

THE ECONOMY AT A GLANCE

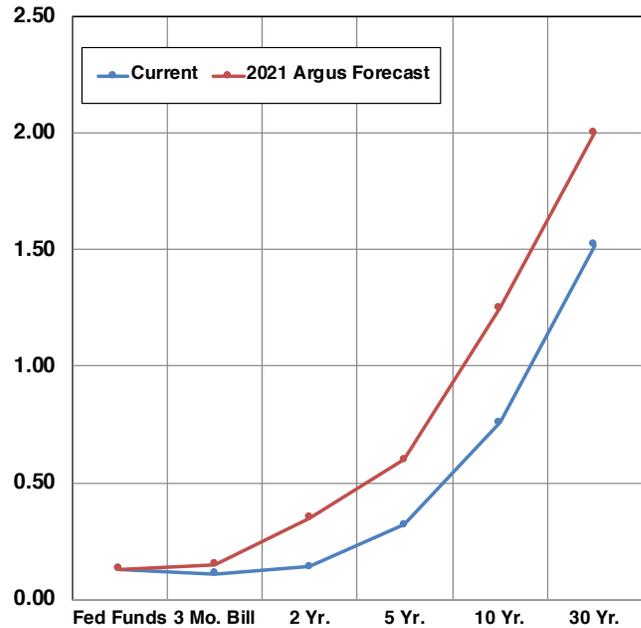
ECONOMIC HIGHLIGHTS

November 9, 2020
Vol. 87, No. 159

HO-HUM BOND MARKET A WELCOMED REPRIEVE

During the third quarter, U.S. Treasuries remained range-bound as Federal Reserve programs implemented in the second quarter reduced volatility in the bond market. The Fed also announced that interest rates would remain low through at least the end of 2023. Rates will remain low to support the recovery from the pandemic-related shutdown, supporting the two mandates of low unemployment and controlled inflation. The Fed also announced that it would let inflation run above its 2% target for a time, undoing a previous policy of raising rates when inflation rose above 2%. Having increased its balance sheet to \$7 trillion from \$4 trillion, the Fed indicated that it will continue with purchases of U.S. Treasuries and MBS securities at approximately \$120 billion per month. Corporate bond ETFs and individual investment-grade securities purchases will continue only as needed to support an orderly market. We think the Fed's activities will keep short-term rates lower through next year. Still, a rebounding economy, as well as aggressive fiscal spending, may cause inflation expectations to pick up next year (pushing longer-term interest rates slightly higher).

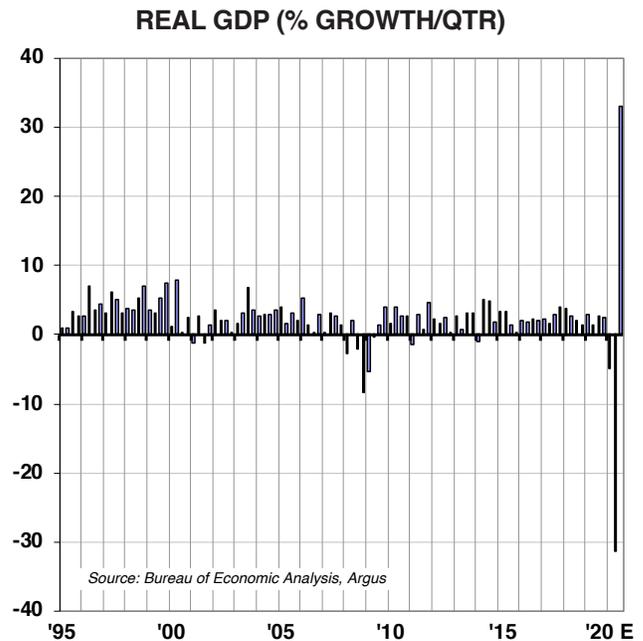
YIELD CURVE & OUTLOOK



ECONOMIC HIGHLIGHTS (CONTINUED)

