Economic Indicators	November	0.9%	NA	NA	NA
22-Dec	Real GDP	3Q	2.1%	NA	NA	NA
	Consumer Confidence	December	109.5	NA	NA	NA
	Existing Home Sales	November	6.34 Mln.	NA	NA	NA
	GDP Price Index	3Q	5.9%	NA	NA	NA
23-Dec	Durable Goods Orders	November	-0.4%	NA	NA	NA
	Personal Income	November	0.5%	NA	NA	NA
	Personal Spending	November	1.3%	NA	NA	NA
	U. of Michigan Sentiment	November	66.8	NA	NA	NA
	New Home Sales	November	745000	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.