

## THE ECONOMY AT A GLANCE

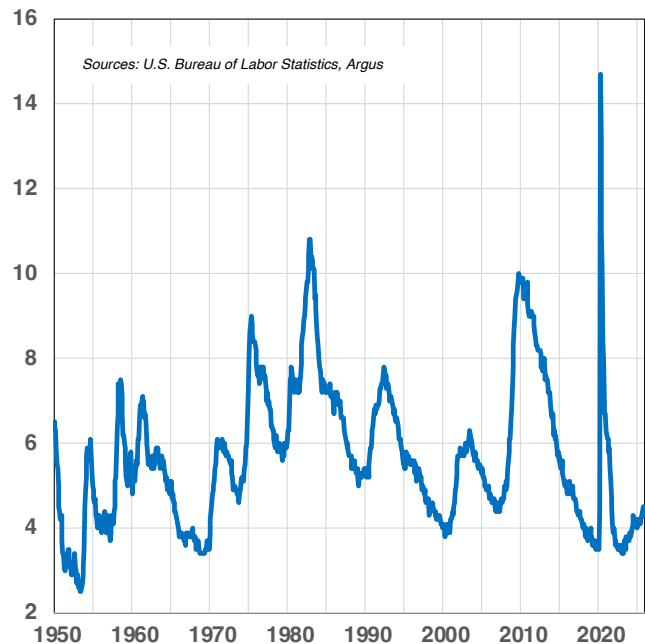
### ECONOMIC HIGHLIGHTS

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#### LOWER UNEMPLOYMENT KEEPS FED ON HOLD

The Bureau of Labor Statistics (BLS) released the Employment Situation for January, and the report indicated that the U.S. generated 130,000 non-farm jobs in January, helped by continuing strong growth in healthcare. That was stronger than expected and an improvement from the recent trend. Our forecast was for an increase of 45,000 new jobs in January, while the consensus was 70,000. The results raised the three-month average to 73,000 from -22,000 before the report. December's payrolls were revised lower by 2,000 to 48,000 and November was reduced by 15,000 to 41,000. The BLS Diffusion Index indicated 55% of 250 private industries are hiring, up from 54.2% in December. Manufacturing rose to 50.7% from 45.1%. The January unemployment rate declined to 4.3% from 4.4% in December. Average hourly earnings increased \$0.15 month to month and are 3.7% higher year over year. The average workweek ticked up to 34.3 hours. We had expected an unemployment rate of 4.4%. Employment rose in healthcare, social assistance, and construction. Job losses occurred in financial activities as well as in the federal government. The manufacturing sector gained 5,000 jobs. Healthcare and social assistance added 123,500, with the healthcare component up by 82,000. Non-residential construction added 25,000 jobs. Federal government employment fell by 34,000 in January. Federal employment has declined by 377,000, or 10.9%, since its peak in October 2024. The probability that the Fed will cut the funds target to 3.25% to 3.50% at the conclusion of its meeting on March 18 dropped to 6% from 22% before the report.

