

THE ECONOMY AT A GLANCE

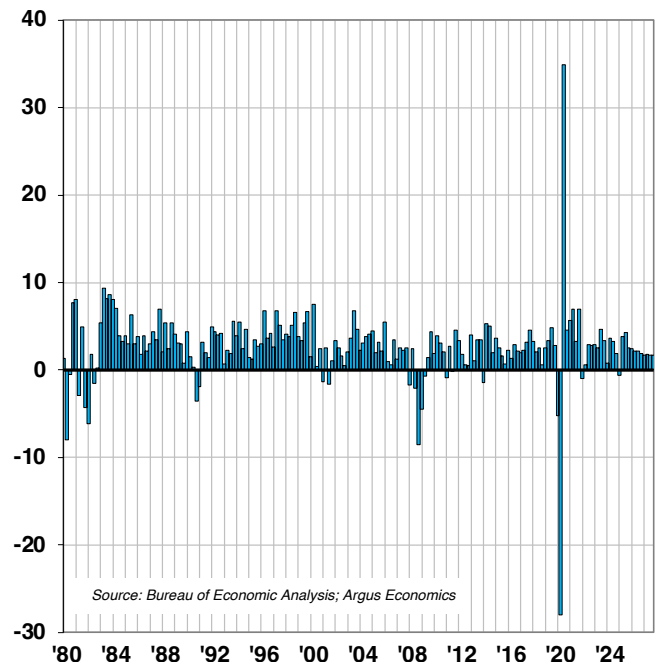
ECONOMIC HIGHLIGHTS

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RAISING GDP FORECAST FOR 2026

The resilient U.S. economy is getting a boost from consumer spending and business investments in artificial intelligence (AI). While hiring is in the doldrums, strong GDP growth suggests that productivity is growing, with workers producing more per hour. Productivity may explain why Wall Street is so optimistic while Main Street is so dour. We have raised our 2026 GDP growth forecast to 2.2% from 2.0. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation should result in healthy rebates for many families. We have initiated a 2027 estimate for 1.7% growth. Next year's economy will need to lap this year's two-pronged stimulus as well as 11% growth in corporate earnings. We still expect full-year GDP growth for 2025 to come in at 2.5%, which we raised from 1.9 % after last month's report that 3Q output rose at an annualized rate of 4.3%. Growth in real final sales to private domestic purchasers grew a sturdy 3.0% in 3Q25, up from 2.9% in 2Q. This measure is useful because it excludes the recently noisy trade balance, inventories, and government categories, and focuses on the pillars of consumer spending and gross private fixed investment. We expect 2.5% GDP growth in 4Q25 and growth of 2.4% in 1Q26, followed by 2.2%, 2.2%, and 1.9% quarterly growth for the remainder of 2026. Fed officials expect 2.3% growth this year and 2.0% growth next year, based on median projections provided in December. The positive slope of the yield curve, with the 10-year Treasury bond yielding 53 basis points more than the three-month T-bill, suggests 3.0% GDP growth over the next 12 months, according to the Cleveland Fed. Discretionary stocks have outperformed staples over the last one, three, and six months, which is another positive sign for the economy.

GDP TRENDS & OUTLOOK (% CHANGE)



