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OLD NORTH STATE TRUST

THE ECONOMY AT A GLANCE

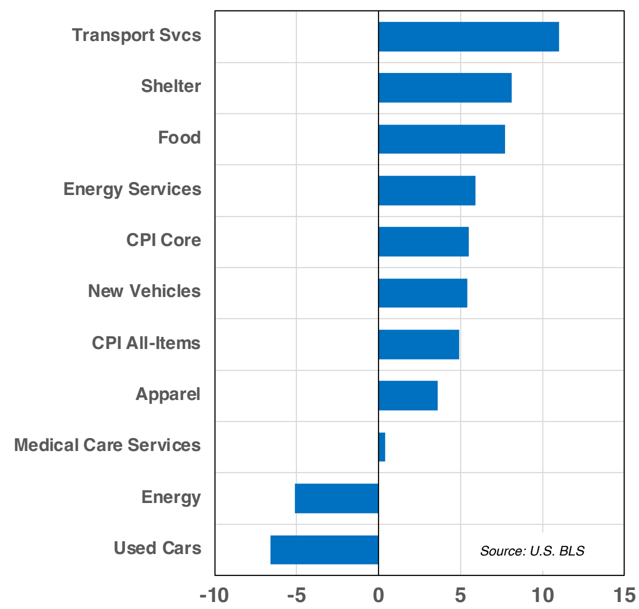
ECONOMIC HIGHLIGHTS

May 22, 2023
Vol. 90, No. 75

HEADLINE CPI NOW "STARTS WITH A 4"

According to the latest Consumer Price Index report, inflation eased again last month in the U.S., continuing the downward trend that began last summer. The CPI numbers were generally in line with consensus expectations and Argus forecasts. The Bureau of Labor Statistics reported a 4.9% increase in overall inflation year-over-year through April, down from a 5.9% rate in March and a 9.1% rate back in June 2022. Core inflation, excluding the impact of food and energy prices, fell as well (to 5.5% in April from 5.6% in the prior month). Segments of the economy with stable/easing prices year-over-year included Gasoline, Used Cars & Trucks, and Medical Care Services. But inflation was propped up by Transportation Services, Shelter, and Food, which tend to have stickier prices that are less likely to fall sharply. We continue to think that the June 2022 CPI of 9.1% will prove to be the peak reading for the index in this cycle as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel. The Federal Reserve has lifted the feds fund rate from zero to above 5.0% over the past 15 months, and the hikes appear to be reducing inflationary pressures. The next question is whether the rise in rates will tip the economy into a recession as inflation continues to head lower.

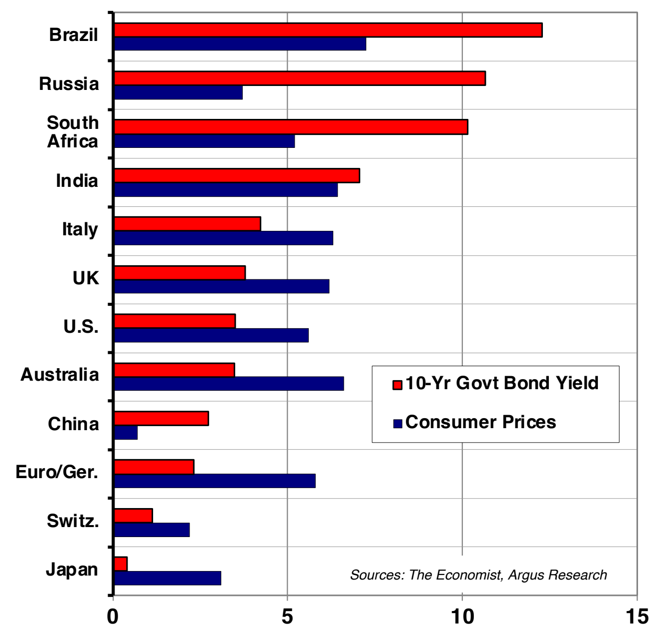
INFLATION FACTORS (% CHANGE Y/Y)



VARIETY OF YIELD OPTIONS IN GLOBAL RATE ARENA

Political uncertainty in South Africa and Brazil has lifted sovereign debt interest rates in those countries above 10%, and the fallout from the invasion of Ukraine has pushed Russian interest rates into the double digits. But interest rates in the rest of the world are generally much lower. We would avoid over-weighting foreign-government fixed-income securities given volatile yields, sovereign risks, and repatriation issues. In the U.S., the Fed is winding down its rate hike campaign after raising the fed funds rate 10 times. We look for long-term U.S. interest rates to remain relatively stable over the next few months, but then to move lower as unemployment rises and the potential for a recession increases. Our advice to fixed-income investors seeking current returns is to focus on short to intermediate U.S. Treasuries and floating-rate securities. We recommend paring back positions in inflation-protected securities as inflation rates may have peaked.

