



1250 REVOLUTION MILL DRIVE
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OLD NORTH STATE TRUST

THE ECONOMY AT A GLANCE

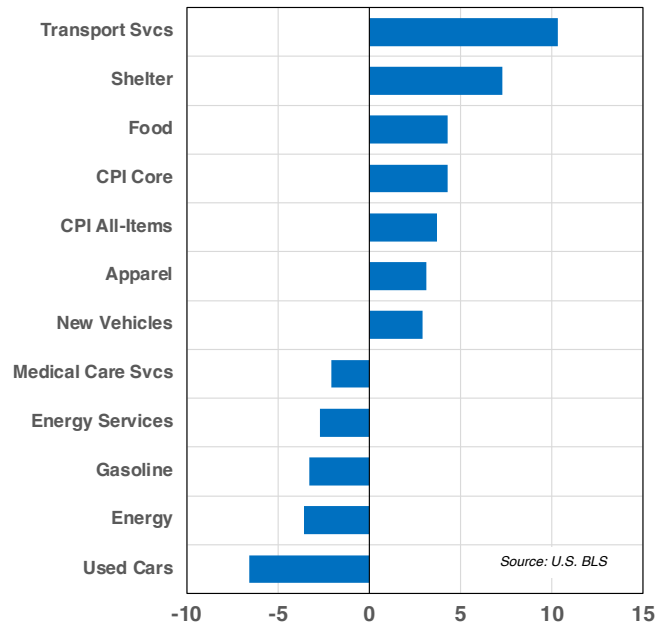
ECONOMIC HIGHLIGHTS

September 25, 2023
 Vol. 90, No. 138

CPI TICKS HIGHER AGAIN, TO 3.7%

The Bureau of Labor Statistics reported a 3.7% increase in overall inflation year-over-year through August, compared to a 3.2% rate through July and a 9.1% rate back in June of 2022. The core rate, excluding the impact of food and energy prices, declined slightly to 4.3% in August, versus 4.7% in the prior month. Month-over-month, the All-Items CPI increased 60 basis points (bps), driven by higher gasoline prices; the Core CPI increased a lesser 30 bps. Segments of the economy with stable/easing prices year-over-year included Gasoline (-3.3%, despite the August surge), Used Cars & Trucks (-6.6%), and Medical Care Services (-2.1%). Inflation rates continue to be propped up by Transportation Services (+10.3% year-over-year) and Shelter (+7.3%), which tend to have prices that are less likely to fall sharply. We continue to think that the June 2022 CPI rate was the peak for the index this cycle, as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below \$90 per barrel. The Fed has lifted the feds fund rate from 0.0% to above 5.25% over the past 18 months, and the rate hikes appear to be reducing inflationary pressures. The next question is whether the rapid rate of increases will tip the economy into a recession as inflation continues to head toward 2.0%.

INFLATION FACTORS (% CHANGE Y/Y)

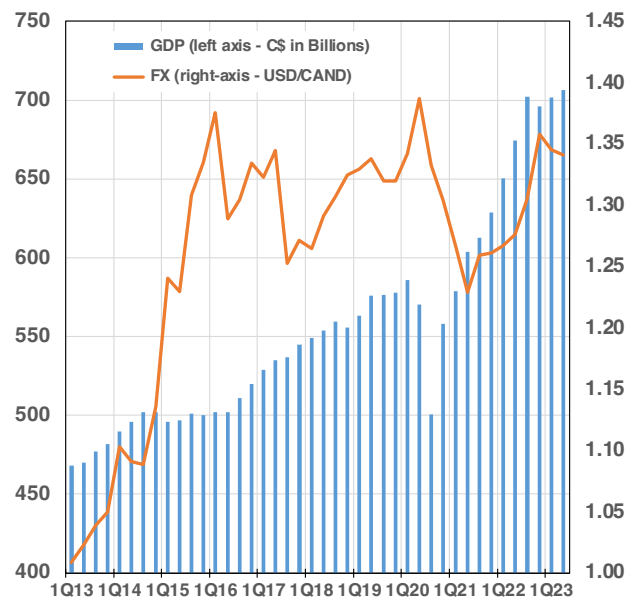


ECONOMIC HIGHLIGHTS (CONTINUED)