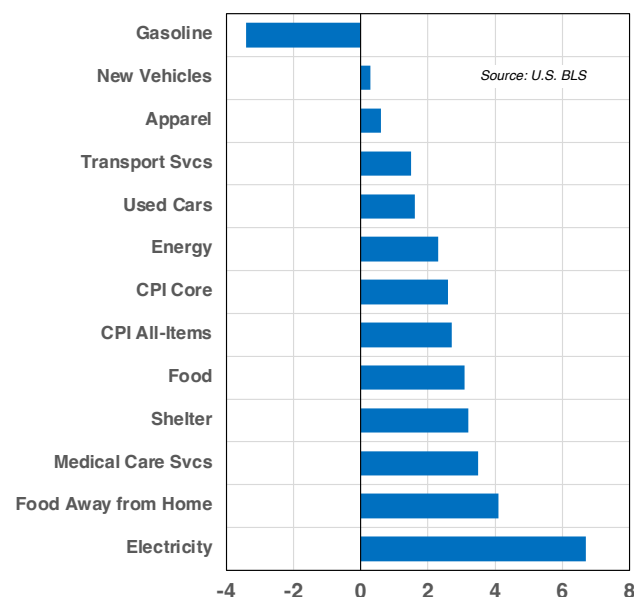
Lloyd Kurtz, SVP / Chief Investment Officer (805) 698-8026 • lkurtz@montecito.bank
Drew Brahos, SVP / Sr. Portfolio Manager (805) 979-4473 • dbrahos@montecito.bank
Scott Estby, SVP / Sr. Portfolio Manager (805) 564-7303 • sestby@montecito.bank
Thomas Fisher, SVP / Sr. Portfolio Manager (805) 560-3429 • tfisher@montecito.bank
Albert Chu, VP / Sr. Portfolio Manager (805) 979-4506 • achu@montecito.bank
Cheyne Sorensen, VP / Sr. Portfolio Manager (805) 698-7526 • cbsorensen@montecito.bank
Luca Romani, Portfolio Manager (805) 560-3497 • lromani@montecito.bank
Simon Priest, Portfolio Manager (805) 564-7306 • spriest@montecito.bank

ECONOMIC HIGHLIGHTS (CONTINUED)

INFLATION BACK ON DOWNWARD TRACK

Two important inflation reports -- the Consumer Price Index (CPI) and the Producer Price Index (PPI) -- recently signaled that pricing pressures have moderated. The reports both showed that overall inflation remains well below the peak rates in the summer 2022, but also confirmed that the rate of price increases is still above the Fed's target of 2.0%. Let's first take a deeper dive into CPI. The news here was good, as the annualized headline number of 2.7% held steady compared with the previous month, as did the core rate, at 2.6%. Even the problematic sticky categories of shelter and transportation also have been better behaved of late. Meanwhile, PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news also signaled price stability. The PPI final demand annual rate through November was 3.0%, compared to 2.8% in October and 3.7% in January 2025. Based on the fundamentals, we expect pricing pressures to continue easing modestly as the housing market cools (due to high mortgage rates) and the price of oil stays below \$90 per barrel (current price around \$62).

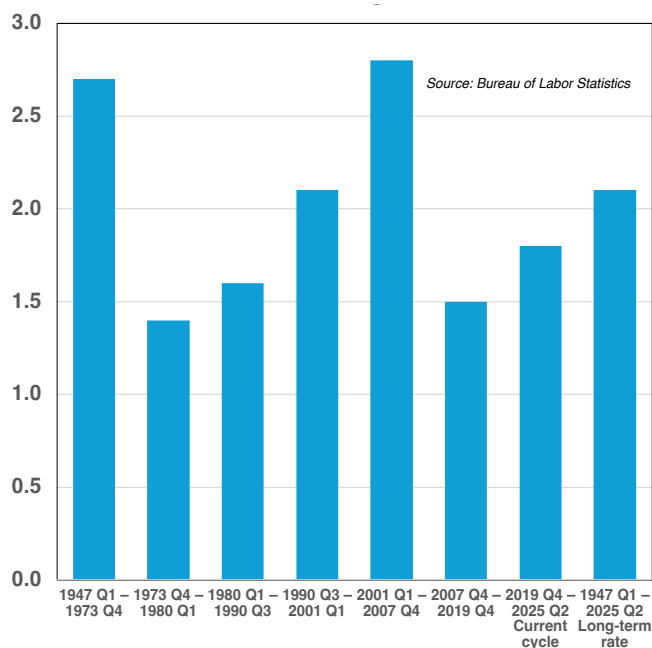
CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



THE MAGIC OF PRODUCTIVITY

"Productivity isn't everything, but, in the long run, it is almost everything." That's what Nobel Prize winning economist Paul Krugman wrote in his 1990 book, *The Age of Diminished Expectations*. Our long-term forecast for 1.7% GDP growth in 2036 is based on projections for growth in both the labor force and productivity. The Bureau of Labor Statistics (BLS) defines labor productivity growth as period-to-period changes in the amount of goods and services produced per hour worked. Higher productivity is a result of many influences, including changes in technology, capital investment, energy and materials, the organization of production, managerial skill, and the characteristics and effort of the workforce. Productivity is beneficial to wages and corporate profits. This subject is timely because it is key to validating huge investments in artificial intelligence (AI) and provides a path for the U.S. economy to grow when the labor force is under pressure from an aging and retiring population, low birth rates, and restrictive immigration. When workers produce more per hour, wages can rise without igniting an inflationary spiral with too much money chasing too few goods. A recent concern is that higher productivity, enabled by AI, could reduce the need for workers. Fed Chairman Powell addressed the issue in his December press conference. "Every time we have a wave of technology, we think, 'Oh, this could put a lot of people out of work.'" But, he added, AI is "certainly not showing up in layoffs yet."