#### U.S. UNEMPLOYMENT RATE (%)

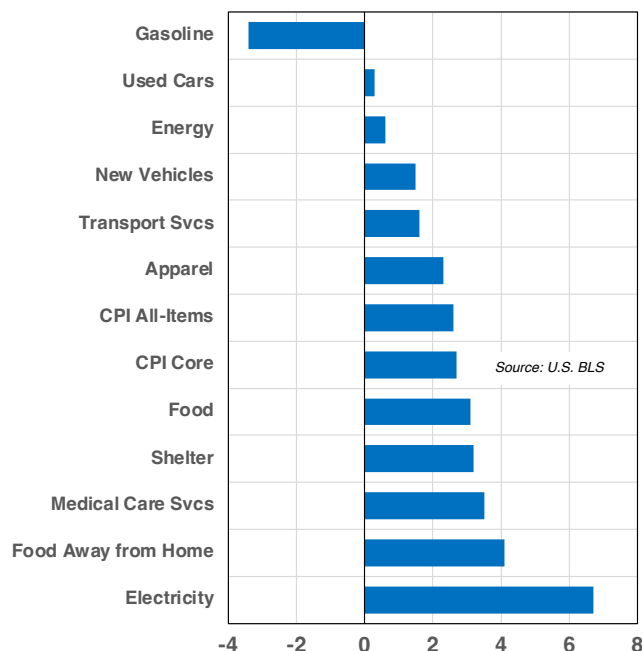


## ECONOMIC HIGHLIGHTS (CONTINUED)

### INFLATION PRESSURES EASE AGAIN

Two recent important inflation reports -- the Consumer Price Index (CPI) and the Producer Price Index (PPI) -- indicated that overall inflation remains well below the peak rates from summer 2022. But both also confirmed that the rate of price increases is still above the Fed's target of 2.0%. Let's first take a deeper dive into the Consumer Price Index. The news here was good, as the annualized headline number of 2.4% dropped 30 basis points compared with the previous month, while the core rate eased 10 basis points to 2.5%. The steady overall pricing environment included a 7.5% decline in gasoline prices, as well as under-control food costs (+2.1% at home) and new vehicles (+0.4%). The problematic sticky categories of shelter and transportation also have been better behaved. Meanwhile, the PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news also signaled price stability. The PPI final demand annual rate through December was 3.0%, compared to 3.0% in November and 3.7% in January 2025. Looking ahead, based on the fundamentals of supply and demand, we expect pricing pressures to continue easing modestly as the housing market cools due to high mortgage rates and the price of oil stays below \$90 per barrel.

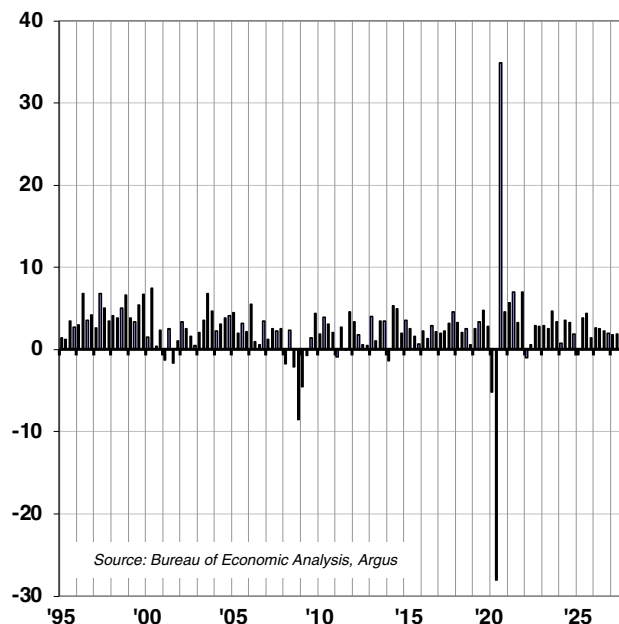
### CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



### SHUTDOWN SLOWS 4Q GDP

According to the advance estimate released by the Bureau of Economic Analysis, U.S. Gross Domestic Product (GDP) rose in the fourth quarter at an annualized rate of 1.4%. That's a deceleration from 4.4% growth in the third quarter. The BEA said that the full effects of the government shutdown cannot be quantified, but the reduction in federal services subtracted about 1 percentage point from GDP. For the year, GDP increased 2.2%, down from 2.8% in 2024. Real final sales to private domestic purchasers, which focuses on core consumer spending and business investment, was up 2.4% versus 2.9% in 3Q. Spending by consumers rose 2.4% in 4Q, a slowdown from the 3.5% increase in 3Q. Within goods, non-durables were up 0.4%. Durables were down 0.9%, after a 1.6% increase in 3Q. The huge services category was up a solid 3.4% following an increase of 3.6% in 3Q. The category added about 1.6 points of growth, with a solid contribution from healthcare. Private investment grew 3.8%. Both residential and non-residential construction were weak. Spending on artificial intelligence continued to be an important driver of growth. Intellectual property products grew 7.4%. Imports decreased 1.3%. Net exports of goods and service (the trade balance), raised 3Q GDP by 0.08 percentage points. Government consumption and investment declined 5.1%.