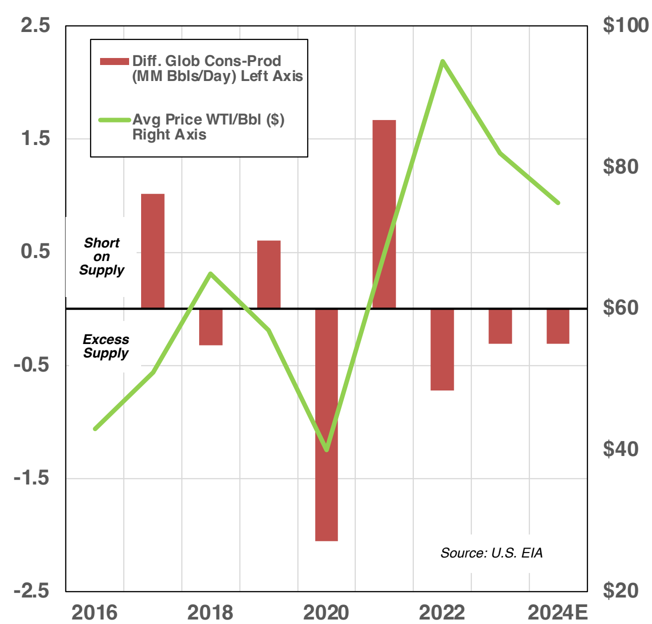
GLOBAL INTEREST RATES & INFLATION (%)



OIL PRICES STUCK BELOW RECENT HIGHS

West Texas Intermediate crude oil is currently near $70 per barrel. That's up from a low of $67 in mid-March but down from $80 in late January. We look for prices to move higher as the summer driving season approaches and China's economy returns to full strength. Our 2023 forecast for the average price of WTI remains $82 per barrel, compared to last year's average price of $95. We anticipate a trading range of $65-$100 for the year. Prices were volatile in 2022, as WTI ranged from $71 to $121 per barrel. We don't look for as much volatility in 2023. The core long-term drivers of oil prices are global supply and demand. According to the U.S. Energy Information Administration, there was excess supply in 2022, and forecasts for the next two years call for supply to continue to outpace demand. If that's the case, we expect to see oil prices drift lower. Of course, there are always wildcards, ranging from wars (Russia's invasion of Ukraine) to sanctions (Iran, Venezuela). These wildcards can cause prices to fluctuate dramatically -- but in their absence, the global demand-supply outlook suggests that the days of triple-digit oil prices are in the rear-view mirror.