BANK OF CANADA PAUSES

In early September, the Bank of Canada maintained its target overnight interest rate at 5.00% after back-to-back increases in June and July, and 10 rate hikes since March of 2022. Pressure on Canada's labor market has eased, with unemployment rising to 5.5% as of July from 5% earlier this year, allowing for the pause in rates. Similar to the dilemma faced by the U.S. Federal Reserve, inflation in Canada (at a 3.3% annual pace in July) is still running above the 2% desired by its central bank. However, rate hikes clearly have been working and often have a lag effect. Canada's GDP growth turned to negative 0.2% in 2Q, with housing and consumer spending the main culprits. A majority of economists now see the Bank of Canada as finished with its rate-hike campaign, with potential cuts moving into the first half of next year. The most-recent pause was a bit of a relief for the bank and housing industries, where elevated interest rates have started to crimp demand for home mortgages.

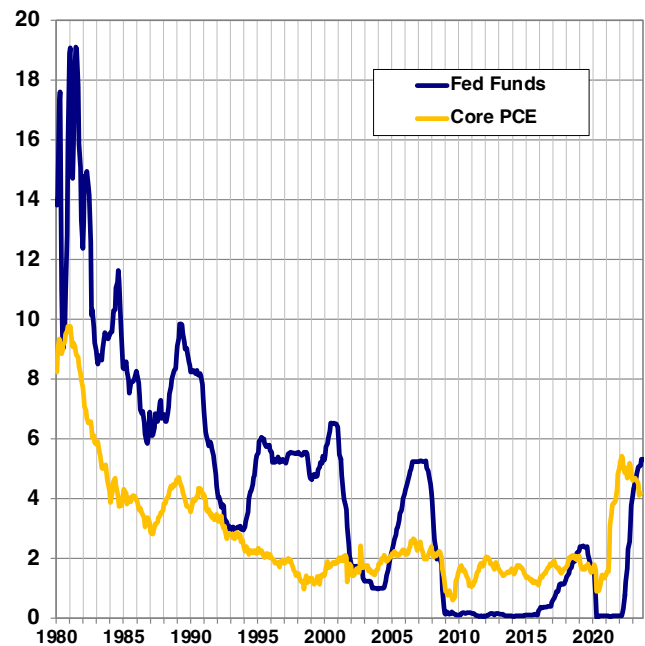
CANADA ECONOMIC TRENDS



FED LEAVES DOOR OPEN FOR ONE MORE HIKE IN 2023

The Federal Reserve, as expected, left its funds target rate unchanged at 5.25%-5.50%. All 12 governors were in agreement on the decision, even though inflation has moderated over the past year; the latest core CPI reading was 4.3%, down from 9.1% a year ago, and the latest core PCE Price Index reading was 4.2% (both still well above the Fed's target of 2.0%). The decision was widely expected, but now the drama will build for the next meeting. According to the latest fed funds "dot plot" forecasts by the governors, the central bank's target for the rate at year-end is still 5.63%. That means one more hike. We are not so sure that's a good idea. Our forecast calls for the Fed to keep its target rate steady for the balance of the year as inflation continues to moderate. Yes, shelter and transportation costs remain stubbornly high, and oil prices are back above \$90 per barrel. But other prices are stable or are trending downward on global economic weakness. What's more, the Fed is also supposed to promote maximum employment. While the latest jobs reports have been consistent with GDP growth, we think the full impact of the Fed's decisions over the past year have yet to be felt by the economy. We think the central bank may be lowering rates in 2024 if core PCE falls to 3.5% or the jobless rate rises above the 4.0%-4.5% level over the next few quarters.