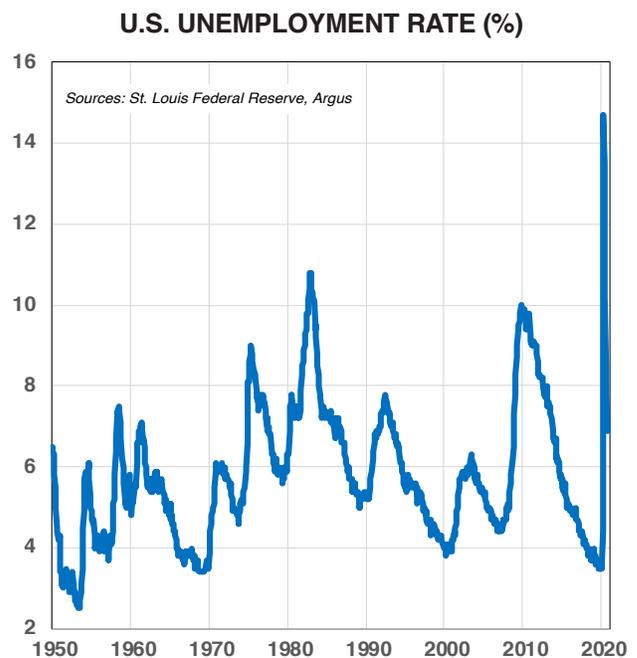
GDP REBOUNDS 33% IN 3Q

U.S. GDP expanded at an astonishing 33.1% rate in 3Q20, as the economy rebounded from a coronavirus-driven 2Q20 plunge of 31.4%. As expected, personal consumption expenditures led the recovery and expanded by almost 41%. Spending on durable goods jumped 82%, while spending on services and nondurable goods grew 28% and 29%, respectively. Investment in equipment rebounded (with 70% growth) and housing investment increased 59%. Exports soared 60%, driven by a doubling in exports. The negatives? In this report, there were very few. Investment in intellectual property products fell 1.0%, while investment in structures declined 15%. Government spending fell 4.5%. There are larger negative implications from the GDP report, though. On an absolute basis, GDP advanced 8% in 3Q to \$21.2 trillion. That does not make up for the 9% decline in 2Q. Indeed, at the current level, GDP is still 3% below its pre-pandemic high. Meanwhile, COVID-19 cases continue to climb, as the nation heads indoors for the winter.



UNEMPLOYMENT RATE DOWN TO 6.9%

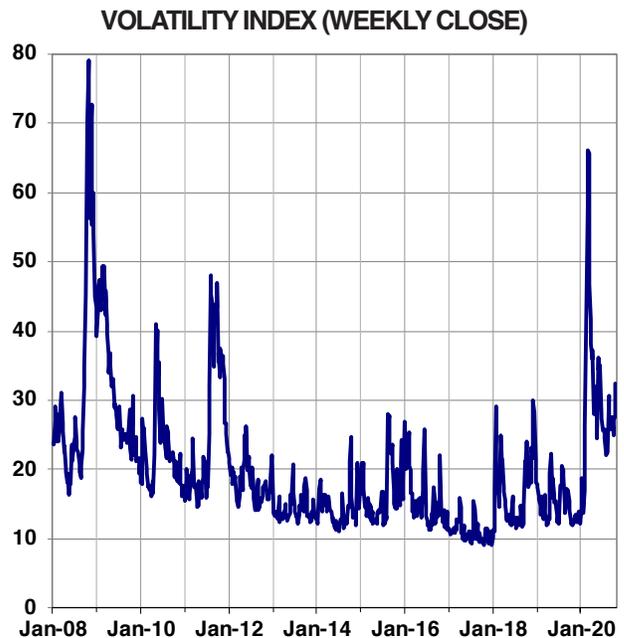
The U.S. economy added back 638,000 jobs in October (a bit above our forecast of 625,000) as companies continued to bring employees back to work. The unemployment rate dropped from 7.9% in September to 6.9%. Employment rose sharply in Leisure & Hospitality (almost one-third of the month's total gains), Retail Trade, Construction and Professional & Business Services. The government workforce was down more than 260,000, largely due to a reduction in local government education as well as the loss of census workers. The Labor Department also reported that another 750,000 people filed initial unemployment claims; the total of continuing claims is 8.2 million. Those figures indicate that the employment environment, while improving, is still under stress. We expect the unemployment rate to remain high into 2021 as the U.S. economy slowly recovers. That recovery may depend on additional fiscal stimulus, as well as progress against the virus, as COVID-19 cases continue to soar.