### REAL GDP (% GROWTH/QTR)

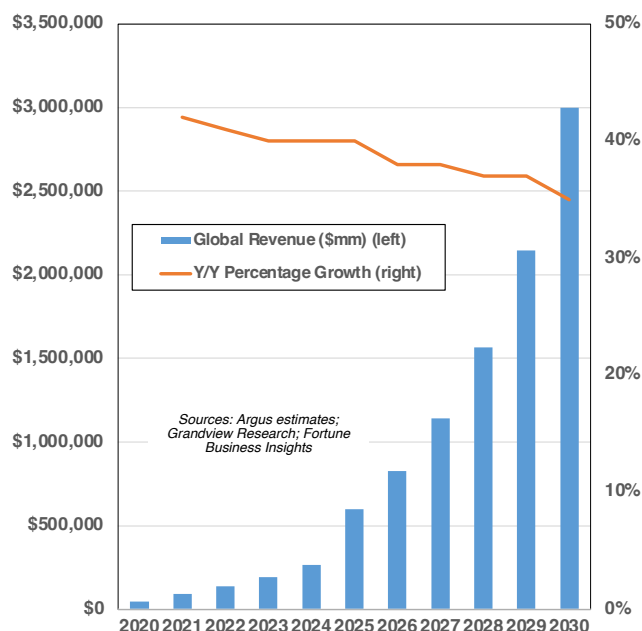


# FINANCIAL MARKET HIGHLIGHTS

## UNDERSTANDING AI GROWTH OPPORTUNITIES

We expect S&P 500 earnings to grow at a double-digit rate this year. We also like companies that increase their dividends at a 10%-plus rate. How does the AI marketplace stack up against those metrics? Pretty well. We derived a model of the size and scope of the global AI industry. We estimate that annual revenue from the global AI infrastructure industry -- data center spending, chips, network equipment, storage etc. -- amounted to \$600 billion in 2025. We expect that to grow at a 40% CAGR through 2030, when total revenue is forecast to reach \$3.0 trillion. Forecasters are making such claims because the market for AI technology is changing rapidly and broadening dramatically. In fact, in the months leading up to Nvidia's latest quarterly results release, the company announced multiple new AI partnership deals -- not with the hyperscalers that dominated earlier GPU demand, but with multiple neoclouds, large global enterprises, and sovereign clients. Indeed, as AI winnings are redeployed into other areas (healthcare, aerospace & defense, financial services), the industries can benefit from operational efficiencies, new products, new markets, and disruptive developments. From an investment standpoint, a market rotation of assets out of purely AI and into potentially beneficiary segments can be healthy for near-term stability in the stock market. The AI trade may be bumpy going forward. But like other transformational technology trades before it (cloud, internet, semiconductors, and PCs), it seems likely to be long and fruitful.

## AI INFRASTRUCTURE MARKET SIZE 2020-30E

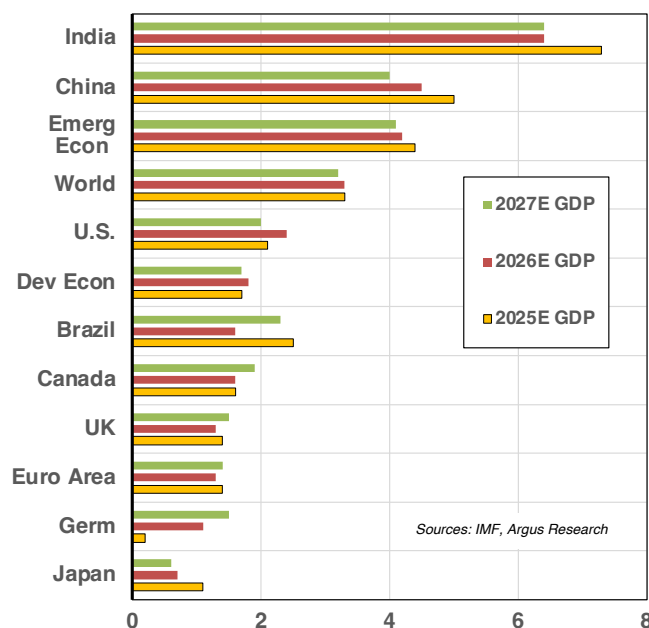


## EMERGING MARKETS

### SET FOR GROWTH LEADERSHIP

According to the latest World Economic Outlook from the International Monetary Fund, the world economy is expected to expand at a 3.3% rate in 2026. How does this compare to historical rates? It is true that these rates are lower than the long-term historical global growth rate of 3.8%, due to the impact in recent years of tariffs and trade wars, onshoring, inflation, and higher interest rates. But that's not to say that there aren't growth opportunities for investors. For advanced economies, growth is forecast at 1.8% in 2026, up from 1.6% in 2025. For emerging economies, forecasts call for 4.2% growth in 2026. The clear leaders are expected to be India and China, with average growth for the next two years of 6.4% and 4.3%, respectively. Recent financial market activity reflects the bullish outlook for emerging market economic growth. The Emerging Market Index ETF EEM is up almost 40% over the past year, outpacing the S&P 500 for one of the few times in the past decade.