NON-FARM PRODUCTIVITY: AVERAGE ANNUAL PERCENT CHANGE

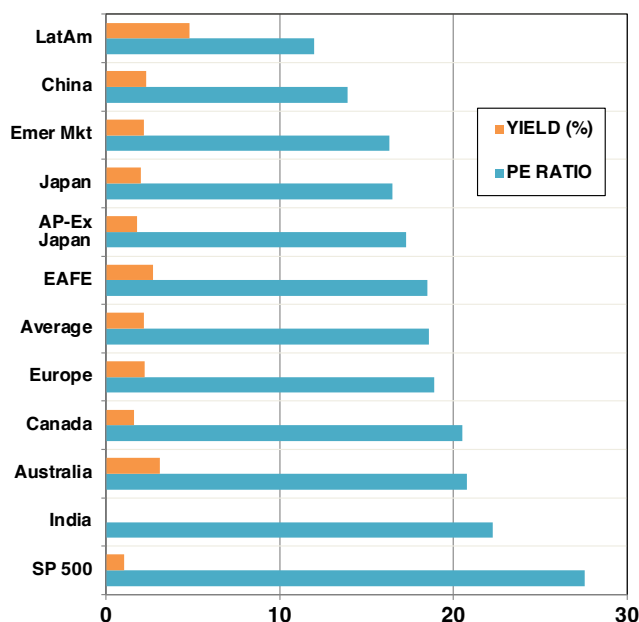


FINANCIAL MARKET HIGHLIGHTS

GLOBAL STOCKS STILL OFFER VALUE

As worldwide markets are challenged by a myriad of events, one thing has not changed: U.S. stocks are more expensive than global stocks. And that's the case even with the leading returns from global stocks in 2025. The trailing P/E ratio on the S&P 500 is 28, above the global average of 19 and well above the 12-15 average P/Es for emerging markets stocks in China and Latin America. The current dividend yield for the S&P 500 is 1.1%, versus the global average of 2.2% and Australian and Latin American yields of 3%-5%. Investors generally will pay a higher price for North American securities because of the transparency of the U.S. financial system and the liquidity of U.S. markets. What's more, global returns can be volatile across individual countries. U.S. stocks (ETF SPY) have outperformed EAFE (ETF EFA) over the past five years. The tide turned a bit in 2025, as global investors responded to the uncertainty over U.S. trade policy and as global central banks lower rates. But given expectations for more trade-related volatility in the months ahead, we think diversified investors should have 20%-25% of their equity allocations in international stocks to take advantage of the value.

