OLD NORTH STATE TRUST

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THE ECONOMY AT A GLANCE

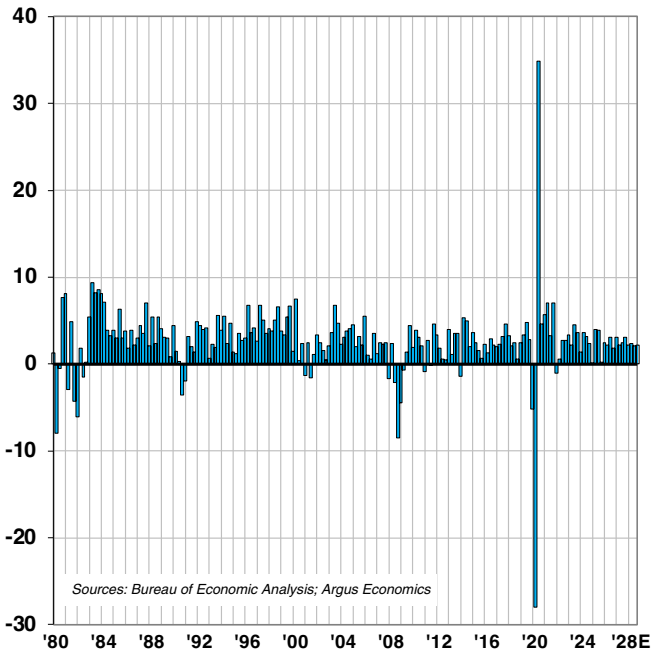
ECONOMIC HIGHLIGHTS

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RAISING GDP ESTIMATES

After more than seven months of high gasoline prices, unemployment is low, at 4.2%, and the S&P 500 is up 13% year to date. We expect S&P 500 earnings per share (EPS) to rise almost 25% to $340 in 2026 and about 15% to $390 in 2027. EPS are helped by the increase in operating margin to about 19% this year, well above 13.9% in 2019. When companies are making money, it reduces the need for layoffs and provides cash that builds gross domestic product (GDP) through capital spending and research and development. Companies also use cash for dividends, which is good for investors. As such, the stock market is a leading indicator for the economy. We keep things simple and look at the six-month return, which is encouraging, at up about 14%. We now expect GDP to grow by 2.4% in 2026, up from our previous estimate of 2.2%. We also raised our estimate for 2027 growth to 2.4% from 2.2%. Our case for continuing expansion is that unemployment is low and paychecks keep coming. Investment in artificial intelligence seems poised to continue, as companies race each other and the U.S. races China. Based on the minutes of the September meeting of the Federal Open Market Committee, many central bankers saw financial conditions as being supportive of economic growth despite the rise in longer-term Treasury yields. Federal Reserve (Fed) officials mentioned the benefits of rising stock prices as well as credit that is generally available to most households. The Fed also noted that real private domestic final purchases appear to have picked up in the first half of the year. The measure often provides a better signal of economic momentum than headline GDP. Based on the Federal Reserve Bank of Atlanta's GDP Nowcast on October 6, the measure was projected to rise 4.5% in 3Q.

GDP TRENDS & OUTLOOK (% CHANGE)

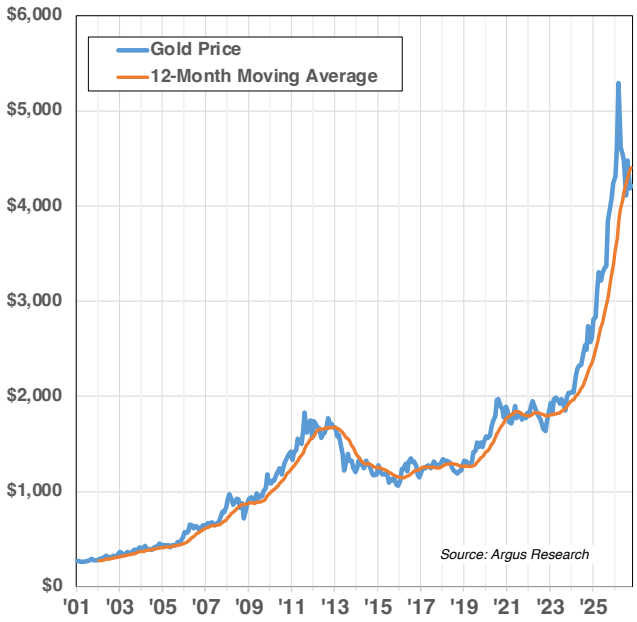


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GOLD PRICES DOWN FROM THE CLOUDS