OIL INDUSTRY DRIVERS

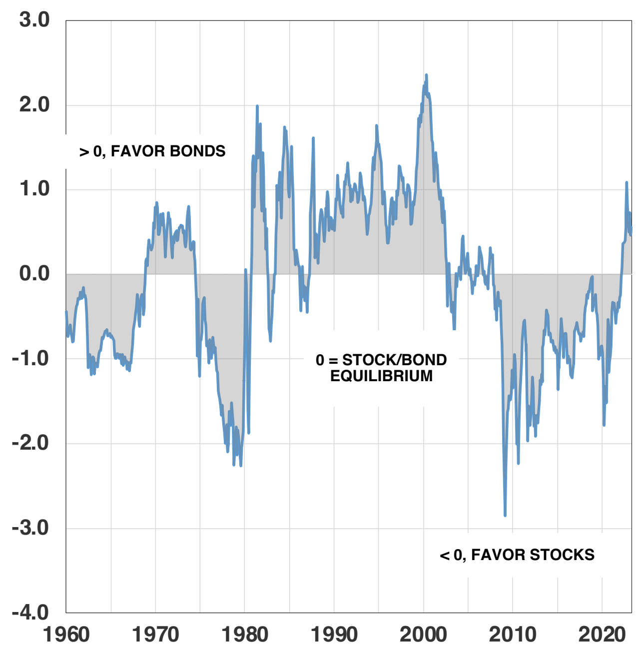


FINANCIAL MARKET HIGHLIGHTS

STOCK VALUATIONS HAVE IMPROVED

Our bond/stock asset-allocation model indicates that bonds are the asset class offering the most value at present, as interest rates have risen over the past few quarters. Stocks remain overvalued, but valuations have improved. Our model's 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 0.56 sigma premium for stocks, which is inside the normal range and down from a 0.80 sigma premium late last year. Other valuation measures also show an improvement for stocks in 2023. Based on current valuation levels, as well as our interest rate and earnings forecasts, we expect a recovery in stock prices in 2023 from bear-market lows. We have established a year-end S&P 500 target of 4,300. Our current recommended asset-allocation model for moderate accounts is 67% growth assets, including 63% equities and 4% alternatives; and 33% fixed income, with a focus on opportunistic segments of the bond market.

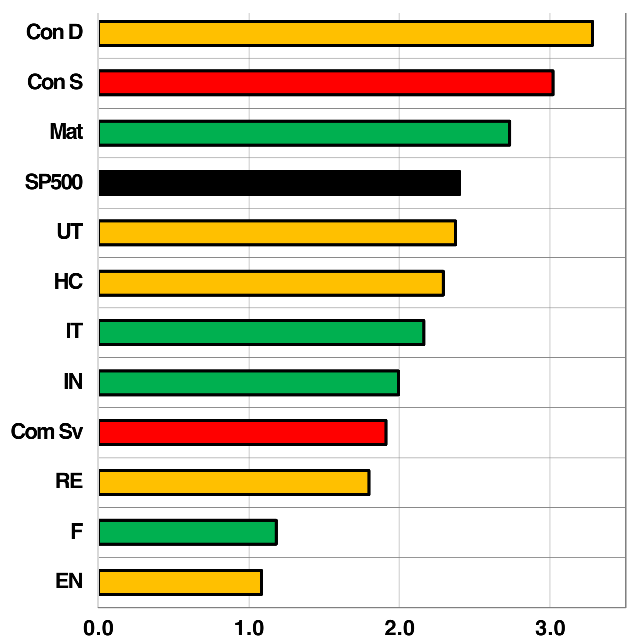
BOND V STOCK BAROMETER (STANDARD DEVIATIONS)



VALUES IN FINANCIALS, IT, INDUSTRIALS

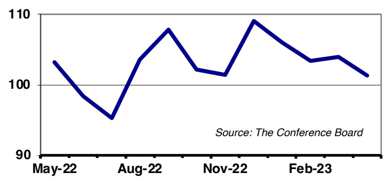
Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might want to look at companies in the Financial Services, Information Technology, and Industrial sectors. These are among the industry groups that are selling for PEGY ratios -- (price/earnings)/(growth+yield) -- that are at or below the S&P 500's ratio of 2.4. To generate PEGY ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past five years along with two years of forward estimates, this to achieve a smoother earnings growth-rate trend. Then, we add the current yield to approximate the total return. Premium-valued sectors with low growth rates include Consumer Staples and Utilities. Based on our analysis of growth rates and valuations, along with other factors, our current Over-Weight sectors are Information Technology, Financials, Industrials, and Materials. Our Under-Weight sectors are Communication Services and Consumer Staples. Our Market-Weight sectors include Healthcare, Consumer Discretionary, Utilities, Real Estate, and Energy.

SECTOR PEGY RATIOS

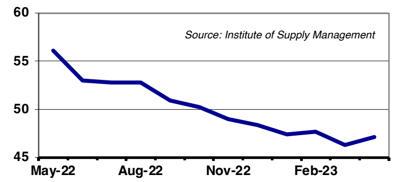


ECONOMIC TRADING CHARTS & CALENDAR

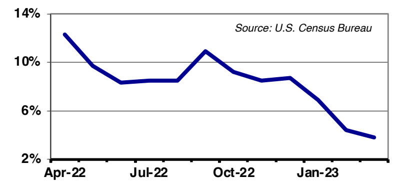
Release: **Consumer Confidence**
Date: 5/30/2023
Month: May
Previous Report: 101.3
Argus Estimate: 100.0
Street Estimate: 99.5



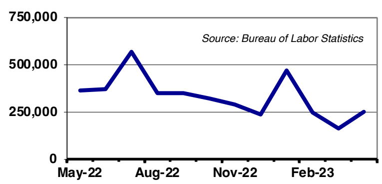
Release: **ISM Manufacturing**
Date: 6/1/2023
Month: May
Previous Report: 47.1
Argus Estimate: 47.1
Street Estimate: 47.0



