



OLD NORTH STATE TRUST

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THE ECONOMY AT A GLANCE

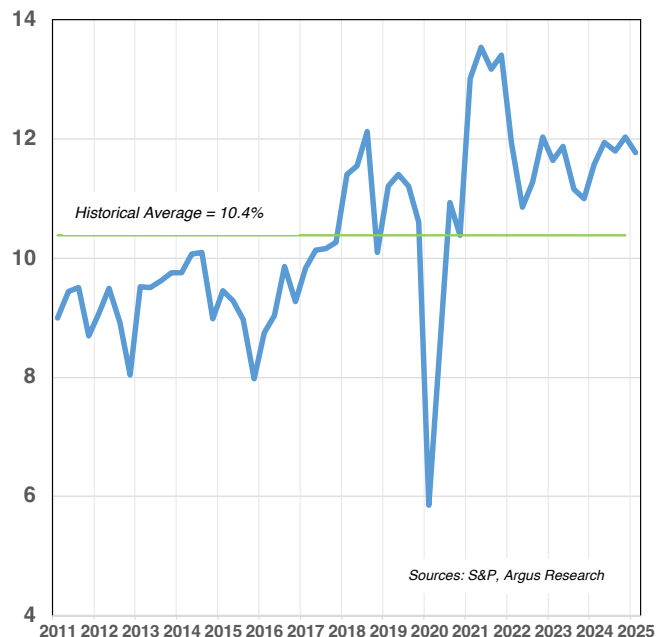
ECONOMIC HIGHLIGHTS

September 8, 2025
Vol. 92, No. 126

PROFIT MARGINS WIDENING

Earnings season is winding down, and the overall growth rate is set to land in the low-teens range, which is above our forecast for 7%-8% growth. Yes, earnings typically beat expectations. But let's take a closer look. There are three drivers to EPS growth: higher sales, a wider operating margin, and a reduced share count. A decline in shares outstanding, which is the result of corporate share buybacks, is the lowest-quality driver of EPS growth. Higher sales -- as customers demand and pay for more products and services -- is the highest quality, especially when those sales are driven by an increase in volume. (Second-quarter revenue growth has been about 6%, or about 40 basis points above long-term U.S. GDP growth, which is healthy.) Margin management is in the middle. Consistently wider margins are often a sign of a good management team, which should, over time, be able to grow revenues faster than it grows costs. That's a bit of a tall order in periods of high inflation, which raises the prices of Cost of Goods Sold, and of high interest rates, which result in higher financing costs. What's more, there's a cap to margins as they don't rise indefinitely. (That is one of those statistics for which the concept "reversion to the mean" is relevant.) In the first quarter, the S&P 500 operating margin widened by approximately 80 basis points year over year to 11.8%, and we estimate it will come in higher than 12.0% for 2Q. As such, there's still room before margins peak at around 13.5%-14.0%. That trend fits into our outlook for a modest widening in the S&P 500 operating margin in 2025, taking into account an expected negative drag from tariffs, and for EPS growth in the 10% range for the year.

S&P OPERATING MARGIN TRENDS (%)

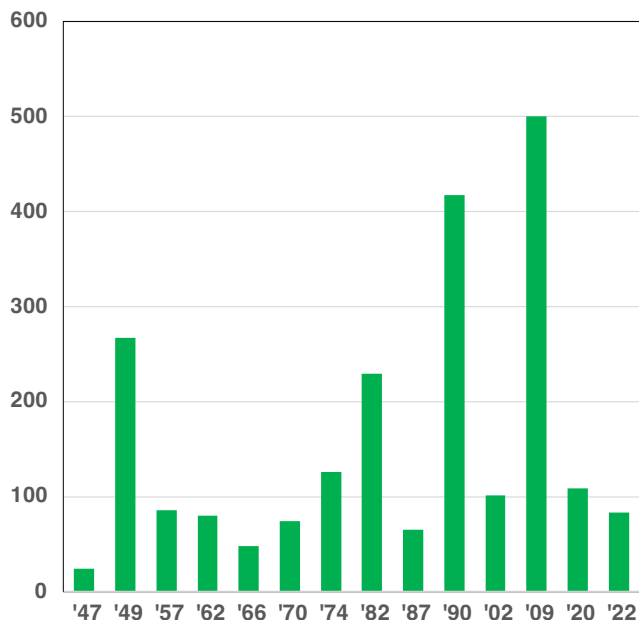


ECONOMIC HIGHLIGHTS (CONTINUED)

