



1250 REVOLUTION MILL DRIVE
 SUITE 152
 GREENSBORO, NC 27405

OLD NORTH STATE TRUST

THE ECONOMY AT A GLANCE

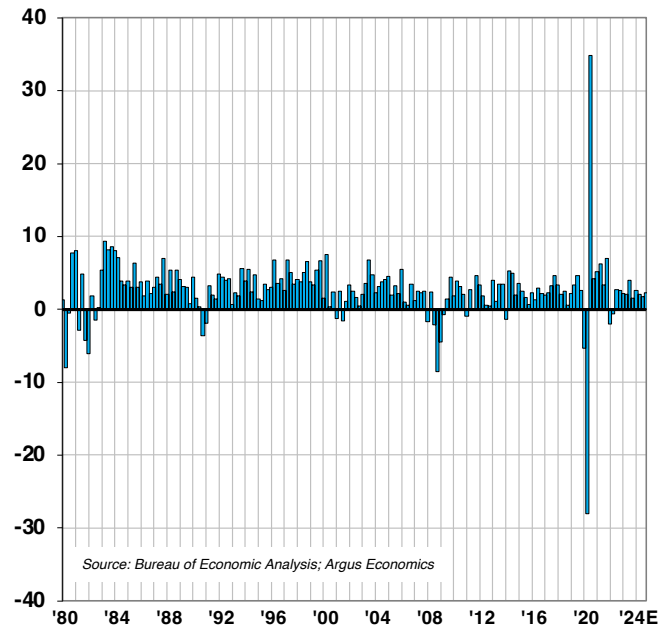
ECONOMIC HIGHLIGHTS

October 23, 2023
 Vol. 90, No. 153

GDP GROWTH SHOULD BE STRONG IN 3Q

Our analysis of recent economic data leads us to conclude that key parts of U.S. GDP are still expanding, despite the impact of inflation, high interest rates, and geopolitical developments. But growth is not consistent across all segments of the economy and, in some cases, growth rates are slowing. While the Fed is on track to engineer a soft landing for the economy, the risk of a recession in 2023-2034 remains a possibility, though we think the odds are diminishing. After reviewing the latest economic data points, metrics, and trends, we are maintaining our 3Q23 GDP estimate of 4.0%. We now anticipate that the current (third) quarter could be the strongest quarter of the year, before higher interest rates dampen consumer spending into 2024. Our estimate for the full year 2023 is now 2.3%. Our preliminary forecast for GDP growth in 2024 is 2.2%, as the Federal Reserve, with its tool chest again full after hiking rates during 1H23, can contemplate lowering interest rates to recharge economic growth. The Wall Street Journal Economic Survey recently called for GDP growth of 1.0% in 2023 and 1.3% in 2024. The Federal Reserve is anticipating GDP growth of 1.0% for 2023 and 1.1% in 2024. Meanwhile, the IMF is calling for 2023 growth of 1.8%, and the Philadelphia Federal Reserve's Survey of Professional Forecasters is calling for growth of 1.3% in 2023 and 1.4% in 2024. A recent GDPNow Forecast from the Federal Reserve Bank of Atlanta was 4% for 3Q23.

GDP TRENDS & OUTLOOK (% CHANGE)

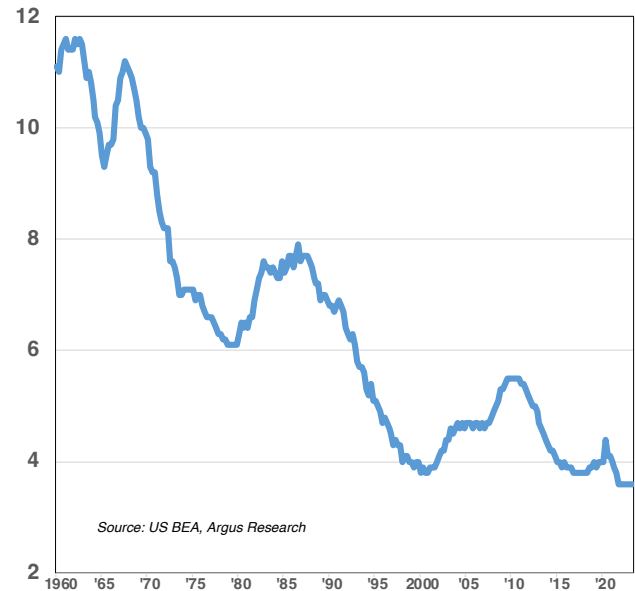


ECONOMIC HIGHLIGHTS (CONTINUED)

