1250 REVOLUTION MILL DRIVE
SUITE 152
GREENSBORO, NC 27405

OLD NORTH STATE TRUST

# THE ECONOMY AT A GLANCE

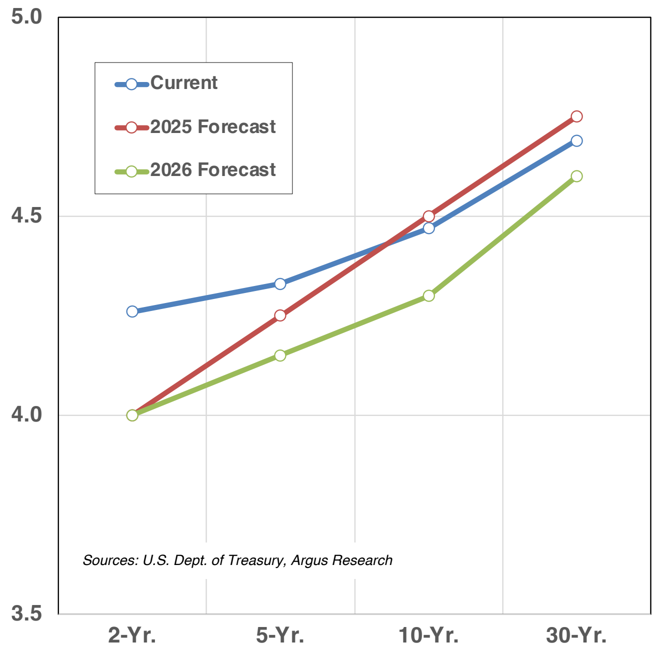
## ECONOMIC HIGHLIGHTS

March 10, 2025
Vol. 92, No. 33

### INVERTED YIELD CURVE IN REAR-VIEW MIRROR

After almost two years of inversion, the yield curve has returned to its normal upward-sloping shape. This has important implications for bond investors and for the economic outlook. Back in April 2023, two-year Treasury note yields were about 100 basis points above 10-year yields and, according to the textbooks, signaling an upcoming recession. Now they are about 50 basis points below. There are a few reasons for this change, and they point toward a steeper upward-sloping curve in the next few quarters. First, U.S. economic trends have been positive in recent months, ranging from the unemployment rate to retail sales. Second, government spending has shifted into a higher growth gear and the U.S. debt level is rising. Fixed-income investors have moved away from fears of deflation and are again seeking a term premium for their holdings. Third, the Fed is finally in front of the inflation curve and can afford to lower short-term rates. The central bank has built a wide cushion, or a gap, between fed funds and core PCE in order to push inflation back toward 2.0%. This is all well and good, but if the Fed's gap is too wide for too long, the central bank risks tipping the economy into a recession. The Fed is now trying to reduce that gap, without letting inflation rekindle, and lowered rates three time last year. We think the Fed may stay on the sidelines for a few months (to see that inflation does indeed subside) before resuming rate cuts in 2H25. Assuming lower rates keep the economy in a growth gear, longer-term rates should remain stable and the yield curve should continue to slope upward.

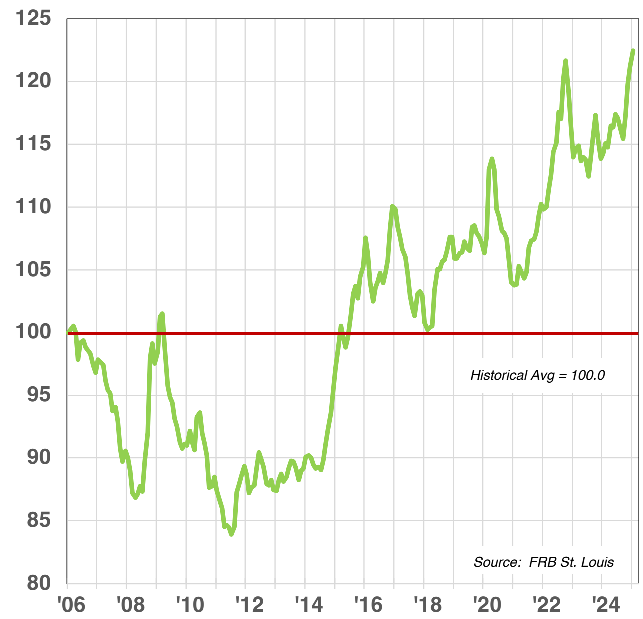
YIELD CURVE & OUTLOOK (%)