FINANCIAL MARKET HIGHLIGHTS

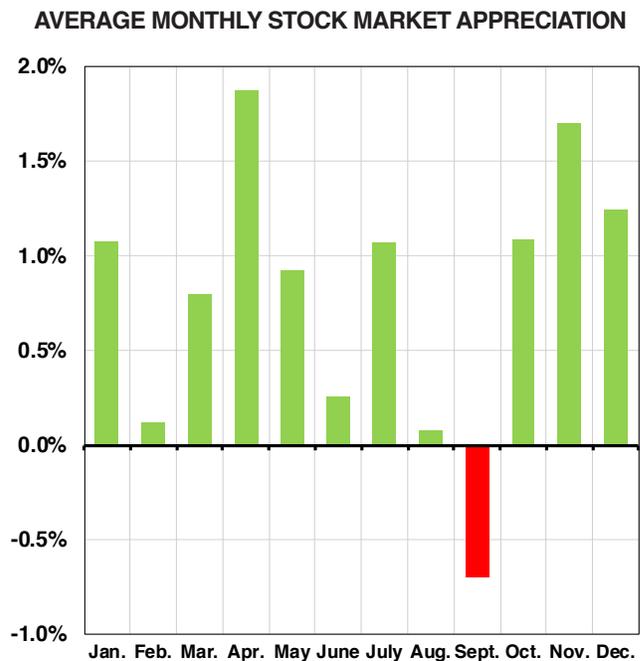
VOLATILITY INCREASES

Stocks were volatile in advance of the U.S. presidential election and in response to rising COVID-19 cases. With several vaccine developers now getting back on track after halted trials, the prospects for widespread distribution and “back-to-normal” conditions are now pushed out to summer 2021, at the earliest. U.S. investors must now also consider the impact of a Biden presidency on sectors such as Healthcare, Energy, and Financial Services. The VIX Volatility index reflects this uncertainty. Pre-pandemic, with unemployment at historic lows of 3.5%, the VIX was trading around 12. It has recently been about triple that level. In this environment, we recommend that investors focus on high-quality stocks with strong balance sheets and experienced management.



INVESTORS LIKE NOVEMBER

The U.S. stock market tends to rise over time despite an often difficult October. This long-term upward trajectory has a foundation in the country’s democratic political system and market-based, capitalist economic system. In theory, the stock market efficiently allocates the nation’s capital to generate solid investment returns. Theory typically turns into reality in November, which since 1980 has been the second-best month for equity performance, with an average 1.7% gain, narrowly trailing April (+1.8%) but ahead of December (+1.2%) and January (+1.1%). November’s batting average is high as well: stocks rise during the month 73% of the time. The best Novembers have been 1980 (+10.2%), 2001 (+7.5%), 1996 (+7.3%), 1985 (+6.5%) and 1998 (+5.9%). Clunkers include 2000 (-8%), 2008 (-7.5%) and 1987 (-5.9%). The month usually starts at a fast pace, as some companies are still reporting earnings, nonfarm payrolls are reported, and IPOs are launched before the holiday season. By Thanksgiving, volume dwindles. This November is different, of course, with the pandemic, the recession, and the election. Those are three tall hurdles for the market to overcome in a historically strong month.



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Nov	Consumer Price Index	October	0.2%	0.1%	0.1%	NA
	CPI ex-Food & Energy	October	0.2%	0.2%	0.2%	NA
13-Nov	PPI Final Demand	October	0.4%	0.3%	0.3%	NA
	PPI ex-Food & Energy	October	0.4%	0.3%	0.3%	NA
	U. of Michigan Sentiment	November	81.8%	81.0%	81.8%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-Nov	Consumer Confidence	November	100.9	NA	NA	NA
25-Nov	Wholesale Inventories	October	0.4%	NA	NA	NA
	Real GDP	3Q	33.1%	NA	NA	NA
	Durable Goods Orders	October	1.9%	NA	NA	NA
	Personal Income	October	0.9%	NA	NA	NA
	Personal Spending	October	1.4%	NA	NA	NA
	New Home Sales	October	959K	NA	NA	NA
	GDP Price Index	3Q	3.6%	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.