When storms start to brew in the global economy, investors often flock to gold. But when the conditions clear, investors may head in a different direction. This year, gold prices established a high for the century back in January at almost $5,500 per ounce. But as the domestic economy has continued to expand and market volatility has waned, the yellow metal has drifted 20% off its highs and is now in the red for the year. Back in 2019, gold was fetching about $1,200 per ounce. The current price of gold — more than three times the average price for this century — reflects the perceived safety of hard assets amid the global give-and-takes of health scares, trade wars, and concern over the dollar. Our forecast for the average price of gold in 2026 is $4,300. This compares to average prices of $3,455 in 2025 and $2,450 in 2023. Looking to 2027, we anticipate a trading range of $3,500-$5,000 and an average price of $4,300 again. Those are the fundamentals. Has this recent gold price pullback gone too far from an investment standpoint? Taking a look at technical trends, the price of gold had been in a long-term bullish run of higher highs and higher lows that dated to 2016. But momentum stretched prices at the highs. On average, the price of gold has traded at a 6% premium to its 12-month moving average this century. The standard deviation is 9%. Earlier this year, the premium almost reached 40%, more than three standard deviations above the norm. Now the price is 4% below the moving average. Is it a bargain? As a fundamental valuation measure, we compare the price of gold to the value of the S&P 500. Over the past 45 years, the ratio of the S&P 500 to an ounce of gold generally ranged from 3 to 1. A reading above 3 tends to reflect too much confidence in the S&P 500, while a reading below 1 is a nosebleed price for gold. The current ratio is about 1.9, a bit below the midpoint of that long-term range. We use gold as an alternative investment (2% allocation) in our model portfolios.

GOLD PRICE TRENDS (PER OUNCE)