FED FUNDS & INFLATION (%)

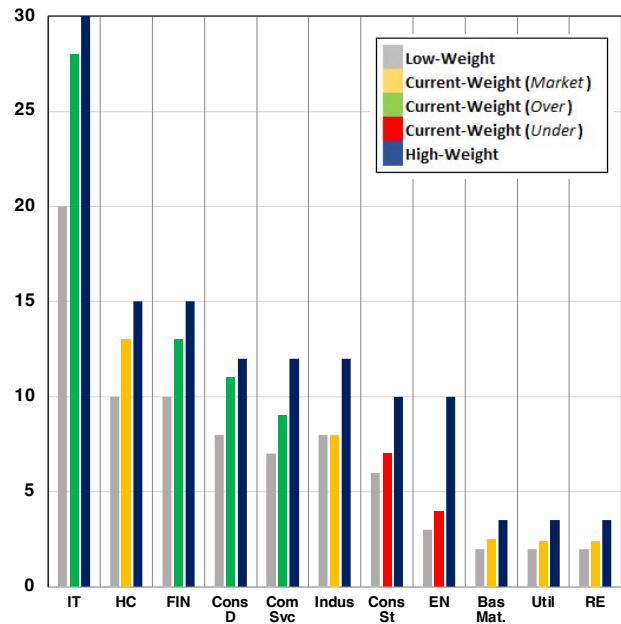


FINANCIAL MARKET HIGHLIGHTS

ARGUS ADJUSTS SECTOR RATINGS

We have adjusted our recommended sector allocations for the third quarter of 2023. We raised Communication Services to Over-Weight from Market-Weight. This “barbell” sector contains high-growth, low-income social media stocks on one end and low-growth, high-income telecom services stocks on the other. Hybrid cloud is emerging as the key delivery mechanism for AI-as-a-service. Social media stocks offering hybrid cloud services are positioned to benefit from the AI wave, in our view. As well, telecom stocks are likely near the end of mobile device weakness and are positioned for improved customer ARPU as the next generation of 5G smartphones launch in fall 2023. We lowered Materials to Market-Weight from Over-Weight. Even as energy prices recover, many commodity prices have remained weak or weakened further. Most are traded in U.S. dollars. The dollar is inversely correlated to commodities, and long-term dollar strength is weighing on commodity prices. Elsewhere, demand from China remains sluggish as the lifting of zero-tolerance COVID restrictions has failed to stimulate the economy.

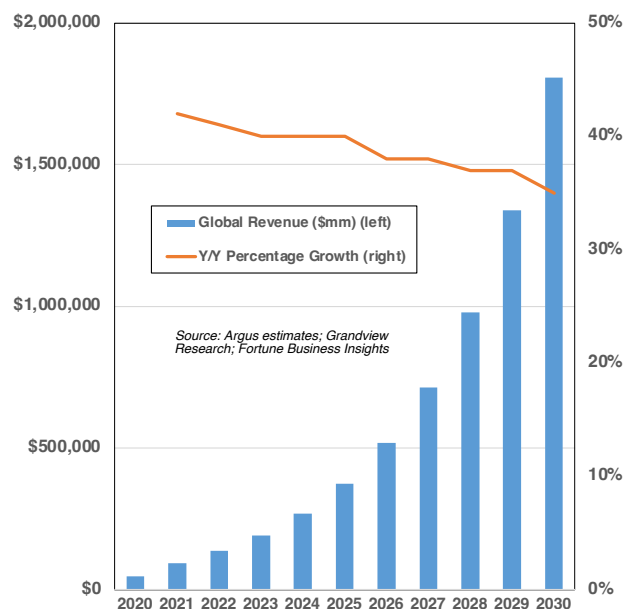
SECTOR WEIGHTS (% OF S&P 500)



