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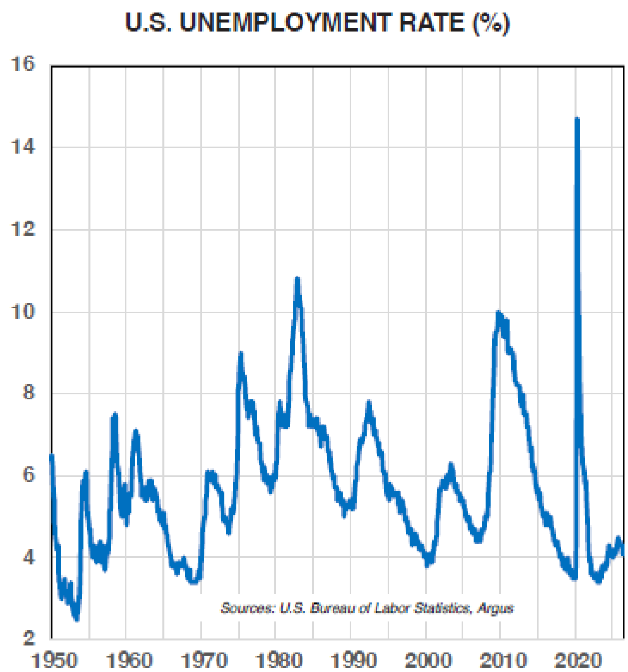
THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

September 7, 2026
Vol. 93, No. 125

JOBS JUMP, HIKES MORE LIKELY

The Bureau of Labor Statistics (BLS) released the Employment Situation for August. The U.S. added 162,000 nonfarm jobs, helped by increases in food services and drinking places and in local government education. Employment in the information industry declined. Private payrolls were up a solid 127,000. Government added 35,000 jobs, with federal down 5,000 and local education up 50,000, almost reversing last month's decline. Our forecast was for an increase of 50,000 new jobs in August, while the consensus was 58,000. August's results raised the three-month average to 71,000 from 20,000. July's payrolls were revised higher by 44,000 to 21,000 and June was increased by 11,000 to a gain of 31,000. The unemployment rate remained at 4.1%, which matched our estimate and the consensus. Average hourly earnings increased $0.10 month to month and are 3.1% higher year over year. The average workweek ticked up to 34.4 hours. Employment showed little change in mining, quarrying, and oil and gas extraction; wholesale trade; retail trade; transportation and warehousing; financial activities; professional and business services; social assistance; and other services. The manufacturing sector added 16,000 jobs. Construction added 22,000. Stock futures slipped after the report. The yield on the 10-year Treasury rose by four basis points to 4.4%. The yield on the 2-year Treasury, which is closely tied to expectations for monetary policy, was up by 3 basis points to 4.79%. As a result, traders became more hawkish. The probability that the fed funds rate will end the year at the current 3.5%-3.75% target range fell to 12.5% from 16.4%. There was no expectation of a rate cut before or after the report. The probability that the funds rate will be 25 basis points (bps) higher at the end of the year fell to 39.5% from 42.5%, but the probably that rates will be higher by 50 bps or more increased to 48% from 41.1%. The probability of a September rate hike jumped to 60% from 52% before the report.



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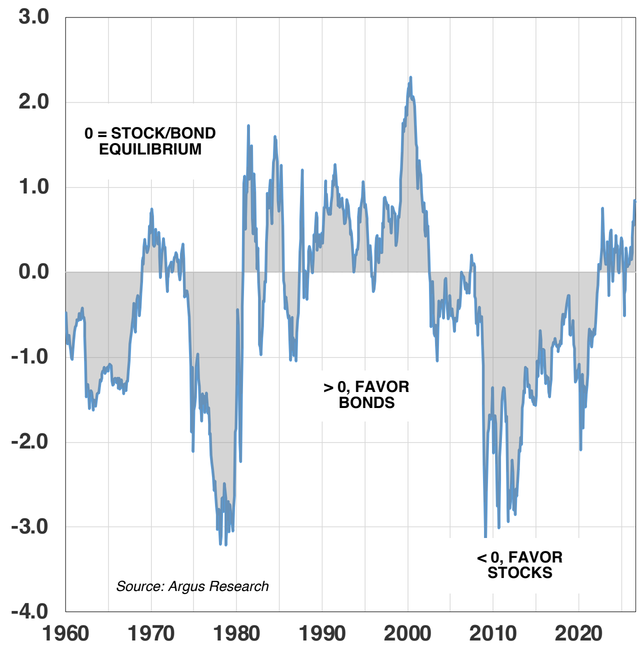
FINANCIAL MARKET HIGHLIGHTS

