OLD NORTH STATE TRUST

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THE ECONOMY AT A GLANCE

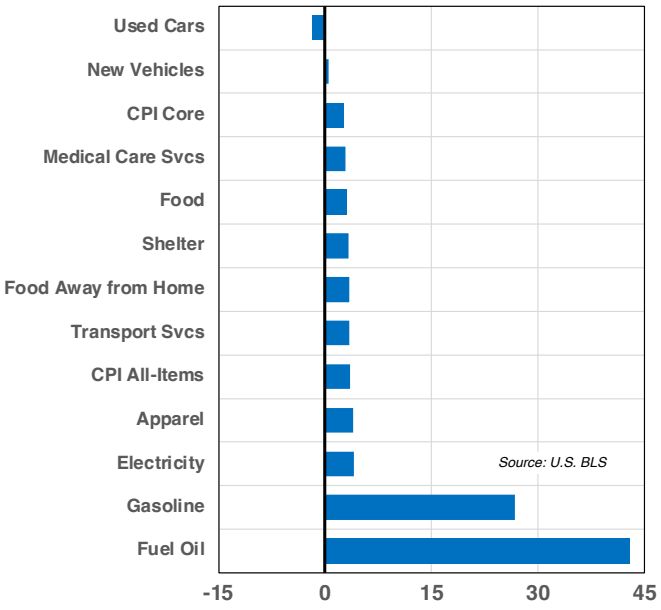
ECONOMIC HIGHLIGHTS

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PRICING PRESSURES COOL

Oil prices were coming down and were starting to reduce the pricing pressure that had been building in the economy. But the war in Iran has again roiled energy markets, with a barrel of benchmark crude oil, West Texas Intermediate, back up to about $90 at the New York Merc. That's up a pop from $68 not long ago ago, but down from $112 in April as the war started. The impact of then lower oil prices was evident in two important inflation reports released recently. The first report was the Consumer Price Index (CPI), which is the most widely quoted inflation measure in the financial press. CPI rose at a 3.5% rate year over year through June, down sharply from the prior month's reading of 4.2% -- though still a far cry from the Federal Reserve's stated goal of 2.0%. Moving up the value chain, the Producer Price Index (PPI) report also came out. PPI has risen at a 5.5% annual rate through June, down from a 6.5% rate in May. Though these latest rates are indeed lower, we think it is premature to suggest that inflation is on a downward trek. Pricing pressures peaked back in 2022, with the CPI topping out at a rate of 9.0%. They came down consistently for years, bottoming at 2.3% last April. We think the volatility in the pricing environment will now keep the Fed on the sidelines in 2026 and our forecast is that the fed funds rate will stay stable at the current level of 3.5%-3.75% through the end of 2026.

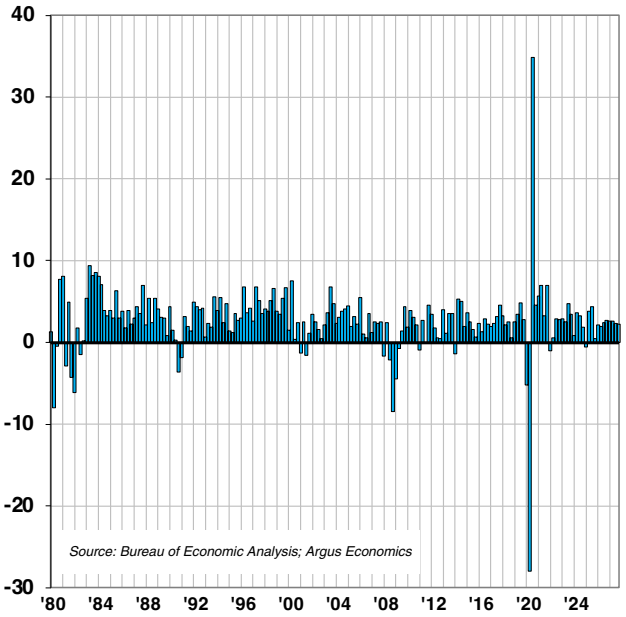
CONSUMER INFLATION FACTORS (% CHANGE Y/Y)



GDP EXPANDING AT A SOLID PACE

In the Monetary Policy Report that the Federal Reserve sent to Capitol Hill for Chairman Kevin Warsh's testimony, the central bank noted that "Overall, economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East." But one thing that is clear amid the uncertainty is that 95.8% of the labor force is employed. We are maintaining our 2026 gross domestic product (GDP) growth forecast at 2.3%, and are keeping our 2027 growth forecast at 2.4%. Based on the recent Summary of Economic Projections, U.S. central bankers reduced their 2026 GDP estimate to 2.2% from 2.4% and maintained their 2027 estimate at 2.3%. Real Potential GDP -- the sustainable speed limit of the U.S. economy -- is poised to increase by 0.1 percentage point to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity. Despite recent uncertainty, the Misery Index, which is the CPI inflation rate plus the unemployment rate, is below the average of 9.2% since 1949, but has risen to 7.7% from 6.9% in January.