## DOLLAR STRENGTH REFLECTS U.S. ECONOMIC TRENDS

The dollar has strengthened into 2025, as the U.S. economy has grown at a somewhat surprisingly solid pace and the high level of interest rates has attracted global investors into dollar-denominated securities. We anticipate a relatively stable trading range for the dollar for the balance of the year, for several reasons. For one, the dollar typically tracks GDP growth trends, and we think the U.S. economic expansion is poised to ease in coming quarters as jobs growth slows. In addition, we expect the higher level of bond rates to increase the government's interest payments as a percentage of GDP from recent lows of 1.2%, putting a modest strain on the U.S. balance sheet. The current rate is 3.0%. Finally, the still-elevated valuation of the greenback implies that other currencies -- and even gold or other commodities -- are possibly undervalued, and we would expect investors such as the petrodollar-fueled sovereign wealth funds to bid up those values at a measured pace. For global investors, a higher dollar is a positive factor for export companies as their goods become cheaper in the global marketplace. But a higher dollar also can generate higher commodity prices, imported inflation, higher interest payments on global borrowings, and ultimately trade wars if U.S. exports stall.

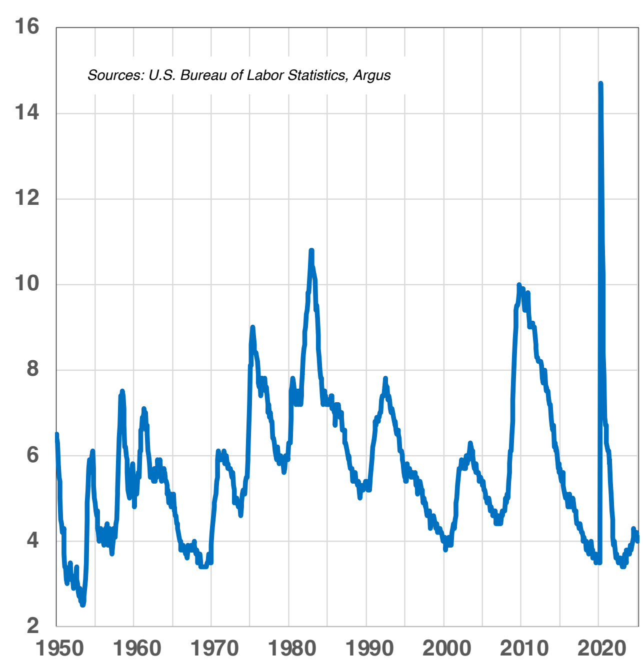
U.S. DOLLAR TREND
REAL TRADE-WEIGHTED U.S. DOLLAR INDEX




## MANUFACTURING JOBS RISE

The job market remained healthy in February amid signs it is poised to slow. The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated 151,000 nonfarm jobs in February, just above our forecast of 150,000 and below the consensus of 160,000. These numbers follow private reports from payroll processor ADP that showed slower job growth and outplacement specialist Challenger, Gray & Christmas that showed the highest monthly job-cut announcements since July 2020. January's payrolls were revised lower by 18,000 and December was revised up by 16,000. February's result and overall revisions to past results reduced the three-month average to 200,000 from 237,000. The February unemployment rate ticked up to 4.1%, which matched our estimate. Average hourly earnings increased 10 cents month to month and are 4.0% higher year over year, in line with our estimate and compared to 3.9% in January. The average workweek remained at 34.1 hours, a tick below our estimate. Filings for unemployment claims by federal workers thus far have been low, but are likely to rise. We are also likely to see cascading job losses at private government contractors. We believe 150,000 is a reasonable baseline at the beginning of 2025, declining to 115,000 or potentially below 100,000 later in the year.

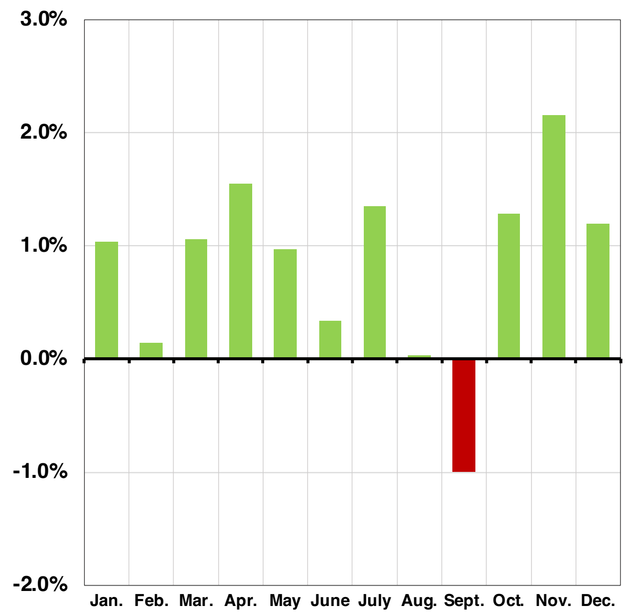
U.S. UNEMPLOYMENT RATE (%)