## GLOBAL GDP GROWTH RATES & FORECASTS (%)



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# KEY ECONOMIC FORECASTS

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- The \$31 trillion U.S. economy remains on course for growth, powered by corporate investments in AI and outsized spending by the wealthiest households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- We recently raised our 2026 forecast for GDP growth to 2.5% from 2.3%. Unemployment remains low, the Fed has been stimulating growth by reducing the funds rate, and last year's tax legislation could boost tax returns by \$600 - \$1,000 for many families. We are maintaining our 2027 GDP estimate at 1.8%.
- Consumers have been the engine of economic growth. That should continue with unemployment at 4.3%. Demand for healthcare workers, who are hard to replace with AI, is strong in an aging population.
- Inflation's downward progress has stalled above the Fed's 2% target. Core PCE was 2.8% in 2025, down just one tick from 2.9% in 2024. The median projection of Federal Reserve officials does not return to 2% until 2028.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 59% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be flat or slightly stronger in 2026 as foreign demand for shares of innovative U.S. companies and economic resilience offset monetary easing.
- As long as geopolitics are flaring and the global economy is wobbling, gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. Our average target price in 2026 is \$4,500.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.7%, well below the average of 9.2% since 1949.
- What could go right? Monetary easing, big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, and ongoing innovation.
- Risks: Elevated Inflation, housing is stalled, low income consumers are struggling, spending by affluent may be dependent on stock market gains, AI may reduce entry-level hiring.

# CURRENT ECONOMIC RELEASES

## Current Economic Releases

| Date   | Release                 | Month        | Previous Report     | Argus Estimate | Street Estimate | Actual              |
|--------|-------------------------|--------------|---------------------|----------------|-----------------|---------------------|
| 19-Feb | Trade Balance           | December     | <b>-\$53.0 Bln.</b> | -\$55.0 Bln.   | -\$55.5 Bln.    | <b>-\$70.3 Bln.</b> |
| 20-Feb | GDP Annualized QoQ      | 4Q "Advance" | 4.4%                | 3.1%           | 2.9%            | <b>1.4%</b>         |
|        | GDP Price Index         | 4Q "Advance" | 3.8%                | 3.5%           | NA              | <b>3.6%</b>         |
|        | PCE Deflator            | December     | 2.8%                | 2.8%           | NA              | <b>2.9%</b>         |
|        | PCE Core Deflator       | December     | 2.8%                | 2.8%           | 3.0%            | <b>3.0%</b>         |
|        | Personal Income         | December     | <b>4.4%</b>         | 4.4%           | NA              | <b>4.3%</b>         |
|        | Personal Spending       | December     | <b>5.3%</b>         | 4.7%           | NA              | <b>4.7%</b>         |
|        | New Home Sales          | December     | <b>758K</b>         | 725K           | 738K            | <b>745K</b>         |
| 23-Feb | Factory Orders          | December     | 5.4%                | 5.0%           | NA              | <b>4.3%</b>         |
| 24-Feb | Wholesale Inventories   | December     | <b>1.9%</b>         | 1.6%           | NA              | <b>2.9%</b>         |
|        | Consumer Confidence     | February     | <b>89.0</b>         | 88.0           | 88.0            | <b>91.2%</b>        |
| 27-Feb | PPI Final Demand        | January      | 3.0%                | 2.4%           | 2.6%            | NA                  |
|        | PPI ex-Food & Energy    | January      | 3.3%                | 2.8%           | 3.0%            | NA                  |
|        | Construction Spending   | December     | -1.0%               | 1.0%           | NA              | NA                  |
| 2-Mar  | ISM Manufacturing       | February     | 52.6                | 52.0           | 51.2            | NA                  |
|        | ISM New Orders          | February     | 57.1                | 55.0           | NA              | NA                  |
| 4-Mar  | ISM Services Index      | February     | 53.8                | 53.4           | 53.8            | NA                  |
| 5-Mar  | Import Price Index      | January      | 0.0%                | 0.2%           | NA              | NA                  |
|        | Nonfarm Productivity    | 4Q           | 4.9%                | 2.6%           | NA              | NA                  |
|        | Unit Labor Costs        | 4Q           | -1.9%               | 1.0%           | NA              | NA                  |
| 6-Mar  | Nonfarm Payrolls        | February     | 130K                | 65K            | 60K             | NA                  |
|        | Unemployment Rate       | February     | 4.3%                | 4.3%           | 4.4%            | NA                  |
|        | Average Weekly Hours    | February     | 34.3                | 34.3           | NA              | NA                  |
|        | Average Hourly Earnings | February     | 3.7%                | 3.7%           | NA              | NA                  |
|        | Retail Sales            | January      | 2.4%                | 3.0%           | NA              | NA                  |
|        | Retail Sales ex-autos   | January      | 3.3%                | 3.5%           | NA              | NA                  |
|        | Business Inventories    | November     | 1.2%                | 1.0%           | NA              | NA                  |
|        | Total Vehicle Sales     | February     | 14.8 Mln.           | 15.5 Mln.      | NA              | NA                  |

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