

# THE ECONOMY AT A GLANCE

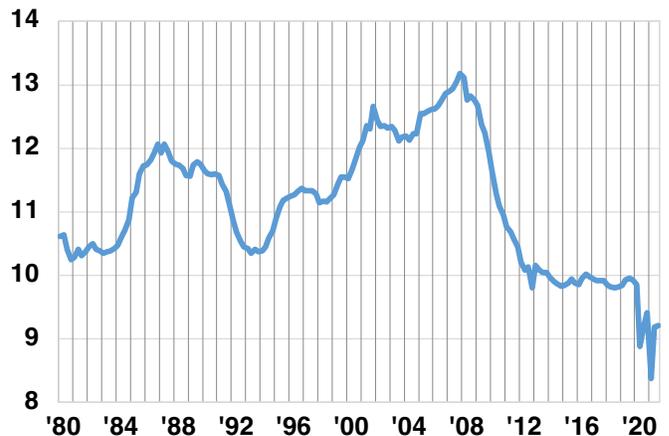
## ECONOMIC HIGHLIGHTS

April 11, 2022  
Vol. 89, No. 52

### HOUSEHOLD FINANCES IN GOOD SHAPE

The Federal Reserve keeps track of household debt service payments as a percentage of disposable personal income. This metric -- the lower the better -- has fallen from 9.9% prior to the pandemic to 9.2%. During the depths of the pandemic, when households were receiving stimulus checks and sheltering in place, the ratio dropped to 8.4%. The average debt level since 1980 has been 11%. The high-water mark was established during the Great Recession at 13.2%. We would not be surprised to see households take on a bit more debt in the coming quarters, as there is pent-up demand and consumer confidence may improve as nonfarm payrolls continue to grow. We think the sound condition of household finances is important, signaling that GDP growth should remain positive in 2022.

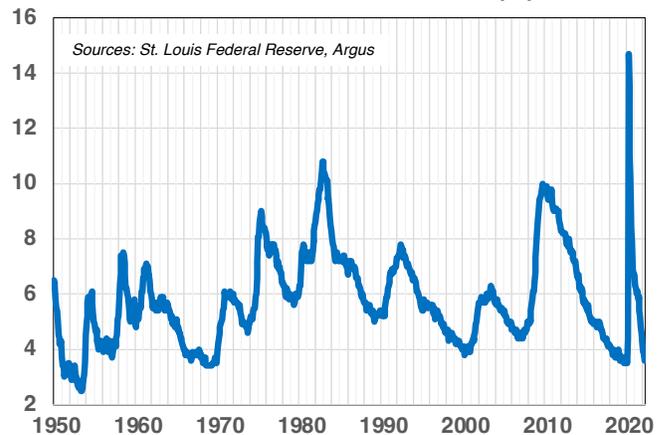
### HOUSEHOLD DEBT LEVELS (SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME)



### MARCH JOBS GROWTH SOLID, BUT BELOW FORECASTS

The U.S. economy added 431,000 jobs in March, down from 750,000 in February and below the consensus expectation of 500,000. The unemployment rate dropped two-tenths of a percent to 3.6%, and the number of unemployed persons fell to 6.0 million from 6.3 million. Average hourly earnings increased \$0.13 from the prior month and 5.6% from the prior year, compared to 5.1% growth a month earlier. Jobs gains occurred in leisure and hospitality as well as retail, which suggests strength in consumer spending; professional and business services; manufacturing; and construction. The report indicates that the U.S. economy remains on a growth track, despite COVID-19 variants, the Russian invasion of Ukraine, and higher gasoline prices.

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



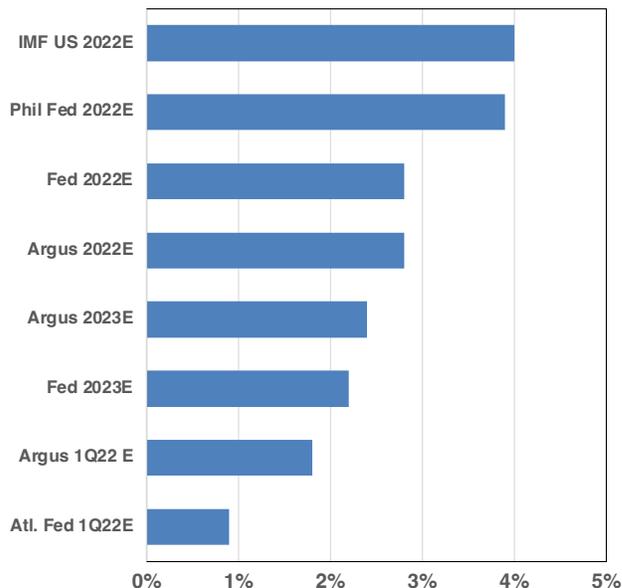
Thomas Fisher, SVP / Chief Investment Officer .....(805) 560-3429 • tfisher@montecito.bank  
Drew Brahos, SVP / Sr. Portfolio Manager .....(805) 979-4473 • dbrahos@montecito.bank  
Kathleen Kalp, SVP / Sr. Portfolio Manager .....(805) 564-7327 • kkalp@montecito.bank  
Rick Weber, VP / Portfolio Manager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