FED CLEARS PATH FOR LONGER BULL RUN

Recently, Fed Chairman Powell signaled that the central bank is ready to move off the sidelines and start reducing interest rates again -- and stocks rallied on the news. How much farther can this bull market go? We studied the 13 bull markets that occurred since the end of World War II. On average, the S&P 500 gained 164% during these 13 periods, which averaged 57 months in duration. Recent bull markets have generated higher returns over longer periods of time. On average, the five bull markets since 1980 have seen stocks advance about 240% over 70 months. And the bull market prior to the pandemic lasted 11 years, during which stocks rose 500%. Still, it is worth pointing out that the 2009-2020 bull market began with stocks deeply depressed on valuation, whereas stocks currently are near fair value. Even so, if rates continue to head lower on mild inflation news, earnings growth accelerates, and the economy avoids a recession, this new bull market, led by the performance of disruptive technology companies, could have room to run.

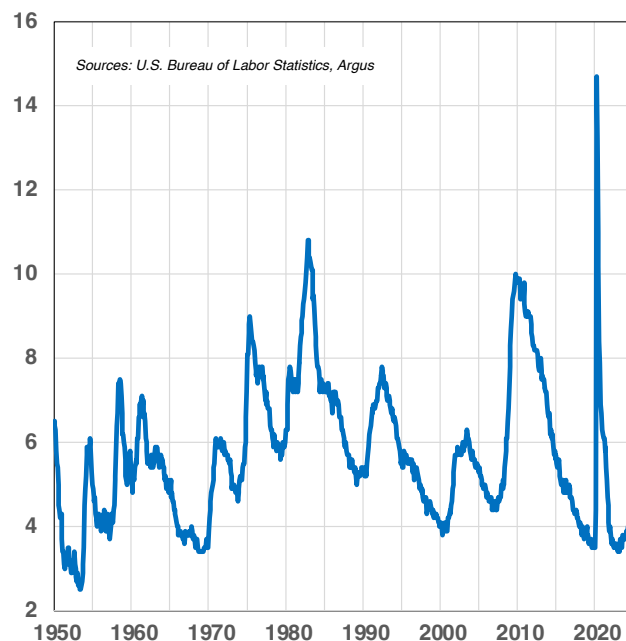
BULL MARKET RALLIES (% CHANGE IN S&P 500)



AUGUST PAYROLLS SLUMP, FED CUTS LIKELY

The job market showed additional signs of weakness in August, as hiring slowed, unemployment ticked higher, and June payrolls were revised lower. The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated just 22,000 nonfarm jobs in August, well below the consensus was 75,000. June's payrolls were revised lower by 27,000, resulting in a loss of 13,000 jobs in that month, and July was revised higher by 6,000, to 79,000. The August result and the combined revisions reduced the three-month average to 29,000 from 35,000. The BLS Diffusion Index indicated 49.6% of 250 private industries are hiring, up from 48.0% in July. Manufacturing rose to 45.8% from 45.1%. The August unemployment rate increased to 4.3%. Average hourly earnings increased ten cents month to month and are 3.7% higher year over year. The average workweek was unchanged at 34.2 hours. Employment increased in healthcare and social assistance. The manufacturing sector lost 12,000 jobs. Healthcare added 31,000 jobs and social assistance added 16,000. Federal government employment fell by 15,000, and the decline of 97,000 since January is still below 292,000 federal layoffs announced this year, according to outplacement firm Challenger, Gray & Christmas. The BLS reiterated that employees on paid leave or receiving ongoing severance pay are counted as employed in the establishment survey.

U.S. UNEMPLOYMENT RATE (%)