STOCK VALUATIONS REASONABLE, BUT NOT CHEAP

We have several different ways of looking at market valuations, and most are signaling that stocks are reasonably valued, though hardly at bargain-basement levels. Our primary stock/bond asset-allocation model is our Stock/Bond Barometer. This market measure goes back to 1960 and takes into account real-time price levels, historical growth rates, and forward-looking forecasts of numerous factors. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model is a modest premium for stocks, of 0.18 sigma, with a standard deviation of 1.06. The current valuation level now is a 0.83 sigma premium for stocks, which is not low but is within the normal range. Other valuation measures show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is 20, within the range of 15-24, as earnings estimates continue to rise. On price/book, dividend yield, and price/sales ratios, it is no surprise that stocks are priced at the high end of the historical ranges, given that tech stocks, which have low capital bases and generally low yields, are the biggest component of the market. On the Fed's stock valuation model, the earnings yield is above the 10-year Treasury bond, signaling value for stocks. These valuation measures suggest to us that the stock market -- which is up almost 13% year-to-date -- is not in danger of entering bubble territory at this juncture.

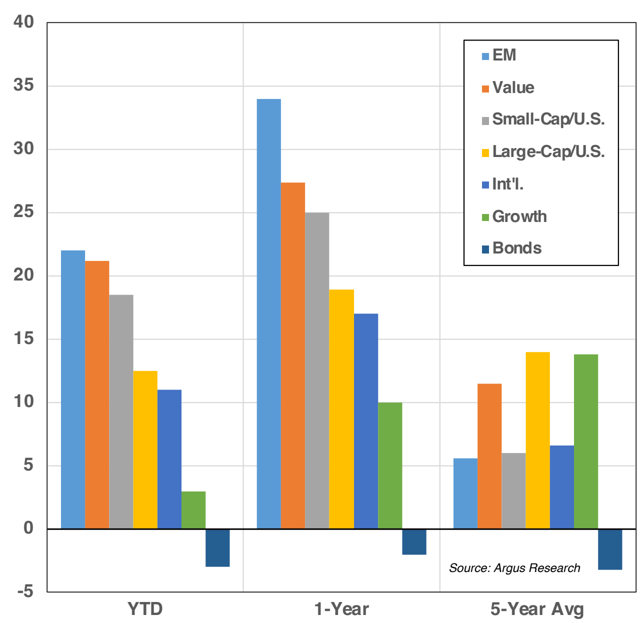
STOCK/BOND BAROMETER
(STANDARD DEVIATIONS)



STOCKS IN 2026

We are market-weight on large-cap stocks at this stage of the market cycle, favoring them for growth exposure and financial strength, as well as exposure to the IT sector; small- and mid-caps offer better valuation. Our recommended exposure to small- and mid-caps is 12%-15% of equity allocation. One of the market surprises in recent quarters has been the performance of global stocks, which turned in impressive results last year and have been solid in 2026. Ultimately, we expect the long-term trend favoring U.S. stocks to be re-established, given volatile global conditions. That said, international stocks still offer favorable near-term valuations, and we target 15%-20% of equity exposure to the group. In terms of growth and value over the longer term, we anticipate that growth, led by the IT sector, will top returns from value, led by Energy, Real Estate and Materials, due to favorable secular and demographic trends. Value has taken the lead in 2026, after lagging for the past five years, and appears well-positioned for performance in the near term with longer-term interest rates at elevated levels.