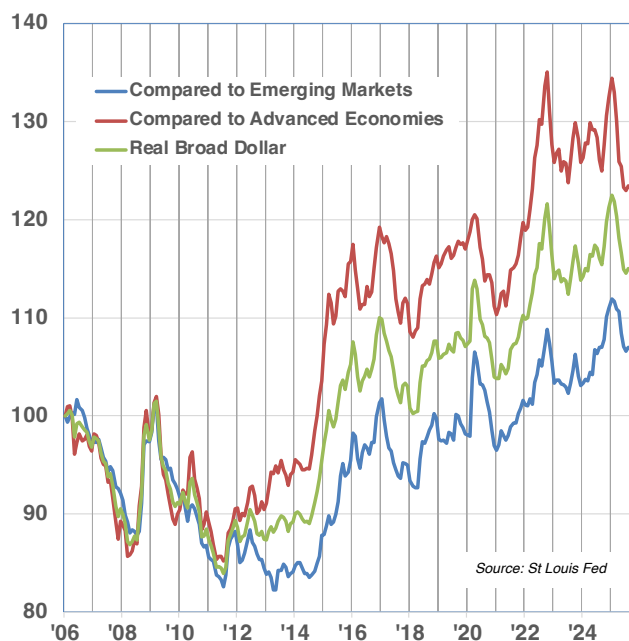
GLOBAL EQUITY VALUATION METRICS



FED CHATTER IMPACTS DOLLAR

The U.S. dollar has been in demand since the start of the pandemic. But that started to unwind a bit in 2025, as the dollar declined 5% on a global, trade-weighted basis, and 6% compared to an index of advanced economy currencies. There are several reasons, including economic uncertainty caused by trade policies, the swelling U.S. federal debt, a recovery in the European economy, and simple value investing. Lately, the downward dollar trend has picked up, linked, we think, to pressure President Trump is putting on the Fed to lower interest rates. Events like this raise the risk that the value of U.S. debt will erode over time, referred to as the “debase-ment trade.” In short, investors have started the process of rethinking their commitment to U.S. assets. Still, we would hesitate to say the dollar is at risk of losing its status as the global currency of choice. Despite the pullback, the dollar is still 14% above its 20-year average value, supported by the depth of a \$27 trillion market, not to mention by the Federal Reserve and the country's time-tested political/economic system of democratic capitalism. We would be concerned if the greenback were to plunge 20% in a short period (as it did when S&P downgraded U.S. debt in 2011). A U.S. dollar at 2011 levels would almost certainly mean higher interest rates, a drag on the economy, and intense pressure on major market indices.

DOLLAR TRENDS



Source: St Louis Fed

KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for modest growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.2% from 2.0%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation should result in healthy rebates for most families. We recently initiated a 2027 estimate for 1.7% growth. We still expect full-year GDP growth for 2025 to come in at 2.5%.
- U.S. consumers have been the engine of economic growth. That should continue with unemployment at 4.4%. We expect the jobless rate to remain between 4.3% - 5.0% in 2026. Fewer job openings and slower hiring may reduce wage growth.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE has exceeded 2.5% since March 2022, rising to 2.9% in 3Q25. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to come in at \$270 in 2025 and increase by 11% to \$300 in 2026. EPS is helped by an increase in operating margins to 18.0%, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 46% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 18%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. Our average target price in 2026 is \$4,500.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is 7.1%, well below the average of 9.2% since 1949. "Misery" could peak at 7.6% in 2Q26 with CPI at 3.1% and Unemployment at 4.5%. This is a consideration ahead of midterm elections.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, slow hiring, housing, and manufacturing are stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
22-Jan	GDP Annualized QoQ	3Q "Updated"	4.3%	4.3%	4.3%	4.4%
	GDP Price Index	3Q "Updated"	3.8%	3.8%	NA	3.8%
	PCE Deflator	November	2.7%	2.7%	2.8%	2.8%
	PCE Core Deflator	November	2.7%	2.7%	2.8%	2.8%
	Personal Income	November	4.3%	4.7%	NA	4.3%
	Personal Spending	November	5.3%	5.4%	NA	5.4%
26-Jan	Durable Goods Orders	November	4.5%	8.0%	NA	10.5%
27-Jan	Consumer Confidence	January	94.2	90.0	90.1	84.5%
29-Jan	Trade Balance	November	-\$29.4 Bln.	-\$45.0 Bln.	-\$44.2 Bln.	NA
	Factory Orders	November	2.2%	5.0%	NA	NA
	Wholesale Inventories	November	1.7%	1.3%	NA	NA
30-Jan	PPI Final Demand	December	3.0%	2.9%	2.7%	NA
	PPI ex-Food & Energy	December	3.0%	2.8%	2.9%	NA
2-Feb	ISM Manufacturing	January	47.9	48.0	48.3	NA
	ISM New Orders	January	47.7	48.0	NA	NA
4-Feb	ISM Services Index	January	54.4	54.0	53.0	NA
5-Feb	Total Vehicle Sales	January	16.1 Mln.	15.0 Mln.	NA	NA
9-Jan	Nonfarm Payrolls	January	50K	45K	50K	NA
	Unemployment Rate	January	4.4%	4.4%	4.4%	NA
	Average Weekly Hours	January	34.2	34.2	34.2	NA
	Average Hourly Earnings	January	3.8%	3.7%	NA	NA
	U. Michigan Sentiment	February	56.4	55.0	NA	NA

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