DEFENSE SPENDING ON THE DOWNSWING

The surprise attack by Hamas against Israel added more geopolitical uncertainty to an already-volatile environment. Investors initially reacted as expected, buying gold, oil and Treasuries, and selling stocks. (Truth be told, we probably would be more worried about events if investors didn't follow their playbook.) The Mideast uprising comes in the wake of the Russian invasion of Ukraine, as the U.S. and Iran continue to negotiate over hostages and Iran's nuclear program, and as OPEC continues to push for higher energy prices. Chinese officials are no doubt watching closely as they continue to invest in their global "belt and road" infrastructure initiative elsewhere in the Mideast. As for investment strategies, we anticipate that continued geopolitical uncertainty would be a positive driver behind dollar strength. From an asset-allocation standpoint, that could lead to a rally in bonds, and we also favor U.S. stocks over international stocks, given the risks.

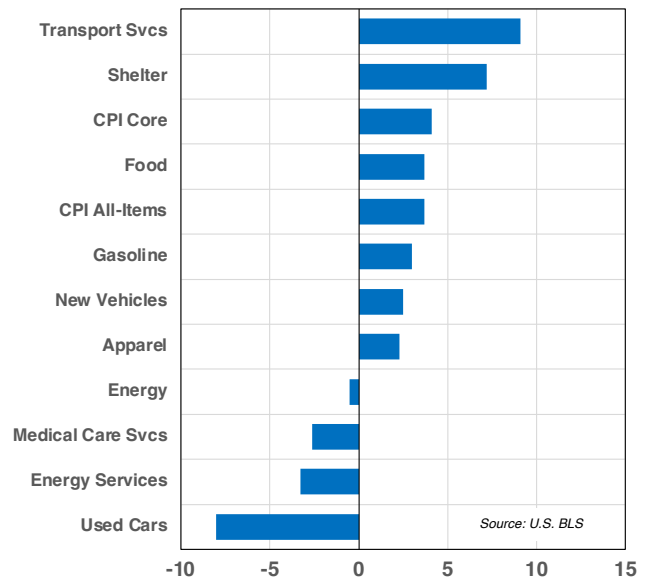
NATIONAL DEFENSE SPENDING AS A PERCENT OF GDP



EASING TREND OF CPI INTACT

The top-level inflation rate was steady on a year-over-year basis last month in the U.S., as most price increases appear to be easing. The rate of core inflation continued to tick lower. The CPI numbers generally were in line with expectations and our forecasts. The Bureau of Labor Statistics reported a 3.7% increase in overall inflation year over year through September, compared to a 3.7% rate through August and a 9.1% rate in June 2022. The core rate, excluding the impact of food and energy prices, declined slightly -- to 4.1% in September, versus 4.3% in the prior month. Month-over-month, the all-items CPI increased 40 basis points (bps), driven by energy prices; the core CPI increased a lesser 30 bps. Segments of the economy with stable/easing prices year-over-year included Energy Services (-3.3%), Used Cars & Trucks (-8.0%), and Medical Care Services (-2.6%). Inflation rates continue to be propped up by Transportation Services (9.1% year-over-year) and Shelter (7.2%). These items have stickier prices, though we note growth rates declined compared to last month's readings. We continue to think the June 2022 CPI rate was the peak reading for the index this cycle.

INFLATION FACTORS (% CHANGE Y/Y)