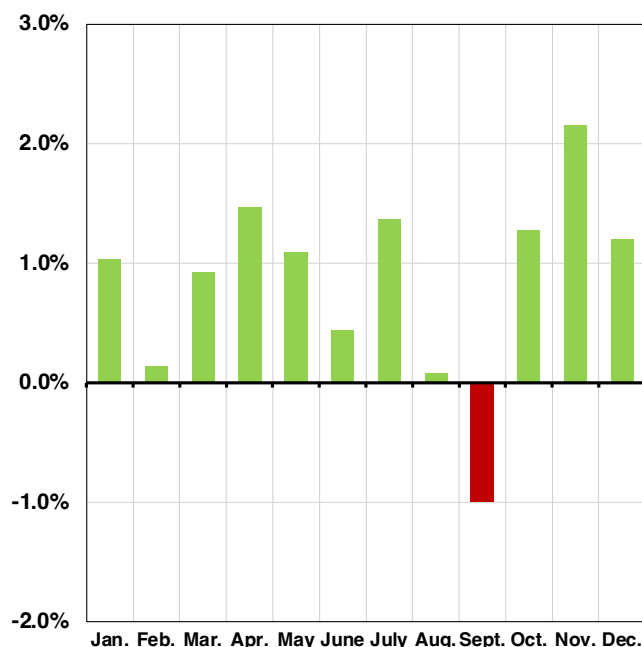


FINANCIAL MARKET HIGHLIGHTS

BEWARE SEPTEMBER

O analysis of monthly S&P 500 returns going back to 1980 indicates that September is the only month with an average loss. Now not every September is negative and the month has a “win percentage” of 47%. Last year, the S&P 500 rose 2.0% for the month, the biggest September gain in more than 10 years. But there certainly have been some bombs. September is a transition month: the August doldrums are over, corporations get back into gear post Labor Day, and the IPO market typically picks up. As well, the Federal Reserve meets, which can add to volatility. And, sometimes ominously, the third-quarter earnings season approaches. By the end of 3Q, companies are pretty sure if they are on track (or not) to meet their financial targets. If they are not, and they pre-warn about disappointing results, investors can be quick to sell not just a company but its entire sector.

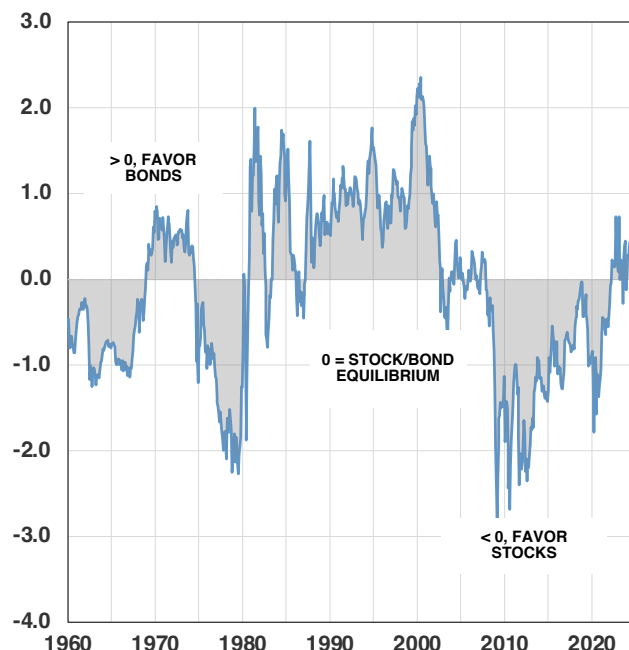
AVERAGE MONTHLY S&P 500 APPRECIATION



A BUBBLE?

Our Stock Bond Barometer asset-allocation model is indicating that the two major portfolio asset classes are near parity on valuation. The model, our most-comprehensive, goes back to 1960 and its output is expressed in terms of standard deviations to the mean, or sigma. The mean reading is a modest premium for stocks of 0.09 sigma, with a standard deviation of 1.05. As such, stocks normally sell for a slight premium compared to bonds, which has been the case since inflation -- and bond yields -- jumped in 2022. The current valuation level is a 0.41 sigma premium for stocks, not a discount but within the normal range. Other valuation measures show reasonable multiples for stocks. The forward P/E ratio for the S&P 500 is about 22, within the normal range of 15-24. On price/book, stocks are priced at the high end of the historical range of 5.3-1.8, given that tech stocks, which have low capital bases, are the biggest component of the market. The theory holds on dividend yield as well, as the S&P 500 yield of 1.13% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 26% compared to the long-run average of 39%. On price/sales, the current ratio of 3.1 is above the historical average of 1.8, but well below the 4.0 multiple at the peak of the dot-com bubble. Further, the gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is now 320 basis points, compared to the historical average of 400. Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.8, just below the midpoint of the historical range of 1-to-3. These measures suggest to us that the stock market -- despite record highs -- is not currently in danger of entering bubble territory.