## WE LOOK FOR 1.8% GROWTH IN 1Q GDP

Recent data indicates that GDP is still expanding (despite the pandemic), but not consistently across the economy. We don't anticipate a recession in the near term, despite the Russian invasion of Ukraine. The primary driver of GDP over the next few quarters is likely to be the pandemic. Trends have been positive, as the impact of Omicron has peaked. Domestic employment is in better shape than a year ago, although consumer confidence trends are mixed. Auto sales have recovered from their pandemic lows. Businesses are expanding. The U.S. housing market has been a positive contributor to the economic recovery, and while high prices have cooled the market a bit, many metrics remain positive. Geopolitical tensions in Europe and a rising dollar likely will slow export growth. Meanwhile, the Fed is taking steps to slow inflation (and cool the economy). Rolling all the data up, our model now calls for a 1.8% GDP increase in 1Q22. On an annual basis, our forecast for overall GDP growth is now 2.8% in 2022, down from our prior forecast of 3.1%. Our estimates are a bit lower than those of other forecasters.

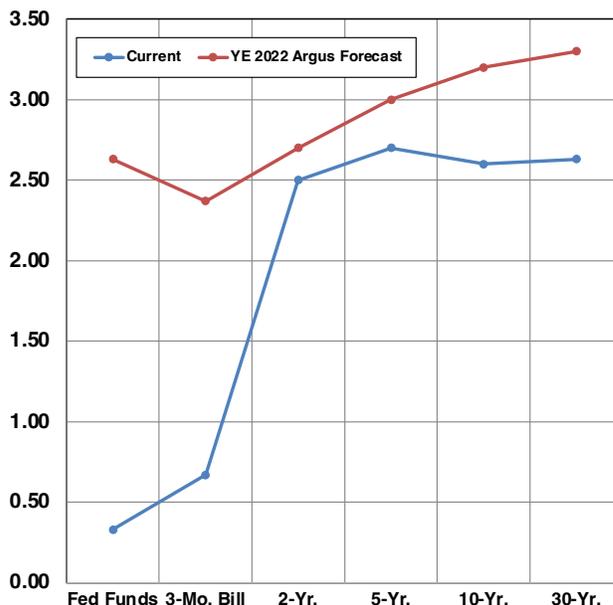
**GDP ESTIMATES**



## FED TO MOVE FAST

Based on the latest economic data, Federal Reserve minutes, and speeches from Fed governors, we now think the central bank will move more aggressively to raise interest rates in order to bring inflation under control. We think the Fed will hike the federal funds rate 50 basis points at its May meeting, and then another 50 basis points in June. In 3Q22, we expect two more 50-basis-point hikes (in July and September). In 4Q22, when the midterm elections occur, we expect the Fed to push through two 25-basis-point increases (in November and December). At that point, the fed funds rate could be 2.50%-2.75%, in line with the Fed's estimate for year-end inflation. What will these hikes do to the economy? Right now, the economy is in a solid growth mode and can handle higher rates for at least a few quarters. What will happen to the yield curve? Currently, the curve is inverted, as investors expect the Fed to go too far and push the economy into recession. If the central bank can avoid a two-quarter downturn -- and it did for more than 10 years last decade -- the yield curve should again slope upward. What will the hikes do to the stock market? They will take away prospects for appreciation through multiple expansion. Earnings will drive returns going forward.