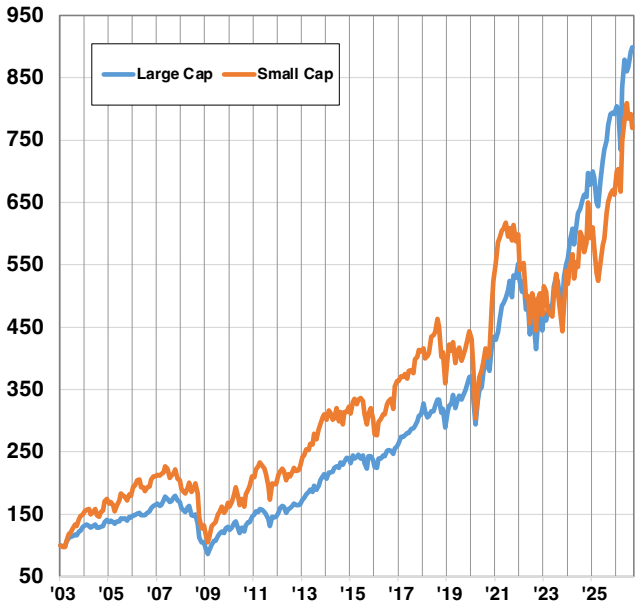


FINANCIAL MARKET HIGHLIGHTS

DON'T OVERLOOK SMALL AND MID CAPS

Despite bursts of volatility, small- and mid-cap (SMID) stocks have outperformed large-cap stocks year-to-date. And looking ahead, SMID stocks may be in a better position to generate market-beating returns. For one thing, SMID companies tend to focus on domestic markets, so their businesses could be less disrupted by the trade and tariff debate, fallout from unrest in the Middle East, the Russian invasion of Ukraine, issues in China, or other geopolitical developments. As well, higher interest rates as the Federal Reserve tightens policy could signal a stronger domestic economy for companies of all sizes. In addition, the prices of SMID stocks generally are lower than the prices of large caps, with the P/E ratio on the Russell 2000 Index, which measures small caps, at 17, compared to a trailing P/E near 25 for the S&P 500. Finally, there are long stretches in the record books when SMID stocks have outperformed large caps. Indeed, from 2003 to 2021, the Russell 2000 Index climbed 450%, compared to an advance of 330% for the S&P 500. That said, SMID stocks can be risky. The standard deviation for monthly returns was 5.7% for SMID stocks from 2003 to 2025 versus 4.2% for large caps. SMID stocks fell further in negative years during our test period when they did fall, with an average 15% drop versus a 12% pullback for large caps. Still, despite the risks, diversified investors should look to have exposure to small caps and mid caps based on the long-term performance record. We estimate that 10% of the U.S. stock market's capitalization consists of SMID stocks.

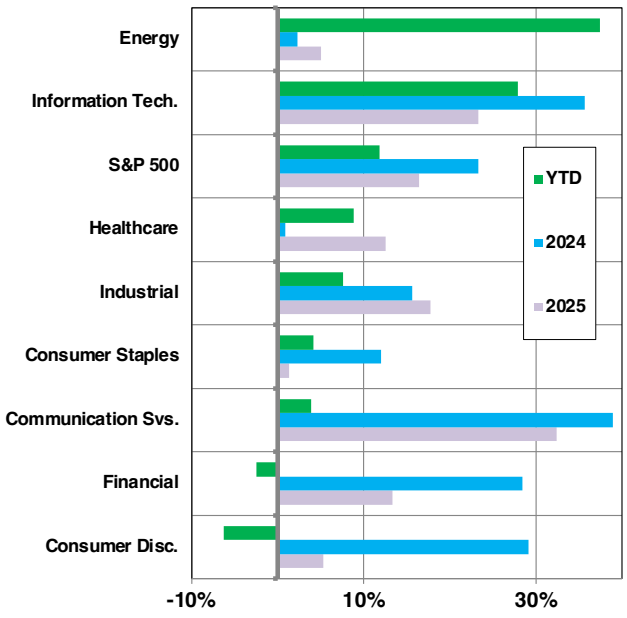
LARGE CAPS VS. SMALL CAPS



SECTOR LEADERS & LAGGARDS IN 3Q26

In 3Q26, the best sector performers spanned a variety of investing styles, from inflation hedge to growth to defensive. Energy led in 3Q, with a 15% gain. Other winning sectors in the quarter were Healthcare (up 7%), Information Technology (up 5%), and Communication Services (up 4%). The sectors that declined in the period were Consumer Discretionary, Consumer Staples, Financial, Industrial, Utilities, Real Estate, and Materials. Nine months of volatile trading have led to a balanced advance for the market heading into the fourth quarter. Energy leads, with a 38% gain for the first nine months of the year, while Information Technology is up almost 30%. Six sectors -- Materials, Healthcare, Industrial, Real Estate, Communication Services, and Consumer Staples -- are up in single-digit percentages in that year-to-date period. And three sectors -- Consumer Discretionary, Financial, and Utilities -- are down for the period. We believe that rotation away from growth and toward more diversity in sector leadership is positive for sustaining the health and length of a bull market. A balanced advance lessens the risk of a thin, toppy market and can help a shaky bull become steadier on its hooves.

SECTOR PERFORMANCE (CHANGE PER PERIOD)



