



OLD NORTH STATE TRUST

1250 REVOLUTION MILL DRIVE
SUITE 152
GREENSBORO, NC 27405

THE ECONOMY AT A GLANCE

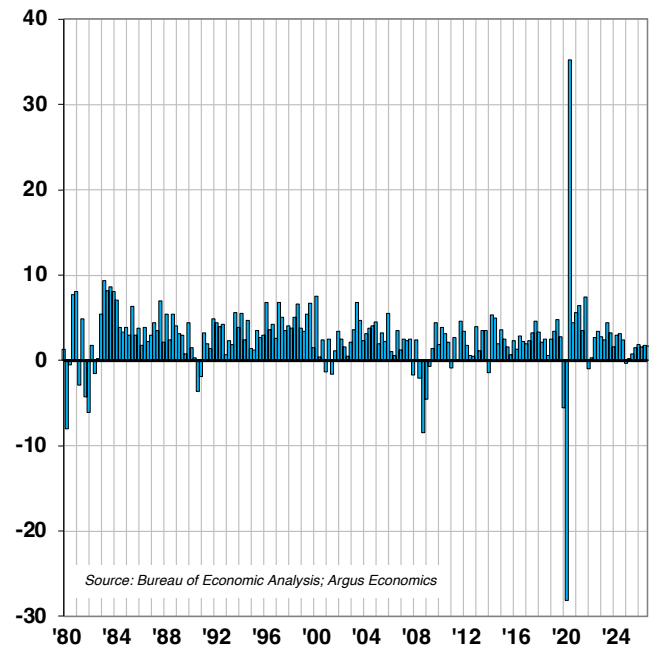
ECONOMIC HIGHLIGHTS

May 19, 2025
Vol. 92, No. 71

CUTTING 2025 GDP GROWTH TO 0.5%

The fact that Gross Domestic Product (GDP) fell in the first quarter at an annualized rate of 0.3% is a warning, not an epitaph. The economy's resilience has limits amid tariffs, government job and spending cuts, and falling business and consumer confidence. While we are not calling for a recession, we are reducing our 2025 estimate for GDP growth to 0.5% from 1.3%. The fact that we are even using the "R word" is significant because there have been only seven recessions in the last 50 years. The National Bureau of Economic Research (NBER), which is the official recession arbiter, defines a recession as "a significant decline in economic activity that is spread across the economy and lasts more than a few months." When we exclude the surge in imports (which reduce GDP) ahead of expected tariffs, GDP noticeably softened in 1Q. But with consumer spending up 1.8% and even home building adding to growth, we would not call it a significant decline. Among other economic reports last week, nonfarm payrolls are one of the indicators that the NBER watches closely. We believe the better-than-expected increase of 177,000 jobs in April and 1.2% growth on a year-over-year basis are encouraging. The Labor Department's diffusion index indicated that more than half of 250 private industries are hiring. Real personal income excluding transfer receipts, another gauge the NBER watches, rose 1.4% from a year earlier. Looking forward, we expect GDP to grow 0.2% in 2Q, 0.8% in 3Q, and 1.5% in 4Q. Our 2026 growth estimate is 1.8%, down from 1.9%.

GDP TRENDS & OUTLOOK (% CHANGE)

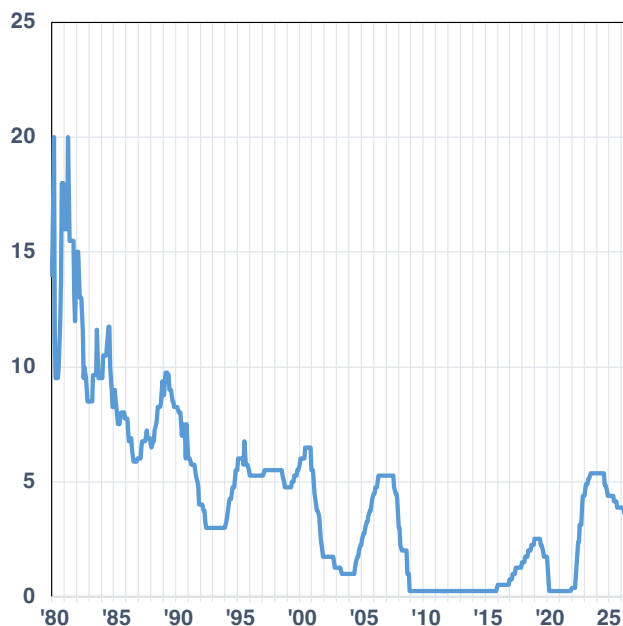


ECONOMIC HIGHLIGHTS (CONTINUED)