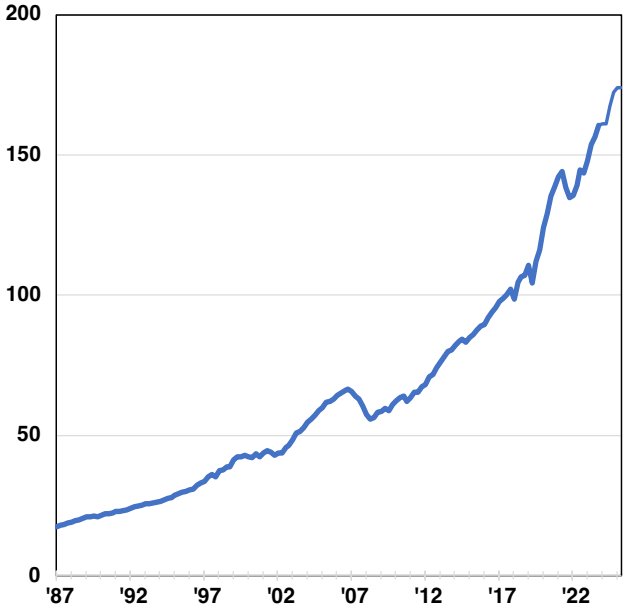
GDP TRENDS & OUTLOOK (% CHANGE)



FINANCIALLY HEALTHY, WEALTHY, AND WISE

Recent reports from big banks and the Federal Reserve show that consumers' finances are healthy and workers are adapting to economic changes. We saw a confirmation of constructive borrowing conditions in the minutes of the June 16-17 FOMC meeting. "Credit continued to be generally available to most businesses, households, and municipalities. Bank lending continued to expand, and issuance of corporate bonds remained solid, partly driven by the financing needs of AI-related investments." In the Monetary Policy Report that the Fed sent to Capitol Hill in advance of Chairman Warsh's testimony, the Fed said "Broadly, household balance sheets and finances appear healthy. Aggregate wealth is high, and debt remains at moderate levels. Net worth is elevated relative to its 2019 level and has risen in recent years for households across the income distribution." Inflation and a changing job market are weighing on many households, but the Fed's Summary of Current Economic Conditions, known as the Beige Book, showed that some employers and students are adapting. The Cleveland Fed said that community college contacts expect enrollments to grow in fall 2026, with strong demand for short-term credentials, skilled trades, and apprenticeships in IT, healthcare, and advanced manufacturing.

HOUSEHOLD NET WORTH ($ TRILLIONS)



FINANCIAL MARKET HIGHLIGHTS

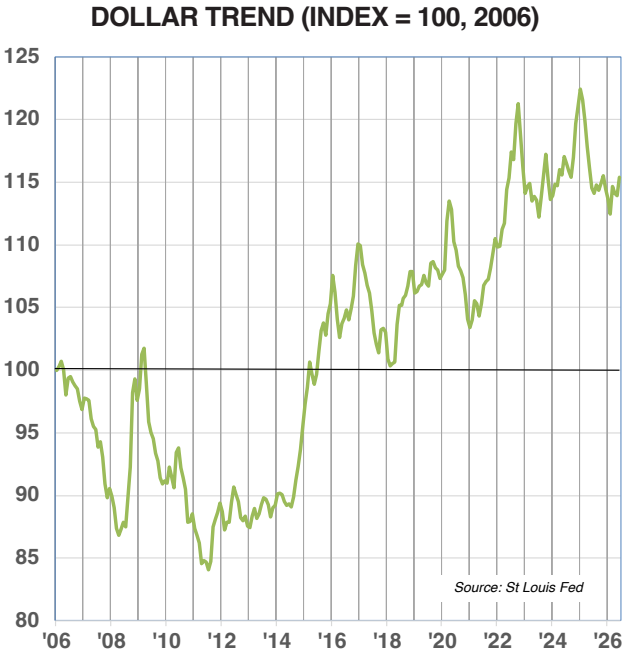
GOLD PRICES DOWN FROM THE CLOUDS

Gold established a high for the century back in January at almost $5,500 per ounce. But as there appeared to be progress toward winding down the war in Iran and oil prices retreated a bit, the price of gold is now at about $4,500 and in the red for the year. Back in 2019, gold was fetching about $1,200 per ounce. That changed rapidly during the first phase of the pandemic, as the spot price for an ounce of gold jumped 33% in six months. Gold next spiked in 2022 due to the war in Ukraine. Then in 2025, gold jumped another 50%, driven by tariffs and other geopolitical developments. Our forecast trading range for gold in 2026 is $3,500-$5,500 and our average price forecast for the year is $4,200. From a technical standpoint, gold had been in a long-term bullish trend of higher highs and higher lows. But momentum may have stretched prices at the highs. 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 S&P 500 has been priced in a normal range of 1-3 times an ounce of old. A reading above 3 likely reflects too much confidence in the S&P 500, while a reading below 1 is a nosebleed price for gold. (The all-time low ratio was 0.17 in 1980). The current ratio is about 1.9, not far from the long-term average.