KEY ECONOMIC FORECASTS

- The $33 trillion U.S. economy remains on course for productive long-term growth, powered by corporate investments in artificial intelligence (AI). Nvidia Corp. CFO Colette Kress estimated in May that AI infrastructure spending is on track to reach $3 trillion-$4 trillion annually by the end of this decade.
- Real potential gross domestic product (GDP) — the sustainable speed limit of the US economy — is poised to increase to 2.1%, on average, through 2030, according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- We raised our 2026 GDP growth forecast to 2.4% from 2.2%. We also boosted our 2027 forecast to 2.4%, up from 2.2. We initiated an estimate for growth of 2.2% in 2028. In an August 2026 speech, Tom Barkin, president of the Federal Reserve Bank of Richmond, cited the low unemployment rate and a record 59 months with unemployment below 4.5% as keys to the economy's resilience. President Barkin added that "consumers aren't feeling as much pressure to cut back" when they have jobs.
- Argus expects S&P 500 earnings per share (EPS) to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS are helped by an increase in operating margins to about 19% this year. Growing tech giants such as Microsoft Corp. and Nvidia have higher margins than Dow stalwarts such as Walmart Inc. and Caterpillar Inc. Argus expects the S&P 500 to trade in a range of 6,900-8,450 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000, based on a multiple of 20.5-times our 2027 EPS estimate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is 7.9%, below the average of 9.1% since 1949, but up from 6.7% in January. Unemployment is low, at 4.2%. Inflation remains elevated at 3.7% in September, but it is below the recent peak of 4.2% in May.
- Gasoline prices at $4.30 a gallon are straining consumers' preholiday spending. Inflation will be a key issue in fall elections for control of Congress. Looking ahead to 2027, the Energy Information Administration outlook calls for a recovery in oil supply and ultimately a surplus. If that's the case, West Texas Intermediate likely will resume its secular downtrend. Our preliminary 2027 outlook is $70 a barrel, down from $80 in 2026.
- The yield on the 10-year Treasury bond has jumped to about 5.15%, up from 3.95% before the escalation of the conflict with Iran. The 10 year has a bigger and more direct effect on the economy than an equivalent move in the Federal Funds rate. We expect the 10 year to end 4Q27 in a range of 4.0%-5.0%.
- Gold, the ancient safe-haven asset, is likely to remain at high levels, in a range of $3,500-$5,000 an ounce in 2027, amid buying by central banks, global uncertainty, and concerns about the U.S. budget deficit.
- The Federal Open Market Committee voted 12-0 in September to raise the Fed Funds target by a quarter point to 3.75%-4.0%. Argus Fixed Income Strategist Kevin Heal expects another hike in December before the Fed moves to the sidelines in 2027. We expect the dollar to be to be flat to firmer over the next year, helped by higher rates and demand for shares of innovative U.S. companies.
- What could go right? Low unemployment, strong S&P 500 earnings, ongoing innovation, spending by wealthy consumers, massive capital investment in AI, and productivity gains.
- Risks: Higher interest rates, a pause in investment by AI companies, a weak housing market, inflation/strains on affordability, hostilities with Iran, and U.S. budget deficits raising the national debt.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
15-Oct	PPI Final Demand	September	**5.6%**	5.5%	5.4%	**6.3%**
	PPI ex-Food & Energy	September	**4.8%**	4.5%	4.4%	**5.0%**
	Retail Sales	September	**5.6%**	5.6%	NA	**6.3%**
	Retail Sales ex-autos	September	**6.3%**	6.5%	NA	**7.2%**
	Business Inventories	August	**4.0%**	5.5%	NA	**4.6%**
16-Oct	Industrial Production	September	**1.6%**	1.7%	NA	**2.2%**
	Capacity Utilization	September	**76.4%**	76.4%	76.5%	**76.9%**
	Import Price Index	September	**6.7%**	7.5%	NA	**8.1%**
20-Oct	Housing Starts	September	**1,288K**	1,305K	1,300K	**1,221K**
22-Oct	Leading Index	September	-0.1%	0.2%	-0.1%	NA
27-Oct	Durable Goods Orders	September	8.4%	13.0%	NA	NA
	New Home Sales	September	684K	645K	650K	NA
	Consumer Confidence	October	81.9	80.0	81.3	NA
28-Oct	GDP Annualized QoQ	3Q "Advance"	2.2%	3.1%	3.7%	NA
	GDP Price Index	3Q "Advance"	6.1%	3.2%	NA	NA
	PCE Deflator	September	3.4%	3.6%	3.6%	NA
	PCE Core Deflator	September	3.0%	3.1%	3.1%	NA
	Personal Income	September	4.3%	4.2%	NA	NA
	Personal Spending	September	6.1%	6.0%	NA	NA

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