FED STILL ON PAUSE

The Federal Reserve wrapped up its latest Open Market Committee meeting and, as expected, maintained its fed funds target rate at the 4.25-4.50% level. This was the third consecutive meeting at which the central bank held policy steady after cutting rates three times in late 2024. The non-decision indicates that the Fed still has concerns over lingering inflation and is keeping an eye on the overall economy. Further, the central bankers, like the rest of the country, are uncertain about the potential impact on GDP and prices from the recent tariff initiatives. CPI inflation has fallen from readings above 9.0% in 2022 to readings below 3.0% -- but lately has struggled to extend its downward trend. Meanwhile, though, the unemployment rate is still historically low, even as GDP growth dipped into negative territory last quarter due to a quirky import number. Based on the healthy employment environment, the economy is not in dire need of lower rates. Yet. At the Fed's meeting in March, the central bankers updated their economic and interest-rate forecasts. These call for economic growth in the 1.8%-2.0% range through 2027, and an inflation rate down to 2.0% by 2027. At that point, the Fed anticipates its federal funds target rate to be 3.0%-3.25%, implying a real yield of about 1.25%. That's a forecast for five rate cuts over the next 30 months.

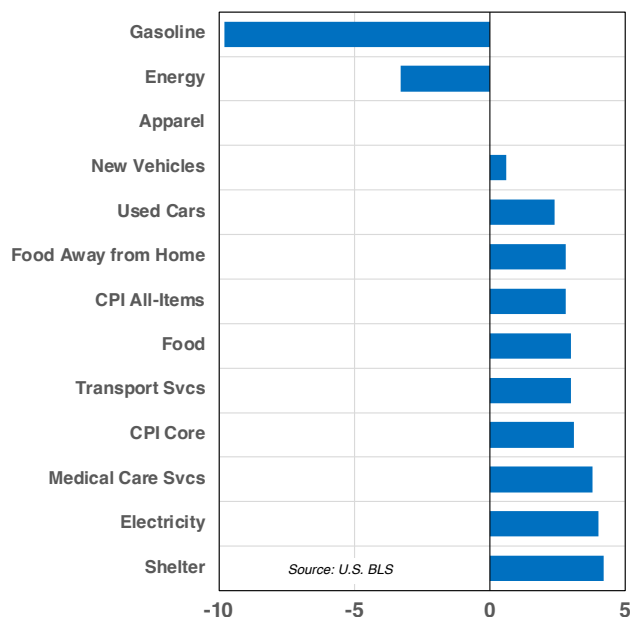
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



LOWER INFLATION TREND RESUMES

Two recent inflation reports -- the Consumer Price Index (CPI) and the Producer Price Index (PPI) -- signaled that pricing pressures are again easing. But both also confirmed that inflation remains above the Fed's target of 2.0%. For the CPI, the news was good, as the annualized headline number ticked lower from the previous month. The core inflation rate (ex-food and energy) was steady at 2.8%. The PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news also was positive. The PPI final demand annual rate through April was 2.4%, compared to 2.7%. Based on the fundamentals, we expect pricing pressures to continue easing as the housing market cools due to high mortgage rates, and the price of oil stays below \$90 per barrel. But that low price of oil reflects trade wars. President Trump's tariffs -- should they ever go into effect -- will almost certainly raise prices, sending inflation higher again. That will put new pressure on the Fed, which we think should be in position to lower rates in the second half of the year.

CONSUMER INFLATION FACTORS (% CHANGE Y/Y)