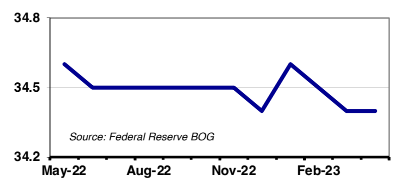
Release: **Construction Spending**
Date: 6/1/2023
Month: April
Previous Report: 3.8%
Argus Estimate: 3.5%
Street Estimate: NA



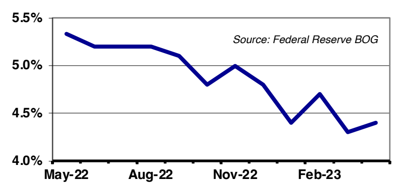
Release: **Nonfarm Payrolls**
Date: 6/2/2023
Month: May
Previous Report: 253000
Argus Estimate: 175000
Street Estimate: 180000



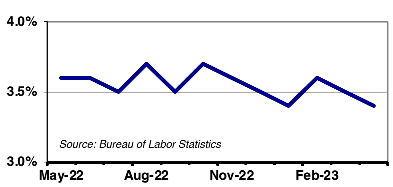
Release: **Average Weekly Hours**
Date: 6/2/2023
Month: May
Previous Report: 34.4
Argus Estimate: 34.4
Street Estimate: 34.4



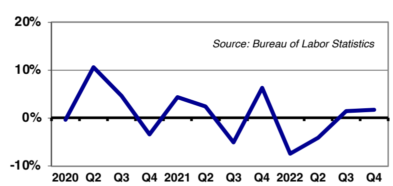
Release: **Average Hourly Earnings**
Date: 6/2/2023
Month: May
Previous Report: 4.4%
Argus Estimate: 4.4%
Street Estimate: NA



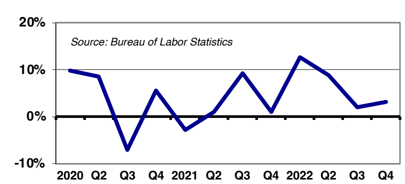
Release: **Unemployment Rate**
Date: 6/2/2023
Month: May
Previous Report: 3.4%
Argus Estimate: 3.6%
Street Estimate: 3.5%



Release: **Nonfarm Productivity**
Date: 6/1/2023
Month: 1Q
Previous Report: -2.7%
Argus Estimate: -2.7%
Street Estimate: -2.7%



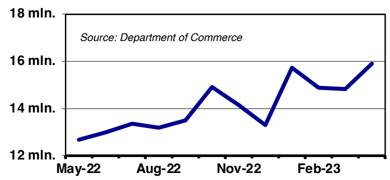
Release: **Unit Labor Costs**
Date: 6/1/2023
Month: 1Q
Previous Report: 6.3%
Argus Estimate: 6.3%
Street Estimate: 6.3%



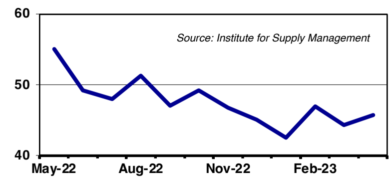
Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

Release:	**Total Vehicle Sales**
Date:	6/1/2023
Month:	May
Previous Report:	15.91 mln.
Argus Estimate:	15.50 mln.
Street Estimate:	15.30 mln.



Release:	**ISM New Orders**
Date:	6/1/2023
Month:	May
Previous Report:	45.7
Argus Estimate:	46.0
Street Estimate:	NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-May	New Home Sales	April	683 K	640 K	662 K	NA
25-May	GDP Annualized QoQ	1Q	1.1%	1.1%	1.1%	NA
	GDP Price Index	1Q	4.0%	4.0%	NA	NA
26-May	Durable Goods Orders	April	3.2%	0.0%	-0.9%	NA
	Personal Income	April	6.0%	5.5%	NA	NA
	Personal Spending	April	6.2	5.5%	NA	NA
	U. of Michigan Sentiment	May	57.7	55.0	NA	NA
	PCE Deflator	April	4.2%	4.0%	4.0%	NA
	PCE Core Deflator	April	4.6%	4.5%	4.5%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-Jun	ISM Services Index	May	51.9	NA	NA	NA
	Factory Orders	April	1.4%	NA	NA	NA
7-Jun	Trade Balance	April	-$64.2 Bil.	NA	NA	NA