## MARCH CAN BE UNPREDICTABLE

Historically, March had been a strong month for equities -- prior to 2020. The average gain for the S&P 500 in the month of March since 1980 is now 1.05%, after absorbing the COVID-induced plunge of 12.5% in 2020. March is thus in the middle of the pack (sixth place) in terms of average monthly gains, with a winning percentage of 64%. We note that market returns in March have exceeded 4% on seven occasions since 1980, including a 4.2% gain in 2021 on COVID-19 vaccination progress and a 6.6% advance in 2016 as the market was beginning to recover from the oil price spikes of 2014-2015. Last year, March was on the up and up, with a gain of 3.1%. But there have been some clunkers, including 1980 (-10%), 2001 (-6.4%), 1994 (-4.5%), 1997 (-4.3%), 1988 (-3.3%) and, as discussed above, 2020. March generally is a quiet month on Wall Street, as the fourth-quarter earnings reports are for the most part finished. Without profits to review, investors will be paying very close attention to economic reports, including the nonfarm payrolls report this Friday, the Consumer Price Inflation report on March 12, and the Federal Reserve's two-day meeting on March 18 and 19. No doubt tariff talk and geopolitics will play into market activity for the month as well. We maintain our forecast for a positive year for the S&P 500, with returns near the historical average.

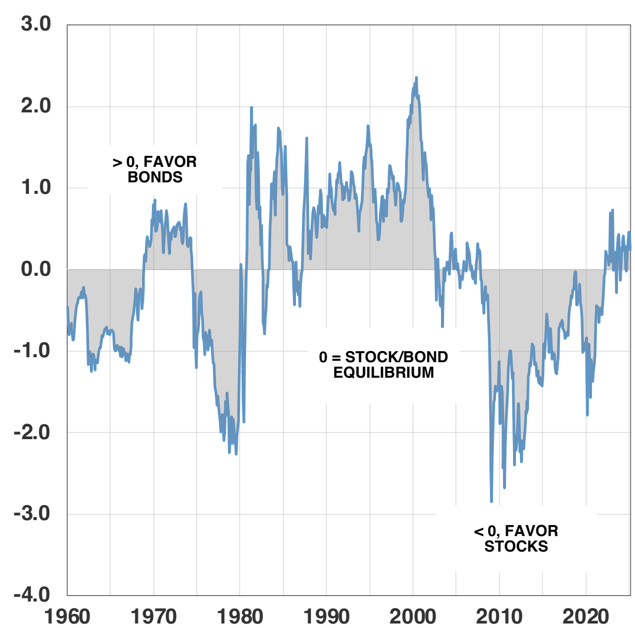
AVERAGE MONTHLY S&P 500 APPRECIATION



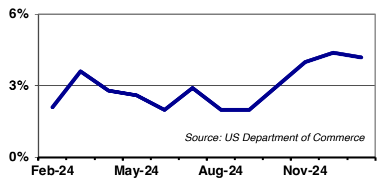

## PULLBACK HELPS EQUITY VALUATION

Our Stock-Bond Barometer asset-allocation model is indicating that bonds are the asset class currently offering the most value. The 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 premium for stocks of 0.09 sigma, with a standard deviation of 1.05. So stocks normally sell for a slight premium. The current valuation level is a 0.24 sigma premium for stocks, down from 0.5 last month in the wake of the equity sell-off in late February. Other measures also show reasonable (if not discount) multiples for stocks. We also look at S&P valuations in terms of sales and book value. On price/book, stocks are priced at the high end of the historical range given that tech stocks, with low capital bases, are the biggest component of the market. On price/sales, the current ratio of 3 is above the historical average but below the peak of the dot-com bubble. Lastly, the ratio of the S&P 500 price to an ounce of gold is 2.1, near the midpoint of the historical range. We expect results from our model to tilt back toward stocks, as inflation settles, interest rates head lower into 2026, and EPS growth picks up.