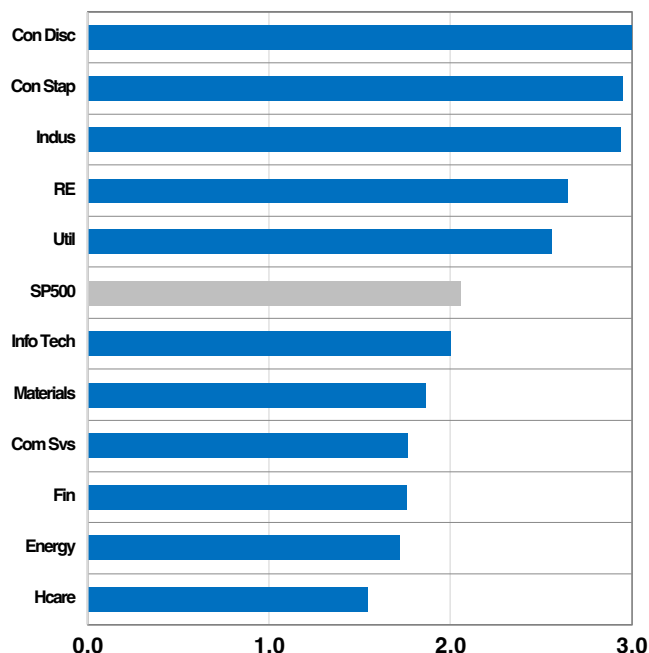


FINANCIAL MARKET HIGHLIGHTS

VALUE SECTORS INCLUDE FINANCIAL, HEALTHCARE, IT

Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might look at companies in the Healthcare, Financial, and Information Technology sectors. These are among the groups selling for (price/earnings)/(growth+yield) ratios at or below the S&P 500's ratio of 2.1. To generate the PEGY ratios, we use the P/E ratio for each sector based on forward earnings as 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 trend. Then we add the current yield, to approximate total return. Sectors with favorable growth and valuation characteristics, in addition to the three listed above, include Energy and Materials. Premium-valued sectors with low growth rates include the consumer groups. Based on our analysis of growth rates and valuations, along with other factors, our current overweight sectors are IT, Financial, Healthcare, Utilities, and Consumer Staples. Our under-weight sectors are Materials and Consumer Discretionary. Our Market-Weight sectors are Energy, Communication Services, Real Estate, and Industrial.

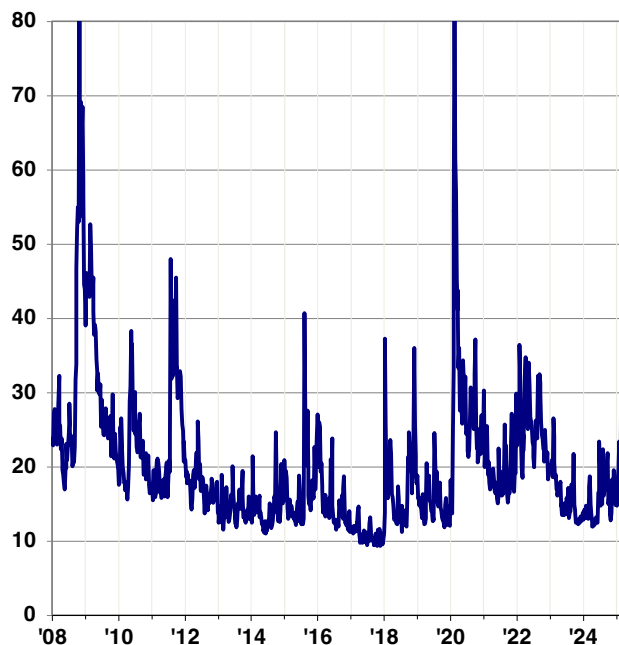
SECTOR PEGY RATIOS



FEAR INDEX BACK TO NORMAL LEVELS

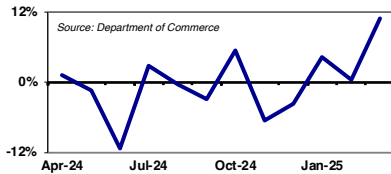
After almost two months of dramatic market swings, the closely-watched VIX Volatility Index has declined back below its historical average of 20. Meanwhile, stock prices have recovered most of the lost ground. We can't say the recent downdraft was unexpected. In our 2025 Market Outlook, we noted that investor complacency was high, that tariffs and trade wars could slow the economy, and that stock valuations were susceptible in the event of a sell-off in the IT sector. That was our "Bearish Case," and certain elements are likely to linger. Our "Base Case" called for another year of growth in the U.S. economy (and no recession), declining interest rates, and double-digit EPS growth. Each of those planks is currently in place. So assuming the Trump administration gets its economic growth plans firmly on track, there's reason to expect that equity prices can continue to recover. Back to the market, the current VIX fear index reading is around 17, consistent with a bull market. Indeed, during the long bull market in the 2010s, the VIX averaged 18 and even touched lows below 10 in 2017. We think the S&P 500 is in the early/mid-stage of a bull market that dates to October 2022 and suggest investors favor growth stocks at the current market and economic juncture.