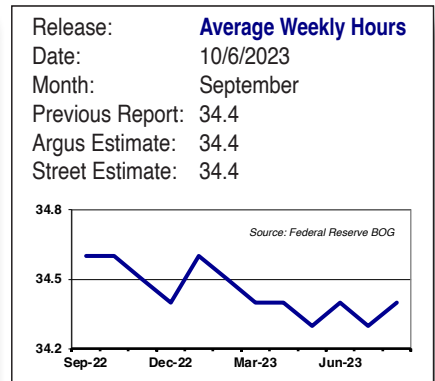
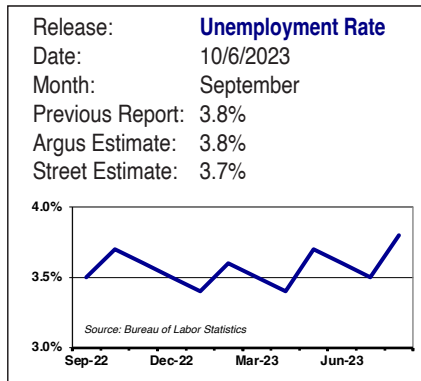
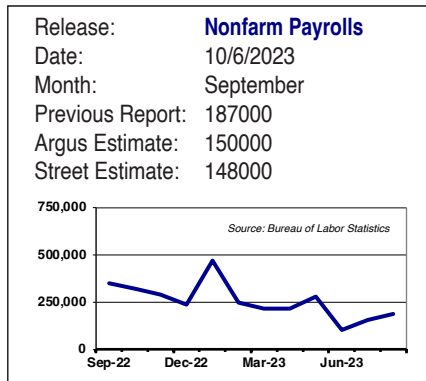
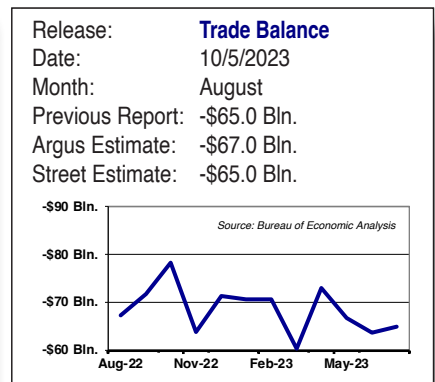
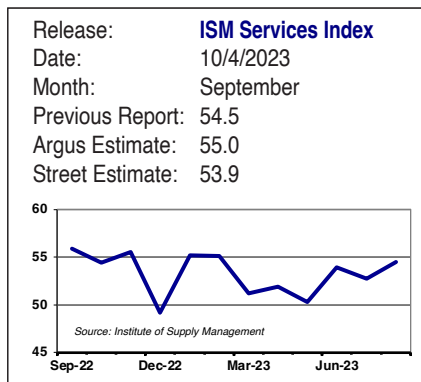
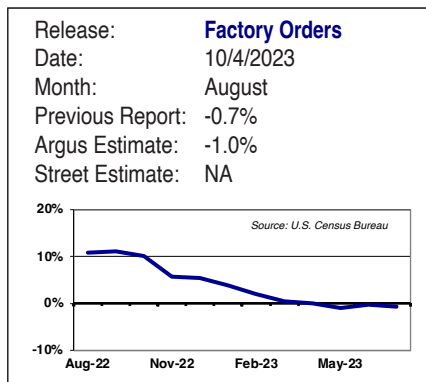
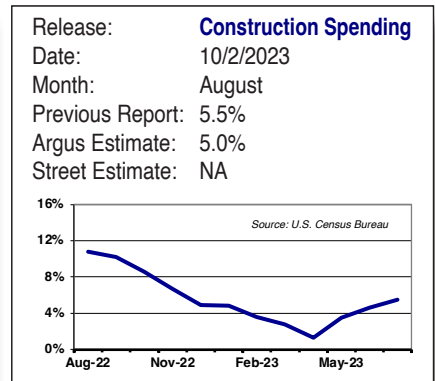
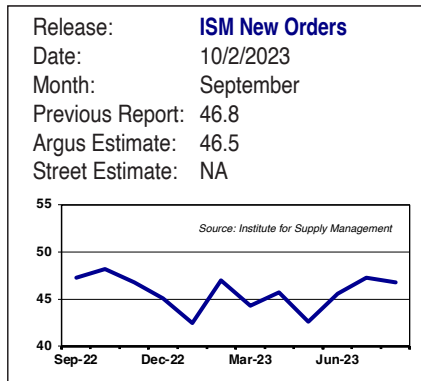
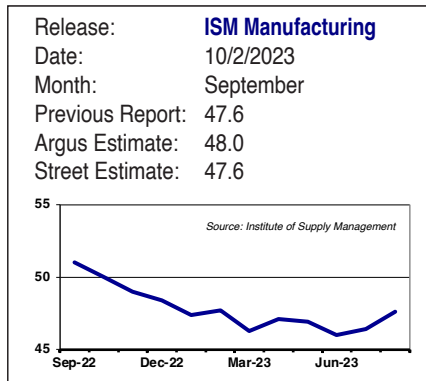
WHERE TO LOOK FOR AI INVESTMENT OPPORTUNITIES