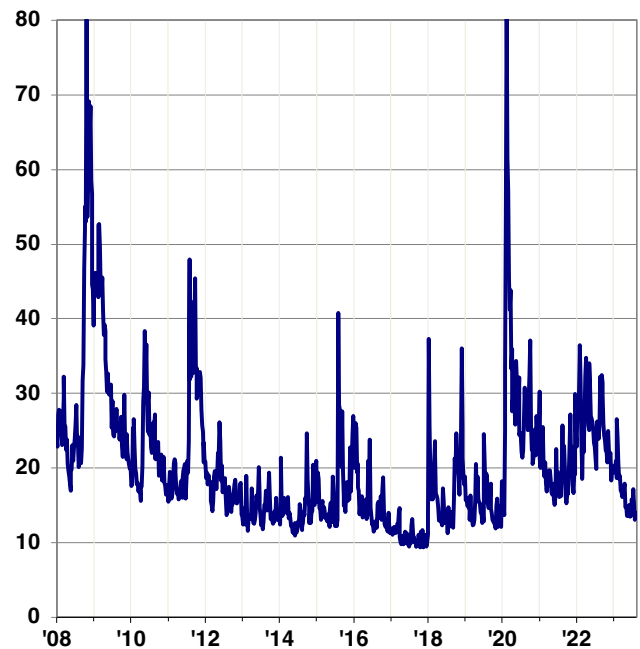


FINANCIAL MARKET HIGHLIGHTS

BULL OR BEAR?

By one popular definition, the stock market began a new bull market in June after the S&P 500 rose 20% from its bear-market lows set in October 2022. However, there's another theory that says a bear market doesn't end until stocks reclaim all-time highs. Under that definition, the S&P 500 still needs to surpass the 4796 level. The bull scenario seemed reasonable through July, as the S&P 500 was surging 28% from prior depths. But in August and September, doubts were raised as stocks tumbled 8%. By our thinking, stocks remain in the early stages of a bull market, though volatility is an issue due to geopolitical developments, high interest rates, and the risk of recession. On the positive side, we anticipate that the U.S. economy will avoid recession into 2025, the Fed will start to lower interest rates in 2024, and earnings growth is poised to return in 2H23. The VIX volatility index is sending a more-optimistic signal. The current fear index reading is around 18, which is below the 15-year average of 20.5 and signals that investors aren't overly worried about the outlook. These readings compare to the average VIX of 24 during the most-recent bear market and 35 during the financial crisis of 2008-2009.

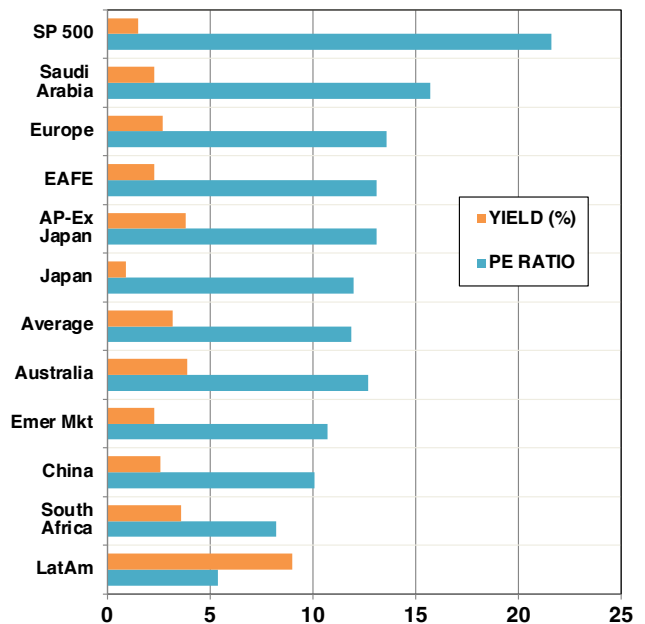
VOLATILITY INDEX (WEEKLY CLOSE)