VOLATILITY INDEX (WEEKLY CLOSE)

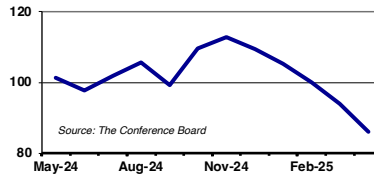


ECONOMIC TRADING CHARTS & CALENDAR

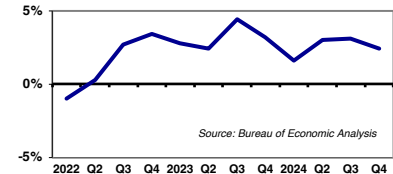
Release: **Durable Goods Orders**
 Date: 5/27/2025
 Month: April
 Previous Report: 10.9%
 Argus Estimate: -1.9%
 Street Estimate: NA



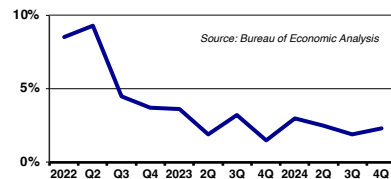
Release: **Consumer Confidence**
 Date: 5/27/2025
 Month: May
 Previous Report: 86.0
 Argus Estimate: 84.0
 Street Estimate: 87.0



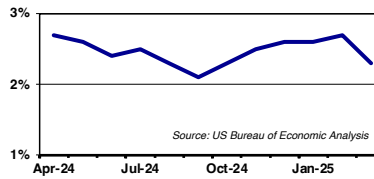
Release: **GDP Annualized QoQ**
 Date: 5/29/2025
 Month: 1Q
 Previous Report: -0.3%
 Argus Estimate: -0.3%
 Street Estimate: -0.4%



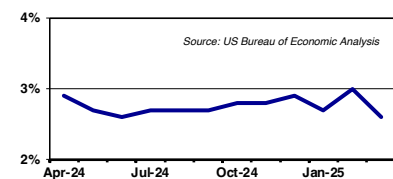
Release: **GDP Price Index**
 Date: 5/29/2025
 Month: 1Q
 Previous Report: 3.7%
 Argus Estimate: 3.7%
 Street Estimate: NA



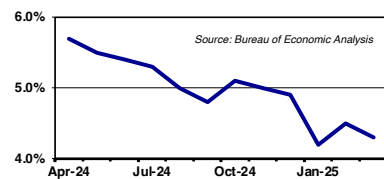
Release: **PCE Deflator**
 Date: 5/30/2025
 Month: April
 Previous Report: 2.3%
 Argus Estimate: 2.2%
 Street Estimate: 2.2%



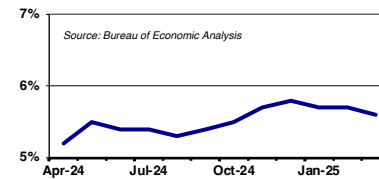
Release: **PCE Core Deflator**
 Date: 5/30/2025
 Month: April
 Previous Report: 2.6%
 Argus Estimate: 2.6%
 Street Estimate: 2.5%



Release: **Personal Income**
 Date: 5/30/2025
 Month: April
 Previous Report: 4.3%
 Argus Estimate: 4.3%
 Street Estimate: NA



Release: **Personal Spending**
 Date: 5/30/2025
 Month: April
 Previous Report: 5.6%
 Argus Estimate: 5.3%
 Street Estimate: NA



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
19-May	Leading Index	April	-0.8%	0.1%	NA	-1.0%
22-May	Existing Home Sales	April	4.02 Mln.	4.10 Mln.	4.10 Mln.	NA
23-May	New Home Sales	April	724K	650K	685K	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Jun	ISM Manufacturing	May	48.7	NA	NA	NA
	ISM New Orders	May	47.2	NA	NA	NA
	Construction Spending	April	2.8%	NA	NA	NA
3-Jun	Factory Orders	April	6.0%	NA	NA	NA
4-Jun	ISM Services Index	May	51.6	NA	NA	NA
5-Jun	Trade Balance	April	-\$140.5 Bln.	NA	NA	NA
	Total Vehicle Sales	May	17.27 Mln.	NA	NA	NA
6-Jun	Nonfarm Payrolls	May	177K	NA	NA	NA
	Unemployment Rate	May	4.2%	NA	NA	NA
	Average Weekly Hours	May	34.3	NA	NA	NA
	Average Hourly Earnings	May	3.8%	NA	NA	NA

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