**YIELD CURVE & OUTLOOK**

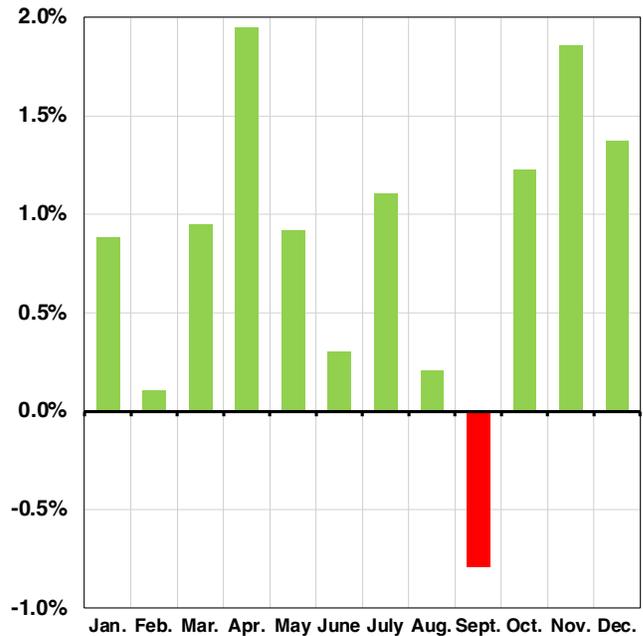


# FINANCIAL MARKET HIGHLIGHTS

## APRIL HAS BEEN A GOOD MONTH FOR STOCKS

Historically, April is the best month of the year for stocks. The average gain for the S&P 500 in April since 1980 is 1.95%. We note that market returns in April have exceeded 5% on eight occasions since 1980, including a 9.4% gain in 2009 as the market was beginning to recover from the financial crisis, a 12.7% surge in 2020 as the market started to recover from the onset of COVID-19, and a 5.1% gain in 2021 as COVID-19 vaccines were rolled out. There have been clunkers, including 2002 (-6.1%), 2000 (-3.1%), and 1981 (-2.3%). April is a busy month on Wall Street, as companies report first-quarter results. This year, results are expected to be solid, with low-double-digit gains for the S&P 500, based on positive economic growth and the ongoing focus of management teams on margin improvement. Interest rates will be in focus as well, as investors digest the latest readings related to inflation. We look for bond yields to drift higher -- but not so high that they derail the market recovery that began in March 2020.

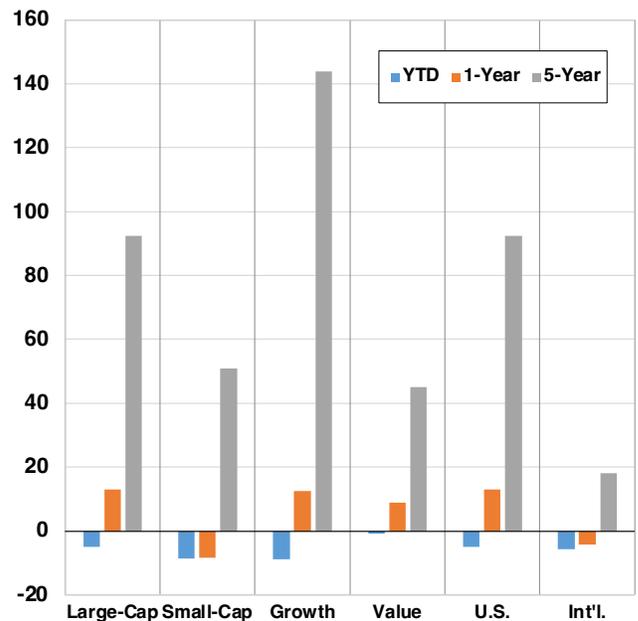
## AVERAGE MONTHLY STOCK-MARKET APPRECIATION



## ARGUS'S FAVORED CLASSES, SEGMENTS

Stocks rallied in March but are lower for the year, as rising interest rates compress valuations and the Russian invasion of Ukraine further stokes inflation fears. Bond prices have fallen on inflation concerns, and yields have risen since the end of 2021. Our Stock-Bond Barometer slightly favors bonds over stocks for long-term portfolios. In other words, these asset classes should be near their target weights in diversified portfolios, with a modest tilt toward fixed income. We are balanced on large- and small-caps. We favor large-caps for growth exposure and financial strength, while small-caps are selling at historical discounts relative to large-caps and offer value. Our recommended exposure to small- and mid-caps is now 15%-17% of equity allocation, in line with the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing one- and five-year periods. We expect this long-term trend to continue given volatile and difficult-to-predict global economic, geopolitical, and currency conditions. But international stocks offer favorable near-term valuations, and we target 5%-10% of equity exposure to the group. Value stocks have taken the lead in 2022 due to the negative impact of rising interest rates on Growth stock valuations. Over the longer term, we anticipate that Growth will continue to top returns from Value given favorable secular and demographic trends.

## MARKET SEGMENT RETURNS 2022 (% THROUGH 3/31/22)



# ECONOMIC CALENDAR

## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Apr	Consumer Price Index	March	0.8%	1.2%	1.2%	NA
	CPI ex-Food & Energy	March	0.5%	0.5%	0.5%	NA
13-Apr	PPI Final Demand	March	0.8%	0.8%	0.9%	NA
	PPI ex-Food & Energy	March	0.2%	0.4%	0.5%	NA
14-Apr	Retail Sales	March	0.3%	0.6%	0.6%	NA
	Retail Sales; ex-autos	March	0.2%	0.7%	0.7%	NA
	Business Inventories	February	1.1%	1.5%	1.3%	NA
	Import Price Index	March	1.4%	2.5%	2.4%	NA
	U. of Michigan Sentiment	April	59.4	58.5	58.8	NA
15-Apr	Industrial Production	March	0.5%	0.3%	0.4%	NA
	Capacity Utilization	March	77.6%	77.6%	77.7%	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Apr	Durable Goods Orders	March	-2.1%	NA	NA	NA
	New Home Sales	March	772 K	NA	NA	NA
	Consumer Confidence	April	107.2	NA	NA	NA
27-Apr	Wholesale Inventories	March	2.5%	NA	NA	NA
28-Apr	Real GDP	1Q	6.9%	NA	NA	NA
	GDP Price Index	1Q	7.1%	NA	NA	NA
29-Apr	Personal Income	March	0.5%	NA	NA	NA
	Personal Spending	March	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.