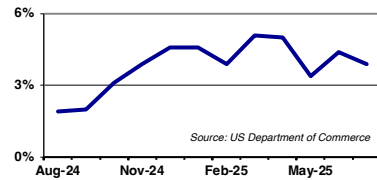
STOCK BOND BAROMETER (STANDARD DEVIATIONS)



ECONOMIC TRADING CHARTS & CALENDAR

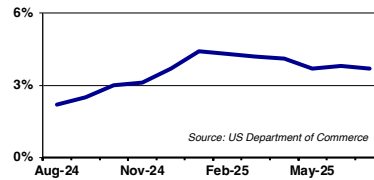
Release: **Retail Sales**

Date: 9/16/2025
Month: August
Previous Report: 3.9%
Argus Estimate: 4.4%
Street Estimate: NA



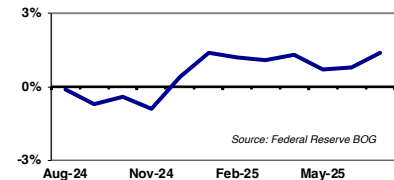
Release: **Retail Sales ex-autos**

Date: 9/16/2025
Month: August
Previous Report: 3.7%
Argus Estimate: 4.1%
Street Estimate: NA



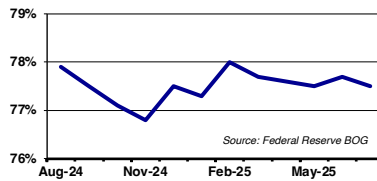
Release: **Industrial Production**

Date: 9/16/2025
Month: August
Previous Report: 1.4%
Argus Estimate: 1.0%
Street Estimate: NA



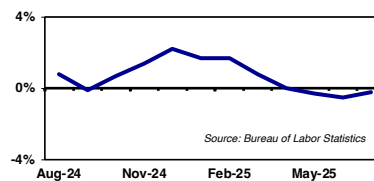
Release: **Capacity Utilization**

Date: 9/16/2025
Month: August
Previous Report: 77.5%
Argus Estimate: 77.4%
Street Estimate: 77.4%



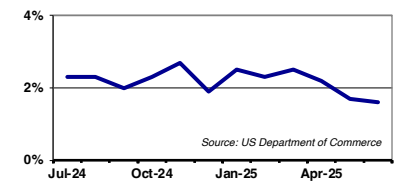
Release: **Import Price Index**

Date: 9/16/2025
Month: August
Previous Report: -0.2%
Argus Estimate: -0.2%
Street Estimate: NA



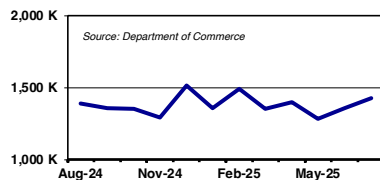
Release: **Business Inventories**

Date: 9/16/2025
Month: July
Previous Report: 1.6%
Argus Estimate: 1.4%
Street Estimate: NA



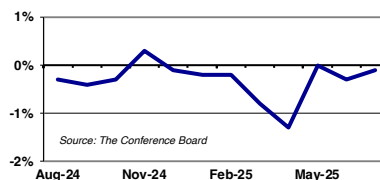
Release: **Housing Starts**

Date: 9/17/2025
Month: August
Previous Report: 1,428 K
Argus Estimate: 1,250 K
Street Estimate: 1,375 K



Release: **Leading Index**

Date: 9/18/2025
Month: August
Previous Report: -0.1%
Argus Estimate: -0.2%
Street Estimate: -0.1%



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
10-Sep	PPI Final Demand	August	3.3%	3.4%	3.3%	NA
	PPI ex-Food & Energy	August	3.7%	3.7%	3.5%	NA
	Wholesale Inventories	July	1.3%	1.3%	NA	NA
11-Sep	Consumer Price Index	August	2.7%	2.9%	2.9%	NA
	CPI ex-Food & Energy	August	3.1%	3.1%	3.1%	NA
12-Sep	U. Michigan Sentiment	September	58.6	58.0	58.0	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-Sep	Existing Home Sales	August	4.01 Mln.	NA	NA	NA
24-Sep	New Home Sales	August	652K	NA	NA	NA
25-Sep	GDP Annualized QoQ	2Q "3rd est."	3.3%	NA	NA	NA
	GDP Price Index	2Q "3rd est."	2.0%	NA	NA	NA
	Durable Goods Orders	August	3.7%	NA	NA	NA
26-Sep	PCE Deflator	August	2.6%	NA	NA	NA
	PCE Core Deflator	August	2.9%	NA	NA	NA
	Personal Income	August	4.7%	NA	NA	NA
	Personal Spending	August	5.0%	NA	NA	NA

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