MARKET SEGMENT RETURNS
(% THROUGH 8/31/2026)



KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, in May, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- Our 2026 gross domestic product growth forecast is 2.1%. Our 2027 forecast is 2.2%. In his keynote speech at the Jackson Hole conference, Federal Reserve Chairman Kevin Warsh said the economy, "Appears to have strengthened. One indicator of strength is how well an economy holds up to shocks. On that score, both Main Street and Wall Street have been remarkably resilient," Mr. Warsh said.
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 19% this year. Growing tech giants such as MSFT and NVDA have higher margins than Dow stalwarts such as Walmart and Caterpillar. Argus expects the S&P 500 to trade in a range of 6,900-8,450 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949. It rounds to 7.4% from 6.7% in January. Unemployment is low at 4.1%. Inflation remains elevated, but CPI did ease to 3.4% in July from 3.5% in June.
- Gasoline prices above $4.00 a gallon are straining consumers pre-holiday spending. Inflation will be a key issue in fall elections for control of Congress. Looking ahead to 2027, the EIA outlook calls for a recovery in oil supply and ultimately a surplus. If that's the case, West Texas Intermediate likely will resume its secular downtrend. Our preliminary 2027 outlook is $70 a barrel down from $80 in 2026.
- The yield on the 10-year Treasury bond has risen to 4.80% from 3.95%, on February 27, before the escalation of the conflict with Iran. The 10-year has a bigger and more direct effect on the economy than an equivalent move in the fed funds rate. We expect the 10-year to yield to range from 4.00-5.00% this year. Our forecast range for 2027 is 3.85-4.85%.
- Gold, the ancient safe-haven asset is likely to remain at high levels, in a range of $4,000 - $6,000 in 2026, amid global uncertainty and concerns about the budget deficit.
- The Federal Open Market Committee voted 9-3 in July to maintain the federal funds target at 3.5%-3.75%. Argus Fixed Income Strategist Kevin Heal expects the Fed to maintain the current funds target in 2026 and cut rates by 25 basis points in the second half of 2027. We expect the dollar to be to be flat-to-firmer over the next 12 months helped by demand for shares of innovative U.S. companies.
- What could go right? Low unemployment, strong S&P 500 earnings, ongoing innovation, spending by wealthy consumers, massive capital investment in Artificial Intelligence, and productivity gains.
- Risks: Higher interest rates, increasing borrowing by AI companies, a weak housing market, inflation/strains on affordability, hostilities with Iran, and U.S. budget deficits raising national debt.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Sep	Trade Balance	July	**-$71.2 Bln.**	-$75.0 Bln.	-$90.0 Bln.	**-$88.6 Bln.**
	ISM Services Index	August	54.1	54.5	54.1	**55.4**
4-Sep	Nonfarm Payrolls	August	**21K**	50K	58K	**162K**
	Unemployment Rate	August	4.1%	4.1%	4.1%	**4.1%**
	Average Weekly Hours	August	34.3	34.3	34.3	**34.4**
	Average Hourly Earnings	August	3.2%	3.2%	3.0%	**3.1%**
10-Sep	PPI Final Demand	August	4.7%	5.2%	NA	NA
	PPI ex-Food & Energy	August	4.2%	4.6%	NA	NA
	Existing Home Sales	August	4.06 Mln.	4.10 Mln.	3.98 Mln.	NA
	Wholesale Inventories	July	4.2%	5.7%	NA	NA
11-Sep	Consumer Price Index	August	3.4%	3.4%	3.4%	NA
	CPI ex-Food & Energy	August	2.5%	2.4%	2.4%	NA
	U. Michigan Sentiment	September	51.7	51.0	51.0	NA
16-Sep	Retail Sales	August	5.0%	5.2%	NA	NA
	Retail Sales ex-autos	August	5.8%	5.6%	NA	NA
	Import Price Index	August	5.9%	6.5%	NA	NA
	Business Inventories	July	3.0%	4.2%	NA	NA
17-Sep	Housing Starts	August	1,239K	1,300K	1,322K	NA
18-Sep	Industrial Production	August	1.1%	1.7%	NA	NA
	Capacity Utilization	August	76.3%	76.5%	NA	NA
	Leading Index	August	0.2%	-0.1%	NA	NA