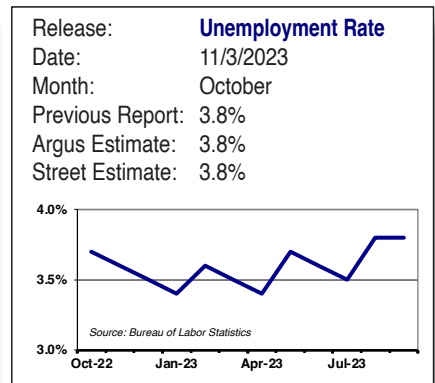
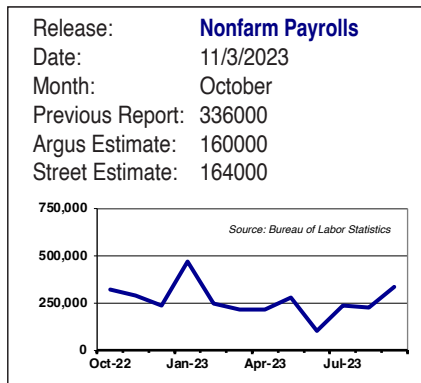
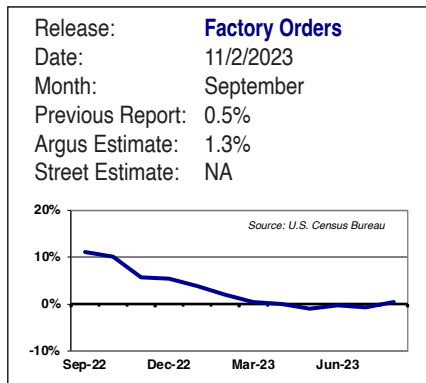
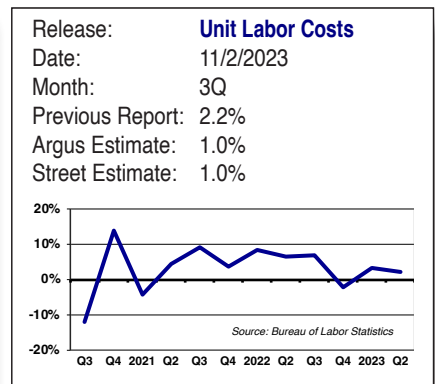
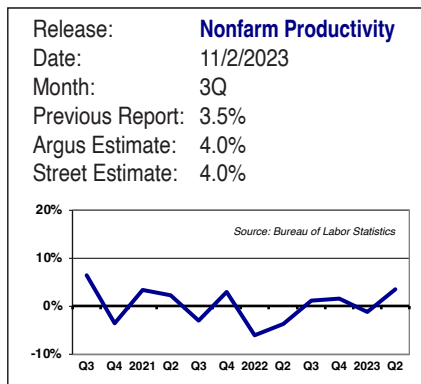
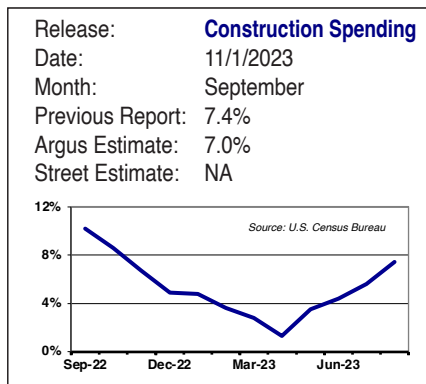
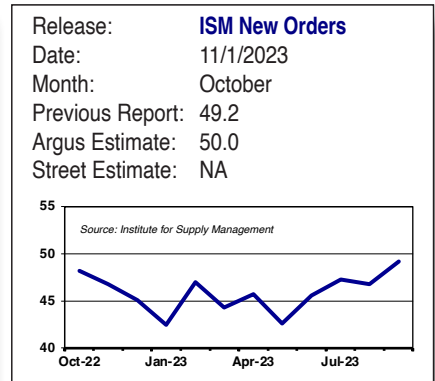
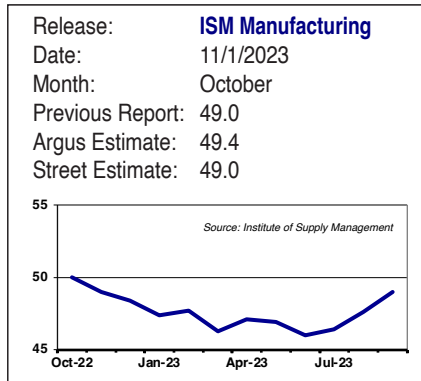
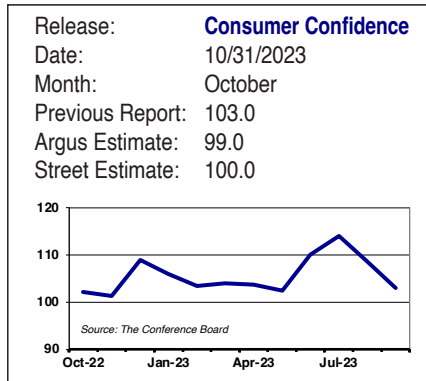
GLOBAL STOCKS PRICED AT DISCOUNT TO U.S. STOCKS