Determining a realistic estimate for the size of the artificial intelligence (AI) industry is a challenge. Even for an industry that promises to redefine measuring tools, there is no measurable unit of AI output comparable to barrels of oil or tons of steel. We believe much of the revenue and most of the profitability from AI is attributable to several giant U.S. and a few international companies that operate primarily in growth sectors such as Technology, Communication Services, and Consumer Discretionary. China is also a hub of AI development. Finally, there is also significant AI activity among companies pursuing advances in IoT, vehicle electrification, autonomous driving, automation and connectivity solutions for manufacturing, warehousing, construction, and other areas. Argus has derived a model of the size and scope of the global AI industry, based on our coverage of the major publicly traded players and most of the mid-tier players, along with our industry analysts’ knowledge of private players. We estimate the global AI industry amounted to about \$90-\$100 billion in 2021, and expect it to grow at a 40% CAGR through 2030, when it is expected to reach \$1.8 trillion in annual revenue. Annual growth is expected to decelerate from the low- to mid-40% range in immediate nearby years to the mid-30% range for years toward the end of the survey period.

AI MARKET SIZE 2020-30E

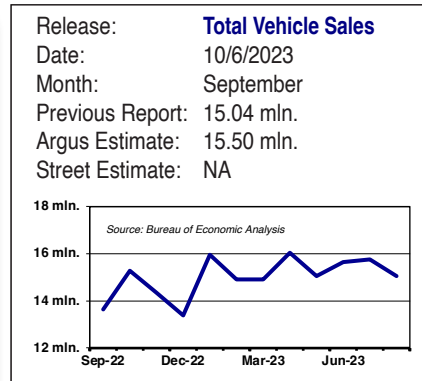
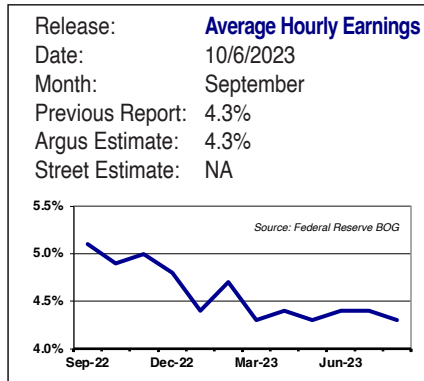


ECONOMIC TRADING CHARTS & CALENDAR



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

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Sep	New Home Sales	August	714000	705000	700000	NA
	Consumer Confidence	September	106.1	105.0	106.0	NA
27-Sep	Durable Goods Orders	August	3.1%	2.3%	NA	NA
28-Sep	GDP Annualized QoQ	2Q	2.0%	2.1%	2.2%	NA
	GDP Price Index	2Q	4.1%	2.0%	2.0%	NA
29-Sep	PCE Deflator	August	3.3%	3.4%	NA	NA
	PCE Core Deflator	August	4.2%	4.0%	3.9%	NA
	Personal Income	August	4.6%	4.4%	NA	NA
	Personal Spending	August	6.4%	6.1%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
11-Oct	PPI Final Demand	September	1.6%	NA	NA	NA
	PPI ex-Food & Energy	September	2.2%	NA	NA	NA
	Wholesale Inventories	August	0.5%	NA	NA	NA
12-Oct	Consumer Price Index	September	3.7%	NA	NA	NA
	CPI ex-Food & Energy	September	4.3%	NA	NA	NA
13-Oct	Import Price Index	September	-3.0%	NA	NA	NA
	U. of Michigan Sentiment	October	67.7	NA	NA	NA

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