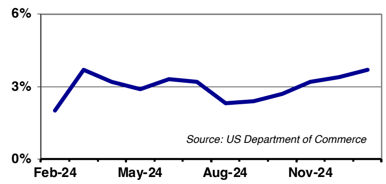
STOCK BOND BAROMETER
(STANDARD DEVIATIONS)



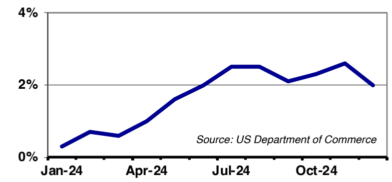
Release: **Retail Sales**
Date: 3/17/2025
Month: February
Previous Report: 4.2%
Argus Estimate: 4.0%
Street Estimate: NA



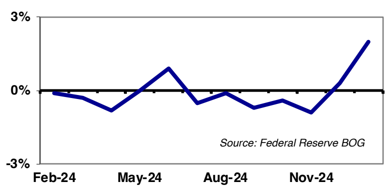

Release: **Retail Sales ex-autos**
Date: 3/17/2025
Month: February
Previous Report: 3.7%
Argus Estimate: 3.3%
Street Estimate: NA



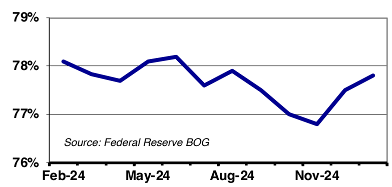

Release: **Business Inventories**
Date: 3/17/2025
Month: January
Previous Report: 2.0%
Argus Estimate: 2.4%
Street Estimate: NA



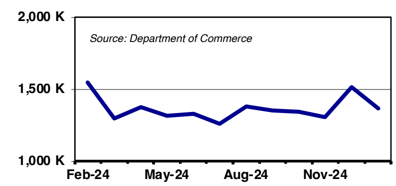

Release: **Industrial Production**
Date: 3/18/2025
Month: February
Previous Report: 2.0%
Argus Estimate: 0.8%
Street Estimate: NA



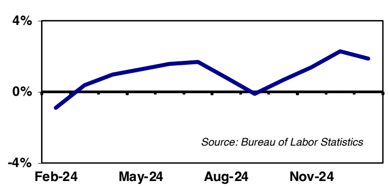

Release: **Capacity Utilization**
Date: 3/18/2025
Month: February
Previous Report: 77.8%
Argus Estimate: 77.7%
Street Estimate: 77.8%



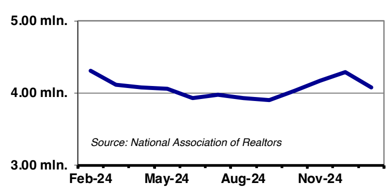

Release: **Housing Starts**
Date: 3/18/2025
Month: February
Previous Report: 1,366 K
Argus Estimate: 1,300 K
Street Estimate: 1,383 K



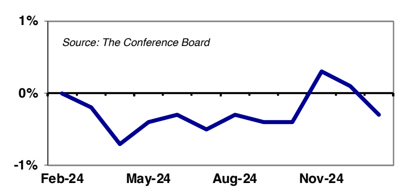

Release: **Import Price Index**
Date: 3/18/2025
Month: February
Previous Report: 1.9%
Argus Estimate: 1.7%
Street Estimate: NA




Release: **Existing Home Sales**
Date: 3/20/2025
Month: February
Previous Report: 4.08 mln.
Argus Estimate: 4.05 mln.
Street Estimate: 3.92 mln.




Release: **Leading Index**
Date: 3/20/2025
Month: February
Previous Report: -0.3%
Argus Estimate: -0.3%
Street Estimate: -0.1%




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

## Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 12-Mar | Consumer Price Index | February | 3.0% | 2.9% | 2.9% | NA |
| | CPI ex-Food & Energy | February | 3.3% | 3.2% | 3.2% | NA |
| 13-Mar | PPI Final Demand | February | 3.5% | 3.6% | 3.4% | NA |
| | PPI ex-Food & Energy | February | 3.6% | 3.7% | 3.6% | NA |
| 14-Mar | U. of Michigan Sentiment | March | 64.7 | 63.5 | 64 | NA |

## Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 25-Mar | New Home Sales | February | 657K | NA | NA | NA |
| | Consumer Confidence | March | 98.3 | NA | NA | NA |
| 26-Mar | Durable Goods Orders | February | 4.3% | NA | NA | NA |
| 27-Mar | GDP Annualized QoQ | 4Q "3rd est." | 2.3% | NA | NA | NA |
| | GDP Price Index | 4Q "3rd est." | 2.4% | NA | NA | NA |
| 28-Mar | PCE Deflator | February | 2.5% | NA | NA | NA |
| | PCE Core Deflator | February | 2.6% | NA | NA | NA |
| | Personal Income | February | 4.6% | NA | NA | NA |
| | Personal Spending | February | 5.6% | NA | NA | NA |