U.S. stocks remain more expensive than global stocks on numerous valuation metrics. The trailing P/E ratio on the S&P 500 is 20, above the global average of 12 and the 6-11 average P/Es for emerging markets. The current dividend yield for the S&P 500 is 1.5%, versus the global average of 3.2% and Asian, Australian, and Latin American yields of 4%-8%. The foreign region that does not completely fit the pattern is the Middle East. The average P/E on a Saudi Arabian stock is a high 15.7 and the yield is a low 2.3%. That can be attributed to high oil prices. Taking a step back, one reason investors generally are willing to pay a higher price for North American securities is the transparency of the U.S. financial system and the liquidity of U.S. markets. What is more, global returns can be volatile across individual countries, given currency, security, political, and geopolitical risks; indeed, U.S. stocks (ETF SPY) have outperformed EAFE (ETF EFA) year to date -- as well as over the past five years. Even so, we recommend that growth investors have approximately 5%-10% of their equity allocations in international stocks to take advantage of the value.

GLOBAL EQUITY VALUATION METRICS

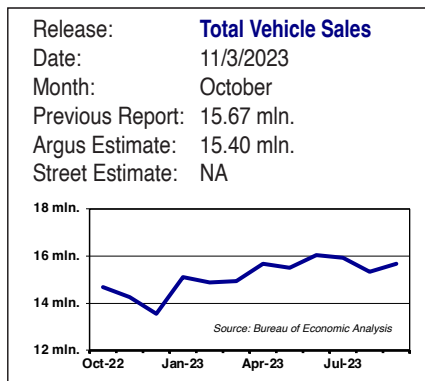
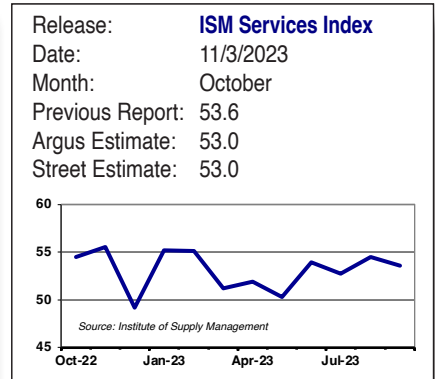
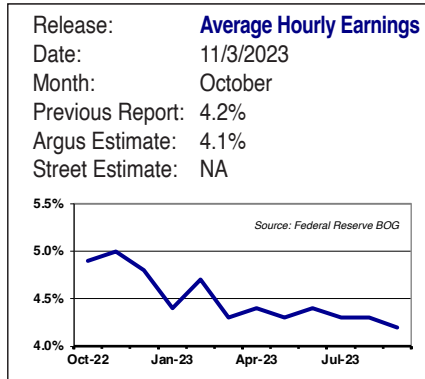
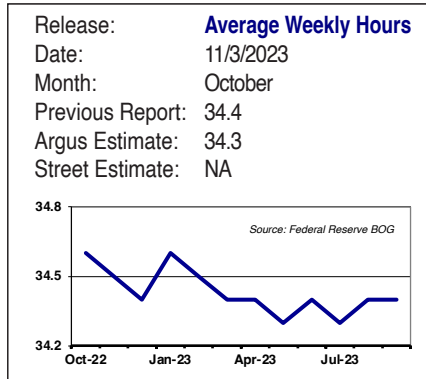


ECONOMIC TRADING CHARTS & CALENDAR



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
25-Oct	New Home Sales	September	675000	650000	685000	NA
26-Oct	GDP Annualized QoQ	3Q	2.1%	4.0%	4.1%	NA
	GDP Price Index	3Q	1.7%	2.1%	2.5%	NA
	Durable Goods Orders	September	3.0%	0.9%	NA	NA
27-Oct	PCE Deflator	September	3.5%	3.5%	NA	NA
	PCE Core Deflator	September	3.9%	3.7%	NA	NA
	Personal Income	September	4.8%	4.5%	NA	NA
	Personal Spending	September	5.8%	5.4%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Nov	Trade Balance	September	-\$58.3. Bil.	NA	NA	NA
8-Nov	Wholesale Inventories	September	-1.0%	NA	NA	NA
10-Nov	U. of Michigan Sentiment	November	63.0	NA	NA	NA

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