FLIGHT TO QUALITY FOR DOLLAR

Trends in the U.S. dollar, the world's dominant currency, offer nuanced clues about the confidence that investors have in the U.S. economy and financial system. The USD generally has been in high demand since the start of the pandemic, but hat hot-dollar trend started to unwind a bit: in 2025 based on economic uncertainty and tariff policies, the swelling U.S. debt, a recovery in the European economy, and simple value investing. In recent months, the greenback is ascendant again in response to the war in Iran, which triggered another safe-haven run. This latest rally reaffirms our view that the dollar is nowhere near at risk of losing its status as the global currency of choice. The dollar is now about 15% above its 20-year average value, supported by a $27 trillion market, the Federal Reserve, and the country's time-tested political/economic system of democratic capitalism. We would be concerned if the greenback were to plunge 20% in a short time, as occurred after the S&P downgrade of U.S. debt in 2011. A U.S. dollar back at 2011 levels would almost certainly mean higher interest rates, a potential drag on the economy, and intense pressure on major market indices.



KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- Real Potential 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.
- Our 2026 gross domestic product growth forecast is 2.3%. Our 2027 forecast is 2.4% In the Monetary Policy Report to Congress, the Federal Reserve said, “Overall, economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East.”
- National gasoline prices once again exceed $4.00 a gallon as fighting between the U.S. and Iran has resumed. Gas prices below $4.00 are important to consumers with back-to-school shopping underway and the holidays around the corner. Inflation is likely to be a key issue in fall elections for control of the House and Senate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949, but it has risen to 7.7% from 6.9% in January. Unemployment is low at 4.2%. CPI eased to 3.5% in June from 4.2% in May but could be pressured with higher oil.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience and financial system stability that accommodates saving, borrowing, and investing.
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 19% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%. Argus expects the S&P 500 to trade in a range of 6,730-8,225 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.
- We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies, continuing economic growth, and elevated interest rates.
- Gold is likely to remain at elevated levels amid global uncertainty. The safe-haven asset topped $5,000 an ounce in 1Q, but it has declined to approximately $4,100. Prices may have declined because the Fed has stressed its resolve to fight inflation.
- What could go right? Low unemployment, spending by wealthy consumers, strong S&P earnings, strong capital investment in Artificial Intelligence, productivity gains, and ongoing innovation.
- Risks: Strains on affordability from years of elevated inflation, uncertainty related to hostilities with Iran, a lower 10-year Treasury yield could depend on deficit reduction, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
24-Jul	New Home Sales	June	**618K**	625K	600K	**628K**
27-Jul	Durable Goods Orders	June	**-4.4%**	8.5%	NA	**8.9%**
28-Jul	Consumer Confidence	July	**92.2**	91.0	NA	**90.8**
30-Jul	GDP Annualized QoQ	2Q "Advance"	2.1%	2.0%	2.1%	NA
	GDP Price Index	2Q "Advance"	3.6%	3.8%	3.7%	NA
	PCE Deflator	June	4.1%	3.7%	3.7%	NA
	PCE Core Deflator	June	3.4%	3.3%	3.3%	NA
	Personal Income	June	3.8%	3.9%	NA	NA
	Personal Spending	June	6.3%	6.1%	NA	NA
3-Aug	ISM Manufacturing	July	53.3	54.4	54.0%	NA
	ISM New Orders	July	56.0	56.2	NA	NA
	ISM Prices	July	73.0	76.0	NA	NA
	Construction Spending	June	-1.5%	-2.0%	NA	NA
4-Aug	Trade Balance	June	-$77.6 Bln.	-$72.5 Bln.	NA	NA
	Factory Orders	June	2.3%	7.2%	NA	NA
5-Aug	ISM Services Index	July	54.0	54.5	54.3	NA
6-Aug	Nonfarm Productivity	2Q	0.3%	0.7%	NA	NA
	Unit Labor Costs	2Q	1.8%	1.4%	NA	NA
	Total Vehicle Sales	July	16.5 Mln.	16.7 Mln.	NA	NA
7-Aug	Nonfarm Payrolls	July	57K	80K	110K	NA
	Unemployment Rate	July	4.2%	4.2%	4.3%	NA
	Average Weekly Hours	July	34.3	34.3	NA	NA
	Average Hourly Earnings	July	3.5%	3.5%	NA	NA
	Wholesale Inventories	June	4.0%	4.4%	NA	NA

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